Norfund

NORWEGIAN INVESTMENT FUND FOR DEVELOPING COUNTRIES

ANNUAL REPORT **2009**

CREATES VALUE | COMBATS POVERTY

DIRECTORS' REPORT 2009

Norfund – the Norwegian Investment Fund for Developing Countries – was established by the Norwegian Storting (parliament) in 1997 as a government-owned investment company. Norfund is an instrument of Norwegian development policy. By investing in profitable jobs and companies, financing infrastructure and transferring knowledge and technology, Norfund contributes to economic development and profitable, sustainable jobs in poor countries. At the end of 2009, the committed investment portfolio totalled NOK 5.3 billion.

1. IMPORTANT EVENTS

Norfund committed new investments for NOK 944 million in 2009. In line with the company's strategy, the portfolio is increasingly focused on sub-Saharan Africa, where 78 per cent of new investment took place. 36 per cent of all new investments in 2009 were in the least developed countries (LDCs).

The highlights of the year included the establishment of two new funds: FIPA in Angola and Fanisi in East Africa. FIPA is the first private equity fund in Angola, and Fanisi the first venture capital fund in East Africa. Both funds are innovations in their markets. Norfund has initiated them, appointed managers and invested considerable resources in raising capital and establishing the legal framework.

In 2009 Norfund reduced its holding in Statkraft Norfund Power Invest AS (SN Power) and contributed to the establishment of SN Power AfriCA AS (SN Power AfriCA), a new company whose object is to develop sustainable energy, primarily hydropower, in Africa and Central America. TrønderEnergi and BKK have invested in this company, which plans to invest a total of USD 700 million by the end of 2015.

Two new power stations commenced commercial operations in the fourth quarter of 2009: In Uganda, production started at Bugoye, a 13 MW power station owned by Norfund and TrønderEnergi jointly, and in Chile SN Power started operating a windmill park with a capacity of 46 MW.

SN Power's hydropower project in India, Allain Duhangan, remains challenging with respect to the health and safety of the employees. Following investigations, restructuring, extensive training and other Health, Safety and Environment (HSE) measures, the number of incidents has declined substantially.

In 2009 Norfund launched an initiative directed at our European sister organisations in the association European Development Finance Institutions (EDFI) urging the drawing up of a common policy on use of offshore financial centres (OFCs). The work that has been initiated is designed to ensure insight and limit the possibilities of investments contributing to illegal capital flows.

2. NORFUND'S ACTIVITIES

2.1 Operations and business areas

Norfund's objective is to contribute to development by investing in viable, profitable enterprises. Successful investments are contingent on expertise and know-how in a multitude of areas. The expertise contributed by Norfund to investments varies considerably, but important common features are knowledge of country and sector, the professional quality of the investment work and, not least, the correct choice of partners.

Norfund's task is to make investments that are additional to what would otherwise happen in the market. In other words, we invest where there is a shortage of capital and expertise. Norfund's task is also to act as a catalyst by mobilising foreign and domestic private capital and expertise that would not otherwise have been available in these areas.

In order to ensure a thorough understanding of the situation in the countries in which we invest, operations are limited to four regions: Southern Africa, East Africa, South-East Asia and Central America. Activities cover four investment areas:

Renewable energy: Our investments in renewable energy are intended to improve and boost electricity production with the aid of environmentally friendly energy sources, thereby providing a sounder basis for economic development. The projects are typically capital-intensive and have a high risk level due to developmental, geological and hydrological conditions and other factors. Norfund's investment in renewable energy has proved profitable and contributed substantial development effects.

At the beginning of 2009, the ownership of SN Power was restructured. Norfund reduced its holding down from 50 to 40 per cent, and Statkraft increased its holding to 60 per cent. In connection with this restructuring, Norfund and SN Power established a new power company dedicated to Africa and Central America: SN Power AfriCA. Norfund originally owned 49 per cent of this new company. BKK and TrønderEnergi bought 18 per cent and 16 per cent, respectively from Norfund. Norfund now owns 19 per cent of the company and SN Power the remaining 46 per cent.

Two power stations started operations in 2009: the 13 MW Bugoye hydropower station in Uganda, jointly owned by TrønderEnergi and Norfund, and SN Power's 46 MW windmill park, Totoral Wind Farm, in Chile.

E+Co is a fund that invests in small growth companies involved in clean energy in development countries. In this way the fund creates profitable energy companies that both curb climate changes and combat poverty. In 2009, Norfund entered into a loan agreement with E+Co for NOK 43 million that made it possible to substantially increase the scale of their activities. E+Co will be investing in small local entrepreneurs who distribute solar cell panels, build micro hydropower stations and invest in energy-saving products.

Financial institutions: Norfund invests in or extends loans to banks, microfinance institutions and other financial institutions in poor countries. The main objective is to extend reliable financial services to small and medium-sized enterprises (SMEs) and individuals who do not have access to these services today.

New investments were made in seven projects with a total value of NOK 406 million. Four of the investments were in new projects, while the remainder were in follow-up investments. The two largest new investments were Real People and Capitec, in which Norfund committed a total of ZAR 350 million (NOK 273 million). The institutions are based in South Africa and offer financial services to individuals and SMEs that otherwise have limited access to these services.

SME funds: Norfund invests directly in private equity funds aimed at SMEs in developing countries. These enterprises lack risk capital, and the investments strengthen both the companies themselves and the local capital market.

In 2009, a total of NOK 120 million was committed in three SME funds. The largest new investment was in the Evolution One Fund, which invests in clean energy and environmentally friendly technology in southern Africa. Norfund committed NOK 40 million to this fund. We also made a follow-up commitment of NOK 57.8 million to the Aureos Latin America Fund. This fund had considerable difficulty in obtaining private capital in the wake of the financial crisis. Norfund additionally committed NOK 23 million to a new fund focused on Cambodia and Laos. This is one of the very first private equity funds in Cambodia and Laos.

Industrial partnerships invest in projects in sectors other than energy and finance in southern and eastern Africa. In 2009, this investment area made investment commitments worth NOK 164 million. Four investments totalling NOK 81 million were made in individual companies, and NOK 83 million went to increased financial involvement in the European co-financing facility EFP. EFP is a collaboration between the European DFIs to co-finance projects. The majority of EFP's investments are in Africa and LDCs. An additional NOK 134 million was used as capital for Norfund's newly established funds FIPA and Fanisi.

One of the enterprises in which Norfund invested in 2009 was an avocado plantation in Tanzania at the foot of Mount Kilimanjaro. The plantation will produce avocados, mainly for export to Europe. A new loan agreement was also signed with Green Resources AS, and the contributed capital is to go to the further development of the Sao Hill forestry plantation and sawmill in Tanzania.

Other activity

In 2009, Norfund managed NOK 94 million of grant capital, of which NOK 24 million went to Norfund's grant facility. The grant facility used (1) NOK 14 million to support project development, (2) NOK 7 million to boost the development effects of Norfund's investments and (3) NOK 2 million for local community development in connection with certain investment projects. The grant projects in 2009 include the establishment of the Fanisi and FIPA funds, a pilot project for the Kikagati hydropower station and a subsidy for the establishment of a HIV/AIDS programme in Aureos East Africa's investments.

In addition, Norfund gave an earmarked subsidy of NOK 60 million to the Bugoye hydropower station project and NOK 10 million in operating subsidy to NMI, The Norwegian Microfinance Initiative. Around 90 per cent of the grant facility funds were used for activities in Africa.

In 2009, Norfund and Norad completed an evaluation of the Information Office for Private Sector Development in Developing Countries and concluded to continue operations.

Norfund took over a loan portfolio from Norad in 2000. The face value at the end of 2009 was NOK 33 million, and the estimated market value was NOK 12 million.

2.2 Financial risk

Norfund invests in countries where framework conditions, markets and companies are characterised by high risk. In line with the Fund's development objectives, priority is given to investment precisely in countries with high country risk and where the institutions for safeguarding owner and lender interests are weak. There is considerable counterparty risk associated with many of Norfund's investments. As a general rule, investments have a medium-term time frame of 7-10 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.

Our investments are largely in foreign currency, primarily US dollars, but also in euros and South African rand, while Norfund's results are reported only in Norwegian kroner. There is also currency risk associated with individual investments, between Norfund's investment currency and the enterprises' cash flows in the local currencies in which the enterprises operate. The fund's mandate specifies that the value of the portfolio in Norwegian kroner should not be hedged, since we are required to reinvest the resources outside Norway. Norfund has investment commitments in foreign currency, whereas the disbursements from our reserves in Norwegian kroner often take place at a later time or at an unknown exchange rate. In order to manage this risk, some of the investment resources are retained as a buffer in Norges Bank.

In Norfund's committed portfolio, direct equity investments account for 53 per cent, indirect equity investments through funds 32 per cent and loans 15 per cent. Investment in sub-Saharan Africa accounts for 35 per cent, and the LDCs for 35 per cent, when investment in SN Power is excluded (the whole portfolio has an LDC share of 23 per cent). The risk profile of our portfolio is in line with our mandate, which specifies that we shall contribute to development by establishing viable, profitable activities that would not otherwise have been initiated because of the high risk associated with them.

2.3 Development effects

The development effects of the investments to which Norfund contributes take the form of jobs, tax income, transfer of expertise and technology, safeguarding of the environment and social conditions and general social progress. Development effects are created by sound, responsible enterprises that demonstrate their viability in the market by being profitable. These enterprises contribute to sustainable economic growth and long-term poverty reduction. Norfund creates development effects by investing in projects that would not otherwise have been carried out, focusing investment on the LDCs and on sectors that lack capital. Energy and financial institutions are prioritised sectors.

Norfund also works to ensure that our investments generate development effects through its corporate governance and deployment of expertise and resources. By assuming board positions and maintaining close project follow-up, Norfund enhances development effects by working for better enterprise management, better financial routines and better health, environment and safety systems. Norfund also uses the grant facility to enhance development effects.

At the end of 2009, 148 000 people were employed in activities in which Norfund had invested. Women represented 29 per cent of overall employment. NOK 4.2 billion was paid in corporate tax, charges, licences etc. to local authorities. GrameenPhone in Bangladesh accounted for a full NOK 2.8 billion of this amount. If the corporate tax paid by the companies in which Norfund has invested equity is considered in isolation, Norfund's weighted share is NOK 46 million. This is a relatively low figure due to the fact that many of the companies in which Norfund invests equity are in an early phase.

2.4 Socially responsible investor

Norfund is and shall be a socially responsible investor with high ethical requirements from its activities. Norfund contributes to investment in countries where there is a shortage of capital and expertise and where working conditions are far from ideal. Our ethical imperative is not that companies should meet the ideal from the start; we aim rather to exert influence and use our expertise to improve conditions through our investments. Norfund ensures that new investment agreements commit partners to strive for international health, environmental and social standards, and that enterprises report serious incidents. The standards include indigenous rights, biodiversity, local community interests and the ILO's core conventions.

Health, safety and environment (HSE) issues are demanding for all major investment projects, but particularly for major construction projects. It is a considerable challenge to ensure that the necessary safety equipment is used and that routines are followed by all those involved, including subcontractors. Norfund demands high HSE standards of our enterprises, and follows up these requirements in its work on company boards and project reviews. Nevertheless, Norfund recognises that there will always be a risk of follow-up not taking place at all levels. Sometimes accidents occur even when HSE routines are followed.

Unfortunately, no less than 15 deaths have been reported in Norfund's investment portfolio in 2009. Five of the accidents took place in the investment area Renewable Energy. During the first quarter there were four deaths at SN Powers' Allain Duhangan project in India. Three of them were due to traffic accidents and the fourth occurred as a result of rock fall in a tunnel. The fifth death occurred at one of SN Powers' power stations in Peru in January 2009, when a local inhabitant drowned in a water canal. There was a further fatal accident in

March 2010 when a man fell from a high voltage mast. There were five deaths in Industrial Partnerships' portfolio in 2009, four of them in connection with traffic accidents. SME funds reported five deaths. These include accidents involving machinery in operation, one armed robbery and traffic accidents.

Special attention was paid to follow-up of health and safety issues at the Allain Duhangan project in 2009. These measures include a series of safety investigations, inspections, training, new procedures and new equipment, including increasing traffic safety. A review of measures to prevent further drowning accidents has also been made in Peru. The measures have led to a substantial reduction in accidents at SN Powers' construction sites in the course of the year.

For practical reasons, some of Norfund's investment activities take place via OFCs, which gives us a special responsibility for ensuring that we have full insight into the transactions that take place and that they can in no way contribute to tax evasion or illegal capital flows. Norfund, with the help of our owner, has worked actively to determine which OFCs should be used, and on developing requirements for how the DFIs' own investments through such countries should be organised to ensure that activities are transparent and restrict the possibility of investments contributing to illegal capital flows. In 2009 Norfund did not establish new funds or make fund-like investments in companies in closed business jurisdictions in non-OECD countries or in countries with which Norway does not have tax or information exchange agreements. In Norfund established funds, we have succeeded in moving the jurisdiction to an OFC in the OECD. The practical consequences of limiting the use of OFCs is that Norfund has made fewer fund investments than planned in Africa and has given more loans.

3. ORGANISATION AND OPERATIONS

3.1 Corporate governance

Norfund invests directly and indirectly in private companies in developing countries. Norfund has adopted principles for corporate governance to enable it to handle geographical and ownership challenges. The prevention of corruption and economic crime forms an integral part of Norfund's mandate and activities, which proceed in accordance with current rules and regulations on public sector financial management.

To improve project operations, a clear distinction is made between the Norfund project manager and the person representing Norfund on the board of directors. Thus projects are monitored closely along two different reporting lines. External resource persons are also used for some board positions.

3.2 Personnel, organisation and gender equality

Norfund is an knowledged-based organisation with guidelines for recruitment, expertise and equal opportunities. The number of man-years in 2009 was 38. At 31 December there were 41 employees, 14 of them with non-Norwegian backgrounds. Eight of these employees worked at regional offices in South Africa, Kenya and Costa Rica.

Sick leave in Norfund accounted for 4.4 per cent of total working hours, corresponding to 380 days. By way of comparison, sickness absence in 2008 was 5.6 per cent. There were no injuries to personnel or damage to Norfund's property. In connection with the move to new premises, emphasis was placed on access for functionally disabled persons. An ergonomic review has been made of all workplaces with a view to preventing health problems.

Women accounted for 60 per cent of the fund's permanent directors. Three of Norfund's management team of four were women. Of the workforce as a whole, 34 per cent were women. Three of the seven people who were employed in 2009 were women. Norfund focuses on gender equality in its human resources policy, and we urge women and persons of non-Norwegian origin to apply for positions.

3.3 Environmental impact

By integrating environmental considerations into operations, Norfund aims to follow the guidelines for "grønn stat". The guidelines require that environmental considerations form an integral part of activities, and that an environmental management system be prepared. Norfund's impact on the external environment has accordingly been studied. As a small, knowledge-based enterprise, Norfund has limited environmental impact. The greatest burden on the environment caused by Norfund's own business activities relates to air travel. Norfund's travel in 2009 entailed the emission of some 253 tonnes of carbon dioxide, against 207 tonnes in 2008. The rise is due to increased travel. When Norfund moved, energy efficiency requirements were made of the new premises. Energy consumption at our premises in Oslo is approximately 145 MWh per year. In the new premises, emphasis is placed on re-use of furniture and fittings in order to reduce the impact on the environment. Typically when new acquisitions are made, life-cycle costs of the product are taken into account. There is also a requirement that obsolete IT equipment be recycled.

4. THE ANNUAL ACCOUNTS

Norfund had a profit for 2009 of NOK 130 million (NOK 422 million in 2008). The main reason for the lower profit is that the currencies in which Norfund has invested weakened substantially against the Norwegian krone in 2009, whereas they appreciated in 2008. In 2009 the US dollar depreciated 17 per cent against the Norwegian krone.

Income was NOK 224 million (NOK 271 million in 2008). The sale of shares in SN Power AS to Statkraft resulted in a realised gain of NOK 143 million in 2009. Owing to the lower interest rate level, interest income was a little lower than in 2008 (NOK 33 million compared with NOK 37 million), even though the loan portfolio increased by 35 per cent in 2009. The return on fund and equity investments was on a level with the previous year.

Norfund's operating costs before write-downs and adjustments for loss on FX on project loans increased by six per cent. This is largely due to higher payroll expenses, increased travel and higher rents. There are several reasons why payroll costs rose. Much of the increase is due to a rise in the number of man-years and higher pension costs as a consequence of negative developments in pension assets in the latter half of 2008. The depreciation of the investment currencies caused a negative FX adjustment on our loans of NOK 64 million compared with a gain of NOK 74 million in 2008. This is also the main reason for the write-down of NOK 66 million on equity investments (reversal of previous write-downs of NOK 25 million in 2008). Norfund's and SN Power's profit was NOK 82 million, down from NOK 120 million the previous year, as a result of weaker results for SN Power and our reduced ownership share. Other interest income is down compared with the previous year as a result of a lower interest rate level. Norfund's profit for 2009 has been transferred to Norfund's surplus fund in accordance with the instruction governing Norfund's operations. Norfund's internal valuations indicate that the portfolio still contains substantial value added over and above the booked values.

Norfund's balance at end 2009 was NOK 5 908 million (compared with NOK 5 349 million the previous year). The increase is due to the NOK 585 million contributions by our owner and profits on operations, while the foreign exchange effects in SN Power had a negative effect on equity. Norfund's equity amounted to NOK 5 871 million (against NOK 5 302 million in 2008). By the end of 2009, NOK 3 857 million had been disbursed for investments (compared with NOK 3 580 million by the end of 2008). Norfund disbursed a total of NOK 619 million to its investments and received NOK 508 million from its investments in 2009. In the view of the board, the annual accounts at 31 December 2009 provide a true and fair representation of the institution's financial position. The board confirms that the going concern assumption applies.

5. OUTLOOK FOR THE FUTURE

Norfund's financial results have been sound in recent years, primarily because the economic situation has been favourable in our regions, but also because the quality of the investment work of Norfund and our partners has improved. Norfund ranks today as one of Europe's leading investors in clean energy in developing countries, Norway's leading investor in microfinance and in banks that focus on SMEs in developing countries, and a notable player in private equity funds. Norfund is also Norway's largest direct investor in Africa, not least in agricultural activities that have a strong effect on employment and development. The board assumes continued focus on the four investment areas.

In view of Norfund's objective of contributing risk capital where capital is in shortest supply, investments are increasingly risky. We have invested more in sub-Saharan Africa, more in LDCs, provided loans in local currency and contributed to a number of start-up investments. This trend will continue and will increase the total risk associated with Norfund's portfolio. Since we work in very demanding markets, there will be substantial uncertainty associated with Norfund's results in the coming years.

With its professional expertise, positions in strategic sectors and regions and its broad local network and presence, Norfund has a sound basis for continuing to contribute to combating poverty by investing capital and expertise in sustainable and profitable enterprises in developing countries.

Oslo, 24 March 2010

Kristin Clemet
Chair

Karl-Christian Agerup Deputy chair	Borghild Holen	Stein Tønnesson	Mari Skjærstad

Kjell Roland
Managing director

PROFIT AND LOSS ACCOUNT

(Figures in 1000s of NOK)	Note	2009	2008
Operating income			
Interest income loans - invested portfolio	1	33 418	37 051
Realised gain on shares	1	143 298	31 989
Dividends received	1	24 982	26 202
Interest and instalments paid, Norad loan portfolio	1,7	18 135	20 259
Other operating income	1	4 128	81 084
Adjustment for gain/loss on FX, project loans	1		74 312
Total operating income		223 961	270 898
Operating expenses			
Payroll expenses	2	43 665	34 080
Depreciation tangible fixed assets	5	789	1 028
Adjustment for gain/loss on FX, project loans	1	63 701	0
Reversal of write-down(-)/write-down of investment projects		65 581	-25 048
Other operating expenses	2,3	34 117	38 953
Total operating expenses		207 854	49 014
Operating profit/loss		16 107	221 884
Share of profit/loss associated company	6	81 813	119 900
Other interest income		41 027	68 826
Other financial income		369	15 189
Other financial expenses		9 779	3 816
Net financial items		113 430	200 099
Profit/loss for the year		129 537	421 983
Transfers			
Transferred to surplus fund	12	129 537	421 983
Transferred from surplus fund		0	0
Total allocations		129 537	421 983

BALANCE SHEET

(Figures in 1000s of NOK)	Note	2009	2008
ASSETS			
FIXED ASSETS			
Intangible assets	4	1 498	0
Tangible fixed assets			
Operating equipment, fittings and fixtures, tools etc.	5	3 065	1 336
Total tangible fixed assets		3 065	1 336
Financial fixed assets			
Investments in associated companies	6	2 651 161	2 841 434
Total financial fixed assets		2 651 161	2 841 434
Total fixed assets		2 655 724	2 842 770
CURRENT ASSETS			
Receivables			
Other receivables	7	29 694	41 458
Loan portfolio	7	0	0
Total receivables		29 694	41 458
Investments			
Loans to investment projects	1, 8	542 957	401 441
Equity investments	1, 9	1 050 388	878 624
Total investments		1 593 345	1 280 065
Bank deposits, cash and cash equivalents			
Bank deposits	11	1 629 583	1 184 750
Total bank deposits, cash and cash equivalents		1 629 583	1 184 750
Total current assets		3 252 622	2 506 273
Total assets		5 908 346	5 349 044

(Figures in 1000s of NOK)	Note	2009	2008

EQUITY AND LIABILITIES

EQUITY

Called up and fully paid share capital			
Primary capital	12	3 330 000	2 891 250
Reserve capital	12	1 320 000	1 173 750
Total called up and fully paid capital		4 650 000	4 065 000
Retained earnings			
Surplus fund	12	1 220 891	1 237 363
Total retained earnings		1 220 891	1 237 363
Total equity		5 870 891	5 302 363

LIABILITIES

Provision for liabilities and charges			
Pension commitments	2	8 935	6 069
Total provisions for liabilities		8 935	6 069
Other long-term liabilities		**0**	**0**
Current liabilities			
Accounts payable		1 667	4 617
Unpaid government charges and special taxes		3 099	3 155
Unused funds	13	18 436	29 123
Other current liabilities		5 319	3 719
Total current liabilities		28 521	40 613
Total liabilities		37 456	46 682
Total equity and liabilities		5 908 346	5 349 044

Oslo, 24 March 2010

Kristin Clemet
Chair

Karl-Christian Agerup
Deputy chair

Borghild Holen

Stein Tønnesson

Mari Skjærstad

Kjell Roland
Managing director

CASH FLOW STATEMENT

(Figures in 1000s of NOK)	Note	2009	2008
CASH FLOW FROM OPERATIONS			
Profit before tax		129 537	421 983
Ordinary depreciation	5	789	1 028
Write-down of fixed assets	5	0	0
(Reversal of write-down)/Write-down of investment projects		64 526	-14 703
Differences in pension costs and receipts/disbursements, pension scheme		2 803	-170
Share of profit/(loss) associated company	6	-81 813	-119 900
Effect of exchange rate changes		64 242	-85 703
Change in other accruals		10 358	-98 092
Net cash flow from operations		190 443	104 442
CASH FLOW FROM INVESTMENT ACTIVITIES			
Investment in tangible fixed assets	5	-2 519	-493
Proceeds of sales/repayment of shares/interests recorded at cost price		211 932	98 988
Disbursement in connection with purchase of shares/interests in other enterprises		-326 809	-613 819
Disbursement of investment loans		-291 597	-270 103
Repayment of principal, investment loans		89 757	174 184
Repayment other investments		0	44 211
Net cash flow from investment activities		-319 235	-567 031
CASH FLOW FROM FINANCING ACTIVITIES			
Proceeds from new short-term debt	13	92 000	30 000
Repayment of long-term debt		0	0
Disbursements of short-term debt	13	-103 375	-18 276
Increase in/repayment of equity	12	585 000	485 000
Net cash flow from financing activities		573 625	496 724
EXCHANGE RATE CHANGES, CASH AND CASH EQUIVALENTS			
Net change in cash and cash equivalents		444 833	34 134
Bank deposits, cash and cash equivalents at 1 January		1 184 750	1 150 616
Bank deposits, cash and cash equivalents at 31 December	11	1 629 583	1 184 750

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 2009. 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. Costs that cannot be directly related to income are expensed as they are incurred. 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 (cash accounting).

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 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 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.

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 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.

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 7), 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.

					2009		
(Figures in 1000s of NOK)	NORFUND total	SME funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity
OPERATING INCOME							
Interest - invested portfolio	34 440	0	20 706	2 693	10 019	0	0
Realised gains	143 298	0	0	143 298	0	0	0
Dividends received	24 982	21 774	3 208	0	0	0	0
Other project revenues	21 241	146	1 503	0	2 474	5	0
Gain/loss on FX, project loans	0	0	0	0	0	0	0
Total operating income	223 961	21 920	25 417	145 991	12 493	5	0
OPERATING EXPENSES							
Payroll expenses	-43 665	-5 304	-6 171	-4 040	-11 700	-14 974	-1 015
Depreciation tangible fixed assets	-789	0	0	0	0	-789	0
Loss on sale of operating assets	0	0	0	0	0	0	0
Gain/loss on FX, project loans	-63 701	0	-44 501	-8 127	-11 073	0	0
(Provision for)/reversal of loss on projects	-65 580	-51 328	-21 548	0	7 296	0	0
Other operating expenses	-34 117	-1 553	-3 003	-3 710	-7 730	-17 205	-899
Allocation of shared expenses	0	-8 094	-7 611	-4 724	-10 665	32 968	-692
Total operating expenses	-207 853	-66 279	-82 834	-20 600	-33 871	-1	-2 607
Profit/(loss) on operations	16 108	-44 359	-57 417	125 390	-21 379	4	-2 607
Result of investment in associated companies	81 813	0	0	81 813	0	0	0
Net financial items	31 617	15 630	10 281	526	3 915	1 291	0
Total profit/(loss)	129 537	-28 730	-47 136	207 729	-17 464	1 296	-2 607

** 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.

					2008			
Loan portfolio*	NORFUND total	SME funds	Financial institutions	Renewable energy	Industrial partnerships	Shared functions	Other activity	Loan portfolio*
1 023	38 950	1 560	14 325	1 984	19 182	0	0	1 899
0	31 989	0	30 352	0	1 637	0	0	0
0	26 202	22 905	2 589	0	709	0	0	0
17 112	99 445	20	797	80 000	261	5	0	18 361
	74 312	8 480	44 492	7 051	14 289	0	0	0
18 135	270 898	32 966	92 555	89 034	36 078	5	0	20 259
-461	-34 080	-4 139	-5 052	-2 693	-10 377	-10 009	-1 173	-637
0	-1 028	0	0	0	0	-1 028	0	0
0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0
0	25 539	16 573	3 460	0	5 505	0	0	0
-17	-38 953	-3 173	-2 900	-7 355	-5 273	-18 257	-1 948	-48
-1 182	0	-6 626	-7 130	-3 007	-10 151	29 294	-726	-1 653
-1 660	-48 522	2 635	-11 621	-13 055	-20 296	0	-3 847	-2 338
16 474	222 376	35 602	80 933	75 980	15 782	5	-3 847	17 921
0	119 900	0	0	119 900	0	0	0	0
-25	79 720	48 355	2 321	450	5 554	23 041	-1	-13
16 449	421 983	83 956	83 254	196 329	21 336	23 047	-3 847	17 908

Segment information by geographical region (2009):

(Figures in 1000s of NOK)	Africa	Asia	Latin America	Europe	Global	Write-downs	Total
BALANCE SHEET							
Equity investments	554 736	356 394	235 664	9 978	4 140	-110 524	1 050 388
Loans to investments	313 921	86 055	144 719	0	0	-1 739	542 957
Total balance sheet	868 657	442 450	380 383	9 978	4 140	-112 263	1 593 345
Interest income loans	20 688	9 890	2 839	0	0		33 419
Realised gain on shares	0	0	0	0	143 298		143 298
Dividends received	23 001	634	1 347	0	0		24 982
Directors' fees received	142	118	4	0	124		387
Fees	2 582	288	812	0	59		3 741
Repayments of principal, loan portfolio	5 837	11 275	0	0	0		17 112
Interest paid on loan portfolio	156	866	0	0	0		1 023
Gain/loss on FX, project loans							0
Total operating income	52 407	74 125	97 246	0	183	0	223 961
Gain/loss on FX, project loans	-32 784	-23 905	-7 012	0	0		-63 701

NOTE 2 – PAYROLL EXPENSES

Wages, salaries and other payroll expenses

(Figures in 1000s of NOK)	2009	2008
Wages and salaries	29 600	24 709
Directors' fees	450	450
Payroll tax	3 960	3 650
Personnel insurance	594	413
Pension expenses	7 334	4 446
Other benefits	2 482	1 021
Payroll expenses reimbursed	-754	-609
Total wages, salaries and other payroll expenses	43 665	34 080

In 2009, different classification principals were used for 'Other benefits'. Had the new principles been applied in 2008, 'Other benefits' would have been NOK 802 000 higher, and 'Other operating expenses' would have been reduced correspondingly.

Remuneration of senior personnel

(Figures in 1000s of NOK)	Managing director	Chair	Directors
Wages and salaries/fees	1 815 831	120 000	330 000
Pension contributions	606 099	0	0
Other remuneration	107 377	1 200	0
Total	2 529 307	121 200	330 000

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.

Fees in the amount of NOK 596 953 (NOK 1 018 250 in 2008) were recorded for the auditor, of which NOK 326 250 (NOK 452 566 in 2008) related to auditing that is required by law, NOK 0 (NOK 0 in 2008) for other attestation services and NOK 270 703 (NOK 565 684 in 2008) for services other than auditing. No fees were paid to the auditor for tax advice. All figures include VAT.

Employees

The company had 41 employees at 31 December 2009. The number of man-years was 38.0.

Pensions

Pursuant to the Norwegian Act on Mandatory Occupational Pensions, Norfund is required to have an occupational pension scheme. The scheme entitles employees to 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.

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 2009, 32 persons were covered by the scheme.

Financial assumptions

	2009	2008
Discount rate	4,40 %	4,30 %
Expected return on pension assets	5,60 %	6,30 %
Wage adjustment	4,25 %	4,50 %
Pension adjustment	4,25 %	4,25 %
Adjustment of the basic amount in the National Insurance System (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 %

(Figures in 1000s of NOK)	2009	2008
Net present value of pension earnings in the period	5 556	4 916
Capital cost of previously earned pensions	1 196	1 183
Expected return on pension assets	-1 455	-1 177
Administrative costs	118	130
Recorded variances in estimates	1 156	-1 318
Accrued payroll tax[1]	764	712
Net pension liabilities for the year incl. payroll tax	7 334	4 446

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

Calculated pension liabilities	Insured	Uninsured	2009
Estimated pension liabilities	28 360	4 066	32 426
Estimated pension assets	24 596	0	24 596
Net pension liablities 31 December	3 765	4 066	7 831
Unrecorded variances in estimates	0	0	0
Accrued payroll tax[1]	531	573	1 104
Net pension liablities 31 December	4 295	4 640	8 935

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

Reconciliation opening/closing balance	2009	2008
Capitalised net pension liabilities 1 January incl. payroll tax	6 069	6 150
Net pension expenses for the year incl. payroll tax	7 334	4 446
Pensions paid, early retirement / unfunded, incl. payroll tax	0	0
Investment in pension assets, etc., incl. payroll tax	-4 468	-4 527
Capitalised net pension liabilities 31 December incl. payroll tax	8 935	6 069

Nordea Livs Asset Mix*	30-09-09
Property	20,0 %
Shares	9,9 %
Short-term bonds/certificates	43,0 %
Long-term bonds	26,7 %
Other	0,4 %
Total financial assets	100 %

**) known values at calculation date*

NOTE 3 – OTHER OPERATING EXPENSES

(Figures in 1000s of NOK)	2009	2008
Seminars, conferences, upgrading of competencies	1 234	871
Travel costs	6 395	4 378
External assistance	17 433	21 942
Costs, tender guarantee scheme	623	1 345
Rent, incl. shared costs	4 394	3 095
Advertising/printing	695	1 471
Other expenses	3 343	5 852
Total operating expenses	34 117	38 953

NOTE 4 – INTANGIBLE ASSETS

The intangible assets consist of a licence for a hydropower project in Uganda.

NOTE 5 – 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	5 937	345	691	67	7 040
+ acquisitions during the period	1 780	739			2 519
- disposals during the period	-5 391	-345			-5 736
Cost price at 31 December	2 327	739	691	67	3 823
Accumulated ordinary depreciation at 1 January	5 162	303	238	0	5 704
+ ordinary depreciation for the period	570	81	138		789
- accum. ordinary depreciation, operating assets sold	-5 391	-345			-5 736
Accumulated ordinary depreciation at 31 December	341	39	376	0	757
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	1 985	699	315	67	3 065

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 6 – 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	2 841 434
Acquisitions during the year	0
Disposals during the year	-115 673
Value added share issue	359 431
Share of annual profit/(loss)[1]	81 813
Share of adjustments for the year charged directly against equity in SNPI	-515 845
Closing balance, 31 December 2009	2 651 161

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

Committed investments in associated company

On 13 January 2009, Norfund sold 2.17 per cent of the shares in SN Power AS to Statkraft for NOK 269 million, of which NOK 143 million was an accounted as gain. Statkraft invested NOK 2 000 million in SN Power through a placing. These transactions reduced Norfund's holding in SN Power Invest AS from 50 to 40 per cent, and the investment was treated throughout 2009 according to the equity method as an associated company. The holding in 2008 was 50 per cent, and was treated as a joint venture. In connection with the restructuring of the ownership of SN Power, Norfund and Statkraft have entered into a new shareholders' agreement whereby Norfund has the option of selling out, partially or wholly, from SN Power in 2010, 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.

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	
	2009	2008
Operating income	746 373	907 623
Operating expenses	547 577	655 130
Operating profit/(loss)	198 795	252 493
Net financial items	125 871	82 634
Ordinary profit before tax	324 667	335 127
Tax on ordinary profit	-64 345	-42 039
Ordinary profit	260 322	293 088
Net profit	260 322	293 088
Minority interest	55 791	53 288
Majority interest	204 532	239 800

BALANCE SHEET

Assets	2009	2008
Intangible assets	270 985	212 970
Tangible fixed assets	3 908 278	4 027 818
Financial fixed assets	2 834 956	2 426 463
Total fixed assets	7 014 219	6 667 250
Inventories	3 784	4 941
Receivables	333 974	634 268
Investments	0	0
Cash and cash equivalents	2 002 089	1 346 105
Total current assets	2 339 847	1 985 315
Total assets	9 354 066	8 652 565

Equity and liabilities	2009	2008
Called up and fully paid share capital	6 450 564	5 851 976
Retained earnings	177 339	-169 107
Total equity	6 627 903	5 682 869
Minority interest	388 876	359 205
Provisions for liabilities and charges	103 155	119 065
Other long-term liabilities	1 824 426	1 964 598
Current liabilities	409 707	526 828
Total liabilities	2 337 287	2 610 492
Total equity and liabilities	9 354 066	8 652 565

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 6.29 and the balance sheet at the rate of USD 5.78 prevailing at 31 December 2009.

The annual accounts for the associated company can be obtained from Norfund on request.

NOTE 7 – 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 01-01-09	Repayments received 01.01-31.12	Repayments interest 01.01-31.12	Depreciation during year	Gain/loss on exchange during year	Closing loan balance 31-12-09
TOTAL	49 716	17 112	1 023	0	0	32 604
Depreciation	49 716					-32 604
Book value	0					0

Norfund has valued the loan portfolio at 31 December 2009 at NOK 12.0 million.

Total receipts loan portfolio

(Figures in 1000s of NOK)	Repayments	Interest	Total
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	322 920	50 476	373 396

Other receivables

(Figures in 1000s of NOK)	Other receivables	
	31.12.09	31-12-08
Receivable/Right[1]	4 500	3 639
Other receivables	25 194	37 819
Total receivables	29 694	41 458

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 2009.

Other receivables. All receivables fall due within one year.

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	466
Grameen Phone	USD	1 000	5 777
LAAD	USD	12 501	72 212
Nicafish	USD	1 393	8 046
Bugoye HPP	USD	6 962	40 218
Locfund	USD	1 225	7 076
Hattha Kaksekar Ltd	USD	500	2 888
Brac NGO	BDT	489 071	40 202
EXIM Bank (Tanzania) Ltd.	USD	1 800	10 398
Sathapana	USD	3 000	17 330
Abacus	UGS	3 864 257	11 593
Samic Ltd	USD	357	2 063
Afrinor Hotel Investments A/S	EUR	500	4 158
AMRET Co. Ltd.	KHR	12 378 000	17 329
Brac Africa Loan Fund	USD	2 540	14 672
Euro TechBridge AS	NOK	1 775	1 775
Casquip Starch (Pty) Ltd	ZAR	24 900	19 123
CIFI	USD	10 000	57 767
Capitec Bank	ZAR	150 000	117 495
Scandinavian Water Technology	NOK	2 500	2 500
European Financing Partners EUR[2]	EUR	347	2 882
European Financing Partners USD[2]	USD	1 406	8 125
MEZZANINE LOANS			
Telecom Management Partner AS	NOK	13 017	13 017
EXIM Bank (Tanzania) Ltd.	USD	5 000	28 884
DFCU	USD	3 000	17 330
Matanuska Africa Ltd.	USD	1 800	10 398
Matanuska Mozambique	USD	2 200	12 709
Accrual start-up fee loans			-1 736
Total loans to companies			544 696
Provision for bad debts at 31 Dec 2009			-1 739
Book value loans/total interest received			542 957
Committed investment in loans			873 139

In addition to the loans specified above, Norfund made loans charged to unused funds Balkan which are recorded at NOK 0 in accordance with the requirements of NRS 4 concerning net recording of government grants received. See Note 13.

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

1 – Figures at 31 December 2009 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 and Zambeef.

NOTE 9 – EQUITY INVESTMENTS

Equity investments in funds

(Figures in 1000s)	Currency	Holding	Committed investment (in currency)	Historical cost price[1] (in currency)	Committed investment (in NOK)	Historical cost price[1] (in NOK)
Horizonte	EUR	3,0 %	394	286	3 239	2 341
FEDHA Fund	USD	11,5 %	636	463	4 812	3 812
CAIF	USD	4,0 %	719	719	5 874	5 876
African Infrastructure Fund	USD	1,2 %	242	42	1 398	243
SEAF Trans-Balkan Fund	USD	22,9 %	362	362	2 137	2 137
CASEIF	USD	31,8 %	1 646	1 646	11 397	11 397
Siam Investment Fund II	USD	8,7 %	1 408	1 408	9 107	9 107
SEAF Sichuan SME Investment Fund	USD	13,3 %	2 519	2 404	15 867	15 202
Horizon Tech Ventures	ZAR	18,1 %	8 279	2 400	7 008	2 403
Aureos Central America Fund	USD	27,6 %	5 198	5 198	31 558	31 558
Aureos East Africa Fund	USD	20,0 %	6 428	6 046	39 409	37 200
Aureos West Africa Fund	USD	26,0 %	7 068	5 659	39 825	31 684
Aureos Southern Africa Fund	USD	25,1 %	10 624	10 167	60 977	58 333
Aureos South Asia Fund I [2]	USD	50,0 %	4 430	3 273	27 584	20 898
Aureos South East Asia Fund	USD	28,6 %	18 209	12 760	107 676	76 196
APIDC Biotech Fund	USD	7,7 %	2 750	2 750	16 697	16 697
Vietnam Equity Fund	EUR	16,5 %	228	150	1 882	1 230
China Environment Fund	USD	10,0 %	1 948	1 707	10 778	9 385
Aureos South Asia Fund (Holdings)	USD	23,5 %	19 465	10 617	116 168	65 053
Business Partners Madagascar SME Fund	EUR	14,1 %	1 200	652	9 957	5 400
Solidus Investment Fund	USD	6,3 %	1 600	1 600	9 322	9 322
Aureos Central America Growth Fund (EMERGE)	USD	14,3 %	3 000	1 434	17 884	8 839
CASEIF II	USD	13,8 %	4 000	1 380	23 383	8 247
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 %	4 827	1 957	40 481	16 616
Horizon Equity Partners Fund III	ZAR	8,6 %	49 431	10 425	37 706	7 153
Africap Microfinance Investment Company	USD	7,1 %	3 000	2 494	16 425	13 501
Aureos Latin America Fund (ALAF)	USD	13,6 %	25 021	11 353	150 404	71 448
Seaf Blue Water Growth Fund	USD	20,0 %	5 000	1 385	28 740	7 859
NMI Global Fund	NOK	45,0 %	162 000	64 800	162 000	64 800
NMI Frontier Fund	NOK	45,0 %	108 000	43 200	108 000	43 200
GroFin Africa Fund	USD	9,4 %	15 000	2 219	88 760	14 929
Aureos Africa Fund L.L.C	USD	11,3 %	40 000	17 153	243 676	111 698
Fundo de Investimento Priv.Angola	USD	26,8 %	7 500	25	43 323	142
Fanisi Venture Capital Fund SCA	USD	37,2 %	15 000	48	86 643	270
Cambodia- Laos Development Fund	USD	40,0 %	4 000	0	23 107	0
Evolution One Fund	ZAR	8,7 %	50 000	0	39 165	0
Total invested in funds					1 706 199	848 006

"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 2009 is used for undisbursed committments.

1 – Figures at 31 December 2009 and before any write-downs.

2 – Aureos South Asia Fund I (ASAFI) 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.

Equity investments in management companies

(Figures in 1000s)	Currency	Holding	Committed investment (in currency)	Historical cost price[1] (in currency)	Committed investment (in NOK)	Historical cost price[2] (in NOK)
AMSCO	EUR	4,8 %	240	240	1 837	1 837
LAFISE Investment Management	USD	20,0 %	2	2	17	17
NMI Portfolio Manager AS	NOK	50,0 %	30 000	30 000	30 000	30 000
European Financing Partners	EUR	8,3 %	25	25	195	195
Fanisi Venture Capital Management SA	USD	50,0 %	500	25	2 885	141
Angola Capital Partners LLC	USD	50,0 %	250	250	1 417	1 417
Total invested in management companies					36 351	33 608

The Norwegian Microfinance Initiative (NMI) was established in 2008 by Norfund jointly with KLP, the DnB NOR group, Ferd and Storebrand. Norfund owns 50 per cent of the NMI AS management company and 45 per cent of each of the NMI Global and NMI Frontier investment funds. It also owns a further 5 per cent of these funds indirectly through NMI AS. The total committed investment in 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 NMI are accordingly classified as current assets in Norfund's accounts.

Equity investments in companies

(Figures in 1000s)	Currency	Holding	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
Afrinord Hotels Africa	EUR	20,0 %	5 700	50	47 372	392
Micro Africa Ltd II	USD	15,3 %	250	250	1 558	1 558
Banco Terra	USD	20,0 %	5 219	5 219	32 336	32 336
TPS Pakistan	USD	4,7 %	3 967	3 967	21 161	21 161
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	KES	0,3 %	206 500	206 500	16 458	16 458
Casquip Starch (Pty) Ltd	SZL	17,1 %	16 000	16 000	10 720	10 720
SNP AfriCA	NOK	49,0 %	106 561	30 870	106 561	30 870
TMP	USD	43,4 %	8 289	8 289	44 454	44 454
Craft Silicon Ltd.	USD	30,0 %	2 500	2 000	14 960	12 071
Africado	EUR	40,0 %	2 000	0	16 630	0
Real People Investment PTY	ZAR	8,9 %	100 000	0	78 330	0
Socremo	USD	18,4 %	2 056	0	11 874	0
Total invested in companies					511 692	279 299

Write-down equity investments at 31 December 2009	-110 524
Book value equity investments	1 050 388

1 – Figures at 31 December 2009 and before any write-downs.

In accordance with new IPEV guidelines, Norfund has revised the principles for valuing investments in funds. Application of the new principles in 2008 would have resulted in NOK 5.9 million higher write-down.

NOTE 10 – INVESTMENTS REALISED

(applies to projects where Norfund has realised its entire investment)

(Figures in 1000s of NOK)	Total	
	2009	2008
Sales receipts	0	48 375
Cost price, paid-in capital	0	-44 674
Return previously recorded as income	0	1 977
Previously repaid capital	0	5 385
Gain/(loss) on investments sold	0	11 063
Written down 31 December	0	23 473
Reversal of write-down before transaction date	0	0
Net gain/(loss)	0	31 989

Loans to Interkraft Nepal AS, Green Resources, TTS Marine ASA and Micro Africa Ltd II were repaid during 2009. All loans were repaid in their entirety.

NOTE 11 – BANK DEPOSITS, CASH AND CASH EQUIVALENTS

Bank deposits of NOK 1 629 582 707 include NOK 1 695 277 in the blocked tax withholding account. In addition, NOK 18 435 726 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 13).

NOK 1 467 202 740 of the company's total bank deposits are placed in Norges Bank.

NOTE 12 – CAPITAL MOVEMENTS

(Figures in 1000s of NOK)	Primary capital	Capital in reserves	Surplus fund	Total equity
Capital at 1 January 2009	2 891 250	1 173 750	1 237 363	5 302 363
Capital added in 2009	438 750	146 250		585 000
Equity adjustment ass. co. recorded directly against equity (see note 6)			-146 009	-146 009
Net profit			129 537	129 537
Capital at 31 December 2009	3 330 000	1 320 000	1 220 891	5 870 891

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 2009, 75 per cent was allocated to primary capital and 25 per cent to legal reserves in accordance with Article 9 in the instructions governing Norfund's operations. Norfund has received NOK 4 650 million in capital from the Norwegian government, of which NOK 585 million in 2009.

NOTE 13 – UNUSED FUNDS (NORFUND'S GRANT FACILITY)

Proposition no. 1 to the Storting (2008-2009) 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 2009 Norfund received NOK 92.0 million in capital for grant facility. The funds 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 funds are treated as current liabilities, and undisbursed amounts are included in Norfund's liquid assets. When costs are met from the funds, the liability is reduced by an equivalent amount. A total of NOK 102.7 million in costs was charged to the fund in 2009. Residual resources are primarily earmarked for projects in the Balkans.

	Unused funds Norfund		Unused funds Balkans	
	31-12-09	31-12-08	31-12-09	31-12-08
RECEIPTS				
Carried over from previous year	1 979	2 680	27 146	13 603
Received during the year	92 000	15 000	0	15 000
Total receipts	93 979	17 680	27 146	28 603
Income			256	275
DISBURSEMENTS				
General costs				
Fund management	-277	-162	-2 346	-2 626
General follow-up	0	-268	-173	-204
Intervention				
Project development (incl. Energy Initiative)	-14 425	-7 903	0	0
Boost and support development effects of projects	-7 179	-2 959	0	0
Boost social responsibility	-2 021	-4 410	0	0
NMI start-up support	-10 000	0	0	0
Bugoye start-up support	-60 000	0	0	0
Local investment funds				
Follow-up costs	0	0	-35	-19
Loans to projects	0	0	-7 175	
Total disbursements	-93 903	-15 701	-9 729	-2 849
Allocated interest income	0	0	688	1 117
Non-disbursed funds	76	1 979	18 362	27 146
Total non-disbursed funds at 31 December 2009	18 436	29 123		

At the end of 2009, unused funds Balkan consisted of two outstanding loans of EUR 0.8 million each.

NOTE 14 - INFORMATION ABOUT FINANCIAL MARKET RISK AND THE USE OF FINANCIAL INSTRUMENTS

Market 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 returns depend on the ability to manage the opportunities and risk during the investment period.

Norfund's investments are largely made in USD, but in some cases in other currencies. Since Norfund'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 currencies and USD.

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

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 interest charged on the various loans. Loans to projects are usually based on the variable LIBOR rate plus a margin. This 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 sheet is zero. As a rule the risk associated with loans is regarded as relatively 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 15 – CONTRACTUAL OBLIGATIONS

(Figures in 1000s of NOK)	Lease duration	Annual rental costs
Premises at Søperigata 2, Oslo	01.07.09 - 30.06.2012	3 360

In 2004 Norfund decided to establish a tender guarantee scheme to encurage increased financial cooperation and investment in developing countries. The scheme is administered by the Norwegian Guarantee Institute for Export Credits (GIEK). NOK 761 765 was charged to Norfund's accounts in 2009 in respect of the scheme. The tender guarantee scheme was initially a three-year trial that ran to the end of 2007. The scheme has been extended.

Horwath

Horwath Revisjon AS
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Medlem av Den norske Revisorforening
Medlem av Crowe 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 2009

We have audited the annual financial statements of NORFUND as of 31 December 2009, showing a profit of NOK 129 537 000. 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, 2009, the results of its operations and its cash flows for the year then ended, in accordance with the rules of the Norwegian accounting act and good accounting practice in Norway
- the Fund's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information in accordance with the law and good bookkeeping practice in Norway
- 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 2010
Horwath Revisjon AS

Not to be signed

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