CMI
ANNUAL REPORT 2008

REPORT FROM THE BOARD OF DIRECTORS

Activities and developments
Chr. Michelsen Institute (CMI) is a social science research institute that focuses on international development and human rights, including political, social and economic rights. Located in Bergen, CMI is one of the Nordic region's leading scientific communities in applied development research. As of 31 December 2008, 41 researchers and numerous research fellows and students were affiliated with the institute. CMI has a multidisciplinary research profile anchored in four thematic research groups:

Rights, Democracy and Development
Peace, Conflict and the State
Poverty Reduction
Public Sector Reform

During the strategic period 2006-2010, CMI will continue to conduct research and provide knowledge-based advice that informs public policy and measures to reduce poverty, strengthen human rights and promote peace. In so doing, CMI will maintain its position and role as a leading research community in Norway in the field of development policy. CMI research projects generate knowledge that promotes development and social justice, human rights and the peaceful resolution of conflict. Through its research activity, CMI seeks to inform and influence policy decisions and contribute to the public debate on international development issues. CMI research is particularly focused on Africa, Asia, the Middle East and Latin America with an emphasis on countries important to Norway's development policy efforts. Through close cooperation with researchers in the South, CMI researchers should advance the perspective of developing countries. In 2007, the institute established an exchange programme for young researchers in cooperation with FK Norway (*Fredskorpset*). Four participants from the North and four from the South took part in the programme, which is expected to run for four years. In January 2008, the institute started a three-year collaboration agreement with *Centro de Estudos e Investigação Cientìfica* in Angola with a budget framework of roughly NOK 21 million. Co-operation with the Palestinian Institute for the Study of Democracy, Muwatin, was renewed through an agreement of a fourth phase.

CMI receives basic funding allocations from the Research Council of Norway which is used to fund basic research and the institute's research programmes. In 2008, CMI had one Strategic Institute Programme (SIP) entitled "Global Health and Development". Strategic institute programmes must be approved by the Research Council. In addition, CMI had seven other institute programmes. CMI also receives separate funding from the Ministry of Education and Research for its Human Rights Programme. The CMI Human Rights Programme celebrated its 25th anniversary with a major international symposium in September 2008.

Research collaboration with the University of Bergen (UiB) has been strengthened in recent years. New initiatives for collaborative projects with UiB in early 2008 are in many ways a precursor to the implementation of the institute's decision to move closer to the UiB campus, which will take place in August/September 2009. The number of master's and PhD students at the institute is the same as in previous years. This is also the case for the number of CMI staff teaching at the university and the number of university professors affiliated with CMI in adjunct positions. Several new and ongoing research programmes, which also include research groups at UiB, have been strengthened during the autumn of 2008 through allocations from the Research Council. The establishment of a coordinating committee with UiB and a five-year collaboration fund will enhance the relationship between these two research communities.

High priority is given to communication and dissemination to CMI's main target groups. CMI researchers published one monograph and five edited books as well as 25 chapters in various textbooks. CMI had a total of 13 articles in level 1 and level 2 journals. The number of references to CMI research and interviews with CMI researchers in Norwegian media continued to increase. Statistics from 2008 shows an increase from a record-high of 958 in 2007, to 1143 in 2008. In addition to this there was an increase in TV and radio interviews. CMI's commissioned research activity generated 56 reports compared to 38 reports in 2007.

The institute's performance

Income from commissioned assignments continues to increase, and has from 2007 to 2008 increased from NOK 53 million to NOK 61 million. This represents a 15% increase which can be explained by more manpower, higher average income per researcher and higher rates.

In 2008, CMI carried out 150 externally funded research projects and consultancy assignments for a total of NOK 39 million.

Norwegian government administration (the Ministry of Foreign Affairs (MoF) and the Norwegian Agency for Development Cooperation (Norad)) continues to be the institute's most important client, accounting for 43% of the project income in 2008 or a total of NOK 21,2 million. MoF comprised of 13% of the commissioned research, and Norad for 30% of the institute's total project income. Parts of the funding through Norad, funds large-scale institutional agreements with partners in the South and purchase of services through a framework agreement between CMI and Norad. The turnover from the framework agreement declined from NOK 7,4 million in 2007 to NOK 4 million in 2008. This is because the framework agreement expired in September 2008. New commissioned research from Norad is won through individual tenders. Increasingly, projects initiated by Norwegian embassies are financed by MoF, thus there is an increase in MoF funding.

Projects carried out with funding from the Research Council of Norway represented 29% of the total project portfolio, compared to 17% in 2007. CMI is continually renewing its project portfolio through the Research Council, and the size is expected to increase further.

Income from international sources has varied between 20-30% of the institute's total turnover the past decade. 2007 saw a peak of 35% from international sources. In 2008, 19% of the project income came from international sources. Bigger project assignments financed by the Norwegian government administration partly explains the decrease. The percentage of international project income is still substantial compared to other social science institutes in Norway.

Result and continued operation

The institute had an operating profit of NOK 8 838 392 in 2008, and an annual profit of NOK 7 751 400. NOK 8,4 million represents gains from the sale of the CMI property in Fantoftvegen 38. Thus, operating profit became almost NOK 10 million more than the previous year. Adjusted for the gain, the operating result increased with NOK 1,5 million compared to 2007. Annual result is NOK 2,7 million higher than expected when the interim report was presented to the Board in October. The reasons are primarily financial in nature. 2008 was marked by turbulence in the financial market.

In spite of major fluctuations, return on investments in the monetary market ended on an approximately zero-return, while foreign exchange fluctuations returned with a profit of NOK 730 000. Both interest costs and capital gains have been somewhat higher than budgeted at the beginning of the year.

The expanding project portfolio, better routines for financial management, and highly skilled employees provide a solid basis for continuing the institute's positive trend in 2009 in relation to the financial situation. In accordance with the Accounting Act § 3-3a, the board confirms that the requirements for continued operation are fulfilled.

Cash flow, investments, financing and liquidity

The total cash flow from operational activities at the institute was NOK –13 million compared with 2,5 million in 2007, mainly due to short-term claims on the sale of the property at Fantoft of NOK 29 million. This was paid at year-end. The institute's liquidity reserves were NOK 16,88 million as of 31 December 2008.

The institute's short-term debt increased with NOK 8 million from 2007 to 2008, and now constitutes 36 % of the total debt. Of this amount, NOK 850 000 is short term debt to the Chr. Michelsen Fund. The repayment of the short-term debt was done in February 2009 after the receipt of the settlement of the sale of the property at Fantoft. The remaining increase was largely the result of a continual rise in pre-payments to projects. Liquidity is satisfactory and short-term debt as of 31 December 2008 may be repaid in its entirety through liquidity reserves and investments.

Accounts receivable from customers were reduced with NOK 2,6 million, mainly due to tighter follow-up and higher invoicing. The risk of loss is minimal as income comes mostly from Norwegian and international development cooperation authorities and from the multilateral development cooperation system.

At year-end 2008, total capital was NOK 111,4 million, compared with NOK 73 million in 2007. 29 million of the increase is due to the short-term claim associated with the debt at the turn of the year. The equity ratio as of 31 December 2008 was 14% compared with 10,7% as of 31 December 2007.

In the view of the board, the annual accounts provide an accurate picture of the institute's assets and debt, financial position, and result.

Market and financial risks

The institute is somewhat exposed to fluctuations in exchange rates. The institute entered an exchange rate profit of more than NOK 0,7 million compared with an exchange rate loss in 2007 of about NOK 0,6 million. Roughly 20% of the institute's income is paid in foreign currency. So far the institute has not entered into futures contracts or other contracts to reduce the institute's currency risk and the operations-related market risk. Interest costs have increased due to the institute's use of floating interest rates.

Current assets have been reduced with NOK 8,7 million in 2008. NOK 8,4 million is due to the fact that the institute sold its shares and mutual funds in June 2008. CMI realised a loss this year from its investment portfolio. Changes in the value of other investments have almost made up for this loss in 2008. Today, almost 98% of the institute's current assets are placed in DnB Kapitalforvaltning ASA. Investments have been made in bond funds, money market funds and combination funds. Investment instructions have been made by the institute's board. Any changes in investment structure must also be decided by the board. A midrange risk profile has been chosen to balance the ratio between rate of return and risk. Placements through DnB Kapitalforvaltning ASA will be sold in 2009 to finance the new CMI building in Jekteviken. This is in accordance with the board's decision.

Working environment and personnel

The sickness absence rate was 2,82% in 2008, compared to 2,73% in 2007. No occupational injuries or accidents were reported in 2008.

The institute conducts regular surveys on the working environment in cooperation with the occupational health service. There has, however, not been conducted any surveys in 2008. Feedback from the institute's employees indicates that the working environment is good.

Gender equality

Of the institute's 67 employees, 31 are women. One-third of the board members are women, and 3 of 8 persons on the management team are women. The institute has established a wage system and welfare schemes designed to provide equal opportunity for wage and career development. Traditionally the institute has recruited from arenas with an equal representation of men and women, and therefore has not introduced quotas to achieve gender equality.

Environmental report

The institute's activities are not regulated by licenses or directives, and do not have a direct impact on the external environment. It should be noted, however, that extensive travel by the staff contributes to greenhouse gas emissions.

Annual profit/loss and allocation

The annual result of NOK 7 751 401 was added to other equity. The institute has NOK 270 359 unrestricted equity as of 31 December 2008.

Bergen, 16 March 2009

Jan Fridthjof Bernt Chair (sign)	Einar Hope (sign)	Jan Isaksen (sign)
Ruth Haug (sign)	Inge Tvedten (sign)	Inger Johanne Sundby (sign)

Gunnar M. Sørbø
Director
(sign)

INCOME STATEMENT

(All figures in NOK 1000)	Note	2008	2007
Operating revenues			
Project revenues	1	61 048	53 085
Other revenues		2 715	2 315
Gain on the sale of property		8 431	
Total operating revenues		**72 194**	**55 400**
Operating expenses			
Project expenses		15 615	13 840
Payroll expenses	2,3	38 219	33 796
Depreciation	4	606	567
Other operating expenses		8 916	8 350
Total operating expenses		**63 356**	**56 553**
Operating result		**8 838**	**-1 153**
Financial income/expenses			
Financial income	7	1 375	887
Financial expenses		-2 461	-2 251
		-1 086	**-1 364**
Tax 2007	13	-1	
Net result		**7 752**	**-2 517**

BALANCE SHEET AS OF 31 DEC. 2008

(All figures in NOK 1000)

ASSETS	Note	2008	2007
Fixed assets			
Tangible fixed assets	4		
Building at Fantoft	5	0	20 897
Construction of building Jekteviken	6	32 046	3 793
Equipment, investments in building		188	393
		32 234	25 083
Financial fixed assets			
Long term receivables	8	578	544
Total fixed assets		**32 812**	**25 627**
Current assets			
Debtors			
Accounts receivable	9	7 309	9 993
Other debtors		3 457	2 251
Sale of property	5	29 096	
		39 862	12 244

	Note		
Investments	7		
Shares in other companies	1	195	
Bonds		511	510
Unit trusts		21 319	29 839
		21 831	30 544
Cash and bank deposits	10	16 885	4 525
Total current assets		**78 578**	**47 313**
TOTAL ASSETS		**111 390**	**72 940**
EQUITY AND LIABILITIES			
Equity			
Paid-in capital			
Original fund	11	15 300	15 300
Retained earnings			
Other equity	11	270	-7 481
Total equity		**15 570**	**7 819**
Liabilities			
Provisions			
Pension funds	3	2 259	3 966
Long term liabilities			
Long term loans	12	35 000	28 013
Other long term liabilities		24 492	7 137
		59 492	35 150
Current liabilities			
Accounts payable		4 451	6 125
Short-term debt CMF		848	
Public duties payable		3 004	2 522
Other short term liabilities		25 766	17 358
		34 069	26 005
Total liabilities		**95 820**	**65 121**
TOTAL EQUITY AND LIABILITIES		**111 390**	**72 940**

Bergen, 16 March 2009

Jan Fridthjof Bernt
Chair
(sign)

Einar Hope
(sign)

Jan Isaksen
(sign)

Ruth Haug
(sign)

Inge Tvedten
(sign)

Inger Johanne Sundby
(sign)

Gunnar M. Sørbø
Director
(sign)

CASH-FLOW STATEMENT
(All figures in NOK 1000)

	2 008	2 007
Cash Flow from operating activities		
Annual result	7 751	-2 517
Depreciations	606	567
Effect of pension fund	-1 706	-710
Change project advances from funders	-34	318
Change debtors	2 683	-2 772
Gain on the sale of property	-8 431	
Change other receivables	-1 206	-504
Change accounts payable and other liabilities	8 064	8 124
Net cash flow from operating activities	7 727	2 506
Cash Flow from investment activities		
Payment for purchase of fixed assets (new building)	-28 421	-4 020
Net cash flow from investment activities	-28 421	-4 020
Cash Flow from financing activities		
Change of long-term dept	24 342	-1 018
Change of shares, stocks and bonds	8 712	1 758
Net cash flow from financing activities	33 054	740
Net change in cash and cash equivalents	**12 360**	**-774**
Cash and cash equivalents at 1 January	4 525	5 299
Cash and cash equivalents at 31 December	16 885	4 525
Net change in cash and cash equivalents	**12 360**	**-774**

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2008

Accounting Principles
The annual accounts are produced in accordance with the Accounting Act and sound accounting practice.

Project Revenues
Grants are accounted for as earned income. Project revenues are accounted for according to progress and reflect earned income. Project expenses are accounted for according to the accrual principle of accounting. Earned non-invoiced revenues are included in the sum for debtors in the balance. Account payments and project advances from funders are presented as current liabilities on the balance sheet.

Valuation and Classification of Assets and Liabilities
Items falling due within one year are classified as current assets and liabilities. Other assets are classified as fixed assets. Outstanding account Chr. Michelsen Fund is classified as long-term debt except amount due within 1 year.

Receivables
Accounts receivable and other receivables are listed in the balance sheet at nominal value.

Currency
Fund on finished projects held in foreign currency is equivalent to the exchange rate at the end of the year.

Short-term investments
Short-term investments (shares, stocks and bonds) are estimated at market value on the balance sheet date. Dividends are recorded as financial income.

Fixed Assets
Investments in fixed assets are recognised in the balance sheet and are depreciated during the asset's useful life when this exceeds 3 years.

NOTE 1 PROJECT REVENUES

	2008	2007
Project revenues	46 347 814	39 335 190
Grants	13 300 000	12 250 000
Chr. Michelsen Fund	1 400 000	1 500 000
	61 047 814	53 085 190

Project revenues are stated without contributions from cooperating partners, NOK 9 588 786

Geographic distriution	2 008	2 007
Norway	52 134 415	36 566 678
Overseas	8 913 399	16 518 512
	61 047 814	53 085 190

NOTE 2 SALARIES AND SOCIAL COSTS

	2008	2007
Salaries	28 527 582	25 632 246
Social security taxes	4 400 373	4 186 389
Pension costs	3 813 175	2 887 544
Other benefits	1 028 824	719 989
	37 769 954	33 426 168
Other social costs	448 994	370 434
	38 218 948	33 796 602
Employees full-time equivalent	55	52

Leadership Remuneration etc.	2008	2007
Director's salary	836 077	786 292
Other benefits	16 030	15 957
Pension costs	214 689	215 909
	1 066 796	1 018 159

CMI and CMF share the same board. Fees are paid by CMF.
Credits to employees amount to NOK 577 789. The interest rate equals the standard rate offered in employment relationships.

Auditor's fees	
Audit of the accounts	160 400
Other audit related services	114 000
	274 400
Consultant fees, tax	12 000
Other sevices	10 000

These amounts are ex VAT

NOTE 3 PROVISION FOR PENSION LIABILITIES, PENSION COSTS

Contribution pension

The company has a group pension scheme for 45 regular employees. The scheme guarantees pre-set future benefits. These benefits are calculated according to years in service, salary at retirement, and the benefits from the national insurance scheme. The pension obligations are covered by insurance. The obligations also include provisions for a contractual early retirements scheme for 64 regular employees.

Calculation of pension contributions and pension liabilities are based on actuarial principles. The regular presuppositions in the insurance industry are used as actuarial assumptions for demographic actors and retirement.

	2008	2007
Pension rights earned during the year	2 880 158	2 658 448
Interest	1 690 990	1 558 954
Yield on pension funds	-1 773 735	-1 544 898
Administration costs	91 013	117 189
Social security taxes	407 268	393 347
Amortization	152 975	14 275
Net pension costs	3 448 669	3 183 040

Earned pension liabilities	37 883 193	37 851 161
Pension plan assets	-29 852 131	-28 907 802
Social security taxes	1 132 380	1 261 014
Estimate deviations not recognized	-6 050 789	-5 467 874
Social security taxes	-853 161	-770 970
Net pension funds	2 259 492	3 965 529

Economic assumptions		
Discount interest	5,80 %	4,50 %
Expected return on funds	5,80 %	5,75 %
Expected salaries regulations	4,00 %	4,50 %
G-regulations	3,75 %	3,75 %
Expected pension increase	3,75 %	2,00 %
Amortization factor	13,15	16,04
Probalility of withdrawal (AFP)	10,00 %	10,00 %
Social security	14,10 %	14,10 %

Deposit pension

1 April 2007 CMI introduced deposit pension for all new employees.
20 persons at CMI have per 31 Dec deposit pension.

Deposit pension	339 895
Administrative costs	24 606
	364 501

NOTE 4 TANGIBLE FIXED ASSETS

	Building Fantoft	Construction Jekteviken	Machinery etc	Investments building	Sum
Cost at 1 Jan	25 494 175	3 792 500	2 973 707	241 605	32 501 987
Purchased assets	0	28 253 510	167 837	28 421 347	
Sold assets	25 494 175			241 605	
Cost at 31 Dec	0	32 046 010	3 141 544	0	35 187 554
Accumulated debt	0	0	-2 953 631	0	-2 953 631
Balance value 31 Dec	0	32 046 010	187 913	0	32 233 923
Depreciations	232 833	0	236 130	136 903	605 866

The building at Fantoft was sold 1 Dec 2008.

The annual depreciation of the value of the building at Fantoft was calculated in a linear method; 1 % annually from the value in 1992 when the property was divided between CMI and CMR. Depreciation of machines and furniture applied the linear method over 3 years. Depreciation of investments in the building applied the linear method over 5 years.

CMI rents copymachines from DnBNor Finans. Annual cost is NOK 341 704.

NOTE 5 SELLING THE BUILDING AT FANTOFT

1 Dec 2008 the building at Fantoft was formally sold. The agreed price amounted to NOK 29 095 988. Compared to the value in the balance the gain on the sale of property was NOK 8 431 148. Per 31 Dec the agreed amount was deposited in a closing account until official registration. Accrued interests per 31 Dec amount to NOK 105 582.

Payment was received 12 Jan 2009. Provisions for possible liabilities amount to NOK 100 000 because of ongoing negotiations.

NOTE 6 CONSTRUCTION OF A NEW BUILDING IN JEKTEVIKEN

16 Nov 2007 CMI signed an agreement on the construction of a building in Jekteviken in Bergen together with the University of Bergen/Magør Eiendom AS. The property developer is Skanska Norway AS. By 31 Dec CMI has paid NOK 32 042 010. The constuction was delayed 3 months in the spring of 2008. Further delays have not been registered. The total contract sum between Skanska and CMI is NOK 39 mill ex VAT pluss wage-price increase according to Statistics Norway. There has been issued a guarantee towards Skanska in connection with the new building amounting to NOK 8 514 877.

NOTE 7 CURRENT ASSETS

		Cost price	Balance sheet value
Norwegian shares		36 975	757

Bearer bond	Nominal value	Costprice	Balance sheet value
	500 000	529 100	511 500

Shares and Stocks		Invested amount	Balance sheet value
Unit trusts	Low risk	7 459 893	8 224 015
Bond fund	Low risk	11 590 766	13 095 563
		19 050 659	21 319 578

Sold in 2008		Invested amount	Realizable value
Equity stocks	Medium/High risk	9 279 912	8 476 778

NOTE 8 FINANCIAL FIXED ASSETS

Consists of credits to emplyees, NOK 577 789.

NOTE 9 RECEIVABLES

Invoiced, not paid sales	4 149 932
Sales, not yet invoiced	3 159 460
	7 309 392

NOTE 10 TAX DEDUCTED

By 31 Dec NOK 1 473 571 is deposited on a separate tax-account.
Unpaid tax was at the same date NOK 1 408 270.

NOTE 11 EQUITY

	Retained earnings	Paid-in capital	Total
Equity at 1 Jan	-7 481 042	15 300 000	7 818 958
Net result for the year	7 751 401		7 751 401
Equity at 31 Dec	270 359	15 300 000	15 570 359

NOTE 12 DEBT DUE LATER THAN 5 YEARS

	2008	2007
Chr. Michelsen Fund	35 000 000	28 012 711

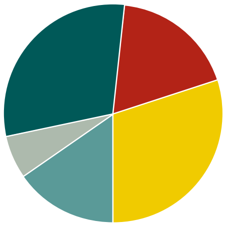
In accordance with the board's decision on 17 October 2008, CMF provided a long-term mortgage loan for the construction of the new building in Jekteviken.

NOTE 13 TAX

Until 30 Nov 2008 CMI owned 50,35 % of the building in Fantoftvegen 38.

While CMI according to Norwegian taxation law is a tax-exempt institution, it remains liable to pay tax on some of its activities. Section 2-32 of the applicable law stipulates that gains from working capital are limited to the amount deductible from income as depreciation. Total depreciation as of 30 November 2008 was NOK 4,596,502. On average, 22 per cent of the building mass has been used for taxable activity in the past 11 years. Taxable gains are thus set at NOK 1,011,230 and taxable profit in 2008 at NOK 655,051. As the deficit from previous years on this part of the enterprise exceeds NOK 2,9 million, no tax allocations have been made in the 2008 accounts.

PROJECT REVENUES 2008



	Research Council of Norway	13 378	29,05 %
	Norwegian Ministry of Foreign Affairs	6 097	13,24 %
	NORAD	13 689	29,73 %
	International	8 913	19,35 %
	Other	3 975	8,63 %

To the Board of Directors of
Chr. Michelsens Institutt

Auditor's report for 2008

We have audited the annual financial statements of Chr. Michelsens Institutt as of 31 December 2008, showing a profit of NOK 7 751 945. We have also audited the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit. The financial statements comprise the balance sheet, the statements of income and cash flows and the accompanying notes. The regulations of the Accounting Act and accounting standards, principles and practices generally accepted in Norway have been applied in the preparation of the financial statements. These financial statements and the Directors' report are the responsibility of the foundation's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with laws, regulations and auditing standards and practices generally accepted in Norway, including the auditing standards adopted by the Norwegian Institute of Public Accountants. Those standards and practices 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 auditing standards, an audit also comprises a review of the management of the foundation'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 have been prepared in accordance with laws and regulations and present fairly, in all material respects the financial position of the foundation as of 31 December 2008, and the results of its operations and its cash flows and the changes in equity for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- management has fulfilled its duty to properly record and document the accounting information as required by law and generally accepted bookkeeping practice in Norway
- the information in the Directors' report concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and comply with law and regulations.

We are not aware of any matters indicating that the management and the payouts of the foundation have not been performed in accordance with laws and the foundation's objectives and articles of association.

Bergen, 29. April 2009
ERNST & YOUNG AS

Tore Fyllingen
State Authorised Public Accountant (Norway)
(sign.)

Note: The translation to English has been prepared for information purposes only.

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