

2013

REPORT FROM
THE BOARD
OF DIRECTORS
AND FINANCIAL
STATEMENT

REPORT FROM THE BOARD OF DIRECTORS

Activities and developments

Chr. Michelsen Institute (CMI) is a multi-disciplinary social science research institute. CMI generates and communicates research-based knowledge relevant for fighting poverty, advancing human rights, and promoting sustainable social development. The geographic orientation is towards Africa, Asia, the Middle East, and Latin America.

Located in Bergen, CMI is one of the Nordic region's leading scientific communities in applied development research.

Research

Research is organised in ten thematic research groups that constitute the Institute's long term research priorities.

- Poverty Dynamics
- Rights and Legal institutions
- The Politics of Violence and Security
- Global Health and Development
- Gender Politics
- Cultures and Politics of Faith
- Tax and Public Finance Management
- Democracy and Governance
- Natural Resources
- Development Aid

The Institute also runs the online *U4 Anti-Corruption Resource Centre*, serving eight international aid donors. Danida, the Danish development cooperation, became a new long-term partner in 2013. Three new advisors were recruited, and the centre is well-placed to reach the goals set in the 2012-2016 strategy.

CMI has implemented several initiatives to strengthen the Institute's competitiveness in the market for commissioned research. We have strengthened our cooperation with international partners, established an internal evaluation method's group to strengthen CMI's competence in evaluation methodology, improved the quality of our tender processes, and improved the internal transfer of knowledge between CMI staff. CMI won more tenders in 2013 compared to previous years. 37 new commissioned projects started in 2013.

The Institute has started a process to concentrate its research efforts around larger research programmes defining the Institute's long-term research goals. This work will continue in 2014.

CMI is partner in *Centre for Intervention*

Science in Maternal and Child Health, a Centre of Excellence (CoE), which started at the University of Bergen in 2013. The centre is financed by the Research Council of Norway (RCN) for a period of maximum 10 years and provides a good platform for further development of CMI's research on the role of the health system in improving maternal and child health. The Institute also has entered an agreement with the Institute for Comparative Politics at the University of Bergen of the establishment of a joint *Centre for Law and Social Transformation*.

Five new long-term projects financed by the RNC were started in 2013. In the fall, we received funding for an additional five new projects that will start in 2014. Three of the new projects focus on India and strengthen the Institute's India competence. Several of the new projects deal with governance issues with a special focus on Malawi. Two projects focus on strengthening women's political and economic role, and one project will look at the role of tax havens in development.

The Institute has also played an active role in national processes in developing research strategies and research priorities in development research.

Research Communication

Research communication is essential to ensure the quality and relevance of our research. In 2013, we published 7 books, 37 peer reviewed articles, 26 bookchapters, 32 reports, 2 working papers and 22 briefs.

Research communication to policy makers and the public is a priority for the Institute. Analysis and comments from CMI researchers are in high demand both nationally and internationally. In particular, CMI researchers contributed with analysis and comments related to the developments in Syria, Iran, Egypt, Afghanistan, Sudan and Angola. Our media coverage once again reached an all-time high with 1367 references compared to 1084 references in 2012.

Our monthly newsletter primarily targets policy makers and politicians with journalistic articles on our research. The CMI website has a high number of visitors and downloads and the Institute is active in social media. In 2013, CMI launched a new blog: *Now Me: On womens 's rights*.

The Bergen Resource Centre for International Development has become an important arena for research communication, dialogues and discussions on global challenges for researchers, policy makers and the interested public. The Resource Centre had 72 events in 2013, and more than 2800 people participated. This is a 40% increase in attendance from 2012. The Resource Centre has succeeded with its bi-weekly BreakfastForums on current global events.

The library part of the Resource Centre has been thoroughly evaluated both in terms of activities and use of resources by an external consultant. Based on this we will start a project with a limited time period to ensure rational and efficient running of

the library and continued good service to staff and students. We have not succeeded in our efforts to secure funding from the Ministry of Foreign Affairs (MFA) to further develop the library's national role. Access to electronic journals has improved, but CMI is far from providing sufficient access to electronic journals for its staff.

Cooperation

CMI enjoys close co-operation and partnership with other research institutions both nationally and internationally. In 2013, the Institute has worked systematically to establish new cooperation agreements with research institutions in the South financed by Norwegian embassies. An initiative in Malawi led to project announcements in the RCN where CMI won all the funding. CMI also entered a comprehensive institutional agreement with institutions in Sudan and South-Sudan.

CMI cooperates closely with other research institutions in Bergen.

Establishing cooperation projects with the University of Bergen and the Norwegian School of Economics is important to create high-quality and a critical mass of researchers in our research themes. The CMI/UiB cooperation committee allocated seed money to nine new cooperation projects in 2013.

Organization

The Institute strengthened the organisation in 2013 through the recruitment of several advisors and researchers, primarily in post doc

positions. In addition, the Institute's has provided funding for competence development among all staff, and worked to promote new PhD candidates.

In the fall in 2013, we had a work environment survey which raised our awareness of the importance of specific organisational and management issues, that contribute to a good work environment. The company that conducted the survey has done similar surveys in other comparable institutions. In sum, the survey showed that the work environment at CMI is very good compared to other similar institutes. The survey also provided valuable insights on factors that are important for the work environment at CMI enabling us to implement measures to further improve our work environment. We have already started the follow-up work, and focused activity plans will be developed in selected areas.

The foundation's financial performance

Income

The Institute's total income increased from NOK 71.1 mill in 2012 to NOK 73 mill in 2013. Remuneration increased with 4.5% to NOK 44.4 mill, mainly due to an increase in the number of research man-years. In 2013, CMI carried out 155 externally funded research projects and consultancy assignments for a total of NOK 57.5 mill. The number of projects is at the same level as last year, but income per project increased with 5.5%. The core funding constituted NOK 14.6 mill, a 1% increase from the previous year. In addition, NOK

945 000 was transferred from the Chr. Michelsen Fund (CMF), a reduction of NOK 1.055 mill compared to last year. The share of project income covering project specific running costs, remained stable from 2012 to 2013 after a sharp reduction from previous years.

The Norwegian government administration (MFA, Norad and the embassies) represents important clients for the Institute, constituting 32% of the revenues, a considerable reduction from 2011 (37%). This continues the long-term reduction trend from 57% in 2006. The share of funding from Norad remains stable, the embassy share reduced from 19% to 12%, while MFA funding increased from 7% to 8%.

Projects with funding from the Research Council of Norway is for the first time in CMI 's history the biggest source of income, and constitutes 38% compared to 31% last year (core funding not included). Since 2009, income from the RCN has remained stable around 30% of the external project revenues, but compared to 2006, the RCN share of the income has more than doubled.

Income from international sources has varied between 20% and 30% of the Institute's external project revenues since 2000. In 2013, this percentage was 26%. Thus, this share has been stable since 2009. The international funding of the U4 Anti-Corruption Resource Center constitutes approximately 66% of this income, a reduction from 76% in 2012.

This means that other international funding has increased with 50%.

The percentage of income from other clients, remains stable at 3-5%, and constituted 5% of the income in 2013.

CMI's goal is to develop an even broader funding base. We have implemented targeted initiatives that have led to more customers than previously, both internationally and in Norway, especially in the commissioned research market. (CMI will keep to focusing on this to continue this development.) Such work will remain a priority to ensure that this development continues.

Result and continued operation

CMI had in 2013 an operating result of NOK 1.4 mill and an annual result of NOK 1.1 mill. This is lower than last year's result, which was NOK 1.5 mill, and is mainly due to an increase in running costs. The equity situation has improved in recent years, and the net equity ratio is now 24%, up from 23% in 2012. This reduces the Institute's financial vulnerability. We have favorable premises to continue to develop the organisation and its research activities in 2014. In accordance with the Accounting Act, section 3-3a, the board confirms that the requirements for continued operations are fulfilled.

Cash flow, investments, finances and liquidity

The Institute's liquidity reserves increased with NOK 0.6 mill to NOK 29.6 mill during

2013. The Institute's short-term debt outside public fees, increased with NOK 3.7 mill to 24.7 mill, and represented 36% of the total debt at the turn of the year 2012/2013, an increase from 32% at the previous turn of the year. The increase can be attributed to several advance payments for agreed studies. As of 31.12.2013, the Institute's short-term debt can in its entirety be paid off with the liquid reserves.

Accounts receivable from customers increased with 4.9 mill from 2012 to 2013. This is mainly due to the fact that several payments for completed assignments arrive in January. The risk of loss is minimal as income comes mainly from Norwegian and international development cooperation authorities and from the multilateral development cooperation system, with the exception of foreign exchange losses (see below).

At year-end 2013, total capital was NOK 89 mill, compared with NOK 86 mill the previous year. The increase is linked to increased short-term debt/ liquidity reserves.

On 30 June 2009, Chr. Michelsen Institute received a notice of possible tax liability. CMI argues that the Institute is not engaged in commercial activities and therefore should be regarded as a non-profit institution, cf. Norwegian Taxation Act, section 2-32, first paragraph. We refer to Note 13 to the annual accounts for further information.

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

CMI is somewhat exposed to fluctuations in exchange rates. Approximately 25% of the Institute's income is paid in foreign currency. The Institute has in 2013 entered an exchange loss of NOK 32 500 and an exchange profit of NOK 717 500. In comparison, in 2012 we entered an exchange loss of NOK 318 000 and an exchange profit of NOK 13 600. 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 because it is difficult to predict the time of the invoice and the payment. However, CMI has an on-going dialogue with the bank regarding this matter. The Institute uses floating interest rates on its bank deposits. These rates stay low because of the general low interest level. Yet, due to a strong liquidity, the Institute had capital gains of NOK 0.22 mill in 2013, down from 0.388 mill in 2012.

Working environment and personnel

The sickness absence rate was 4.21 % in 2013, compared with 3.67 % in 2012. No occupational injuries or accidents were reported in 2013.

As mentioned a work environment survey was conducted in 2013. The results from the survey show that the Institute has a good working environment. In areas where there are room for improvements, action

plans will be developed and concrete measures implemented.

Gender equality

Of the Institute's 76 employees as of 31 December 2013, 32 are women. 50% of the board members are women and 3 of 6 persons on the management team are women. CMI has established a wage system and welfare schemes designed to provide equal opportunities for wage and career development. The Institute has not used quotas to achieve gender equality.

Discrimination

Through recruitment both nationally and internationally, CMI seeks to ensure equal opportunities and rights, and to prevent discrimination based on a person's ethnicity, national origin, descent, colour, language, and religion or life stance.

CMI seeks to ensure that working conditions allow all individuals to enjoy equal work opportunities at the Institute regardless of functional ability.

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 our staff contributes to greenhouse gas emissions.

Annual profit/loss and allocations

The annual profit of NOK 1 071 667 was added to the existing equity. The institute had NOK 5 909 449 in unrestricted equity as of 31 December 2013, in addition to called-up and fully paid share capital of NOK 15 300 000.

Bergen, 14 March 2014

Lars Svåsand
Chair

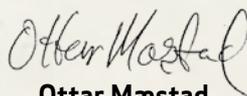
Bertil Tungodden

Nanna Hvidt

Karin Aslaksen

Arne Tostensen

Anne Bang


Ottar Mæstad
Director

INCOME STATEMENT 2013

| | Note | 2013 | 2012 |
|--|------|-------------------|--------------------|
| Operating revenues | | | |
| Project revenues | 1 | 73 040 257 | 70 892 815 |
| Other revenues | 2 | 170 338 | 203 416 |
| Total operating revenues | | 73 210 595 | 71 096 231 |
| Operating expenses | | | |
| Project expenses | | 13 127 280 | 11 991 356 |
| Payroll expenses | 3,4 | 49 798 905 | 48 640 743 |
| Depreciation | 5 | 1 470 375 | 1 767 903 |
| Other operating expenses | 2,3 | 7 378 250 | 5 756 503 |
| Total operating expenses | | 71 774 810 | 68 156 505 |
| Operating result | | 1 435 785 | 2 939 726 |
| Financial income/expenses | | | |
| Interest income | | 221 152 | 388 617 |
| Other financial income | | 717 378 | 13 614 |
| Interest cost to enterprise in same firm | | (1 269 200) | (1 512 400) |
| Other interest costs | | (865) | (2 858) |
| Other financial costs | | (32 583) | (318 701) |
| | | (364 118) | (1 431 727) |
| Net result | | 1 071 667 | 1 507 999 |

BALANCE SHEET AS OF 31 DEC, 2013

ASSETS

| | Note | 2013 | 2012 |
|--|------|------|------|
|--|------|------|------|

Fixed assets

Tangible fixed assets

| | | | |
|------------------------------------|---|-------------------|-------------------|
| Building at Jekteviksbakken | 5 | 46 851 314 | 47 789 317 |
| Equipment, investments in building | 5 | 1 513 880 | 1 956 392 |
| | | 48 365 194 | 49 745 709 |

Financial fixed assets

| | | | |
|-----------------------|---|----------------|----------------|
| Long term receivables | 7 | 991 204 | 815 052 |
| | | 991 204 | 815 052 |

| | | | |
|---------------------------|--|-------------------|-------------------|
| Total fixed assets | | 49 356 398 | 50 560 760 |
|---------------------------|--|-------------------|-------------------|

Current assets

Debtors

| | | | |
|---------------------|---|-------------------|------------------|
| Accounts receivable | 8 | 9 193 377 | 4 297 777 |
| Others debtors | | 912 112 | 1 992 847 |
| | | 10 105 490 | 6 290 624 |

Investments

| | | | |
|---------------------------|---|------------|------------|
| Shares in other companies | 6 | 358 | 358 |
| | | 358 | 358 |

| | | | |
|-------------------------------|----------|-------------------|-------------------|
| Cash and bank deposits | 9 | 29 626 462 | 29 003 922 |
|-------------------------------|----------|-------------------|-------------------|

| | | | |
|-----------------------------|--|-------------------|-------------------|
| Total current assets | | 39 732 309 | 35 294 903 |
|-----------------------------|--|-------------------|-------------------|

| | | | |
|---------------------|--|-------------------|-------------------|
| TOTAL ASSETS | | 89 088 707 | 85 855 664 |
|---------------------|--|-------------------|-------------------|

EQUITY AND LIABILITIES

| EQUITY | Note | 2013 | 2012 |
|-------------------------------------|------|-------------------|-------------------|
| Paid-in capital | | | |
| Original fund | 10 | 15 300 000 | 15 300 000 |
| Retained earnings | | | |
| Other equity | 10 | 5 909 449 | 4 837 783 |
| Total equity | | 21 209 449 | 20 137 783 |
| LIABILITIES | | | |
| Pension | | | |
| Pension funds | 4 | 1 407 166 | 3 311 240 |
| Long term liabilities | | | |
| Long term loans | 11 | 38 000 000 | 38 000 000 |
| Current liabilities | | | |
| Accounts payable | | 1 520 228 | 1 302 834 |
| Short term loans to CMF | | 204 246 | 0 |
| Public duties payable | | 3 765 691 | 3 356 168 |
| Other short term liabilities | | 22 981 928 | 19 747 638 |
| | | 28 472 092 | 24 406 641 |
| Total liabilities | | 67 879 258 | 65 717 881 |
| TOTAL EQUITY AND LIABILITIES | | 89 088 707 | 85 855 664 |

CASH FLOW STATEMENT

| | 2013 | 2012 |
|---|----------------|-------------------|
| Cash flow from operating activities | | |
| Annual result | 1 071 666 | 1 507 999 |
| Depreciations | 1 470 375 | 1 767 903 |
| Effects of pension fund | -1 904 074 | 164 749 |
| Change project advances from funders | -176 153 | -212 551 |
| Change debtors | -4 895 601 | 12 247 |
| Change other receivables | 1 080 726 | -967 631 |
| Change account payable and other liabilities | 4 065 461 | -8 187 886 |
| | 712 400 | -5 915 170 |
| Cash flow from investment activities | | |
| Chargeback/reversal on last years allocation | | 332 754 |
| Payment for purchase of fixed assets (new building) | -89 860 | -71 324 |
| | -89 860 | 261 324 |
| Cash flow from financing activities | | |
| Change of long-term debt | | |
| Change in value, shares and bonds | - | 269 |
| | - | 269 |
| Net change in cash and cash equivalents | 622 540 | -5 653 577 |
| Cash and cash equivalents at 1 January | 29 003 922 | 34 657 499 |
| Cash and cash equivalents at 31 December | 29 626 462 | 29 003 922 |
| NET CHANGE IN CASH AND CASH EQUIVALENTS | 622 540 | -5 653 577 |

NOTES TO THE ACCOUNTS AT 31 DECEMBER 2013

Accounting principles

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

Project Revenues

Grants and other contributions are in its entirety credited to income in the period of allocation.

Project revenues are credited according to the level of completion in every project.

The level of completion is an estimate based on accrued hours and other costs held against estimated total hours and other costs.

Valuation and classification of assets and liabilities

Items due for payment within one year are classified as current assets and liabilities.

Other items are classified as fixed assets. Outstanding account with Chr. Michelsen

Fund (CMF) is classified as long term debt. Outstanding account due within one year is classified as short-term debt.

Receivables

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

Currency

The fund on finished projects held in foreign currency is equivalent to the exchange rate by 31 Dec.

Short-term investments

Short-term investments (shares) are estimated at market value by 31 Dec.

Dividends are recorded as other financial income.

Fixed assets

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

Cash flow

The cash flow statement uses the indirect method.

NOTE 1 PROJECT REVENUES

| | 2013 | 2012 |
|---------------------|-------------------|-------------------|
| Project revenues | 57 508 257 | 54 474 815 |
| Grants | 14 587 000 | 14 418 000 |
| Chr. Michelsen Fund | 945 000 | 2 000 000 |
| | 73 040 257 | 70 892 815 |

Project revenues are stated without contributions to cooperating partners, NOK 7 516 958.

| Geographic distribution | 2013 | 2012 |
|-------------------------|-------------------|-------------------|
| Norway | 58 817 254 | 55 564 196 |
| Overseas | 14 223 003 | 15 328 619 |
| | 73 040 257 | 70 892 815 |

NOTE 2 JOINT PROPERTY

CMI and Nygårdshøyden Eiendom (Nygårdshøyden Real Estate, a company under the University of Bergen) own the building in Jekteviksbakken 31. Together they have established a joint housing ownership, Sameiet Jekteviksbakken 31, to manage the property. 2012 was the first running year of the joint ownership. The joint ownership income is first and foremost contributions to a maintenance fund for future up-grading and maintenance of the building, and income from parking spaces. The costs are related to insurance premium and accountancy.

CMI owns 44.41% of the joint property. Income and costs from the joint property is included in the CMI accounts according to the owner share. CMI's part of the 2013 income constitutes NOK 125 893 and costs constitute NOK 14 105. This is included in the income statement under respectively other operating revenue and other operating expenses.

NOTE 3 SALARIES AND SOCIAL COSTS

| | 2013 | 2012 |
|--------------------------------------|-------------------|-------------------|
| Salaries | 37 556 421 | 36 541 928 |
| Social security taxes | 6 378 045 | 5 926 300 |
| Pension costs | 4 631 307 | 4 818 546 |
| Other benefits | 519 133 | 621 788 |
| | 49 084 906 | 47 908 562 |
| Other social costs | 713 999 | 732 181 |
| Total salary and social costs | 49 798 905 | 48 640 743 |
| Employees full-time equivalent | 62 | 63 |
| Leadership remuneration etc. | 2013 | 2012 |
| Director's salary | 960 337 | 919 891 |
| Other benefits | 10 245 | 12 166 |
| Pension costs | 153 269 | 124 297 |
| | 1 123 851 | 1 056 354 |

CMI and CMF share the same Board. Board member fees are paid 2/3 by CMI and 1/3 by CMF. There are no contractual obligations (bonuses or shares) in the event of termination of employment. Loans to employees amount to NOK 523 109. The interest rate equals the standard rate offered in employment relationships.

| Auditor's fees (excluding VAT.) | 2013 | 2012 |
|--|----------------|----------------|
| Audit of the accounts | 154 000 | 166 000 |
| Other audit related services | | 32 000 |
| | 154 000 | 198 000 |
| Consultant fees, tax | 0 | 0 |

NOTE 4 PROVISION FOR PENSION LIABILITIES, PENSION COSTS

CMI has a defined-benefit pension scheme for 32 regular employees as of 31 December 2013. The scheme fulfills the requirements set by law on mandatory company pension scheme. The benefits are calculated according to years in service, salary at time of retirement and the benefits from the national pension scheme in Norway.

Up until 2011, CMI had been participating in the LO/NHO-agreement AFP, which enables all employees to choose to retire from the age of 62. That arrangement has since been terminated and all benefits have been entered as 2010 income and presented as reduced salary costs. A remaining provision for costs remains regarding one person who is a retiree in this arrangement.

At the termination of the AFP arrangement, there was a considerate underabsorption in which the participating companies must cover through the payment of a premium for the next 5 years. CMI's share of this underabsorption is estimated and provided for in the accounts.

A new AFP arrangement began 1 January 2011. This is not an early retirement scheme, but an arrangement that gives a life-lasting addition to the standard pension. This arrangement is financed by the payment of a premium, which for 2013 is 1.75% of all salary between 1G and 7.1G. This is a defined contribution pension scheme, and the premium is charged as expenses continuously. It is expected that the level of this premium will increase in the years ahead.

| Defined-benefits pension scheme and AFP | 2013 | 2012 |
|--|------------------|------------------|
| Pension rights earned during the year | 2 543 201 | 2 849 881 |
| Interest | 2 191 796 | 2 007 903 |
| Yield on pension funds | -1 673 114 | -1 853 842 |
| Administrations costs | 292 618 | 264 275 |
| Net pension costs ex social security | 3 354 501 | 3 268 217 |
| Social security taxes | 472 985 | 460 819 |
| Actuarial loss/earnings | 532 701 | 724 529 |
| Net pension costs | 4 360 187 | 4 453 565 |

| | | |
|---|-------------------|-------------------|
| Earned pension liabilities | 60 002 579 | 52 624 973 |
| Pension plan assets | 46 511 589 | 39 668 436 |
| Net pension commitments (underfinanced) | -13 490 990 | -12 956 537 |
| Social security taxes | -1 902 230 | -1 826 872 |
| Net pension inc. social security | -15 393 220 | -14 783 409 |
| Estimate deviations not recognized | 12 257 716 | 10 054 487 |
| Social security deviation | 1 728 338 | 1 417 683 |
| Net pension funds | -1 407 166 | -3 311 239 |

Economic assumptions

| | | |
|-------------------------------|---------|---------|
| Discount interest | 4.10 % | 4.20 % |
| Expected return on funds | 4.40 % | 4.00 % |
| Expected salaries regulations | 3.75 % | 3.50 % |
| Expected G-regulations | 3.50 % | 3.25 % |
| Expected pension regulations | 1.75 % | 1.63 % |
| Amortization factor | 11.48 | 11.67 |
| Wanted size on corridor in % | 10.00 % | 10.00 % |
| Social security taxes | 14.10 % | 14.10 % |

Defined-contribution pension scheme

A new pension scheme was introduced for all new employees from 1 April 2007. 31 persons at CMI are enrolled in this scheme by 31 December 2013.

| | 2013 | 2012 |
|----------------------|----------------|----------------|
| Deposit pension | 846 073 | 774 796 |
| Administrative costs | 81 030 | 70 695 |
| | 927 103 | 845 491 |

NOTE 5 TANGIBLE FIXED ASSETS

| | Building Jekteviksbakken | Machinery etc | Investments building | Sum |
|--------------------------|-----------------------------|------------------|-------------------------|-------------|
| Cost at 1 Jan | 51 303 294 | 3 816 937 | 4 124 896 | 59 245 127 |
| Purchased assets | 89 860 | 0 | 0 | 89 860 |
| Sold assets | 0 | 0 | 0 | 0 |
| Cost at 31 Dec | 51 393 154 | 3 816 937 | 4 124 896 | 59 334 987 |
| Accumulated depreciation | -4 541 840 | -3 774 082 | -2 653 871 | -10 969 793 |
| Balance value 31 Dec | 46 851 314 | 42 855 | 1 471 025 | 48 365 194 |
| Depreciations | -1 027 863 | -33 873 | -408 639 | -1 470 375 |

Depreciation of property relates to the new building at Jekteviken as of 1 August 2009. This depreciation is calculated linearly with 2 % annually.

Depreciation of investments in machinery is applied linearly over 3 years. Investments in fixtures, inventory etc. is depreciated linearly over 3-10 years.

CMI rents copy machines from Canon and Ricoh. The annual cost for 2013 was 348 410.

NOTE 6 CURRENT ASSETS

| | Number | Cost price | Market value |
|-------------------------|--------|---------------|--------------|
| Norwegian shares | | | |
| Nordiag ASA | 152 | 6 782 | 115 |
| Novel Diagnostics AS | 145 | 30 193 | 243 |
| | | 36 975 | 358 |

NOTE 7 FINANCIAL FIXED ASSETS

Loans to employees: NOK 523 109 as of 31 December 2013.

NOTE 8 RECEIVABLES

| | |
|--------------------------|------------------|
| Invoiced, not paid sales | 3 772 482 |
| Sales, not yet invoiced | 5 420 896 |
| | 9 193 377 |

NOTE 9 TAX DEDUCTED

As of 31 December 2013, NOK 1 816 367 had been put aside in a tax-deducting account. Unpaid deducted tax at the same date was NOK 1 703 152.

NOTE 10 EQUITY

| | Retained earnings | Paid-in capital | Total |
|-------------------------|-------------------|-------------------|-------------------|
| Equity at 1 Jan | 4 837 783 | 15 300 000 | 20 137 783 |
| Net result for the year | 1 071 666 | | 1 071 666 |
| Equity at 31 Dec | 5 909 449 | 15 300 000 | 21 209 449 |

NOTE 11 DEBT DUE LATER THAN 5 YEARS

| | 2013 | 2012 | 2011 |
|----------------------|------------|------------|------------|
| Chr. Michelsens Fund | 38 000 000 | 38 000 000 | 38 000 000 |

CMF provides a long-term loan to CMI for the building at Jekteviksbakken. This loan is secured by a mortgage which was registered 20 Dec 2013.

In April 2013, CMI registered its part of the property. A deed has been registered to correctly secure CMI their share of the building site. An additional lease is prepared to secure UiB/Magør the right to receive their value of the site in the case of resale.

NOTE 12 TAX

On 30 June 2009 CMI received a notice of possible tax liability and was asked to file the tax return for 2008. The response was sent 18 Sept 2009. In relation to this, CMI asked for a delay in handing in the tax return until the response was assessed. Delay was granted.

By 4 March 2014, CMI had not yet received any reply from the Tax Administration. CMI states that it is a not-for-profit foundation, and thus a tax exempt institution, according to § 2-32 second segment in the Act of Taxation.

Further, it is our understanding that commissioned research assignments fulfill CMI's non-profit purposes, and that this activity does not release limited tax liability. Thus, no provisions have been made in the accounts for taxes during the period 2009-2013.

To the Board of Directors of
Chr. Michelsens Institutt

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of Chr. Michelsens Institutt, which comprise the balance sheet as at 31 December 2013, the statement of income for the year then ended and a summary of significant accounting policies and other explanatory information.

The Board of Directors' and Chief Executive Officer's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements of Chr. Michelsens Institutt have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2013 and its financial performance for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

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

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Bergen, March 31 2014

ERNST & YOUNG AS

Eirik Moe

State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

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