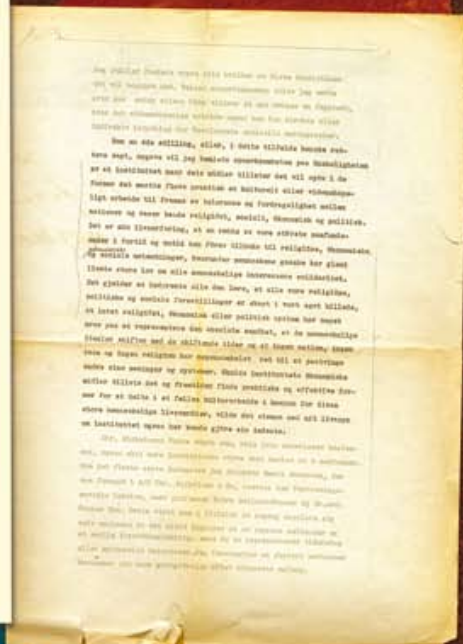




CHR. MICHELSEN:

(Peter) Christian (Hersleb Kjerschow) Michelsen was born in Bergen, 15 March 1857. A lawyer by profession, Michelsen was a major shipping magnate and politician. He was Mayor of Bergen (1892-93 and 1895-98), longtime member of Stortinget (Parliament) (from 1891), Minister of Finance (1904-1905) and Prime Minister (1905-1907).

He played a crucial role in the peaceful dissolution of the Union between Norway and Sweden in 1905. Chr. Michelsen died 29 June 1925.



THE WILL

Chr. Michelsen bequeathed a portion of his wealth to the establishment of a foundation for science and intellectual freedom. The Chr. Michelsen Institute was established on the founder's birthday, 15 March 1930.

In his will, Michelsen specified four areas of priority: humanities, natural sciences and mathematics, medicine and "cultural and scientific work to foster tolerance between nations and races - religious, social, economic and political." It was this fourth task that justified what is the core focus of CMI today: development research.

Report from the board of directors:

A CHALLENGING AND SUCCESSFUL YEAR

Targeted financial management,
especially during the moving process,
and skilled and competent staff,
secured a surplus and increased
project revenues.

← Collage of Chr. Michelsen and his vision of the purpose of CMI. The collage is made by Fuggibaggi for the entrance in the new building in Jekteviksbakken 31.

Activities and developments

Chr. Michelsen Institute is a social science research institute focusing 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.

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 strategy period 2006-2010, CMI conducts research and provides knowledge-based advice that informs public policy and measures to reduce poverty, promotes human rights and strengthen peace. In so doing, CMI maintains 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 research aims to advance the perspective of developing countries.

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 2009, 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 six other institute programmes. CMI has since 1982 received separate funding from

the Ministry of Education and Research for a Human Rights Programme. In 2009, the Ministry untied this allocation, yet, the CMI management decided to continue to earmark these funds for the Human Rights Programme in 2009.

In 2009, CMI moved from Fantoft to a new building in the centre of Bergen. CMI is now co-located with development researchers from the University of Bergen (UiB). The new building in Jekteviksbakken 31 houses some 100 researchers from the Faculty of Law, Uni Global, Centre for Middle Eastern and Islamic Studies and CMI. CMI has, in collaboration with UiB, established Bergen Resource Centre for International Development in the heart of the building. The Resource Centre hosts several open meetings every week. The opening week, called **“Five days in Bergen – one world in development”** had 25 different activities such as meetings, conferences, book salons, film-screenings and debates. The relocation and establishment of the Resource Centre has strengthened the cooperation with UiB and made Bergen a national and international competence centre for development research.

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 UiB 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 2009 through new allocations from the Research Council. The CMI-UiB coordinating committee 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. 2009 was a record year for publications with 60 UHR-points compared to an annual average of 25-30 UHR points. CMI researchers published two monographs and a total of 32 articles in UHR2 and UHR1-journals compared to 13 in 2008. CMI continues to maintain a high profile and visibility in the media and participates in the public debate in newspapers, and on radio and TV. CMI’s commissioned research activity generated 30 reports in 2009.

The Institute's performance

Income from commissioned assignments continues to increase, and increased from NOK 61 million in 2008 to NOK 66.7 million in 2009. The 9% increase is due to increased basic funding, higher average fees and higher operating revenues. There is also a small increase in the number of full-time equivalents.

In 2009, CMI carried out 180 externally funded research projects and consultancy assignments for a total of NOK 50.6 million, a 10% increase.

Norwegian government administration (the Ministry of Foreign Affairs (MFA) and the Norwegian Agency for Development Cooperation (Norad)) continue to be the Institute's most important clients, but their relative share is decreasing. The most important change is that the funding from the MFA and the funding from Norad is now equal, comprising NOK 8.7 million and NOK 8.5 million totalling NOK 17.2 million. The MFA share has increased from 13% to 17%, while the Norad share has decreased from 30% to 17%. The MFA increase is mainly due to projects being funded by Norwegian embassies abroad.

Projects with funding from the Research Council of Norway represented 34% of the total project portfolio. The increase from 2008 to 2009 is 6%. Thus, the trend from last year continues. The largest increase, however, was from 2007 to 2008. The last ten years, income from international sources has varied between 20 and 30% of the Institute's total turnover. In 2008, international sources accounted for 19%. In 2009, the percentage has increased to 29%. This is mostly due to a major increase in the international funding of U4, CMI's anti-corruption centre. The percentage of international project income is substantial compared to other social science institutes in Norway.

Result and continued operation

CMI had an operating profit of NOK 894 211 in 2009, and an annual profit of NOK 296 115. Adjusted for the gains of the sale of the Fantoft property, which CMI recorded in 2008, the operating profit is almost NOK 500 000 higher than last year. The annual result is slightly below the estimate presented in the interim report, but NOK 1.8 million above the budgeted estimate at the start of 2009. 2009 has

been a year of transition with the Institute moving to a new location. It has been a challenging year, but cost-efficiencies in every part of the moving process and maintenance of a high level of earnings have resulted in a small surplus. Targeted financial management combined with skilled and competent staff members provide a solid basis for continuing the Institute's positive financial trend in 2010. In accordance with the Accounting Act § 3-3a, the board confirms that the requirements for continued operations are fulfilled.

Cash flow, investments, finances and liquidity

The total cash flow from operational activities at the Institute was NOK 12.4 million. This is identical with 2008. The Institute's liquidity reserves were NOK 29.3 million as of 31 December 2009.

The Institute's short-term debt increased with NOK 5.52 million from 2008 to 2009, and now constitutes 47 % of the total debt. The increase is mainly due to allocations for the final settlement of the new building in Jekteviksbakken 31. Adjusted for this, the debt increase is negligible. Liquidity is satisfactory. 75 % of the short-term debt may be repaid in its entirety through liquidity reserves. As mentioned in Note 12 to the annual account, CMI has received a notice of possible tax liability. This may lead to payments in 2010.

Accounts receivable from customers were reduced with about NOK 600 000, 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, with the exception of foreign exchange losses. NOK 180 000 has been allocated for future losses on outstanding claims.

At year-end 2009, total capital was NOK 93 million, compared to NOK 111 million in 2008. NOK 29 million of last year's total capital was short-term claims associated with debt that was settled at the turn of the year. The equity rate as of December 2009 was 17 % compared to 14 % as of December 2008.

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 NOK 0.2 million and an exchange rate loss of NOK 0.55 million in 2008. This constitutes an exchange rate loss of NOK 0.35 million compared to an exchange rate profit of NOK 0.7 million in 2009. 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. CMI is in an ongoing dialogue with the bank regarding this matter. Interest costs have decreased thanks to the Institute's use of floating interest rates.

CMI disposed of all its shares and mutual funds in 2009 in order to finance the new building. This is in accordance with the board's decision to finance as little as possible of its working capital with debt.

Working environment and personnel

The sickness absence rate was 2.54% in 2009, compared to 2.82% in 2008. No occupational injuries or accidents were reported in 2009.

In 2009 the Institute moved into the new building. This involved interim working spaces during the summer months. After moving to the new building, no extraordinary measures have been taken in relation to the working environment. As of now, no working environment surveys have been conducted. Feedback from the Institute's employees indicates that the working environment is good.

Gender equality

Of the Institute's 72 employees, 36 are women. 50% 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.

Discrimination

CMI seeks through recruitments both nationally and internationally to ensure equal opportunities and rights, and to prevent discrimination based on ethnicity, national origin, colour, language, religion or belief system.

CMI seeks to ensure that working conditions allow all individuals regardless of disability to have equal work opportunities at the Institute.

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 contributes to greenhouse gas emissions.

Annual profit/loss and allocations

The annual result of NOK 296 115 was added to existing equity. The Institute has NOK 566 474 in unrestricted equity as of 31 December 2009.

Bergen, 15 March 2010

Jan Fridthjof Bernt

*Chair
(sign)*

Einar Hope

(sign)

Siri Gloppen

(sign)

Ruth Haug

(sign)

Inge Tvedten

(sign)

Inger Johanne Sundby

(sign)

Ivar Kolstad

*Deputy
(sign)*

Gunnar M. Sørbo

*Director
(sign)*

INCOME STATEMENT

(All figures in NOK 1000)

	Note	2009	2008
Operating revenues			
Project revenues	1	66 721 766	61 047 814
Other revenues		415 132	2 715 613
Gain on the sale of property			8 431 148
Total operating revenues		67 136 898	72 194 575
Operating expenses			
Project expenses		16 688 084	15 615 068
Payroll expenses	2,3	39 841 249	38 218 947
Depreciation	4	887 240	605 866
Other operating expenses	2	8 826 115	8 916 301
Total operating expenses		66 242 688	63 356 182
Operating result		894 211	8 838 393
Financial income/expenses			
Interest earnings		340 474	396 509
Other financial income		680 010	978 071
Change in value liquid assets	6	-130	-56 194
Interest cost to enterprise in same firm		-1 050 000	-2 133 827
Other interest expenses		-23 739	-46 050
Other financial expenses		-544 710	-224 957
		-598 096	-1 086 448
Net result tax exempt		296 115	7 751 945
Tax 2007	12		-544
Net result		296 115	7 751 401

BALANCE SHEET AS OF 31 DEC, 2009

(All figures in NOK 1000)

ASSETS	Note	2009	2008
Fixed assets			
Tangible fixed assets	4		
Building at Fantoft		0	0
Building at Jekteviksbakken	5	51 164 660	32 046 010
Equipment, investments in building		3 472 225	187 913
		54 636 885	32 233 923
Financial fixed assets			
Long term receivables	7	440 749	577 789
		440 749	577 789
Total fixed assets		55 077 634	32 811 712
Current assets			
Debtors			
Accounts receivable	8	6 704 704	7 309 392
Others debtors		1 705 980	3 456 653
Sale of property			29 095 988
		8 410 684	39 862 032
Investments			
	6		
Shares in other companies		627	757
Bonds		0	511 500
Unit trusts		0	21 319 565
		627	21 831 822
Cash and bank deposits	9	29 309 995	16 884 864
Total current assets		37 721 306	78 578 718
TOTAL ASSETS		92 798 940	111 390 431

EQUITY AND LIABILITIES			
	Note	2009	2008
Equity			
Paid-in capital			
Original fund	10	15 300 000	15 300 000
Retained earnings			
Other equity	10	566 474	270 359
Total equity		15 866 474	15 570 359
Liabilities			
Pension funds	3	3 003 603	2 259 490
Long term liabilities			
Long term loans	11	35 000 000	35 000 000
Debt CMF			
Other long term liabilities		0	24 491 773
		35 000 000	59 491 773
Current liabilities			
Accounts payable		2 626 440	4 450 474
Short term debt CMF			848 448
Public duties payable		2 511 088	3 003 996
Other short term liabilities		33 791 335	25 765 891
		38 928 863	34 068 809
Total liabilities		76 932 466	95 820 072
TOTAL EQUITY AND LIABILITIES		92 798 940	111 390 431

CASH FLOW STATEMENT

(all figures in NOK 1000)

	2009	2008
Cash flow from operating activities		
Annual result	296 115	7 751 401
Depreciations	887 240	605 866
Effects of pension fund	744 113	-1 706 038
Change project advances from funders	137 040	-33 695
Change debtors	604 687	2 683 460
Change other receivables	28 328 030	-9 637 133
Change account payable and other liabilities	7 378 686	8 064 025
Net cashflow from operating activities	38 375 911	7 727 886
Cash flow from investment activities		
Payment for purchase of fixed assets (new building)	-23 290 203	-28 421 347
Depreciation fixed assets (old building)		0
Net cash flow from investment activities	-23 290 203	-28 421 347
Cash flow from financing activities		
Change of long-term debt	-24 491 773	24 341 535
Change of shares	0	179 033
Change of bonds	511 500	0
Change of funds	21 319 566	8 476 778
Change in value, shares and bonds	130	56 194
Net cash flow from financing activities	-2 660 577	33 053 540
Net change in cash and cash equivalents	12 425 131	12 360 078
Cash and cash equivalents at 1 January	16 884 864	4 524 786
Cash and cash equivalents at 31 December	29 309 995	16 884 864
Net change in cash and cash equivalents	12 425 131	12 360 078

NOTES TO THE ACCOUNTS

AT 31 DECEMBER 2009

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 reflects earned income. Grants and other contributions are in its entirety credited to income in the period of allocation. Project revenues are credited according to degree of completion in every project. Degree of completion is estimated based on accrued hours and other costs held against estimated total costs and other costs.

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 the amount due within 1 year. Outstanding account due within one year is classified as short-term debt.

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

	2009	2008
Project revenues	50 655 100	46 347 814
Grants	13 966 666	13 300 000
Chr. Michelsen Fund	2 100 000	1 400 000
	66 721 766	61 047 814

Project revenues are stated without contributions from cooperating partners, NOK 6 045 837

Geographic distribution

	2009	2008
Norway	51 271 771	52 134 415
Overseas	15 449 995	8 913 399
	66 721 766	61 047 814

NOTE 2 SALARIES AND SOCIAL COSTS

	2009	2008
Salaries	29 716 988	28 527 582
Social security taxes	4 385 255	4 400 373
Pension costs	4 255 961	3 813 175
Other benefits	1 035 410	1 028 824
	39 393 614	37 769 954
Other social costs	447 635	448 994
	39 841 249	38 218 948
Employees full-time equivalent	57	55

Leadership remuneration etc.

	2009	2008
Director's salary	870 127	836 077
Other benefits	17 665	16 030
Pension costs	170 336	214 689
	1 058 129	1 066 796

CMI and CMF share the same board. Fees are paid by CMF.
There is no contractual obligations (bonuses or shares)
in the event of termination of employment.

Credits to employees amount to NOK 440 749.
The interest rate equals the standard rate offered in employment relationships.

Auditor's fees

	2009	2008
Audit of the accounts	147 000	160 400
Other audit related services	80 000	114 000
	227 000	274 400
Consultant fees, tax	54 360	12 000
Other services	0	10 000

These amount are ex VAT.

NOTE 3 PROVISION FOR PENSION LIABILITIES, PENSION COSTS

The company has a group pension scheme for 40 regular employees. The scheme fulfills the requirements in the Law on mandatory company pension scheme. 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 obligations also include provisions for a contractual early retirements scheme for 63 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.

	2009	2008
Pension rights earned during the year	2 561 314	2 880 158
Interest	2 181 618	1 690 990
Yield on pension funds	-1 788 629	-1 773 735
Administrations costs	213 925	91 013
Net pension costs ex social security	3 168 228	2 888 426
Social security taxes	446 720	407 268
Amortization	238 026	152 975
Net pension costs	3 852 974	3 448 669
Earned pension liabilities	34 714 697	37 883 193
Pension plan assets	32 030 041	29 852 131
Net pension commitments (underfinanced)	-2 684 656	-8 031 062
Social security taxes	-378 536	-1 132 380
Net pension inc. social security	-3 063 192	-9 163 442
Estimate deviations not recognized	52 225	6 050 789
Social security deviation	7 364	853 161
Net pension funds	-3 003 604	-2 259 491

Economic assumptions		
Discount interest	5,40%	5,80%
Expected return on funds	5,60%	5,80%
Expected salaries regulations	4,25%	4,00%
G-regulations	4,00%	3,75%
Expected pension increase	2,00%	3,75%
Amortization factor	13,25	13,15
Probability 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.

23 persons at CMI have per 31 Dec deposit pension.

Deposit pension	368 314	339 895
Administrative costs	34 672	24 606
	402 986	364 501

NOTE 4 TANGIBLE FIXED ASSETS

	Building Jekteviksbakken	Machinery etc	Investments building	Sum
Cost at 1 Jan	32 046 010	3 141 544		35 187 554
Purchased assets	19 548 606	266 837	3 474 760	23 290 203
Sold assets				
Cost at 31 Dec	51 594 616	3 408 381	3 474 760	58 477 757
Accumulated debt	-429 955	-3 174 546	-236 370	-3 840 871
Balance value 31 Dec	51 164 661	233 835	3 238 390	54 636 886
Depreciations	429 955	220 915	236 370	887 240

Depreciations of the value of the building is related to the new building at Jekteviksbakken from 1 Aug. The depreciation was calculated linear with 2 % annually.

Depreciations of investments in the building applied the linear method over 5 years. CMI rents copy machines from DnBNor Finans. Annual cost is NOK 320 891.

NOTE 5 CONSTRUCTION OF A NEW BUILDING IN JEKTEVIKEN

On 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 44 594 616. The construction was delayed 3 months in the spring of 2008. The building was expected to be completed by 31 Dec 2009. The final settlement has not been payed due to some

remaining work on the building. The estimated final settlement will imply disbursment of a further NOK 7 000 000 in the near future. This includes an increase in CMI's ownership in the building from 42 % to 44 %. The amount is recognised in the balance sheet.

There has been issued a guarantee towards Skanska in connection with the new building amounting to NOK 8 514 877.

NOTE 6 CURRENT ASSETS

	Cost price	Balance sheet value	
Norwegian shares	36 975	627	
Sold in 2009			
	Nominal value	Cost price	Balance sheet value
	500 000	529 100	500 000
Sold in 2009			
DnB asset management	Invested amount	Realizable value	
Unit trust	Low risk	7 459 893	8 446 138
Bond fund	Low risk	11 590 766	12 971 178
		19 050 659	21 417 316

NOTE 7 FINANCIAL FIXED ASSETS

Consists of credits to employees, NOK 440 749.

NOTE 8 RECEIVABLES

Invoiced, not paid sales	3 810 421
Sales, not yet invoiced	3 070 323
	6 880 744

NOTE 9 TAX DEDUCTED

By 31 Dec NOK 1 355 703 is deposited on a separate tax account.
Unpaid tax was at the same date NOK 1 228 176.

NOTE 10 EQUITY

	Retained earnings	Paid-in capital	Total
Equity at 1 Jan	270 359	15 300 000	15 570 359
Net result for the year	296 115		296 115
Equity at 31 Dec	566 474	15 300 000	15 866 474

NOTE 11 DEBT DUE LATER THAN 5 YEARS

	2009	2008
Chr. Michelsens Fond	35 000 000	35 000 000

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 12 TAX

On 30 Jun CMI received a notice of possible tax liability and asked to file its tax return for 2008. Response was sent 18 Sep. In relation to this CMI asked for a delay of handing in the tax form until the response was assessed. Delay was granted. By 4 Mar CMI has not received reply from the Tax Administration. CMI states that it is a not-for-profit foundation, and thus that it is a tax exempt

institution, according to §2-32 second segment. 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, according to §2-32 second segment. Thus, money has not been deposited in the 2009 accounts.

To the Board of
Chr. Michelsens Institutt

Medlemmer av Den norske Revisorforening

Auditor's report for 2009

We have audited the annual financial statements of Chr. Michelsens Institutt as of 31 December 2009, showing a profit of NOK 296 115. 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 2009, 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, 13. April 2010
ERNST & YOUNG ASTore Fyllingen
State Authorised Public Accountant (Norway)

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