

**Nordic
Environment
Finance
Corporation**


Annual
Review
2015

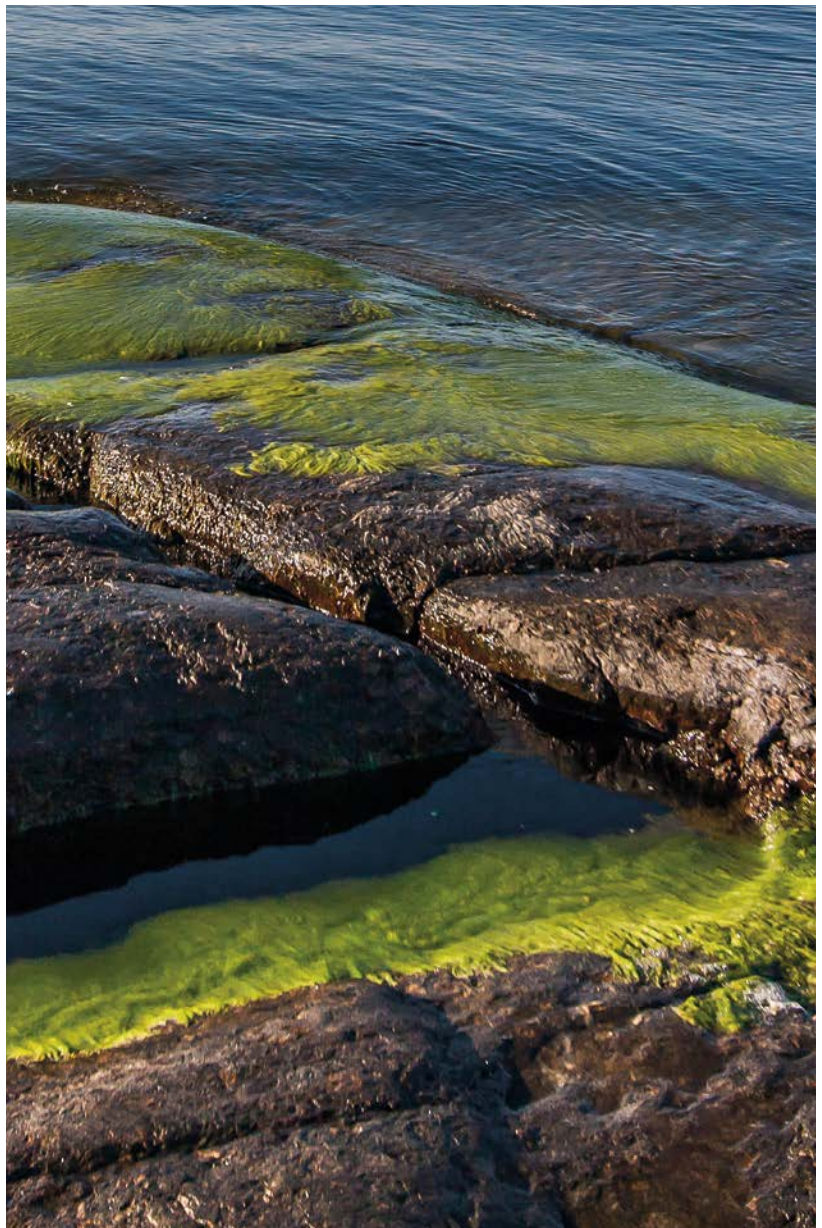




NEFCO 2015

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Highlights of the year 2015

JANUARY

NEFCO and the Belarusian government sign a framework agreement acknowledging NEFCO's status as an international financial institution in Belarus.

– The Norwegian Carbon Procurement Facility (NorCaP) contracts 18.86 million certified emission reduction units (CERs) from ten projects.

FEBRUARY

The Nordic Climate Facility receives in total 58 applications in its fifth call for proposals.

– NEFCO signs loan agreements with the Ukrainian cities of Severodonetsk and Ivano-Frankivsk in order to support investments in municipal energy efficiency measures.

MARCH

The Nordic Project Fund approves financing for 13 new projects supporting the internationalisation of Nordic small and medium-sized enterprises.

– NEFCO's financial accounts for 2014 show that 154 new projects were approved by the corporation during the period.

APRIL

The Finnish Government announces that it will pledge EUR 3 million to the Nordic energy efficiency and humanitarian support initiative in Ukraine.

MAY

The Nordic Council of Ministers releases new report on how to scale up investments in climate finance.



PATRIK RASTENBERGER

← Restart. NEFCO's client Nelja Energia produces biogas from cattle manure in Oisu, Estonia. In September, NEFCO decided to resume its business activities in Estonia, Latvia, Lithuania and Poland.



PATRIK RASTENBERGER



VITA THOMSEN/NOORDEN.ORG

↑
Skyline in Minsk. In January, NEFCO and the Belarusian government signed a framework agreement acknowledging NEFCO's status as an international financial institution in Belarus.

↑
Paying attention. NEFCO hosted six side events at the Nordic pavilion at the COP21 climate conference in Paris.

JUNE

NEFCO hosts the Steering Group meeting for the Northern Dimension Environmental Partnership (NDEP) in Helsinki.

JULY

A second call for proposals under the NEFCO Norwegian Carbon Procurement Facility resulted in the signing of five new projects with an estimated delivery of 7.6 million carbon credits.

–
NEFCO signs five new grant agreements aimed at financing energy efficiency measures in the cities of Pavlograd, Lozova, Berdiansk, Severodonetsk and Kramatorsk in eastern Ukraine.

AUGUST

The framework agreement between NEFCO and the Republic of Belarus enters into force.

–
NEFCO signs new loan agreements with the agricultural companies Halychyna Zahid LLC and Pivdenagroprom LLC in Ukraine.

SEPTEMBER

NEFCO's Board of Directors decides that NEFCO will restart its investment operations in Poland, Estonia, Latvia and Lithuania.

–
The DemoUkraineDH funding programme launches its third Call for Applications for demonstration projects in the district heating sector in Ukraine.

OCTOBER

The EU Commission confirms that NEFCO has passed the EC pillar assessment. In practice, this means that NEFCO is eligible to manage EU funds related to environmental investments.

NOVEMBER

Three Nordic Climate Facility (NCF) supported projects are among the 16 United Nations' Momentum for Change climate change award winners.

–
NEFCO and the Ukrainian agricultural company Danosha Ltd sign a loan agreement to finance a biogas plant in connection to the company's piggery in the Ivano-Frankivsk region.

DECEMBER

The Danish Ministry of Foreign Affairs and NEFCO establish a trust fund that will provide financial support for energy efficiency demonstration projects in Georgia.

–
The Swedish Agency for Marine and Water Management replenished the Baltic Sea Action Plan Fund with SEK 12 million.

–
NEFCO hosts six side-events at the COP21 Summit in Paris.

The Nordic Environment Finance Corporation (NEFCO) is an international financial institution established in 1990 by the five Nordic countries: Denmark, Finland, Iceland, Norway, and Sweden.

NEFCO's green financing is targeted at small and medium-sized projects (SMPs) with demonstration value. Many of the SMPs financed by NEFCO are characterised by a pioneering spirit and aimed at testing Nordic solutions with up-scaling possibilities. Based on its experiences from the field, NEFCO has participated in the development of innovative financing instruments designed to improve the environment and combat climate change. NEFCO typically works in close partnerships with its private and public investors. In relation to its financing of public investments, NEFCO, through the application of a flexible hands-on approach, has developed an ability to assist borrowers efficiently in the identification, development, implementation and administration of environmental projects and to make them attractive also to other financiers, including other government-financed financiers/facilities as well as larger International Financial Institutions, such as EBRD.

All projects to be financed by NEFCO need to demonstrate that they will benefit the environment in a cost-effective way. To ensure that these benefits will in fact materialise, financing is released in tranches against monitored milestone results, and environmental outcomes are monitored annually for as long as NEFCO is involved. This approach effectively mitigates the risk of corruption and increases the requirements for borrowers' capacity building, transparency and accountability. It also ensures improved predictability and sustainability of the project.

The current main priorities for NEFCO are:

- To continue its successful activities targeting the reduction of pollutants affecting the Baltic Sea and the Arctic and Barents regions, and
- To enhance its existing activities and initiate new interventions related to the promotion of green growth and to further prevent climate change with a focus on interventions related to renewable energy, energy efficiency and the reduction of short-lived climate pollutants, having a positive effect on adaptation and mitigation, including the carbon markets.

Within these environmental priorities, focus is put on demonstration projects with potential catalytic, capacity-building or up-scaling effects. To achieve this, NEFCO will continue to work closely with its owners, the Nordic countries and in partnership with relevant Nordic business sectors, as well as other international financial institutions, the EU and other stakeholders relevant to the Nordic governments.

NEFCO'S MANAGING DIRECTOR

Interview with Magnus Rystedt



PHOTO: PATRIK MASTENBERGER

How would you sum up NEFCO's business activities in 2015?

When assessing all the funds managed by us, we succeeded in approving 165 new projects to a total value of EUR 107.8 million. Despite the problematic situation in Russia and Ukraine, the investment activity proceeded as expected in 2015. The bulk of the investments related to energy efficiency projects and support for cleaner production in various fields of industry. As regards our geographic investment mandate, NEFCO's Board of Directors decided to resume our operations in Estonia, Latvia, Lithuania and Poland. This will pave the way for new opportunities for us. In August, the Belarusian parliament ratified the status agreement acknowledging our status as an international financial institution in the country. With the help of this agreement, we will now be able to roll out municipal projects in Belarus.

In addition to this, our fund management gained increased importance. Five new trust funds were established, and, by the end of the year, NEFCO's fund management assignments amounted to a total value of EUR 345 million.

Managing Director
Magnus Rystedt has
headed NEFCO since 2006.

In recognition of our fund management standards, NEFCO successfully passed the European Commission's pillar assessment in 2015, which gives us the opportunity to serve as an implementing agency of environmental projects funded by the EU.

What is the state of play with NEFCO's new strategy?

Our Board of Directors approved the new strategy last year. The proposal is now being reviewed by the Ministries of the Environment and relevant political decision-makers in each of the Nordic countries. We hope to be able to launch the new strategy in December this year. The strategy aims to reinforce NEFCO's position as a financier of climate-friendly initiatives and green growth by lending support to small and medium-sized projects. By doing this, we can increase synergies between fund assignments and NEFCO's investment activities.

NEFCO's municipal investments in Ukraine appear to be at the forefront of your activities in 2015. Can you shed some light on this?

Ukraine is becoming increasingly important to us. We currently have some 150 active projects in the country, and we are well represented throughout Ukraine. An increasing number of municipalities are looking for options to cut their energy consumption. We can provide loans for these investments and make such plans reality in close co-operation with the Ukrainian authorities, the Nordic governments and the Eastern Europe Energy Efficiency and Environmental Partnership (E5P). So far, NEFCO has invested in 62 energy efficiency projects in 39 municipalities in all parts of the country. For example, our project activities in day-care centres and schools have benefited 155,000 children in Ukraine.

The Arctic project portfolio also experienced some new additions last year. What are you doing in the Arctic right now?

NEFCO has been entrusted to administer the Arctic Council Project Support Instrument (PSI) to support environmental investments in the Russian Arctic. The fund's committee of contributors has already convened five times at NEFCO's premises, and a number of tangible projects have been approved and implemented. Most of the projects deal with the prevention of emissions of black carbon or the mitigation of persistent organic pollutants affecting the vulnerable Arctic environment.

What will be the main focus of NEFCO's business operations in 2016?

First of all, we will prepare ourselves to make sure that the new strategy is put in place and adopted accordingly by the end of this year. Moreover, we will try to develop our fund management activities and broaden the scope of new fund assignments. The Nordic Energy Efficiency and Humanitarian Support Initiative Fund will also back up a number of new projects in cities that have been affected by the conflict in eastern Ukraine. As regards our expanded geographic mandate, we are looking forward to financing new projects in Armenia, Georgia, Moldova, Estonia, Latvia, Lithuania and Poland in order to diversify our project portfolio. And last, but not least, I want to remind everyone that NEFCO turns 25 this year. Consequently, we will commemorate this in a number of ways during 2016.



We are looking forward to financing new projects in Armenia, Georgia, Moldova, Estonia, Latvia, Lithuania and Poland in order to diversify our project portfolio.

The bulk of NEFCO's investment activities are still centred around projects related to renewable energy and energy-efficiency measures. In 2015, 35.8 per cent of all projects financed by NEFCO's main financial instruments were in the energy sector. Moreover, most projects co-financed by NEFCO in the industrial sector included energy-efficiency measures with tangible climate emission reductions. According to NEFCO's environmental status report, the climate investments in 2015 reduced carbon dioxide emissions by 4.3 million tonnes. In terms of energy-efficiency measures, NEFCO managed to reduce energy consumption by 13,861 gigawatt-hours in projects financed by the corporation during the period under review.

NEFCO's Investment Fund approved eight new projects related to renewable energy and energy efficiency during the period. The facilities and financing schemes sorting under the Nordic Environmental Development Fund gave the green light to 19 new projects related to climate investments. The majority of these projects focused on energy-efficiency measures in municipal buildings or modernisation of district heating systems.

Within the framework of the DemoUkrainaDH programme, five projects were completed during 2015. Project preparation and implementation activities were in progress in another ten cities selected for the implementation of demonstration projects for improved district heating services. The DemoUkrainaDH programme aims to sup-

port the implementation of a total of 20 demonstration projects in municipal district heating systems throughout Ukraine. DemoUkrainaDH is managed by NEFCO and was established in co-operation with the Ministry for Regional Development, Construction, Housing and Municipal Economy of Ukraine. Sweden and the Eastern Europe Energy Efficiency and Environment Partnership (E5P) have provided grant financing for the DemoUkrainaDH programme.

The NEFCO Norwegian Carbon Procurement Facility (NorCaP), established by Norway in 2013 with NEFCO as the facility manager, aims to support the climate commitments of the Norwegian state whilst at the same time sustaining some level of demand in the ailing carbon market in parallel with the international negotiations. In 2015, this facility concluded its procurement phase, successfully contracting its targeted volume of 30 million certified emission reductions (CERs) from a global portfolio of 17 projects. From the second Call for Proposals, seven projects were contracted in 2015, for a total volume of some 11.5 million tonnes of carbon savings from projects in Brazil, Malawi, Nigeria and South Africa.

In addition, the NEFCO Carbon Fund (NeCF), with Norwegian funding, was opened up to projects in least developed countries (LDC) and contracted three projects during the year in the Democratic Republic of Congo, Ethiopia and Sudan for a total of 788,000 CERs. In total, 3.5 million CERs were delivered from existing projects in NorCaP and NeCF.

The first phase of the Nordic Partnership Initiative (NPI) NAMA activity in Peru was successfully concluded in the autumn 2015, and the Nordic countries, NEFCO and Peru have agreed to continue their co-operation during the period 2015-2018.

The year 2015 was the fifth full operational year of the Nordic Climate Facility (NCF)



NEFCO's climate investments in 2015 reduced carbon dioxide emissions by 4.3 million tonnes.

since the funding instrument was launched in late 2009. At the end of 2015, 60% of the 51 contracted NCF projects were completed. The total value of these projects was approximately EUR 34 million (including the co-financing for the projects). Grant funding from NCF amounted to EUR 20 million.

NEFCO's activities during the year focused on the day-to-day management of NCF projects, the completion of the evaluation of applications received through NCF's fifth Call for Proposals and providing support to the Nordic Development Fund (NDF) in contract negotiations with successful NCF5 applicants.

Three NCF-supported activities in Africa were awarded UNFCCC's Momentum for Change initiative awards in 2015.

NCF finances climate projects in Africa, Asia and Latin America and promotes innovative co-operation between Nordic and local organisations in developing countries. NCF is financed by NDF. NEFCO manages the NCF1-NCF4 Calls whereas NDF administrates NCF projects from the fifth Call onwards.

As regards policy assignments, NEFCO continues to play its part in global climate initiatives. During the year, NEFCO was admitted to the Climate Technology Centre and Network, the operational arm of the UNFCCC Technology Mechanism; became a Lead Partner in the Finance Initiative of the Climate and Clean Air Coalition; and had an active programme of events at the COP21 meeting in Paris in December 2015.

NEFCO's climate portfolio in 2015 included several investments related to the production of biomass.



PHOTO: PATRIK RASTENBERGER

The Baltic Sea

The ecological state of the Baltic Sea

remains a key priority and focus area for NEFCO's investment portfolio. When assessing NEFCO's two main financial instruments, namely the Investment Fund and the Nordic Environmental Development Fund, approx. 17.4 per cent of the investments related to water projects in 2015. In addition, most agricultural projects financed by NEFCO during the period had a beneficial ecological impact on the Baltic Sea thanks to reduced run-off of nutrients from fields as a result of improved manure treatment or upgraded cultivation practices in the Baltic Sea catchment area.

According to NEFCO's environmental status report, the corporation succeeded in reducing discharges of phosphorus by 1,172 tonnes in 2015, which translates into discharges of untreated wastewater from approx. 1.8 million people. The corresponding figure for nitrogen was 4,238 tonnes.

As regards the Baltic Sea Action Plan Fund, administered jointly by NEFCO and the Nordic Investment Bank, eight BSAP projects were finalised during the year. In December 2015, the fund was replenished with SEK 12 million (approx. EUR 1.3 million) by the Swedish Agency for Marine and Water Management. The contribution gave the fund a new lease of life and has enabled NEFCO to roll out new projects benefiting the Baltic Sea in 2016. All in all, since its inception, the BSAP Fund has financed 38 projects ranging from wastewater treatment and biogas projects to projects supporting alternative fuels in shipping, recycling of nutrients and oxygenation of deep sea sediments, to mention a few examples.

The BSAP fund provides grants for technical assistance to projects that support the implementation of the HELCOM Baltic Sea Action Plan (BSAP). The mandate of the fund is to contribute to the realisation of BSAP by providing co-financial support for project development and implementation, e.g., in the agricultural, wastewater



According to NEFCO's environmental status report, the corporation succeeded in reducing discharges of phosphorus by 1,172 tonnes in 2015





CASE STUDY 1

Russia Cleaner water in Petrozavodsk

The upgraded drinking water treatment plant in Petrozavodsk, Russia, was taken into full operation in early 2015. As a result of the investment, the plant was removed from the Barents Euro-Arctic Council's list of environmental hot spots in November 2015. The second leg of the project aims to upgrade the city's wastewater treatment facilities. The investment package, amounting to EUR 32 million, will, among other things, introduce chemical phosphorus removal. The upcoming measures are expected to result in an annual reduction of 60 tonnes of phosphorus discharges into Lake Onega. NEFCO has provided a EUR 4 million loan for the project.

Ukraine Green shelter for refugees in Antonivka

In 2015, Finland pledged EUR 3 million to the Nordic Energy Efficiency and Humanitarian Support Initiative. An earmarked grant was used to construct a new school building in Antonivka in southern Ukraine. The Municipality of Kherson covered the costs of expanding the water and sewage systems as well as the necessary groundwork. The new school building will rely on energy-efficient design and solar collectors. Some 440 pupils, many of them refugees from eastern Ukraine, will benefit from the investment. The building will also be used as a service centre, providing psychological support to refugees living in the area.





PHOTO: PATRIK RASTENBERGER

or hazardous waste sectors. A key purpose of the fund is to facilitate and speed up the preparation of bankable projects in the Baltic Sea catchment area. Recipients eligible for financing through the BSAP Trust Fund include both public and private entities.

In August 2015, one of the BSAP Fund's pilot projects related to thin layer dredging and the removal of eutrophicated organic matter from lake bottoms received widespread media attention. The project in Lake Barnapasjön close to Jönköping in Sweden resulted in doubled oxygen levels and reduced eutrophication. The project serves as validation of a test rig for the retrieval of sediments from the oxygen-free areas of the Baltic Sea.

NEFCO's chairmanship of the Northern Dimension Environmental Partnership (NDEP) continued until the end of June 2015. NDEP co-ordinates environmental development projects in the northern dimension area of Northwest Russia and Northern Belarus. The NDEP Support Fund is a multi-donor fund that became operational in 2002 and is made up of contributions and donations from the European Union, the Russian Federation, Belarus, Finland, Sweden, Denmark, Norway, Canada, France, the United Kingdom, Germany, the Netherlands and Belgium. NDEP has so far provided funding for 15 wastewater

treatment projects in the Baltic Sea catchment area. Through its investments, NDEP has contributed to the annual reduction of phosphorus discharges by 2,300 tonnes, which corresponds to the annual discharges from a city with 3,5 million inhabitants.

When assessing NEFCO's investments in the waters sector in 2015, significant progress was noted in Gatchina and Petrozavodsk in Russia. The upgraded drinking water treatment plant in Petrozavodsk was taken into full operation in early 2015. As a result of the investment, the plant was removed from the Barents Euro-Arctic Council's list of environmental hot spots in November 2015. The second leg of the project aims to upgrade the city's wastewater treatment facilities. The upcoming measures are expected to result in an annual reduction of 60 tonnes of phosphorus discharges into Lake Onega, which belongs to the Baltic Sea catchment area.

Green growth

Green growth has been set as a common strategic goal for the future by the Nordic countries in order to effectively address climate change and related global challenges, while at the same time strengthening international competitiveness and securing sustainable economic growth in the Nordic region. NEFCO has also adopted green growth as one of its main focus areas during the year as the new strategy was approved by the Board of Directors.

In addition to the direct effects of climate change, some of the global challenges that will have wide-ranging socioeconomic effects in years to come include population growth, demographic changes, increased urbanisation, water and resource scarcity, and deforestation. Green growth can be seen as a response to the requirements and demands set by these changes in order to maintain the conditions for sustainable economic development and growth.

NEFCO has been working with cleaner production and other sectors, highlighting growth through green technology and solutions since the 1990s, although the concept itself was first introduced in 2005 in Seoul at a ministerial conference regarding development and the environment. In Eastern Europe, NEFCO has already financed cleaner industrial processes

through its Cleaner Production Facility for over 20 years. Through its climate funds and Nopef, the corporation today finances projects on a global scale.

Over the years, the Board of Directors has prioritised NEFCO's work with green growth, and it was therefore decided to celebrate NEFCO's 25th anniversary with a seminar focusing on Nordic cleantech and green growth solutions. The seminar *Fostering green growth* was held in Oslo in April 2016.

A new report *A Nordic perspective on green growth* was published in connection with the seminar. The report stated that the development of green growth will entail a target-oriented shift towards production and consumption processes that are based on effective usage of available natural resources and on minimising waste, pollution and climate emissions. Furthermore, it highlights that key areas in this development will include new solutions for cleaner energy, environmentally friendly transportation, resource-efficient products, housing and infrastructure as well as improved water supply and treatment processes, all sectors that NEFCO has been working with since its establishment to contribute to emission reductions globally and reduced discharges into the Baltic Sea.

Many of NEFCO's customers are developing green innovations and solutions in several areas and sectors, such as wind power, geothermal energy, biofuels, heating systems, energy-efficient buildings and industrial processes. Support and existing financial mechanisms are crucial, however, for Nordic small and medium-sized companies (SMEs) to be able to in-

vest in research and product development. NEFCO has several financing schemes supporting green technology.

Today, NEFCO supports, for example, a range of Nordic SMEs aiming for internationalisation through the Nordic Project Fund (Nopef). Last year, the facility approved financing for 73 new Nordic SMEs. Being able to support these SMEs with grant financing for the feasibility study phase is often crucial to the companies' ability to establish foreign business setups on new markets, such as subsidiaries or joint ventures. A local presence is often needed to be able to operate on a

foreign market. Foreign establishments enable growth for Nordic companies but also transfer of knowledge of Nordic green solutions to new markets.

During 2015, NEFCO attended several events and seminars highlighting green solutions and innovations to meet new clients. In October, NEFCO participated in the biggest Cleantech event in the Nordics, *Cleantech Venture Day* in Lahti, and in November NEFCO participated in the match-making event named Slush gathering over 15,000 entrepreneurs. Co-operation with the Nordic Cleantech organisations, however, is carried out continuously.

The usage of environmentally sound technology reduces the consumption of energy and natural resources.



PHOTO: JONAS HÄGEBLOM

NEFCO's environmental work in the Arctic region continued to make progress through 2015. The Arctic Council Support Instrument (PSI) was strengthened by the final deposit of the Russian Federation's allocation of EUR 10 million. The PSI fund is supported by Finland, Iceland, NEFCO, Norway, the Russian Federation, the Sámi Parliament, Sweden and the United States of America. The PSI pledges as of 31 December 2015 stood at EUR 15.9 million. Eight of the twelve Arctic Council projects benefitting from PSI financing had been completed or were near completion by the end of 2016. The completed projects address mostly mitigation of black carbon, and they have been carried out in co-operation with the Arctic Council Working Group on Arctic Contaminants (ACAP) and its Expert Group on Short Lived Climate Pollutants (SLCP).

Work progressed to address a pipeline of about thirty projects covering management of hazardous wastes, mitigation of mercury and SLCPs. The total cost of the pipeline is estimated at about EUR 58 million. Total PSI allocations up to 31 December 2015 amounted to EUR 2.28 million. Final Investment Decisions (FIDs) from the PSI Committee (PCOM) -- including decisions made at the Fourth Meeting of the PSI Committee (PCOM) in October 2015 -- have committed EUR 1.72 million to implement 12 approved Arctic Council Projects.

NEFCO's Arctic focus, in addition to PSI, is augmented by the Swedish Environmental Protection Agency (EPA) Trust Fund, which is also under its administration. The purpose of the Swedish EPA Trust Fund (STF) with NEFCO is to contribute to the funding of projects that mitigate climate pollutants, such as Short Lived Climate Pollutants, black carbon, methane, hydrofluorocarbons (HFC), tropospheric ozone; ozone-depleting substances (ODS); heavy metals (e.g. mercury); and persistent organic pollutants (POPs), including dioxins, furans and obsolete pesticides that deposit in or otherwise affect the Arctic. Three STF-financed initiatives were finalised during 2015 and early 2016 covering: i) agricultural open burning and mitigation of black carbon from the sector; ii) identification of black carbon emission reduction opportunities from flaring in the Russian Arctic and preparatory work for mitigation of methane and black carbon from flaring in the oil and gas sector; and iii) addressing information exchange on mitigation of mercury through a workshop on technical information exchange on mercury abatement in the metallurgical industry. The information exchange was carried out in co-operation with the PBI Research Institute (Finland) and JSC Uralmekhanoobr (UMBR, Russian Federation) in Ekaterinburg.

Co-operation in the Barents Region

The Arctic work is closely related to the work in the Barents Euro-Arctic regions, which for NEFCO's part largely focuses on the so-called Barents Environmental 'hot spots' that constitute key environmental challenges in the European part of the Russian Arctic. In November 2015, the Ministers of Environment of the Barents countries met in Sortavala in Russian Karelia, where the Ministers decided to exclude one 'hot spot' in full and two 'hot spots' partially from the list:

- K-4 in full: 'Drinking Water in Petrozavodsk' to which NEFCO has made important contributions for project development as well as financing the implementation together with its international partners (Finland, NDEP and NIB)
- A3-2 partially: 'Severodvinsk Heat and Power Plant No. 2'
- Ko3-1 partially: 'Mondi Pulp and Paper Mill' (in Syktyvkar, Komi)

This means that of the original 42 'hot spots' defined in 2003, 35 now remain, whereof two are already partially resolved. Several others have also shown considerable progress, many of them with support from the Barents Hot Spots Facility (BHSF) and other funds at NEFCO. NEFCO also provides general support to the work on

the 'hot spots', for instance by co-funding an adviser for Climate, Environment and Hot Spots at the International Barents Secretariat in Kirkenes, Norway.

One example of cross-pollination at project level between the Arctic and Barents spheres is an initiative in the Archangel Region with the regional operator Arch-OblEnergo (AOE), targeting diesel power stations in the Dolgoshcheliye and Leshukonskoye off-grid communities with pilot/demonstration solutions for solar power, wood gasification and reactive power compensation. This joint effort has its roots in the Barents co-operation. A feasibility study was carried out in 2015 that will be continued as a PSI-funded project in 2016 as an Arctic Black Carbon demonstration project.

The Arctic Council Support Instrument aims at mitigating the emissions of black carbon and other environmentally harmful pollutants.



PHOTO: JONAS HÄGGBLUM

Report from the Board of Directors 2015



A total of 165 new projects were approved during the year to the value of EUR 107.8 million.

Over the year, the operating countries for the corporation's investment activities have increased, which means that NEFCO can once again review relevant environmental investments in the Baltic countries and Poland. In Belarus, the status agreement with NEFCO came into force, which means that the corporation now can participate in communal investments. Currently an investment is being reviewed in respect of wastewater treatment in five cities in the Baltic drainage basin. In addition, NEFCO was able to introduce project activities in both Georgia and Moldavia. With increased countries of operation, NEFCO is better able to spread and thereby reduce business investment risks.

The situations in the countries where NEFCO has most of its investment activities - Russia and Ukraine - is still problematic. Sanctions and a reduced oil price makes the development in Russia of some concern, whilst the investment climate in Ukraine is impacted by the country's weak economy and - at the end of the year - its unsure political insecurity. On a positive note, the Ukraine government has successfully stabilized its currency and despite the weak economy in Ukraine, there is a strong driving force to reduce energy consumption in the country, which has meant that NEFCO has identified and approved a number of communal energy projects over the year.

2015 was another active year for NEFCO's project activities. Within all funds managed by the corporation, a total of 165 new projects were approved during the year to the total value of EUR 107.8 million. Within the Investment Fund, NEFCO's authorised capital, new investments of a total EUR 30.4 million were approved and new preliminarily approved projects amounted to EUR 25.1 million. Within the Investment Fund, the corporation had at the end of 2015 a total of 55 active projects, where commitments amounted to EUR 159.8 million.





CASE STUDY 3

Belarus

Saving energy at a brickworks in Vitebsk

OJSC Keramika manufactures bricks and drainage pipes for the construction industry in Belarus and Russia. In 2015, the company invested in its electricity production using a loan from NEFCO's Facility for Cleaner Production. The investment has enabled a modernisation of the ventilation system and the installation of a new gas-fired cogeneration plant and two hot water boilers. With these measures, Keramika has avoided a procurement of grid electricity of 7,538 megawatt-hours per year, which in turn has generated savings and reduced emissions of carbon dioxide, nitrogen oxides, carbon monoxide and volatile organic compounds.



At the end of 2015, NEFCO's fund management amounted to a total value of EUR 345 million.

Disbursements are made with a certain delay and thus a greater part of NEFCO's resources are allocated than appear in the corporation's Report on Financial Position.

In addition to the projects financed with NEFCO's authorised capital, the Investment Fund, NEFCO also manages a number of other funds, not only for their owners, but also for non-Nordic contributors and investors. NEFCO also functions as an *Implementing Agency* for a number of projects in large funds, such as the Eastern Europe Energy Efficiency and Environment Partnership (E5P) and the Northern Dimension Environmental Partnership (NDEP).

Five new funds have been established during the year. The new funds are a Swedish initiative to investigate the opportunities of using household waste as a source of energy in Ukraine, a Danish initiative to support energy efficiency and sustainable energy in Georgia, two Finnish initiatives within the *Nordic Initiative for Urgent Humanitarian and Energy Efficiency Efforts in Ukraine* fund and a further Norwegian initiative to support the Ukrainian gas reform. In addition, NEFCO gained a new assignment from the Ministry of Climate and Environment to assist in the evaluation of climate projects that Norway intends to contract for.

At the end of 2015, NEFCO's fund management amounted to a total value of EUR 345 million. Within these funds, financing has been granted to a total of over 600 small and medium-sized private and public projects spread across different sectors in over 60 countries, of which around 200 projects are located in Africa, Asia and Latin America.

As a confirmation of the high standard within fund management, NEFCO successfully passed the European Commission's *Pillar Assessment* in 2015 (all seven pillars). NEFCO is now in the process of being made partner in the EU-financed *Neighbourhood Investment Facility* (NIF) with the capacity

to propose projects and programs as *Lead Finance Institution*.

For the moment, NEFCO is evaluating the opportunities to increase the synergy effects between investment activities and funding assignments.

Both the activities' financial and environmental results were in line with the expectations. The high risk within the countries of operation and the low interest rate mean that the operations, as in recent years, show a relatively modest result. Details of the environmental result are presented in the appendix.

Evaluation of the environmental effects of the projects

In accordance with the procedure that has been gradually developed at NEFCO, each project is evaluated with regard to its environmental effects. The expected environmental effects are analysed before a decision on participation in the financing is taken, and when the project has been completed, NEFCO follows up the real effects. The projects of both the Investment Fund and the Environmental Development Fund (details on the funds are presented below) show on average positive environmental effects at the expected level. Of the 81 active projects that have been analysed, 11 are classified as projects that have exceeded environmental expectations, 25 are at the expected level, 16 do not yet meet expectations and in 29 cases no conclusions can yet be drawn. Of all analysed projects, 237 have been completed. A summary of the assessment is attached.

NEFCO also systematically assesses the environmental cost efficiency of the projects in relation to costs in the Nordic countries in order to achieve corresponding emission reductions. On average, the cost of emission reductions in NEFCO's projects is approximately one eighth of the corresponding costs in the Nordic countries.

Staff

At the end of 2015, 34 persons worked directly for NEFCO, four of whom are employed at the representation office in Kiev, Ukraine. There are also advisers who work for NEFCO on a consultancy basis.

Result

The annual accounts show a profit of EUR 1,050,403.25. In accordance with previous practice, the Board of Directors proposes that the profit be returned to the business as retained earnings.



This is a shortened version of the Report of the Board of Directors. The full report is available at www.nefco.org/news-media/publications-reports/annual-reports

Helsinki, 3 March 2016

Søren Bukh Svenningsen
Chair

Ann-Britt Ylinen
Vice Chair

Harald Rensvik

Jessica Andersson

Danfríður Skarphéðinsdóttir

Magnus Rystedt
Director

Environmental status report 2015



Considerable progress with wastewater projects financed by NEFCO was achieved in the Kaliningrad and Leningrad Regions, in Russia as well as in Belarus.

The main aim of NEFCO's business operations is to contribute to a reduction in environmentally harmful pollutants originating from various sources, mainly in Eastern Europe. Priority is given to projects which have a major impact on the state of the environment in the Nordic Region.

When NEFCO considers projects for support, it first assesses their expected environmental benefits to ensure that projects with direct and clear benefits to the environment are given priority. In principle, any measures that can help to reduce the burden on the environment, such as advanced industrial processes, recirculation of raw materials or improved treatment of wastewater or energy efficiency measures, are eligible. NEFCO's evaluation is also based on an analysis of the relationship between the investment and its anticipated quantitative effects in order to identify the projects that are environmentally most cost-effective.

NEFCO's environmental database also takes into account projects in which its involvement has ceased. The justification for including emission reductions from projects in which NEFCO is no longer involved is that the relevant facilities have been found, in post-evaluation, to match or even significantly exceed expected reductions. The service life of an industrial facility is substantially longer than the repayment period of a loan, and, as a result, the positive environmental effect of the facility will in all likelihood continue in a linear fashion for a long time into the future.

As regards the emission reductions obtained through NEFCO's investments in 2015 compared with the overall result in 2014, no dramatic changes can be noted. The result for reductions of CO₂ emissions for 2015 is somewhat weaker than the result for 2014, which has to do with the fact that emission reductions have decreased somewhat in projects financed by NEFCO's

Investment Fund. Both the direct and the indirect reductions of CO₂ emissions have fallen during the period under review. The lower reduction of indirect CO₂ emissions seen in Figure 1 is due to the fact that bio-fuel boilers over ten years old are no longer included in the reporting.

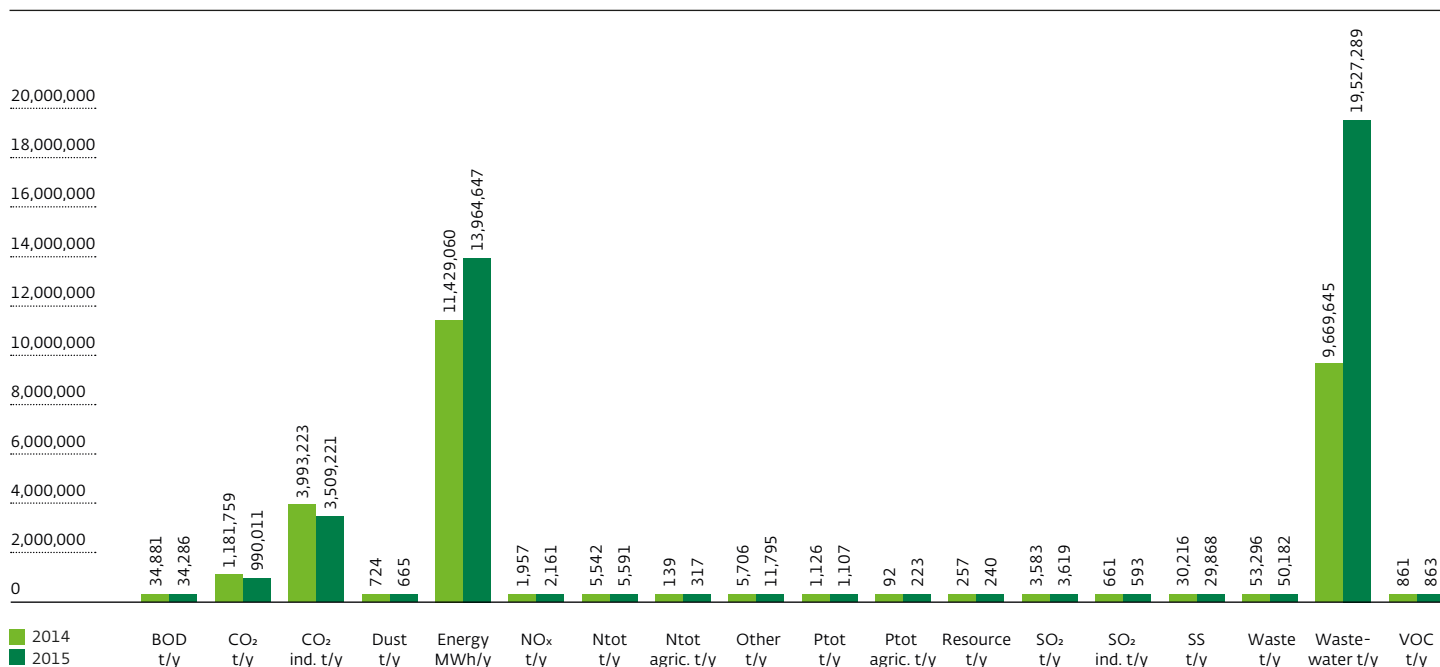
As far as NEFCO's water investments are concerned, priority was given to projects that reduce the discharges of nutrients feeding the eutrophication in the Baltic Sea. The positive effects that are being prioritised are acceptable quality of drinking water, an increased degree of sewage connection and, above all, reduced dis-

charges of biochemical oxygen demand (BOD), phosphorus and nitrogen to water. NEFCO's work in 2015 mainly focused on efforts to achieve the objectives defined in the Baltic Marine Environment Commission's Baltic Sea Action Plan (BSAP). Considerable progress with wastewater projects financed by NEFCO was achieved in the Kaliningrad and Leningrad Regions, in particular in Gatchina in Russia as well as in Belarus.

The significant differences in the volumes of wastewater flows and the level of discharged phosphorus and nitrogen are due to the fact that the discharges from a

Figure 1
 BOD Biochemical oxygen demand
 CO₂ Carbon Dioxide
 MWh Megawatt hours
 Nox Nitrogen oxides
 Ntot Nitrogen total
 Ptot Phosphorus total
 SO₂ Sulphur oxides
 SS Suspended solids
 VOC Volatile organic compounds
 t/y Tonnes per year

Figure 1 NEFCO: Total reductions



key client are missing in the report from 2014. The figures would otherwise be at about the same level for 2014 and 2015. As in the previous years, the impact of the Southwest Wastewater Treatment Plant in St. Petersburg was excluded from the 2015 figures because of the dominant position of the facility in terms of the volume of wastewater treated (80 million m³). The water sector has largely continued to progress well during 2015, but its importance in NEFCO's project portfolio is on the decline.

NEFCO's carbon investments

In 2015, the NEFCO Norwegian Carbon Procurement Facility (NorCaP) concluded its procurement phase, successfully contracting its targeted volume of 30 million certified emission reductions (CERs) from a global portfolio of 17 projects. From the second Call for Proposals, 7 projects were contracted in 2015 for a total volume of some 11.5 million tonnes of carbon savings from projects in Brazil, Malawi, Nigeria and South Africa.

In addition, the NEFCO Carbon Fund (NeCF), with Norwegian funding, was opened up to projects in least developed countries (LDC) and contracted three projects during the year in the Democratic Republic of Congo, Ethiopia and Sudan for a total of 788,000 CERs. In total, 3.5 million CERs were delivered from existing projects in NorCaP and NeCF. The first phase of the Nordic Partnership Initiative (NPI) NAMA activity in Peru was successfully concluded in autumn 2015, and the Nordic countries, NEFCO and Peru have agreed to continue their cooperation during the period 2015-2018.

Policy work

The work aimed at harmonising the accounting of greenhouse gas emissions at project level continued in close co-operation with other international financial institutions during the period under review. Moreover, NEFCO's environmental unit participated in meetings hosted by the Working Group on Environment for Multilateral Financial Institutions in order to promote the Working Group's attempts to harmonise the environmental methodology applied at international financial institutions.

As regards NEFCO's participation in events related to the Baltic Sea, priority was given to attendance at HELCOM's and the EU's stakeholder events and conferences focusing on innovative approaches to addressing reduced discharges of environmentally harmful substances. NEFCO participated in, among others, the EUSBSR Annual Forum in Jūrmala, Latvia, and the EU's Stakeholder Conference on the abundance of pharmaceuticals in wastewater that was held in Stockholm, Sweden.

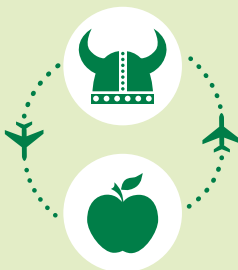


In 2015, the NEFCO Norwegian Carbon Procurement Facility concluded its procurement phase, successfully contracting its targeted volume of 30 million certified emission reductions.

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NEFCO IN NUMBERS

Examples of emission reductions in 2015



CO₂
4.3 million tonnes

=

1.97 million persons
travelling from Oslo to
New York and back
by aircraft



SO_x
2,757 tonnes

=

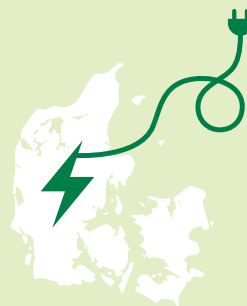
10 % of Sweden's
total SO₂ emissions
in 2012



P
1,172 tonnes

=

Untreated waste-
water from
1.73 million people
(equals Copenhagen
and Malmö)



Energy reduction
13 900 GWh

=

41% of Denmark's
total electricity
consumption
in 2014

Symbols: "Faucet"
by Kenneth Von Alt,
"Lightning" by Ryan
Oksenhorn from
thenounproject.com
collection.

Statement of comprehensive income

1 January - 31 December

(Amounts in EUR)	2015	2014
Income		
Interest income, placements with credit institutions	350,670	586,583
Interest income, debt securities	82,510	81,844
Interest income, lending	2,694,771	2,446,025
Net result of financial operations	-631,923	435,788
Other income	4,551,702	4,457,558
Total income	7,047,730	8,007,797
Operating expenses		
Administrative expenses	5,762,254	6,012,532
Depreciation and write-down in value of tangible and intangible assets	27,944	15,037
Foreign exchange gains and losses	318,222	1,593,009
Impairment of loans / reversals	-111,094	387,219
Total operating expenses	5,997,326	8,007,797
RESULT FOR THE YEAR	1,050,403	0
TOTAL COMPREHENSIVE INCOME	1,050,403	0

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Statement of financial position

31 December

(Amounts in EUR)	2015	2014
ASSETS		
Cash and cash equivalents	2,748,672	3,251,257
Placements with credit institutions	82,572,702	86,949,216
Total, cash and cash equivalents and placements with credit institutions	85,321,374	90,200,473
Debt securities	10,206,336	10,123,969
Investment assets	14,786,544	15,417,324
Other placements	3,571,579	3,627,224
Loans outstanding	42,399,697	34,329,160
Other receivables	309,194	1,671,312
Accrued interest	772,252	908,254
Intangible assets	8,950	10,616
Tangible assets	50,725	56,155
TOTAL ASSETS	157,426,650	156,344,485
LIABILITIES AND EQUITY		
Liabilities		
Other liabilities	761,860	730,099
Equity		
Paid-in capital	113,406,560	113,406,560
Reserve for investment/credit losses	24,557,177	24,557,177
Operational fund	4,500,000	4,500,000
Retained earnings	13,150,650	13,150,650
Result for the year	1,050,403	0
Total equity	156,664,790	155,614,387
TOTAL LIABILITIES AND EQUITY	157,426,650	156,344,485

Changes in equity

(Amounts in EUR)

	Paid-in capital	Reserve for investment/credit losses	Operational fund	Retained earnings	Result for the year	Total
Equity as of 1 January 2014	113,406,560	24,557,177	4,500,000	12,516,210	634,440	155,614,387
Appropriation to the retained earnings				634,440	-634,440	-
Appropriation to the reserve for investment/credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Result for the year					0	0
Equity as of 31 December 2014	113,406,560	24,557,177	4,500,000	13,150,650	0	155,614,387
Equity as of 1 January 2015	113,406,560	24,557,177	4,500,000	13,150,650	0	155,614,387
Appropriation to the retained earnings				-	-	-
Appropriation to the reserve for investment/credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Result for the year					1,050,403	1,050,403
Equity as of 31 December 2015	113,406,560	24,557,177	4,500,000	13,150,650	1,050,403	156,664,790

Proposed allocation of the year's result:	2015	2014
Appropriation to the retained earnings	1,050,403	0
RESULT FOR THE YEAR	1,050,403	0

Cash flow statement

1 January - 31 December

(Amounts in EUR)	2015	2014
Cash flows from operating activities		
Result for the year	1,050,403	0
Depreciation and write-down in value of tangible and intangible assets	27,944	15,037
Value adjustments, investment assets	675,780	389,323
Value adjustments, other placements	-1,020,651	22,524
Capital adjustments, other placements	55,644	59,427
Impairments, lending	-1,352,919	387,219
Change in accrued interests	136,885	-339,215
Lending		
Disbursements	-11,936,823	-13,334,080
Repayments	3,549,479	4,198,778
Premature repayments	-	2,460,818
Realised credit losses	1,241,826	-
Capitalisations	-249,550	-
Exchange rate adjustments	254,782	2,306,567
Change in investment assets	-45,000	642,170
Cash flows from operating activities	-7,612,200	-3,191,433
Cash flows from investing activities		
Change in placements with credit institutions	4,376,514	2,492,197
Change in debt securities	-82,367	-81,702
Change in other placements	1,020,651	-525
Change in other receivables and liabilities, net	1,815,665	-1,239,489
Change in tangible and intangible assets	-20,847	-57,085
Net cash flows from investing activities	7,109,615	1,113,396
Change in cash and cash equivalents	-502,585	-2,078,037
Opening balance for cash and cash equivalents	3,251,257	5,329,295
Closing balance for cash and cash equivalents	2,748,672	3,251,257
Additional information to the statement of cash flows		
Interest income received	3,263,952	2,775,141

The cash flow statement has been prepared using the indirect method and cash flow items cannot be directly concluded from the statements of financial positions.

Independent Auditors' Report

Independent auditors' report on the financial statements

In our capacity as auditors appointed by the Control Committee of the Nordic Environment Finance Corporation we have audited the accompanying financial statements of the Corporation, which comprise the statement of financial position as at 31 December 2015, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Board of Directors' and the Managing Director's responsibility for the financial statements

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as they 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 International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 rel-

evant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Nordic Environment Finance Corporation as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the other requirements

In accordance with the Terms of Engagement our audit also included a review of whether the Board of Directors' and the Managing Director's administration have complied with the Statutes of the Corporation. It is our opinion that the administration of the Board of Directors and the Managing Director complied with the Statutes of the Corporation.

Helsinki, 3 March 2016

Sixten Nyman

Authorised Public Accountant
KPMG Oy Ab

Hans Åkervall

Authorised Public Accountant
KPMG AB



This document is an English translation of the Auditors' report in Swedish. Only the Swedish version of the report is legally binding.

Statement by the Control Committee

Statement by the Control Committee of the Nordic Environment Finance Corporation on the audit of the ad

To the Nordic Council of Ministers

In accordance with section 9 of the statutes of the Nordic Environment Finance Corporation, we have been appointed to ensure that the operations of the Corporation are conducted in accordance with the Statutes and to bear responsibility for the audit of the Corporation. Having completed our assignment for the year 2015, we hereby submit the following report.

The Control Committee met during the financial year as well as after the Corporation's financial statements had been prepared, whereupon the necessary control and examination measures were performed. The Corporation's Annual Report was examined at a meeting in Helsinki on 3 March 2016, at which time we also received the Auditor's Report submitted on 3 March 2016 by the authorised public accountants appointed by the Control Committee.

Following the audit performed, we note that:

- the Corporation's operations during the financial year have been conducted in accordance with the Statutes, and that
- the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2015 and of its results and cash flows for the year then ended. The Statement of Comprehensive Income shows a result of EUR 1.050.403,25.

We recommend to the Nordic Council of Ministers that:

- the result for the financial year be treated as proposed by the Board of Directors,
- the Statement of Comprehensive Income and the Statement of Financial Position be adopted, and
- the Board of Directors and Managing Director be discharged from liability for the administration of the Corporation's operations during the accounting period examined by us.

Helsinki, 3 March 2016

Bill Fransson
Karin Gaardsted
Michael Tetzschner
Penilla Gunther
Arto Pirttilahti
Höskuldur Þórhallsson



This document is an English translation of the Control Committee's statement in Swedish. Only the Swedish version of the statement is legally binding.

**NEFCO INVESTMENT
FUND - (IF)****INVESTMENTS (9)****Ukraine**

Biogas production and energy efficiency measures at a pig farm (Denmark)

Russia

Production of pellets for energy production (Sweden)

Ukraine

Energy efficiency measures in municipal buildings in Chernivtsi (ESP/Sweden/Nordic deliveries)

Ukraine

Energy efficiency measures in municipal buildings in Ivano-Frankivsk (ESP/Sweden/Nordic deliveries)

Russia

Energy efficiency measures in municipal buildings in Murmansk (Norway)

Georgia

Leasing of environmentally friendly vehicles (Nordic delivery)

Belarus

Modernisation of the district heating system in Minsk (Sweden/NDEP)

Ukraine

Modernisation of the wastewater treatment plant in Lviv (ESP/EBRD/Sweden/Finland)

Moldova

Modernisation of manure management at a pig farm (Denmark)

**ADDITIONAL
INVESTMENTS (1)****Ukraine**

Production of water-borne paint (Sweden)

**EXPRESSIONS OF
INTEREST (12)****Russia**

Production of pellets for energy production (Sweden)

Ukraine

Conversion of gas-fuelled heating boilers to boiler using biomass (Sweden)

Belarus

Modernisation of pig farm (Denmark)

Moldova

Modernisation of manure management at a pig farm (Denmark)

Ukraine

Production and sales of heat and electricity produced from biomass (Denmark)

Ukraine

Production and sales of heat produced from biomass (Denmark)

Georgia

Consultancy services related to hydropower (Iceland)

Georgia

Leasing of environmentally friendly vehicles (Nordic delivery)

Russia

Energy efficiency measures in municipal buildings in Murmansk (Norway)

Ukraine

Energy efficiency measures in municipal buildings in Cherkassy (Sweden/ESP)

Belarus

Loan programme for environmental projects in the agricultural sector (Nordic deliveries)

Ukraine

Modernisation of a hydropower plant (Sweden)

**SINO-NORDIC
ENVIRONMENTAL
PROTECTION CO-OPER-
ATION PROGRAMME IN
CHINA - SNEPCO (1)**

Investments in industrial energy efficiency measures through GreenStream (Finland)

NORDIC ENVIRONMENTAL DEVELOPMENT FUND (NMF)

INVESTMENTS (2)

Ukraine

Allocation of funds to the Nordic Energy Efficiency and Humanitarian Support Initiative Fund

Belarus

Support for project preparation and evaluation for the Facility for Energy Saving Credits and the Facility for Cleaner Production

NMF ADDITIONAL INVESTMENTS (1)

Belarus/Ukraine

Support for the implementation of municipal energy efficiency projects

APPROVED CLEANER PRODUCTION FACILITY PROJECTS - (CPF) (9)

Ukraine

Modernisation of the water supply and drainage systems in Lutsk

Ukraine

Modernisation of heat supply at an agricultural company

Ukraine

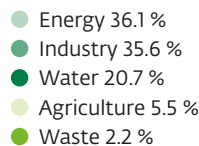
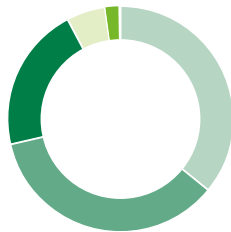
Improvement of the handling of slurry and the heating solutions at a pig farm

Belarus

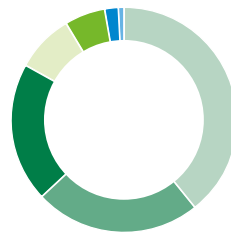
Modernisation of equipment used for producing wood chips

INVESTMENT FUND

Distribution by sector



Distribution by country



Ukraine

Energy efficiency measures at a farm in Severynovka

Ukraine

Energy efficiency measures at a factory producing insulation material

Ukraine

Replacement of fossil fuels with renewable energy in the district heating system in Ternopil

Ukraine

Upgrading of the district heating system in Chernivitsi

Ukraine

Upgrading of the district heating system in Konotop

APPROVED ENERGY SAVINGS CREDITS PROJECTS - (ESC) (11)

Ukraine

Modernisation of the street light system in Chernivtsi

Ukraine

Modernisation of the street light system in Berdychiv

Ukraine

Modernisation of the street light system in Komsomolsk

Ukraine

Modernisation of the street light system in Kolomyia

Ukraine

Energy efficiency measures in municipal buildings and modernisation of the street light system in Kamianets-Podilskyi

Ukraine

Energy efficiency measures in municipal buildings and modernisation of the street light system in Kremenchuk

Ukraine

Energy efficiency measures in school buildings in Cherkasy

Ukraine

Energy efficiency measures in Sumy

Ukraine

Modernisation of the heat supply system in a day-care centre in Sambir

Ukraine

Energy efficiency measures in three school buildings in Rivne

Ukraine

Insulation measures at a day-care centre in Korosten

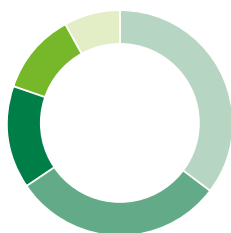
ESC ADDITIONAL INVESTMENT (1)

Ukraine

Energy efficiency measures in municipal buildings and modernisation of the street light system in Slavutych

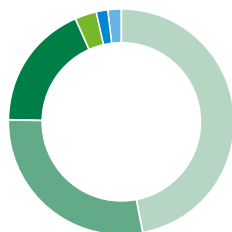
NORDIC ENVIRONMENTAL DEVELOPMENT FUND (NMF)

Distribution by sector



- Energy 35.6 %
- Industry 30.7 %
- Water 14.9 %
- Waste 11.7 %
- Agriculture 7.9 %

Distribution by country



- Russia 47.0 %
- Ukraine 28.5 %
- Estonia, Latvia, Lithuania 18.1 %
- Belarus 3.0 %
- Other 1.8 %
- Poland 1.7 %

APPROVED BARENTS HOT SPOTS FACILITY PROJECTS - (BHSF) (4)

Support for Nordic-Russian regional and municipal co-operation

Updating of a previous BHSF study from 2010

Further development of the waste management system in Komi

Support for Nordic-Russian regional and municipal co-operation

BHSF ADDITIONAL INVESTMENT (1)

Continuation of the Adviser position established in Kirkenes

APPROVED NORDIC ENERGY EFFICIENCY AND HUMANITARIAN SUPPORT INITIATIVE FUND (17) /UKRAINE

Energy efficiency measures in two day-care centres and modernisation of the street light system in Severo-donetsk

Energy efficiency measures in three municipal buildings in Kramatorsk

Energy efficiency measures in a school building in Pavlohrad

Energy efficiency measures in two school buildings and modernisation of the street light system in Lozova

Energy efficiency measures in eleven day-care centres in Berdiansk

Energy efficiency measures in two schools in Izium

Energy efficiency measures in three school buildings in Kupyansk

Energy efficiency measures in two school buildings in Chuhuiv

Modernisation of the street light system in Dniprodzerzhynsk

Energy efficiency measures in two municipal buildings in Dniprodzerzhynsk

Energy efficiency measures in a hospital in Kherson

Energy efficiency measures in six schools and a hospital as well as replacement of street lights in Pavlohrad

Energy efficiency measures in school buildings in Kramatorsk

Modernisation of the street light system in Druzhkivka

Energy efficiency measures in three school buildings and modernisation of the street light system in Melitopol

Energy efficiency measures in two pre-schools in Chuhuiv

Delivery of pre-fabricated building to Kherson

NEFCO CARBON FUND PURCHASE AGREEMENTS (3)

Improved cooking stoves in Bangladesh

Domestic cooking stoves substitution programme in Mozambique

Congo (DRC) improved cook stoves programme

ARCTIC COUNCIL PROJECT SUPPORT INSTRUMENT - (PSI) (12)

BALTIC SEA ACTION PLAN FUND - (BSAP) (5)

NORDIC PROJECT FUND - (NOPEF) (73)

NEFCO NORWEGIAN CARBON PROCUREMENT FACILITY - (NORCAP) (7)



CASE STUDY 4

Ukraine Agricultural waste turned into energy

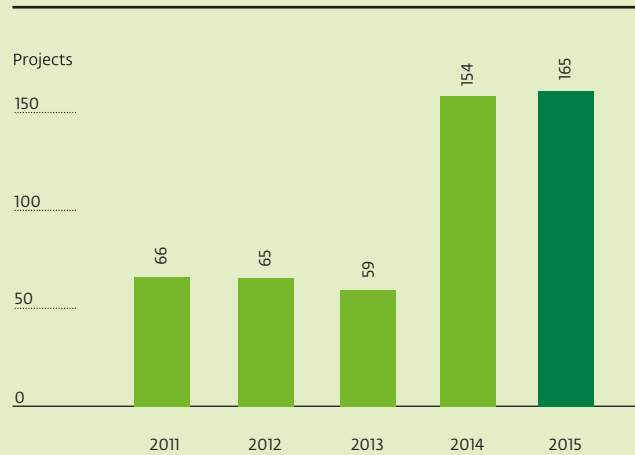
In 2015, the agricultural company Pivdenagrop-erobka LLC in Myrne, Ukraine, invested in a new boiler station that will use agricultural residues such as stalks, seeds, stems and haulms. The residues will be pelleted and burned to supply heat for the company's premises where processing and canning of vegetables, fruits and grain take place. By investing in renewable energy, Pivdenagrop-erobka will be able to cut its dependency on natural gas and save money by making use of the generated waste. NEFCO provided a loan for the project that will reduce the emissions of carbon dioxide by approx. 1,050 tonnes annually.

17

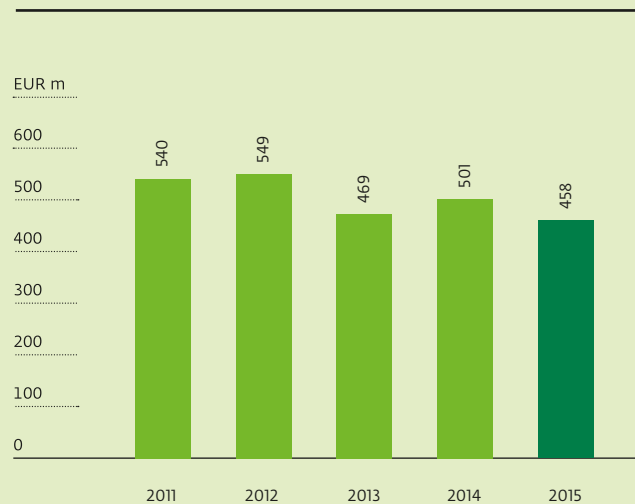
NEFCO IN NUMBERS

Five year comparison

Number of projects approved by NEFCO's Board of Directors



The total value of funds administered by NEFCO



In total, NEFCO managed 35 funds valued at EUR 458 million at the end of the year.

Personnel and Board members 2015



Jessica Andersson



Jon Kahn



Harald Rensvik



Magnus Rystedt



Danfríður Skarphéðinsdóttir



Søren Bukh Svenningsen



Ann-Britt Ylinen

BOARD OF DIRECTORS 2015

DENMARK

Søren Bukh Svenningsen

Head of Division, The Environmental Protection Agency/Ministry of the Environment and Food

Mikkel Hagen Hess,

Deputy Head of Department, The Trade Council/Ministry of Foreign Affairs (from March 2015)

FINLAND

Ann-Britt Ylinen

Director, Ministry of the Environment

Kristiina Isokallio

Director, Ministry of the Environment, Alternate

ICELAND

Danfríður Skarphéðinsdóttir

Head of Division, Ministry for the Environment and Natural Resources

Íris Bjargmundsdóttir,

Head of Division, Ministry for the Environment and Natural Resources, Alternate

NORWAY

Harald Rensvik

Secretary General, Ministry of the Environment

Jan Thompson

Senior Adviser, Ministry of the Environment, Alternate

SWEDEN

Jon Kahn

Director, Ministry of the Environment (until December 2015)

Jessica Andersson

Senior Advisor, Ministry of the Environment and Energy (from January 2016)

Mikael Benthe

Deputy Director, Ministry for Foreign Affairs, Alternate

OBSERVERS

Annika Rosing

Head of Department, Nordic Council of Ministers (until November 2015)

Anna Maria Hill

Mikkelsen, Senior Adviser, Nordic Council of Ministers (until February 2016)

Björn Fritjofsson,

Senior Adviser, Nordic Council of Ministers (from March 2016)

Søren Kjær Mortensen

Senior Director, Head of Origination, Nordic Investment Bank

CONTROL COMMITTEE 2015

Chairman

Bill Fransson

Director

Denmark

Karin Gaardsted

Member of Parliament

Finland

Arto Pirttilahti

Member of Parliament

Iceland

Höskuldur Þórhallsson

Member of Parliament

Norway

Michael Tetzschner

Member of Parliament

Sweden

Penilla Gunther

Member of Parliament

AUDITORS

Sixten Nyman

Authorised

Public Accountant,

KPMG Finland

Helsinki

Hans Åkervall

Authorised

Public Accountant,

KPMG Stockholm

Sweden

SECRETARY TO THE CONTROL COMMITTEE

Birgitta Immerthal

Authorised

Public Accountant,

KPMG Finland, Helsinki

(until June 2015)

Marcus Tötterman

Authorised

Public Accountant,

KPMG Finland, Helsinki

(from July 2015)

PERSONNEL 2015

Magnus Rystedt,

Managing Director

Husamuddin Ahmadzai,

Special Adviser,

Environment and

Technology

Mia Alén,

Financial Controller

Tita Anttila,

Vice President,

Head of Legal and

Project Administration,

Chief Counsel

Vivi Avikainen,

Assistant

Amund Beitnes,

Senior Investment Manager

Janika Blom,

Legal Counsel -

Carbon Finance and Funds

Ulf Bojö,

Senior Investment Manager

Aliona Fomenco,

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Finance and Funds

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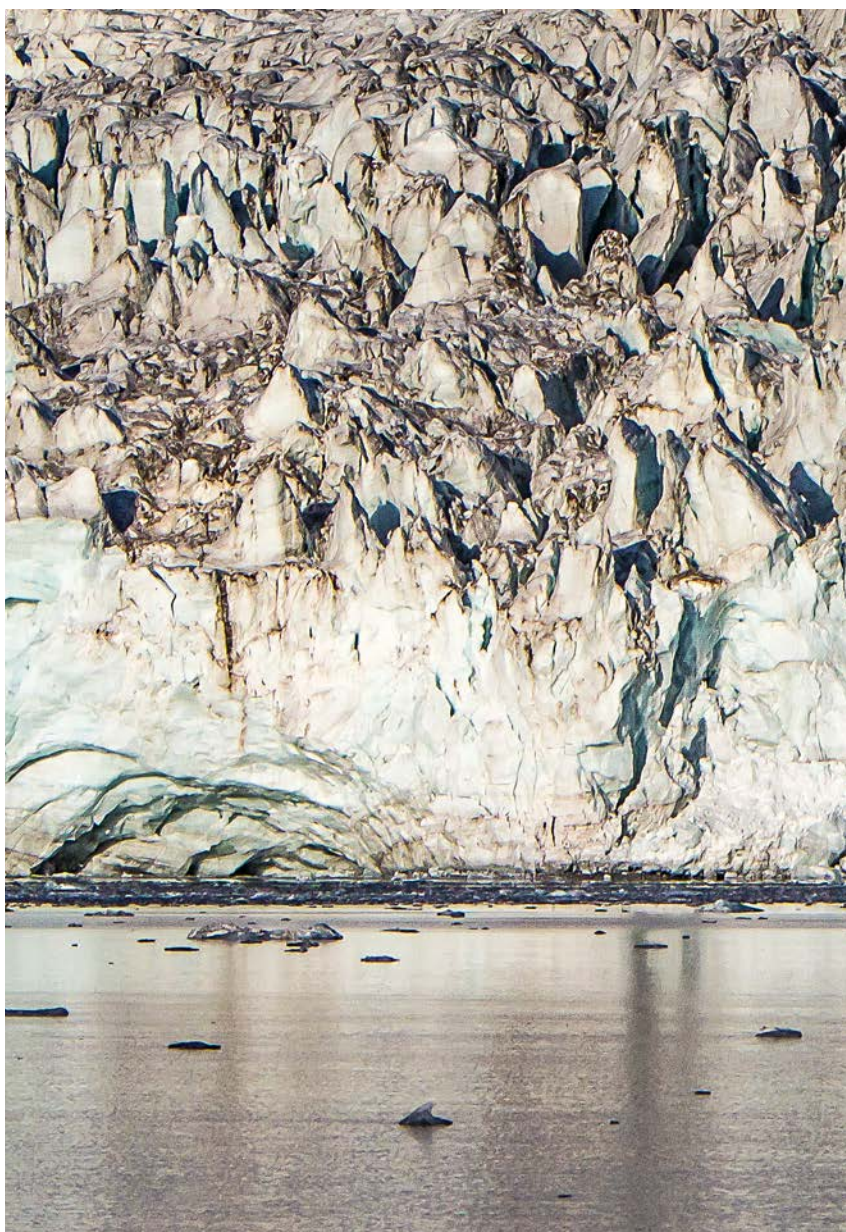
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