

**Nordic
Environment
Finance
Corporation**

Annual
Review
2017

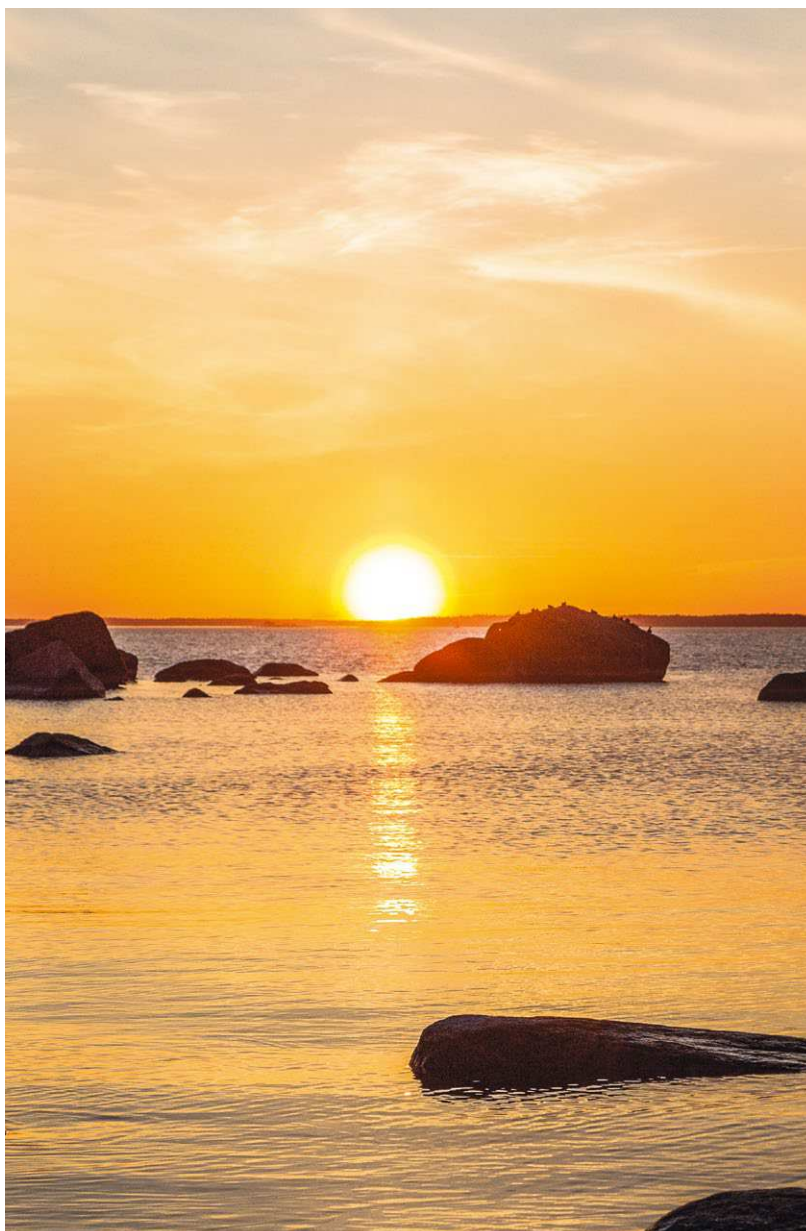




NEFCO 2017

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Highlights of the year 2017



Managing Director Magnus Rystedt signing the framework agreement with the Deputy Prime Minister Octavian Calmic from the Moldovan Ministry of Economy.

JANUARY

NEFCO and the Danish company Rus Agro Team A/S sign a loan agreement aimed at introducing a range of investments that will result in environmental benefits at the company's farm in the Kaliningrad region in Russia.

FEBRUARY

The Finnish John Nurminen Foundation joins forces with NEFCO to co-finance a biogas plant in Lviv, Ukraine.

MARCH

NEFCO and the Belarusky Narodny Bank (BNB-bank) sign a loan agreement for the development of an electric vehicles facility.

APRIL

The new Nordic-Russian Programme for Environment and Climate Co-operation (PECC) launches its first calls for proposals.

MAY

NEFCO and the Russian LLC Novgorod Timber Company Sodruzhestvo sign a loan agreement to modernise wood processing production in Nebolichi in the Novgorod region in Russia.

-

The Arctic Council Project Support Instrument (PSI) approves two major projects aimed at reducing the release of short-lived climate pollutants from the oil and gas, and fisheries sectors in the Russian Arctic.

JUNE

The amended NEFCO Agreement and statutes enters into force and opens up for a broader geographical scope for the Corporation's investment activities.

-

NEFCO and the Republic of Moldova sign a framework agreement acknowledging NEFCO's status as an international financial institution in Moldova.

JULY

NEFCO and AS BaltCap sign a Subscription Agreement for an equity investment in a new infrastructure fund for the Baltic States investing in energy efficiency and renewable energy projects.



PHOTO: CAROLINA STURZA, MINISTRY OF ECONOMY OF THE REPUBLIC OF MOLDOVA



PHOTO: PKK



PHOTO: NEFCO, JOEL SHEAKOSKI



Sarunas Stepukonis, BaltCap; Karoliina Auvinen, Aalto University; Shawn Brown, Ignitia AB; Tom Erichsen, Differ AS; and Peter Keller-Larsen, CLEAN discussing at NEFCO's side event at the UN Climate Summit.



Matti Iikkanen, Pöyry; Kari Homanen, NEFCO; Jana Selkova, Pöyry; Vitaly Artyushchenko, NEFCO and Sebastian Pålwald, NIB at the inauguration of the wastewater treatment plant in Petrozavodsk.

AUGUST

The Nordic Project Fund (Nopef) has approved financing for 43 new projects so far in 2017 for a total value of approx. EUR 1.3 million.

SEPTEMBER

NEFCO and the Ministry of Natural Resources and Environment of the Russian Federation sign a Memorandum of Understanding to improve the ecological situation at the Krasny Bor landfill area in the region of St Petersburg.

NEFCO signs grant agreements with the cities of Druzhkivka, Pershotravensk and Svatove for energy-efficiency measures in public buildings through the Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU).

OCTOBER

NEFCO, as fund manager for PSI, signs a grant agreement with the Conservation of Arctic Flora and Fauna (CAFF) to improve the status of declining Arctic breeding migratory bird populations.

NEFCO approves nine projects within the new PECC programme aimed at improving the state of the environment and addressing climate change in North-west Russia.

NOVEMBER

NEFCO arranges a side event on how to mobilise green investments for smart solutions at the UN Climate Summit (COP23) on 14 November in connection with the Nordic Finance Day.

NEFCO's updated Environmental and Sustainability Guidelines are published.

NEFCO and the Ministry for Foreign Affairs of Finland sign an agreement to set up the Finland Ukraine Trust Fund, which will provide financial support to energy-efficiency and renewable energy projects in Ukraine.

DECEMBER

The wastewater treatment plant in Petrozavodsk, the capital of Russian Karelia, is inaugurated.

NEFCO and the Ministry of Finance of Ukraine sign a loan agreement for energy-efficiency investments in several higher education institutions in Ukraine.

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 and focuses on generating environmental benefits through these project implementations. Many of the projects 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 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. The Corporation works in close partnerships with both private and public investors.

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 amended NEFCO Agreement that entered into force in June 2017 opens up the possibility for NEFCO to broaden its investment activities geographically and to approve projects also outside Eastern Europe. The Corporation's trust funds, including those aimed at climate projects and SME internationalisation, have until now been the only financing instruments operating with a global scope. NEFCO will now be able to explore new ground by providing loan capital and equity for relevant green growth investments of interest to the owner countries.

NEFCO's current main priorities:

- To enhance existing activities and initiate new interventions related to green investments and the promotion of green growth
- To prevent climate change with a focus on interventions related to renewable energy, energy efficiency and the reduction of short-lived climate pollutants
- To continue the successful activities targeting the reduction of pollutants affecting the Baltic Sea and the Arctic and Barents Regions

To achieve this, NEFCO will continue to work closely with its owners, the Nordic countries, governmental institutions, EU, relevant business sectors, as well as other international financial institutions.

NEFCO'S MANAGING DIRECTOR

Interview with Magnus Rystedt



PHOTO: PATRIK RASTENBERGER

How would you sum up NEFCO's results in 2017?

We have had a lot of investment activities and new trust fund assignments in 2017. A total of 123 projects were approved to a total value of EUR 50.8 million. A large number of the approved projects relate to energy efficiency and renewable energy. During the past year nine projects were approved within the new Programme for Environment and Climate Co-operation in Northwest Russia. A new Finnish initiative to finance projects in the areas of energy efficiency, renewable energy and alternative energy sources in Ukraine with NEFCO as a fund manager was signed in November. During the year, NEFCO also signed a framework agreement with the Republic of Moldova. However, a significant step was that the amended NEFCO Agreement entered into force, which enables the Corporation to invest in activities globally.

Managing Director
Magnus Rystedt.

Within which sectors will NEFCO work in the future?

NEFCO will continue working with energy and climate investments over the coming years. Thanks to the Paris Agreement global awareness of the ongoing climate change is increasing and investments related to both mitigation and adaptation activities will increase. More modern, environmentally friendly and efficient technology will also be implemented, especially in NEFCO's main countries of operation. Through our financing activities and investments, we will focus on contributing to the green transition.

Within which focus areas will NEFCO's trust fund management assignments lie in the future?

Over the years NEFCO's trust fund activities have focused on environmental and climate issues in the neighbouring region as well as globally. The Arctic and Barents Regions as well as the Baltic Sea will also be prioritised areas in the future, together with trust fund activities related to sustainable energy use and climate adaptation and mitigation.

How will NEFCO start working with the new geographical mandate in 2018?

At NEFCO, the focus is on the small and medium-sized environmental projects that the Corporation is financing. Within the new global mandate, the emphasis will continue to be on the projects and ways to find good bankable projects within NEFCO's focus areas.

How will NEFCO support the Nordic governments with their national goals to reach the SDG targets?

NEFCO can support the Nordic governments in their work on the sustainable development goals through project identification and implementation as well as in financing projects, where there are scale-up possibilities.

What will NEFCO's main activities be in 2018?

The main priority for NEFCO, in addition to the normal investment and project work, will be to identify and develop new projects within NEFCO Global as well as to develop new initiatives within the fund management. The goal is to reach more synergies between NEFCO's investment projects and trust fund activities. The work will be done in close collaboration with the owners; the Nordic countries, and NEFCO's cooperation partners.



NEFCO's goal is to reach more synergies between its investment and trust fund activities in close collaboration with the owners; the Nordic countries, and cooperation partners.

FOCUS AREA

The Arctic and Barents Region

NEFCO continued to work actively in both the Arctic and Barents Regions during 2017 and mainly financed projects in this area through three different funds and loan programmes.

In the Arctic Region, NEFCO provides financing through the Arctic Council Project Support Instrument (PSI) for pollution prevention, hazardous waste management, climate change mitigation, cleaner production, energy efficiency, and decreasing and eliminating the release of hazardous substances, such as mercury, into the environment.

Financial assistance from NEFCO PSI to the projects of the Arctic Council's working group Arctic Contaminants Action Programme has so far resulted in the commissioning of nine projects, most of them addressing short-lived climate pollutants. A project regarding the assessment of the use of super-critical water oxidation for the destruction of pesticides in Russia was also completed in 2017. During 2017, the PSI Committee of contributors approved six new projects. The approved projects address the reduction of short-lived climate pollutants such as black carbon, methane and hydrofluorocarbons within, for example, the oil and gas and fisheries sectors in the Russian Arctic.

Financing from NEFCO PSI is also contributing to the Arctic Migratory Birds Initiative, under the Arctic Council's working group Conservation of Arctic Flora and Fauna. The aim is to highlight on-the-ground actions for habitat protection, including pollution prevention. The project will promote the establishment of a network of protected areas at important breeding, overwintering and safer stop-over sites. The PSI grant will be used to develop an implementation plan regarding the African-Eurasian Flyway and the East Asian-Australasian Flyway.

Since 2004, NEFCO has been working in the Barents Region to support the work on climate and environment within the Barents cooperation and to promote relevant actions and investments at the so-called Barents 'hot spots'. Financing is provided by NEFCO through the Barents Hot Spots Facility (BHSF). In 2017, BHSF approved financing for five new projects or studies, within waste management, black carbon reductions as well as remediation of oil-polluted sites. The environmental work in the Barents is closely interlinked with the Arctic cooperation, and many BHSF-funded studies aim to develop projects for further PSI funding.



In 2017, NEFCO approved 20 new environmental projects in the Arctic and Barents Regions.



CASE STUDY 1

The Arctic area Reduction of short-lived climate pollutants

In 2017, the Arctic Council Project Support Instrument, managed by NEFCO, approved two projects aimed at reducing the release of short-lived climate pollutants (SLCP), such as black carbon, methane and hydrofluorocarbons in the Russian Arctic. One of the approved projects will address flaring from associated petroleum gas and demonstrate the use of best available techniques to reduce SLCP from APG flaring on the remote Yamal peninsula and the Salym-Shapsha field. The second project will help phase out fluorinated greenhouse gases and ozone-depleting substances at a fish and seafood processing plant in the Murmansk area. The intervention is expected to mitigate about 400,000 tonnes of CO₂ emissions per year.





PHOTO: JONAS HÄGGBLUM

Several activities in the Arctic and Barents were arranged in 2017 in connection with the ‘Year of the Ecology’ in Russia. In November, the Barents Environmental Ministers gathered in Vadsø to summarise the results of the cooperation in 2016-2017, whereby Norway handed over the Chairmanship of the Working Group on Environment to Sweden. The ministers reconfirmed the exclusion of three Barents Environmental Hot Spots from the List: Arkhangelsk Pulp and Paper Mill, reduction of dust emissions at Vorkuta Cement Plant, and wood processing industry waste management in the nine forest districts of the Komi Republic.

NEFCO has worked actively with the cement plant in Vorkuta and indirectly supported the wood waste hot spot work in Komi. BHSF has also supported the procedural work to prepare all these hot spots for formal exclusion.

NEFCO and the Nordic Council of Ministers together launched a first Call for Proposals in March 2017 for the new Programme for Environment and Climate Cooperation (PECC). The programme supports non-governmental cooperation between the Nordic countries and Northwest Russia to mutually benefit the environment and climate at the regional and local levels. Nine projects were selected for subsequent funding and implementation in 2018.

One of NEFCO's main priorities is to improve the ecological state of the Baltic Sea. Currently, some 20 per cent of the investments of NEFCO's Investment Fund relates to water projects. Through the implemented projects NEFCO succeeded last year in reducing discharges of phosphorus from wastewater treatment plants by 924 tonnes and from the agriculture sector by 63 tonnes. The total phosphorous discharge reductions of 987 tonnes correspond to untreated wastewater from approx. 1.4 million people. The reductions of nitrogen during the same period totalled 4.292 tonnes.

The Baltic Sea Action Plan Fund (BSAP), jointly administered by NEFCO and the Nordic Investment Bank, currently has seven projects under implementation and five that were finalised during 2017. Four of the ended projects were related to wastewater treatment in Estonia and the fifth project tested a system to absorb nutrients from leakage waters from manure storage facilities in Russia. In total, 30 projects have been finalised since 2010 in the agricultural, wastewater 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.

One of the wastewater treatment plants that NEFCO has financed was inaugurated in December 2017. The plant in Petrozavodsk, the capital of Russian Karelia, has been upgraded to reduce discharges to Lake Onega and the Baltic Sea and thus improve the quality of the drinking water in the region. The plant cleans some 145,000 cubic metres of sewage water per day for the city's 270,000 inhabitants, and the new wastewater treatment process will reduce phosphorus discharges by 75 tonnes per year. The financing of the reconstruction

has been co-ordinated by NEFCO and has contributed a total loan of EUR 4 million for the modernisation of the plant. After completion, the plant will fulfil the Baltic Marine Environment Protection Commission's (HELCOM) requirements regarding nitrogen and phosphorus removal from the wastewater.

HELCOM's Pressure Group asked NEFCO in autumn 2016 to co-ordinate the clean-up of a toxic waste disposal site in Krasny Bor, some 30 km from St Petersburg in the Tosnensky District of Leningrad Region. In 2017, NEFCO signed a Memorandum of Understanding with the Ministry of Natural Resources and Environment of the Russian Federation, as well as with the Committee for Nature Use, Environmental Protection and Ecological Safety of St Petersburg and the Polygon Krasny Bor, which is the State Unitary Environment-Protection Enterprise of the landfill.

In February 2018, the Finnish company Fortum Environmental Construction took samples from the lagoons, which are currently at acute pollution risk. These samples are being analysed at a laboratory in Riihimäki, Finland. The laboratory studies will help in drawing up a preliminary design for possible treatment methods for the hazardous waste at the landfill. This work is financed through the BSAP fund. The Krasny Bor landfill is a hazardous waste disposal site that has received at least 1.7 million tonnes of waste in all forms over the years. The site has been closed since the beginning of 2014 but listed as a Hot Spot by HELCOM since the early 1990s for its inadequate handling of hazardous wastes and associated environmental risks of toxic chemicals leaching into the Baltic Sea.

The work to reduce discharges into the Baltic Sea is one of NEFCO's key priorities.

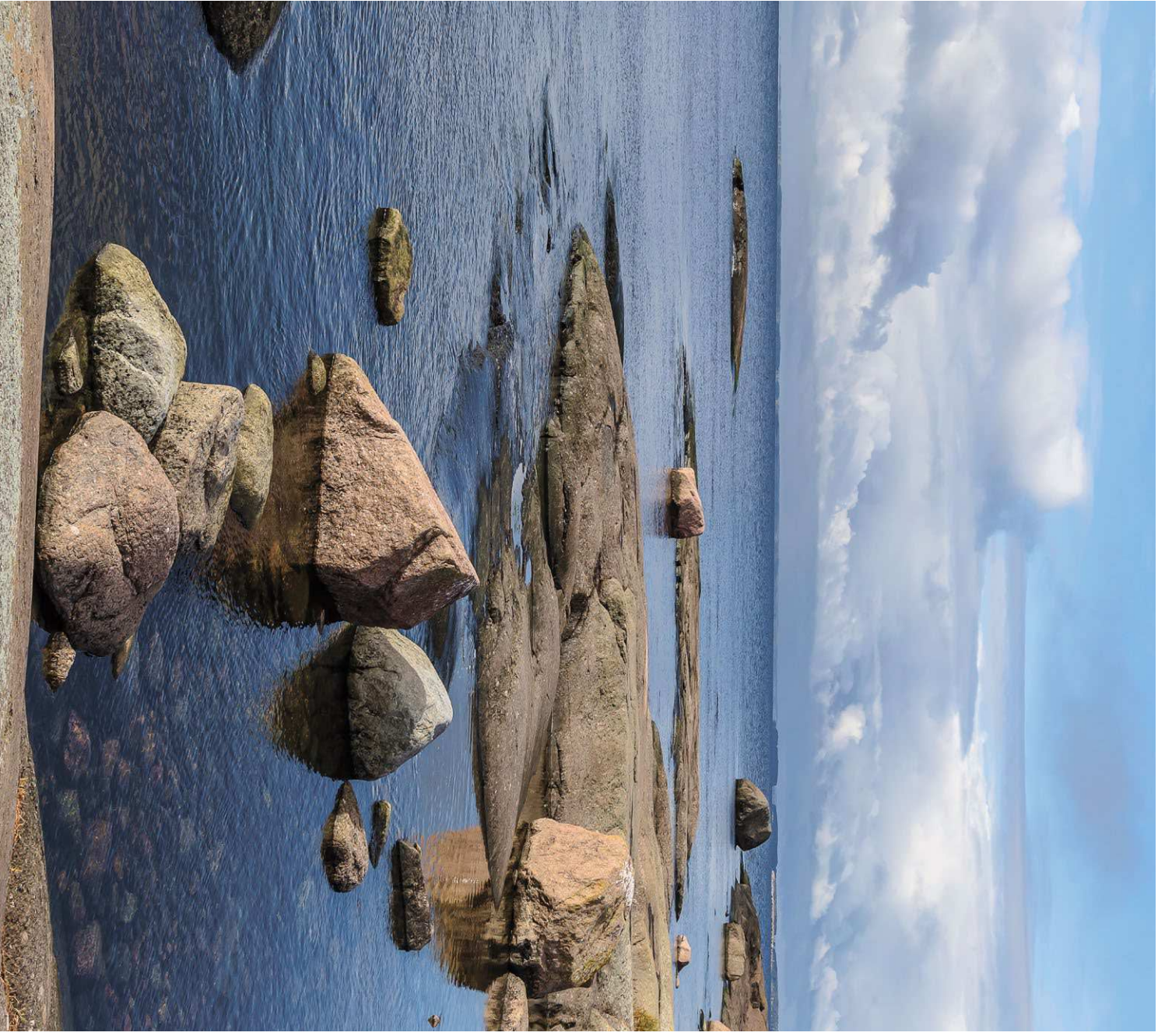


PHOTO: JONAS HÄGGBLOM

05

FOCUS AREA

Climate change

A large number of NEFCO's investment activities focus on energy-efficiency measures and renewable energy. In 2017, 35 per cent of all projects financed by NEFCO or through key Nordic trust funds administered by NEFCO were in the energy sector. NEFCO's climate-related investments reduced carbon dioxide emissions by 4.3 million tonnes as well as electricity consumption by 62,788 megawatt-hours and heat consumption by 116,530 megawatt-hours in 2017.

During the year, NEFCO's Board approved ten new projects related to energy efficiency and renewable energy for financing through NEFCO's Investment Fund. Under the NEFCO-administered Nordic Environmental Development Fund, 14 new projects related to climate were approved for investment. These projects include the implementation of energy-efficiency measures in public buildings and modernisation and development of district heating networks as well as modernisation of street lighting.

A significant Investment Fund project that was approved for financing in 2017, and co-financed by the Eastern European Energy Efficiency and Environment Partnership (E5P), concerns the renovation and implementation of energy-efficiency measures in 40 public buildings, mainly schools and day-care centres in the city of Lutsk in Ukraine. Another project, also co-financed by E5P, will introduce energy-efficiency measures and the use of renewable energy alternatives in public buildings in Georgia. In the district heating system of Horishni Plavni, Ukraine, NEFCO will, likewise together with E5P, finance the introduction of renewable fuels and energy-efficiency measures. Here, the existing production facility will be completely modernised and upgraded with new bio-fuel boilers designed for use with sunflower husk as the primary fuel instead of gas.



During the year, 24 new projects related to energy efficiency were approved.





CASE STUDY 2

Ukraine Finnish trust fund for energy efficiency and renewable energy

The Finland Ukraine Trust Fund, established in 2017, will provide financial support to energy-efficiency and renewable energy projects in Ukraine. The fund shall promote cooperation and identify projects in the fields of energy efficiency, renewable energy and alternative types of energy sources in power and heat generation as well as in district heating networks. Funding for technical assistance as well as grant support for demonstration projects to Ukrainian small and medium-sized enterprises for both private and public projects can also be provided. The total value of the new trust fund is EUR 6 million. Key areas of renewable energy sources in Ukraine are wind, solar, hydro, biomass, geothermal and energy using heat pumps.





PHOTO: JONAS HÄGBLOM

In 2017, NEFCO together with the Ministry for Foreign Affairs of Finland, established a new bilateral trust fund to promote cooperation and to identify projects in the fields of energy efficiency, renewable energy and alternative types of energy sources in power and heat generation as well as in district heating networks in Ukraine. Projects to be financed will be selected in close cooperation with local Ukrainian authorities, and technical assistance funds will be made available for institutional strengthening measures and policy support for the introduction and expanded use of renewable energy, waste-to-energy and smart energy systems.

In addition to the above mentioned climate-related activities, NEFCO manages two funds for the purchase of carbon credits: the NEFCO Carbon Fund (NeCF), active since 2008, and the NEFCO Norwegian Carbon Procurement Facility (NorCaP), which was established in 2013. The NeCF and NorCaP project portfolios consist of 13 and 12 ongoing projects respectively. In total, 3.1 million CERs were issued from these projects and delivered to investors during 2017.

The second phase of the Nordic Partnership Initiative (NPI) related to a Nationally Appropriate Mitigation Action (NAMA) activity in the waste sector in Peru, which started in 2016, has continued during 2017. This includes a number of consulting assignments connected to various aspects of the solid waste management in Peru. The studies address, in particular, financing mechanisms, composting, informal landfills, waste sector information system, recycling as well as matters related to possible carbon trading under Article 6 of the Paris Agreement in

regard to Peru's waste management. The outcomes of the Article 6 study were discussed at a side event in connection with the UNFCCC climate negotiations in Bonn in May 2018 and will be made public later during the year.

In 2017, the last 14 projects of the Nordic Climate Facility (NCF) under NEFCO's administration were implemented and ended. This facility is financed by the Nordic Development Fund (NDF), and since 2009, NEFCO has administered the first four calls for proposals. Eleven out of the 14 projects which were completed during 2017 address both mitigation and adaptation aspects. The greenhouse gas emission reductions for the completed projects in 2017 are expected to amount to 134,000 tonnes of CO₂ equivalent annually. By the end of 2017, all 51 projects from the first four calls under NEFCO's administration were ended. The total value of the implemented project portfolio is EUR 34.5 million, including the required own co-financing of these projects. NCF grant funding related to these projects amounted to EUR 18.7 million. A total of approx. 285,000 people have benefitted from the implemented projects over the years, and 13,000 people, among them 75% women, have had their livelihoods improved or gained new income-generating opportunities.

During the year, NEFCO also continued to take an active part in the global climate dialogue. For instance, NEFCO co-hosted a Financing Day in the Nordic Pavilion at COP23 in Bonn, including a side event related to the mobilisation of green investments for smart climate solutions, and contributed to a number of new reports within the climate financing field.

Green growth

NEFCO has a long and successful track

record of financing projects connected to green technologies and cleaner production. Since 2015, green growth has been one of NEFCO's main focus areas.

NEFCO's new mandate, which entered into force in June 2017, enables financing of investments related to green growth also outside Eastern Europe. The environmental priorities of the Nordic countries have shifted over the years and the amendment to the NEFCO Agreement will help the Corporation to work with global environmental challenges identified and prioritised by the Nordic governments. NEFCO's aim is to support the implementation and up-scaling of Nordic environmental technologies and climate solutions on global markets. Through the financing scheme NEFCO Global, NEFCO can offer funding to Nordic companies for internationalisation and green investments carried out globally.

NEFCO also supports the internationalisation of Nordic small and medium-sized enterprises (SMEs) through the Nordic Project Fund (Nopef). In 2017, the fund approved feasibility study funding for 70 Nordic SMEs. Over the years, Nopef projects have demonstrated strong commercial and environmental results from its targeted financial support for SME internationalisation. The annual customer survey among Nopef clients shows that, on average, each funded foreign establishment has created 13 new jobs, EUR 1 million in investments and EUR 2 million in sales, with a majority of projects directly benefitting Nordic subcontractors. A growing portion of Nopef projects are related to Nordic environmental technologies and climate solutions with the potential to be scaled up in the project countries.

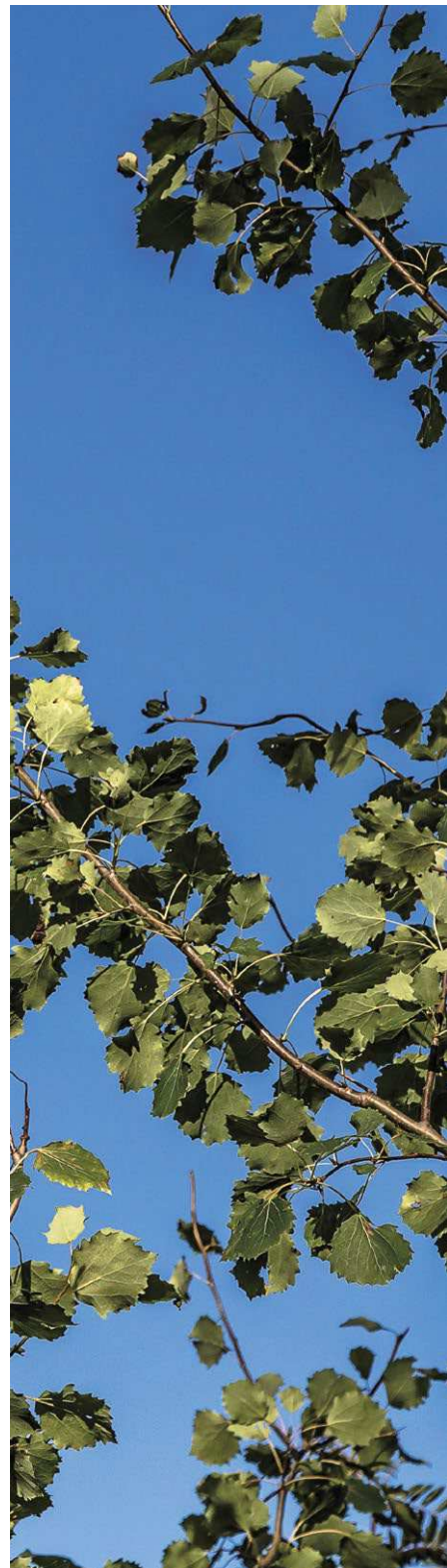




PHOTO: JONAS HÄGGBLUM

In 2017, NEFCO signed a loan agreement with Belarusky Narodny Bank for the development of an electric vehicles facility. The aim of the facility is to promote electric vehicles to consumers and legal entities in Belarus, and to develop the electric vehicle infrastructure in the country.

At the UN Climate Summit on 14 November in Bonn (COP23), NEFCO arranged a discussion on how to mobilise green investments for smart environmental solutions. A broad variety of innovative climate solutions and alternatives for project financing were presented by NEFCO and its clients and partners. One conclusion from the discussion was that international financial institutions, such as NEFCO, are valuable in that they have a catalysing effect in the early stages of project development and facilitate demonstration and up-scaling of existing technologies. Furthermore, they effectively link different

interest groups, which is crucial in implementing green projects. The discussion was one of the side events at the Nordic Finance Day, co-arranged by NEFCO, the Nordic Investment Bank (NIB) and the Nordic Development Fund (NDF) and arranged at the Nordic Pavilion organised by the Nordic Council of Ministers.

During 2017, NEFCO also attended several other events and seminars highlighting green solutions and financing. Presentations were held at Vaasa Energy week, Cleantech Capital Day in Malmö, Nordic-Baltic Conference on Climate Change, Energy Security and Energy Solutions in Riga, World Circular Economy Forum in Helsinki, 6th Sweden-Ukraine Business Forum in Kiev and the Baltic Sea festival in Stockholm. NEFCO also participated in the start-up event SLUSH in Helsinki in November, which this year highlighted clean and sustainable technologies.

A growing portion of Nopef projects are related to Nordic environmental technologies and climate solutions with the potential to be scaled up in the project countries.

Report from the Board of Directors 2017



The amended NEFCO Agreement entered into force during 2017 and opens up for investment activities also outside Eastern Europe.

This year was characterised by the change made to the NEFCO Agreement between the Nordic countries, which entered into force in June. Although the change does not shift NEFCO's focus away from Eastern Europe, it does make investments possible in other parts of the world. Investments outside of Eastern Europe will only account for a limited amount of activities, but will open up better synergies with NEFCO's fund management activities, which is an important part of the overall business activities. Through the trust funds, NEFCO was already funding projects globally before the change to the Agreement.

The new geographical mandate will, in particular, set more focus on collaboration with the Nopef fund, as projects that have already received support from Nopef may in the future be eligible for continued funding from NEFCO. Nopef funds feasibility studies that support Nordic companies in their internationalisation as well as helping them to launch Nordic environmental technology and climate solutions on new international markets outside the EU/EEA; in 2017, the fund granted funding to 70 Nordic small and medium-sized enterprises (SME).

The situation in NEFCO's focus area, Eastern Europe, remains challenging. The economic turbulence that has continued for a number of years did, however, stabilise somewhat during the year, and led to NEFCO seeing increasing demand for funding, most of all in Ukraine, towards the end of the year. In all the project activities, 123 projects were approved during the year to a total value of EUR 50.8 million. Within the Investment Fund, NEFCO's authorised capital, 15 new investments were approved to a total value of EUR 38.5 million, and at the end of the year, the company had a total of 66 active projects with commitments totalling EUR 224.8 million. Payments are made with a certain delay and thus a larger amount of NEFCO's





CASE STUDY 3

Belarus New facility for electric vehicles

In 2017, NEFCO and the Belaruskyy Narodnyy Bank (BNB-bank) signed a loan agreement for the development of an electric vehicles facility. The aim of the loan facility is to promote electric vehicles in Belarus and to develop the electric vehicle infrastructure in the country. NEFCO will provide up to EUR 2.5 million to BNB-bank under the joint financing facility for a period of up to five years. The loan programme will finance purchases of electric vehicles, hybrid cars, charging stations, and other technical equipment by legal entities and private customers. BNB-bank will also lease vehicles to legal entities and individuals through the facility.



At the end of 2017, NEFCO managed a total of 35 funds with a total value of EUR 353 million.

resources are already allocated than what is stated in the company's Statement of financial position.

From an environmental perspective, it is climate-related investments and projects that dominate. Like in previous years, energy efficiency measures make up the largest single category, but there has also been a positive increase in the number of projects related to renewable energy production.

NEFCO's administration also manages a number of other funds, not just for its owners but also for non-Nordic contributors and investors. NEFCO also acts as an implementing agency for a number of projects involving major international funds, such as the Eastern Europe Energy Efficiency and Environment Partnership (E5P) and the Northern Dimension Environmental Partnership (NDEP). During the year 2017, both the Arctic cooperation and the Northern Dimension Environmental Partnership (NDEP) have created an expectation that NEFCO will identify small and medium-sized projects in Northwest Russia, which would lead to reduction of mainly so-called 'black carbon' (dust, particles etc.), but also of hazardous waste into the Baltic Sea. This work will begin in 2018.

Two new funds were set up during the year – a Nordic pilot scheme for environmental and climate work on collaborative projects in Northwest Russia, and a Finnish initiative funding projects in the areas of energy efficiency, renewable energy and alternative energy sources in Ukraine. At the end of 2017, NEFCO managed a total of 35 funds with a total value of EUR 353 million.

Over the years, NEFCO has granted funding to over 715 small and medium-sized, private and public sector projects across different sectors in 47 countries. Furthermore, Nopef, since the administration of the fund was transferred to NEFCO in 2014, has provided support to more than 285 Nordic small and medium-sized enterprises (SME) in their internationalisation in 52 countries.

The financial and environmental results from operations were both in line with expectations. The high risk in the Investment Fund's countries of operation and the low interest level meant that the operations returned a relatively modest profit, like in the previous years. Details of the environmental result are presented in the Environmental status report.

EVALUATION OF THE ENVIRONMENTAL EFFECTS OF THE PROJECTS

The environmental effects of each project are assessed using the procedure that has been developed gradually within NEFCO. The expected environmental effects are analysed before a decision is made on the funding; NEFCO then follows up the actual effects. On average, the environmental impact of the projects covered by the Investment Fund and by the Environmental Development Fund show a positive level as expected. Of the 81 active projects that were analysed, 39 are classified as projects that have exceeded the environmental expectations, 14 are at the expected level, 28 are yet to meet expectations and, in nine

cases, it is not yet possible to draw conclusions or the reporting for these is not yet available.

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

STAFF

At the end of 2017, 32 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.

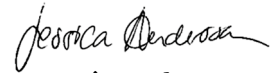
RESULT

The annual accounts show a profit of EUR 483,228. In accordance with previous practice, the Board proposes that the profit be returned to the business as retained earnings.

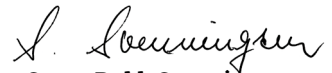
Helsinki, 8 March 2018



Harald Rensvik
Chair



Jessica Andersson
Vice Chair



Søren Bukh Svenningsen



Ann-Britt Ylinen



Danfríður Skarphéðinsdóttir



Magnus Rystedt
Director



This is a shortened version of the Report from the Board of Directors 2017. The full report is available at www.nefco.org/news-media/publications-reports/annual-reports

Environmental status report 2017

This report summarises the environmental results in NEFCO's funds and focus areas:

The Arctic and Barents Regions, the Baltic Sea, Climate change, and Green growth.

NEFCO's environmental reporting covers the Investment Fund (IF) and NMF Credits (Energy Saving Credits, ESC, and the Cleaner Production Facility, CPF) as well as the Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU). NEFCO also administers several trust funds on behalf of different donors and investors for the support of environmental and climate projects.

NEFCO'S ENVIRONMENTAL PURPOSE

Direct and indirect impacts

Environmental benefits can be achieved as a direct consequence of investments and indirectly by supporting companies manufacturing environment-related products or services. The direct environmental impacts are reported by the projects. The indirect environmental impacts are normally calculated based on reporting by the project companies, e.g. production of equipment.

Demonstration value impacts

NEFCO's financing is targeted at small and medium-sized private and public projects (SMPs) with demonstration value. Many of the numerous SMPs financed by NEFCO over the years are characterised by a pioneering spirit and aimed at testing the application of Nordic solutions – with up-scaling possibilities – in local, non-Nordic circumstances.

The support of Nopef in the internationalisation of green growth companies benefits the environment and climate, and creates new jobs in the Nordic countries and those in which the companies choose to establish themselves. The majority of the Nopef-financed projects address energy efficiency or renewable energy.

Projects with a high demonstration value have the potential for environmental impacts that are orders of magnitude greater than NEFCO's investment. However, these impacts are not calculated as they are uncertain and could be a long way in the future. One example is NEFCO's work to enhance the Baltic municipalities in the 1990s. Compared with the situation then, the municipalities have developed greatly. With its activities in the 1990s, NEFCO played a small role in enabling this success.

Additionality

In general, NEFCO seeks projects with high additionality, meaning that projects with NEFCO financing have a significantly higher probability of achieving the environmental targets as well as reducing the time for the implementation (it could be argued that in some cases they may never be implemented without NEFCO financing).

NEFCO's additionality is high. NEFCO plays an important role in providing financing for small projects and risky geographical areas like Ukraine. In 2017, the increase in the number of completed municipal ESCs and private sector CPF projects reporting environmental impacts increased by 23 per cent. Public energy-efficiency projects generate environmental/climate benefits and positive economic returns at the same time to the municipalities.

NEFCO is also seen as a financier and co-financier that gives projects a high environmental status.

ACCOUNTING PRINCIPLES

NEFCO has requested annual environmental status reports from every project since 1990 when NEFCO was established. The environmental and financial data from the individual projects, as outlined above, are presented in more detail in this Environmental Status Report 2017.

Table 1. Reductions in IF and NMF Credits

Indicator per year	Active and ended projects	Active and ended projects
	2017	2016
Ptot, t/a		
Sum of Reduction	924	953
Sum of NEFCO's share of reduction	175	179
NEFCO's share	19 %	
Ptot agriculture, t/a		
Sum of Reduction	63	136
Sum of NEFCO's share of reduction	8	20
NEFCO's share	13 %	
Ntot, t/a		
Sum of Reduction	4,227	4,164
Sum of NEFCO's share of reduction	814	790
NEFCO's share	19 %	
Ntot agriculture, t/a		
Sum of Reduction	65	63
Sum of NEFCO's share of reduction	23	33
NEFCO's share	35 %	
BOD, t/a		
Sum of Reduction	32,814	33,734
Sum of NEFCO's share of reduction	7,242	7,398
NEFCO's share	22 %	
SS, t/a		
Sum of Reduction	27,942	28,588
Sum of NEFCO's share of reduction	5,943	6,081
NEFCO's share	21 %	

Abbreviations

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
 t/a Tonnes annually

Harmonised approaches in project impact accounting

The International Financial Institutions¹ (IFIs) have been working together to agree on a harmonised approach to project-level greenhouse gas (GHG) accounting. The rationale for this work is to harmonise GHG accounting during project appraisal. The purpose is to establish minimum requirements for undertaking this work, all of which each IFI can optionally exceed with additional considerations and reporting.

Environmental benefits gained through completed Investment Fund and NMF Credit projects or in which NEFCO's involvement has ceased are calculated as total emission reductions. The assessment of the environmental performance of projects is calculated with the realised annual reductions and the expected annual reduction based on the project baseline prior to implementation. The assessment is normally expressed in a mass unit (e.g. kg, tonnes) on an annual basis. For the purposes of comparison, the data are shown as reductions or savings per annum.

In order to avoid double-accounting with co-financiers, the emission reductions are also given as prorated to NEFCO's share of the financing.

The harmonised approaches encourage reporting of long-term project impacts. The report on the estimated results of a project's economic life aims to provide users with a basis for understanding the impact of the project over its economic lifetime. NEFCO's environmental database also takes into account projects in which its involvement has ceased. In its environmental monitoring, NEFCO applies an annual linear depreciation rate of 5 per cent on all actual reductions as of the beginning of the year of the final repayment. This method was first applied in 2011.

¹ International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting, November 2015

Table 2. CO₂ emission reductions in NEFCO's portfolio

	Active and ended projects	Active and ended projects
	2017	2016
NEFCO FUNDS (IF, CPF, ESC, NIU)		
CO ₂ , t/a		
Sum of Reduction	1,229,606	1,088,605
Sum of NEFCO's share of reduction	280,561	262,659
NEFCO's share	23 %	
Climate Funds (NeCF and NorCaP)		
CO ₂ (CER)	3,072,164	4,118,274



NEFCO's
investments
reduced direct
carbon dioxide
emissions by
approx. 4.3 million
tonnes in 2017

NEFCO'S ENVIRONMENTAL REPORTING

To add transparency in NEFCO's environmental reporting, the following data are given:

- Environmental impacts for the whole project/fund results including lifetime impacts (20 years after involvement with 5 % depreciation per year)
- NEFCO share of the project/fund results with lifetime impacts
- Project/fund results without lifetime impacts

Environmental benefits can be achieved as a direct consequence of investments but also indirectly as NEFCO supports companies manufacturing environment-related products.

Table 3. Air pollution emission reductions in IF, CPF, ESC and NIU

TOTAL IF, CPF, ESC, NIU	Active and ended projects	Active and ended projects
Indicator/year	2017	2016
NOx, t/a		
Sum of reduction	1,897	2,188
Sum of NEFCO's share of reduction	895	1,099
	47 %	
SO₂, t/a		
Sum of reduction	3,623	4,021
Sum of NEFCO's share of reduction	1,268	1,421
	35 %	
Dust/particulates		
Sum of reduction	1055	1,169
Sum of NEFCO's share of reduction	214	233
	20 %	

ENVIRONMENTAL PERFORMANCE

In total, 96 % of the projects in the Investment Fund (IF) and NMF credits (Energy Saving Credits, ESC, and Cleaner Production Facility, CPF), and the Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU) reported their environmental results in 2017.

THE BALTIC SEA

According to NEFCO's environmental status reports, the Corporation succeeded in reducing discharges of phosphorus from wastewater treatment plants by 924 tonnes in 2017, when taking into account the whole projects, and phosphorous discharges removed from agriculture of 63 tonnes. The total phosphorous discharge reduction of 987 translates into discharges of untreated wastewater from approx. 1.35 million people. NEFCO's pro rata share of the reduction is 183 tonnes P/year equalling wastewater from approx. 250,000 people. The corresponding figure for nitrogen was 4,292 tonnes N/year and NEFCO's share 837 tonnes N/year.

CLIMATE CHANGE

The climate investments and carbon financing reduced direct carbon dioxide emissions by 4.3 million tonnes.

The bulk of NEFCO's investment activities are related to renewable energy and energy-efficiency measures. Moreover, most projects co-financed by NEFCO in the industrial sector included energy-efficiency measures with tangible climate emission reductions.

The climate investments in 2017 reduced carbon dioxide emissions by 1.2 million tonnes directly, of which NEFCO's share was 22 per cent or 270,000 tonnes. In terms of energy-efficiency measures, NEFCO managed to reduce energy consumption by 1.68 gigawatt-hours directly. The increased electricity consumption in NIU is caused by new buildings. The total CO₂ emission reductions and energy savings from IF, ESC, CPF and NIU are presented in Table 2.

NEFCO'S ENVIRONMENTAL GUIDELINES

As NEFCO's environmental guidelines were launched in 2008, the document has been revised to reflect current practices more accurately. The revised NEFCO Environmental and Sustainability Guidelines were approved in 2017.

NEFCO 2.3.2018

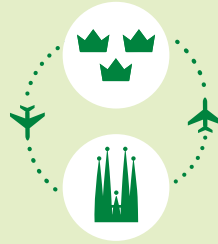
Anja Nystén

Magnus Rystedt

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Emission reductions in 2017

Total emission reductions in NEFCO financed projects



CO2
direct + CER
4.3 million tonnes

=
11.3 million people
travelling from
Stockholm to Barcelona
and back by aircraft



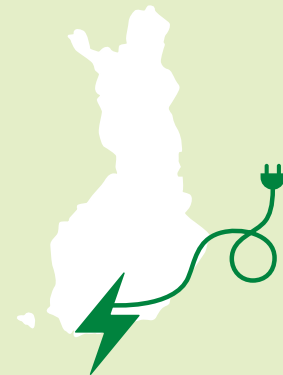
SOx
3,623 tonnes

=
91% of the Danish
and Norwegian
emissions in 2015



P
987 tonnes

=
Annual untreated
wastewater from
1.4 million people in
Helsinki and Oslo



Energy
1.68 GWh

=
Annual heating of
approx. 80,000 Finnish
detached houses

Symbols: 'Tap'
by Kenneth Von Alt,
'Lightning' by Ryan
Oksenhorn from
thenounproject.com
collection

* CER = certified
emissions reductions

Statement of comprehensive income

1 January - 31 December

(Amounts in EUR)	2017	2016
Income		
Interest income, placements with credit institutions	-135,911	77,931
Interest income, debt securities	83,400	83,638
Interest income, lending	3,475,314	2,864,083
Interest income, total	3,422,803	3,025,653
Interest expense	-178,626	-
Net interest income	3,244,177	3,025,653
Net result of financial operations	-836,585	-134,986
Lending fee income	547,203	422,931
Other income	3,448,631	3,974,708
Total income	6,403,426	7,288,305
Operating expenses		
Administrative expenses	5,525,358	5,593,207
Depreciation and write-down in value of tangible and intangible assets	21,932	35,807
Foreign exchange gains and losses	372,908	-132,996
Impairment of loans / reversals	-	1,250,000
Total operating expenses	5,920,198	6,746,018
RESULT FOR THE YEAR	483,228	542,287
TOTAL COMPREHENSIVE INCOME	483,228	542,287

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Statement of financial position

31 December

(Amounts in EUR)	31/12/2017	31/12/2016
ASSETS		
Cash and cash equivalents	21,143,046	9,300,424
Placements with credit institutions	58,445,862	68,251,944
Total, cash and cash equivalents and placements with credit institutions	79,588,908	77,552,368
Debt securities	10,373,315	10,289,601
Investment assets	15,361,841	16,289,044
Other placements	3,444,928	3,509,410
Loans outstanding	54,324,738	49,012,193
Other receivables	202,074	1,323,272
Accrued interest	730,676	784,285
Intangible assets	-	33
Tangible assets	1,936	23,834
TOTAL ASSETS	164,028,416	158,784,040
LIABILITIES AND EQUITY		
Liabilities		
Long-term debt	5,495,670	-
Other liabilities	757,003	1,576,963
Accrued interest	85,438	-
Total liabilities	6,338,110	1,576,963
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	14,743,340	14,201,053
Result for the year	483,228	542,287
Total equity	157,690,305	157,207,077
TOTAL LIABILITIES AND EQUITY	164,028,416	158,784,040

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 2016	113,406,560	24,557,177	4,500,000	13,150,650	1,050,403	156,664,790
Appropriation to the retained earnings				1,050,403	-1,050,403	-
Appropriation to the reserve for investment/credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Result for the year					542,287	542,287
Equity as of 31 December 2016	113,406,560	24,557,177	4,500,000	14,201,053	542,287	157,207,077
Equity as of 1 January 2017	113,406,560	24,557,177	4,500,000	14,201,053	542,287	157,207,077
Appropriation to the retained earnings				542,287	-542,287	-
Appropriation to the reserve for investment/credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Result for the year					483,228	483,228
Equity as of 31 December 2017	113,406,560	24,557,177	4,500,000	14,743,340	483,228	157,690,305

Proposed allocation of the year's result:	2017	2016
Appropriation to the retained earnings	483,228	542,287
RESULT FOR THE YEAR	483,228	542,287

Cash flow statement

1 January - 31 December

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.

(Amounts in EUR)	2017	2016
Cash flows from operating activities		
Result for the year	483,228	542,287
Depreciation and write-down in value of tangible and intangible assets	21,932	35,807
Value adjustments, investment assets	1,000,000	209,000
Capital adjustments, other placements	64,482	62,169
Impairments, lending	-	1,250,000
Change in accrued interests, assets	53,609	-12,033
Change in accrued interests, liabilities	85,438	-
Lending		
Disbursements	-15,187,493	-15,024,479
Repayments	3,715,769	5,465,300
Prepayments	6,970,441	3,000,000
Capitalisations	-1,163,194	-435,645
Exchange rate adjustments	351,933	-867,673
Change in investment assets	-72,797	-1,711,500
Cash flows from operating activities	-3,676,654	-7,486,766
Cash flows from investing activities		
Change in placements with credit institutions	9,806,083	14,320,757
Change in debt securities	-83,714	-83,265
Change in other receivables and liabilities, net	301,238	-198,975
Net cash flows from investing activities	10,023,607	14,038,517
Cash flows from financing activities		
Change in long-term debt	5,495,670	-
Net cash flows from financing activities	5,495,670	-
Change in cash and cash equivalents	11,842,622	6,551,751
Opening balance for cash and cash equivalents	9,300,424	2,748,672
Closing balance for cash and cash equivalents	21,143,046	9,300,424
Additional information to the statement of cash flows		
Interest income received	3,476,412	3,013,620

Independent Auditor's Report

TO THE CONTROL COMMITTEE OF THE NORDIC ENVIRONMENT FINANCE CORPORATION

Independent Auditor's Report on the Audit of the Financial Statements

Opinion

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 for the year ended 31 December, 2017. The financial statements comprise the statement of financial position as at 31 December 2017, and the statement of comprehensive income, statement of changes in equity and statement of cash flows, a summary of significant accounting policies and other explanatory notes.

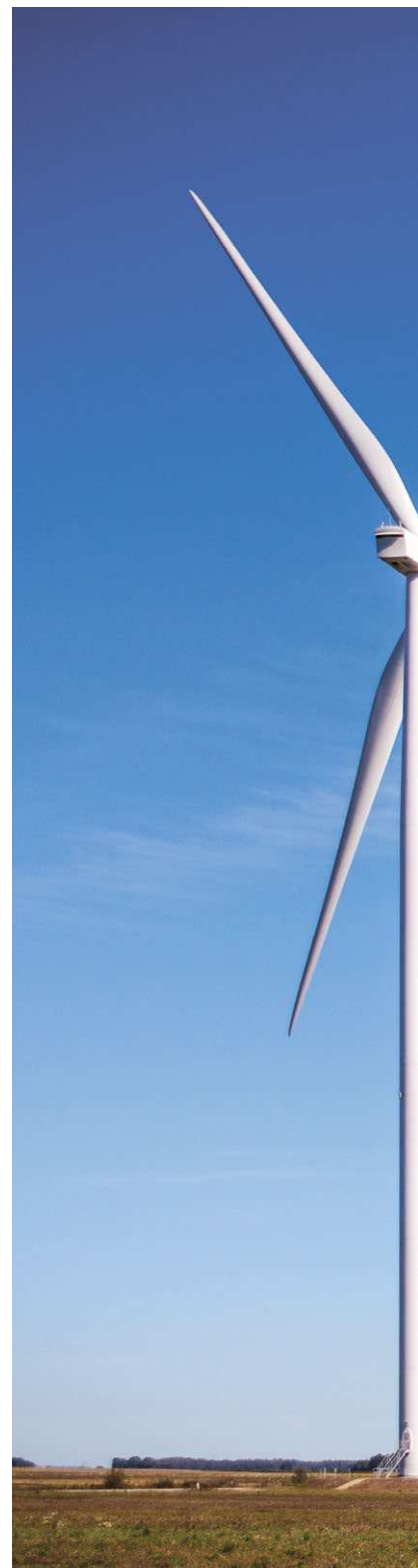
In our opinion the financial statements give a true and fair view of the Corporation's financial performance, financial position and cash flows in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Corporation in accordance with International Standards on Auditing, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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





CASE STUDY 4

The Baltic countries Equity investment in the Baltics

NEFCO will invest EUR 3 million in the BaltCap Infrastructure Fund, which is a EUR 100 million fund. The fund will focus primarily on investments related to renewable energy, energy efficiency and transport as well as social infrastructure projects. In addition to economic development, the projects will bring major environmental benefits and savings. This private equity fund, the first of its kind in the region, will contribute to the implementation of infrastructure projects in all three of the Baltic countries: Estonia, Latvia and Lithuania.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board. The Board of Directors and the Managing Director are also responsible 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.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the Corporation or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion.

Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

OTHER REPORTING REQUIREMENTS

—

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors. Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. Our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the report of the Board of Directors, we are required to report that fact. We have nothing to report in this regard.

Report on the other requirements

In accordance with the Terms of Engagement our audit also included a review 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, 8 March 2018

Marcus Tötterman

Authorised Public Accountant

KPMG Oy Ab
Töölönlahdenkatu 3A
00100 Helsinki
Finland

Anders Tagde

Authorised Public Accountant

KPMG AB
Vasagatan 16
111 20 Stockholm
Sweden

Statement by the Control Committee

STATEMENT BY THE CONTROL COMMITTEE OF THE NORDIC ENVIRONMENT FINANCE CORPORATION ON THE AUDIT OF THE ADMINISTRATION AND ACCOUNTS OF THE CORPORATION

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 2017, 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 8 March 2018, at which time we also received the Auditors' Report submitted on 8 March 2018 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 as at 31 December 2017 provides a true and fair view of the financial position as at December 31st 2017, as well as on the result of the operations and cash flows during year 2017. In accordance with the statement of comprehensive income the profit for 2017 amounts to EUR 483 228.

We recommend to the Nordic Council of Ministers that:

- the result for year 2017 will be treated as proposed by the Board of Directors,
- statement of comprehensive income and statement of financial position will be adopted, and
- the Board of Directors and Managing Director will be discharged from liability for the administration of the Corporation's operations during the accounting period examined by us.

Helsinki, 8 March 2018

Jan-Erik Enestam, Chairman
Staffan Danielsson
Vilhjálmur Árnason
Arto Pirttilahti
Sjúrður Skaale
Michael Tetzschner



CASE STUDY 5

Ukraine Implementation of energy- efficiency measures in public buildings

Grant agreements with the cities of Druzhkivka, Pershotravensk and Svatove for energy-efficiency measures in public buildings were signed in 2017. The projects will be financed by the Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU). All the projects aim to improve the environment for the schoolchildren and to reduce the energy consumption of the cities. The projects are expected to reduce the CO2 emissions by approximately 1,000 tonnes annually. Altogether, almost 2,600 schoolchildren will benefit from the planned repairs. NEFCO has financed 25 projects in 20 cities and approved financing for EUR 12 million since the establishment of the NIU funding programme in 2014.

**NEFCO INVESTMENT
FUND – IF (15)**

Energy efficiency in public buildings in Lutsk, Ukraine

Land-based fish-farming with ecological water recirculation in Latvia

Infrastructure Fund for public and private environmental projects in the Baltic countries

Modernisation of a hotel building (LEED-certified) in Odessa, Ukraine

Facility for renewable energy and energy efficiency projects in Armenia

Introduction of sustainable solutions and production of energy efficient equipment in Russia

Energy efficiency in public buildings in Georgia

Production of solar power in Ukraine

Collection and recycling of waste oil in Russia

Rehabilitation of the district heating system in Horishni Plavni in Ukraine

Production of solar power in Lviv region of Ukraine

Production of solar power in China

Introduction of sustainable solutions and production of energy-efficient equipment in China

Modernisation of industry processes in Russia

Credit line to finance Nordic deliveries in NEFCO's countries of operation

**NORDIC ENVIRONMENTAL
DEVELOPMENT FUND
– NMF (3)**

Support for costs incurred guaranteeing, project managing and preparing for the Ukraine Higher Education project

Support for project origination and implementation for public and private projects

Financing of guarantee fees for municipal projects in Ukraine

**ENERGY SAVINGS
CREDITS – ESC (9)**

Energy efficiency measures in budget buildings in the City of Kamianske, Ukraine

Energy efficiency measures in the street lighting system in Bila Tserkva, Ukraine

Energy efficiency measures in two educational buildings in Chortkiv, Ukraine

Energy efficiency measures in an educational facility in Baranivka, Ukraine

Modernisation of street lighting in Balakleya, Ukraine

Modernisation of street lighting in Pokrov, Ukraine

Energy efficiency measures in a school and modernisation of street lighting in Kropyvnytskyi, Ukraine

Modernisation of street lighting in Bilhorod-Dnistrovskyi, Ukraine

Energy efficiency measures in a kindergarten in Nikopol, Ukraine

CLEANER PRODUCTION FACILITY – CPF (4)

Energy efficiency measures in Mykolaiev, Ukraine

Modernisation of the district heating production in Poltava, Ukraine

Modernisation of district heating in the DWS area of Kiev, Ukraine

Modernisation of the district heating in the city of Dnipro, Ukraine

BARENTS HOT SPOTS FACILITY – BHSF (5)

Demonstration project for small-scale waste management in remote settlements in Kenozero, Archangelsk

Demonstration project for full-scale integrated waste management in Severodvinsk, Archangelsk

Survey for existing small wind power installations in Archangelsk

Survey for oil pollution in Katunino in Archangelsk

NDEP & Black Carbon support for project development in one pilot region in Barents

NORDIC PROJECT FUND – NOPEF (70)

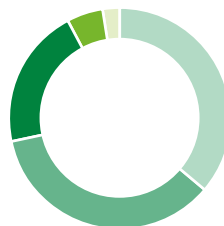
ARCTIC COUNCIL PROJECT SUPPORT INSTRUMENT – PSI (6)

BALTIC SEA ACTION PLAN – BSAP (2)

PROGRAMME FOR ENVIRONMENT AND CLIMATE COOPERATION – PECC (9)

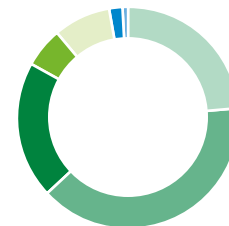
INVESTMENT FUND

Distribution by sector



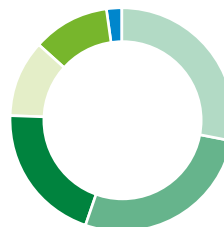
- Energy 36.1 %
- Industry 36.6 %
- Water 20.7 %
- Agriculture 5.5 %
- Waste 2.2 %

Distribution by project country



- Ukraine 23.7 %
- Russia 39.4 %
- Baltic States 20.0 %
- Belarus 5.8 %
- Poland 8.4 %
- Georgia/Moldova 1.9 %
- Slovakia & Czech Rep. 0.8 %

Distribution by Nordic country



- Sweden 28.3 %
- Finland 27.2 %
- Denmark 20.2 %
- Nordic 11.2 %
- Norway 11.1 %
- Iceland 2.0 %

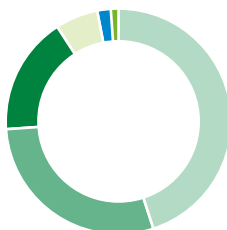
NORDIC ENVIRONMENTAL DEVELOPMENT FUND (NMF)

Distribution by sector



- Energy 41.0 %
- Industry 28.0 %
- Water 13.0 %
- Waste 11.0 %
- Agriculture 7.0 %

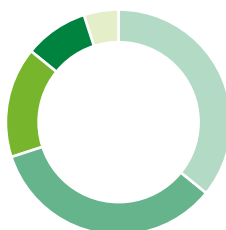
Distribution by project country



- Russia 45.0 %
- Ukraine 29.0 %
- Baltic States 17.0 %
- Belarus 6.0 %
- Other 2.0 %
- Poland 1.0 %

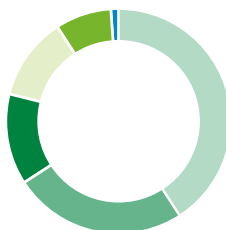
NORDIC PROJECT FUND (NOPEF)

Distribution by sector



- Industry 36.0 %
- Energy 34.0 %
- Agriculture 16.0 %
- Water 9.0 %
- Waste 5.0 %

Distribution by region



- Asia 41.0 %
- North America 25.0 %
- Europe 13.0 %
- Africa 12.0 %
- South America 8.0 %
- Australia 1.0 %





CASE STUDY 6

South Africa Innovative plastic recycling from the fishing industry

The Danish company Plastix A/S has developed an innovative solution related to plastic recycling and is a forerunner in its field and when it comes to circular economy. The market is today dominated by so-called virgin plastics. Plastix is, however, able to produce its green plastic with up to 95% less emissions compared to production of virgin plastics.

Plastix has developed a technology to recycle old fishing nets and trawls as well as plastic fibre and rigid waste plastic to make new plastic 'granulate' material for the plastics industry. The company delivers its material to all types of plastic producers. Currently Plastix is developing the possibility to reuse more plastic waste that needs to be processed and a broader assortment of plastic raw material, as the demand for recycled plastic raw material is increasing.

Plastix has registered a local subsidiary in South Africa reTrawl South Africa Ltd with the aim of obtaining plastic raw material, such as discarded nets, trawls and other fishing gear, from the South African market. It was established following a feasibility study that was co-financed by Nopef.

17

NEFCO in numbers 2017

Approved projects:

123



Worth EUR

50.8 million

Total value of funds
administered in 2017 EUR

466 million

New investments
in 2017 worth EUR

38.5 million



Approved renovations for
school buildings and day-care
centres that will benefit over

41,000

children, teachers and visitors



Approved energy-
efficiency measures
to be installed in

74

public buildings



NEFCO's
projects were
approved in

37

countries



At the end
of 2017 NEFCO
administered

35

funds

Personnel and Board members

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PHOTOS: PATRIK RASTENBERGER

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