Nordic Environment Finance Corporation

Annual Report 2015

NEFCO

Contents

This is a translation from the original Annual Report in Swedish. In the unlikely event of a disagreement in interpretation, meaning or otherwise, the original Swedish version shall prevail.

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Report from the board of directors 2015

Over the year, the countries of operation 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 company had at the end of 2015 a total of 55 active projects, where commitments amounted to EUR 159.8 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.

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In the 55 active Investment Fund projects, NEFCO's commitment amounts to EUR 159.8 million.

The Investment Fund

During the year, the Board of Directors approved ten new investments including additional financing for a previously-approved project. In addition, 12 so-called indications of interest, i.e. an initial approval in principle of a project for further consideration, were approved.

In 2015, NEFCO was able to finalize two projects. A district heating project in Russia and a furniture manufacturing project in Ukraine. NEFCO has as of 2015 completed a total of 75 projects with its commitment amounting to EUR 90.2 million in total. During the year, three projects, which were no longer deemed to have the conditions for being realized in the manner planned, were discontinued.

Thus a total of 55 active projects approved by the Board of Directors remain, 34 of which have been agreed. In the other 21 cases, negotiations or investigations are ongoing. NEFCO's exposure in these 55 projects is EUR 159.8 million in total, while the total investments in these projects amount to approximately EUR 780 million, which gives evidence of a considerable leverage effect. The greater part of NEFCO's resources are thus allocated, even though the Report on Financial Position states that the total investments amount to EUR 60.8 million (net after amortizations and write-downs), which is a minor increase as the corresponding figure at the end of 2014 was EUR 53.4 million.

In the 34 agreed projects, NEFCO's exposure amounts to EUR 91.0 million and the total investment in these projects is approximately EUR 601 million.

NEFCO has invested equity in 11 of the projects. In three of these, a loan from NEFCO has also been given. In 20 cases, the exposure exclusively consists of loans. The performance in the 34 agreed companies was on average satisfactory. With regard to results, based on the different companies' annual accounts as per 2014, 13 projects showed a profit and 13 showed a loss, while operative activities have yet to begin in eight.

The new investments are spread over a number of sectors. One of the new projects is a loan programme for environmentally friendly equipment in the transport sector, one project is manure handling on a pig farm, one is sludge treatment from sewage, two projects are on energy efficiency with biofuels and a further four projects are on energy efficiency measures in the public sector and within district heating.

MANAGEMENT ASSIGNMENT

Nordic Environmental Development Fund

NEFCO has managed the Nordic Environmental Development Fund (NMF) by request of the Member States since 1996. The NMF is funded through annual contributions from the Nordic countries and the Nordic Council of Ministers. The aggregate framework for funds for the NMF amounted at the end of the year to EUR 78.1 million. The NMF is administered by NEFCO, and NEFCO's Board of Directors decides on allocations of funding from the NMF. The Nordic Investment Bank (NIB) participates in the project evaluation.

Since 2010, the revolving loan facilities are managed through a separate fund, NMF Credits, which was established using funds from the NMF. Separate annual accounts are produced for the NMF and NMF Credits funds.

During 2015, 26 new projects were given final approval through the NMF and NMF Credits, including additional funding to two previously approved projects; of these, 12 are within the framework of the loan programme for energy efficiency projects and nine projects fall under the cleaner production program.

From NEFCO's programme for energy savings a total of 90 projects have been approved and from the cleaner production loan programme a total of 101 projects have been approved.

All in all there are 270 completed, agreed and approved projects (including two indications of interest) taking into account the specific projects within both NMF and NMF Credits. Thus, of the current total framework for funds, EUR 67.3 million have been utilized.

The Nordic Project Fund and the Nopef Trust Fund

The Nordic Project Fund (Nopef) was established by the Nordic countries in 1982 with the aim of reinforcing the international competitive strength of Nordic companies through support for feasibility studies and export projects. As of 1 January 2014, Nopef is administered as a trust fund (Nopef TF) by NEFCO. Nopef TF is financed by annual budgetary funds from the Nordic Council of Ministers. During 2015, EUR 2.8 million was allocated to the fund. In 2015, financing for 73 projects was approved at a total value of EUR 2.4 million.

Barents Hot Spots Facility

NEFCO has managed the Barents Hot Spots Facility (BHSF) since 2004. The BHSF is funded with contributions from the Nordic countries and with funds from the Nordic Environmental Development Fund (NMF) and is primarily intended for project development. The intention is, together with the relevant Russian authorities and project owners, to pursue the prioritized environmental issues ('hot spots') identified in north-western Russia in the report that NEFCO in collaboration with the AMAP (the Arctic Council's monitoring and assessment programme for the Arctic environment) originally presented in 2003. The fund's equity amounts to EUR 6.7 million. Funding has been allocated from the BHSF to a total of 71 different preliminary studies and preparatory measures for projects, 51 of which have been completed. The BHSF is also co-financing an advisor on issues of climate, environment and 'hot spots' at the International Barents Secretariat in Kirkenes.

Arctic Council Project Support Instrument

Since 2005, NEFCO has administered the project preparation fund Arctic Council *Project Support Instrument* (PSI). The PSI is intended for project development and preparation and demonstration projects primarily for projects identified in the Arctic Council's Arctic Contaminants Action Programme (ACAP). Finland, Iceland, Norway, Russia, the Sami Parliament, Sweden and the U.S.A. are the contributors. The fund's activities began in 2014, and up until now funding has been allocated to 12 projects by the PSI.

NEFCO'S climate funds (NEFCO Carbon Finance and Funds - CFF)

NEFCO has managed the Baltic Sea Region Testing Ground Facility (TGF) climate fund, which was established in connection with the Baltic Sea region's testing ground for so-called joint implementation (JI), one of the mechanisms under the Kyoto Protocol, since 2003. The purpose of the fund was to purchase cost-efficient reduction units from energy-related and other projects for its investors. TGF was the first multilateral *public-private* climate fund outside of the World Bank group. The fund's total equity was, at its greatest, EUR 35 million. The fund ended its investment phase in 2012, when the commitment period of the Kyoto agreement ended, and the fund was liquidated in February 2015. An accumulated total of 2.63 million emission rights, distributed to the investors, were delivered through the fund.

NEFCO also manages the global climate fund NEFCO Carbon Fund (NeCF) since 2008. The aim of the NeCF is to finance environmental projects that meet the Kyoto Protocol's requirements on so-called joint implementation (JI) or the mechanism for clean development (CDM). The fund's total equity today is EUR 66.4 million. At the end of 2015, the NeCF had 15 active purchase contracts for emission reductions, and the fund was able during the year to deliver 0.3 million credits that were distributed to the fund's investors.

In 2013, the NEFCO Norwegian Carbon Procurement Facility (NorCaP) was established. The fund is financed with Norwegian funding and its primary aim is to procure emission rights during the second commitment period of the Kyoto Protocol (2103-2020). NorCaP will procure up to 30 million credits from UN-approved projects where there is a risk that the project is discontinued due to the low market prices for credits. NorCaP reached its goal of 30 million credits at the end of 2015.

At the end of 2015, a total of 11.5 million emission credits, distributed to the investors, were delivered through NEFCO's climate funds, the TGF, NeCF and NorCaP.

The Nordic Climate Facility (NCF), which is financed by the Nordic Development Fund (NDF), was established at the end of 2009. The fund finances climate projects in the poorest countries of Africa, Asia and Latin America and supports innovative collaboration between Nordic organizations and companies in climate-related areas. The activities have been successful and the fund has been extended several times. Projects financed during the four initial rounds of tenders are administered by NEFCO, whilst NCF's fifth and future rounds of tenders are administered by NDF.

In order to develop the climate financing opportunities, NEFCO is responsible for a pan-Nordic project together with the Nordic task force for global climate negotiations (NOAK) regarding a sector programme (Nationally Appropriate Mitigation Actions - NAMA's) in the waste sector in Peru. The project, which is a sub-project within the *Nordic Partnership Initiative* (NPI), completed its final phase in August 2015.

Other management assignments

In addition to the above-mentioned funds, NEFCO also manages a number of other external funds. These are of the 'trust fund' type, i.e. funds where funding is provided for a specific purpose or project specified by the donor, but where NEFCO is responsible for the utilization of the funds.

Finnish, Norwegian and Swedish grants are allocated for the analysis, preparation and follow-up of environmental projects. NEFCO also manages Norwegian funding for water management in the Kenozero National Park in Russia, for measures against pollution from oil-polluted water in the Barents area, to support environmental and energy rationalization projects in ODA-approved OSCE countries, Russia and the Arctic, a preparatory study regarding polluted forests in Belarus, funding for co-financing with the Barents Hot Spots Facility for the identification, development and follow-up of projects, and funds for the Norwegian initiative to support the Ukrainian gas reform. Swedish funding has been allocated for collaboration in the area of district heating with the Ukrainian government and for the preparation of environmental projects within the Baltic Sea Action Programme (BSAP) and/or the NDEP, for an environmental project on the Solovki Islands in the Russian Barents Sea and for environmental efforts in the Kaliningrad region. Further Swedish funding has been added for projects that reduce SLCF emissions, for demonstration projects in district heating in Ukraine and for a joint Nordic initiative with the aim of creating conditions for emission reduction programmes in developing countries, along with a pilot study in Ukraine on household waste as an energy source. Swedish, Norwegian and Finnish funding has also been allocated for the Nordic initiative, which has received support from the Nordic foreign ministers, with the aim of financing the renovation and construction of municipal buildings in the affected areas of Ukraine. In addition, Finland and Sweden have allocated funds to the development and financing of a demonstration project for the destruction of ozone-degrading substances through the market for voluntary carbon credits. Finnish and Swedish funds have also been allocated in order to, together with the NIB, administer a project development fund for the support of the realization of the Baltic Sea Action Plan. In addition, Finland has allocated funds to finance turnkey, mobile buildings in Ukraine, whilst Denmark has allocated funds to support energy efficiency and sustainable energy development in Georgia. NEFCO also manages funds allocated by the USA for financing project development and preparation of specific projects as identified by the Arctic Council. NEFCO has furthermore been commissioned to administer funds from the NDEP to three separate projects and funds from E5P for four projects. NEFCO produces special accounts for all external funds.

For these other management assignments, the various contributors have allocated a total of EUR 75.9 million. The contributions for completed management assignments amount to EUR 82 million.

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.

Helsinki, 3 March 2016

Søren Bukh Svenningsen
Chair

Ann-Britt Ylinen
Vice Chair

Harald Rensvik

Jessica Andersson

Danfríður Skarphéðinsdóttir

Magnus Rystedt
Director

02

Environmental status report 2015

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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

NEFCO makes use of funding provided by a variety of donors. The present report addresses activities within the framework of the Investment Fund and the Nordic Environmental Development Fund (NMF). The Investment Fund, which has the larger resource base of the two, is divided into four environmental sectors: water and wastewater management, energy, industry and waste. The environmental benefits of the credit facility for cleaner technology administered by NMF are reported separately.

The main aim of NEFCO's operations is to contribute to a reduction in pollutants originating in eastern Europe, i.e. projects that will result in reduced discharges into the Baltic Sea or Barents Sea, or those resulting in reduced transboundary and global air pollution. As projects having a major impact on the Nordic region are given priority, the efforts focus on protecting water and air quality.

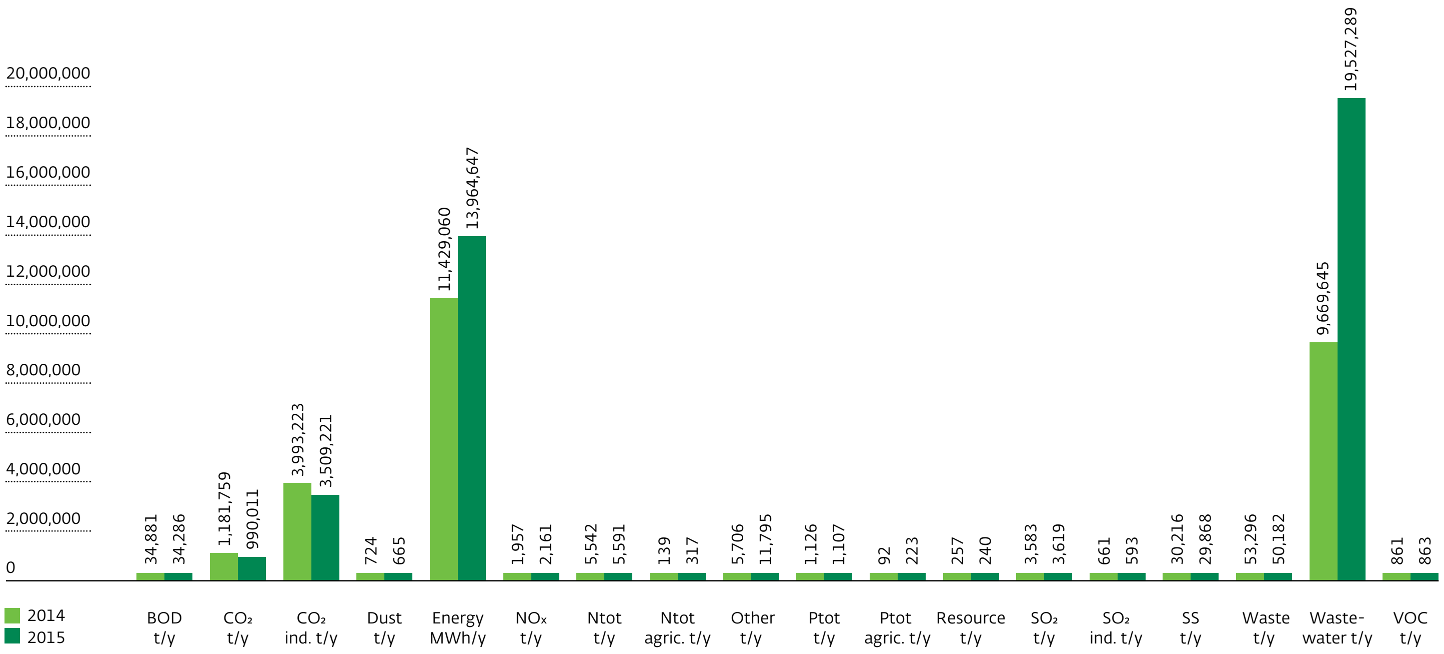
When NEFCO considers projects for support, it assesses their expected environmental benefits and projects with distinct and direct benefits are prioritized. In principle, any measures that can help to reduce the burden on the environment, such as improved treatment capacity or advanced industrial processes, 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 the most cost-effective.

Typical projects include:

- Modernisation of industrial and power plants that will bring environmental benefits to the Nordic region and the surrounding seas;
- partnerships with municipal and other authorities to deliver environmental services such as water treatment;
- companies that manufacture environmental equipment (such as emission control equipment, measuring instruments and water treatment equipment) and equipment to increase energy efficiency; or companies that provide services in the environmental and energy fields and thereby contribute to creating a better basis for the implementation of environmental initiatives;
- over the past few years, attention has also been drawn to animal husbandry and agriculture since large animal populations create the need to handle manure in an environmentally sustainable manner, for example by constructing facilities for the production of biogas.

Environmental benefits gained in projects that have been completed or in which NEFCO's involvement has ceased are shown in Figure 1 for total emission reduction. For purposes of comparison, the data are shown as reductions or savings per annum.

Figure 1 NEFCO: Total reductions



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 in post-evaluation been found 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.

Even though the favourable effects of a project are felt for a number of years after the repayment of the loan, a reasonable technical depreciation period should be afforded for investments. In its environmental monitoring, NEFCO applies an annual depreciation rate of 5% on all actual reductions as of the beginning of the year following final repayment. This method was first applied in 2011. As a result, depreciation charges have accumulated for NEFCO's closed projects, decreasing reductions as of 2010.

The result for CO_2 for 2015 is somewhat lower compared to the result for 2014, which has to do with the fact that emission reductions have slightly decreased in the Investment Fund (Figure 2). Both direct and indirect CO_2 emissions have dropped. The lower reduction of indirect CO_2 emissions seen in Figure 2 is due to the fact that biofuel boilers above ten years old are not included in the reporting. The significant difference in wastewater is due to the fact that discharges from a key client are missing in the report from 2014. The discharges would otherwise be at around the same level for 2014 and 2015.

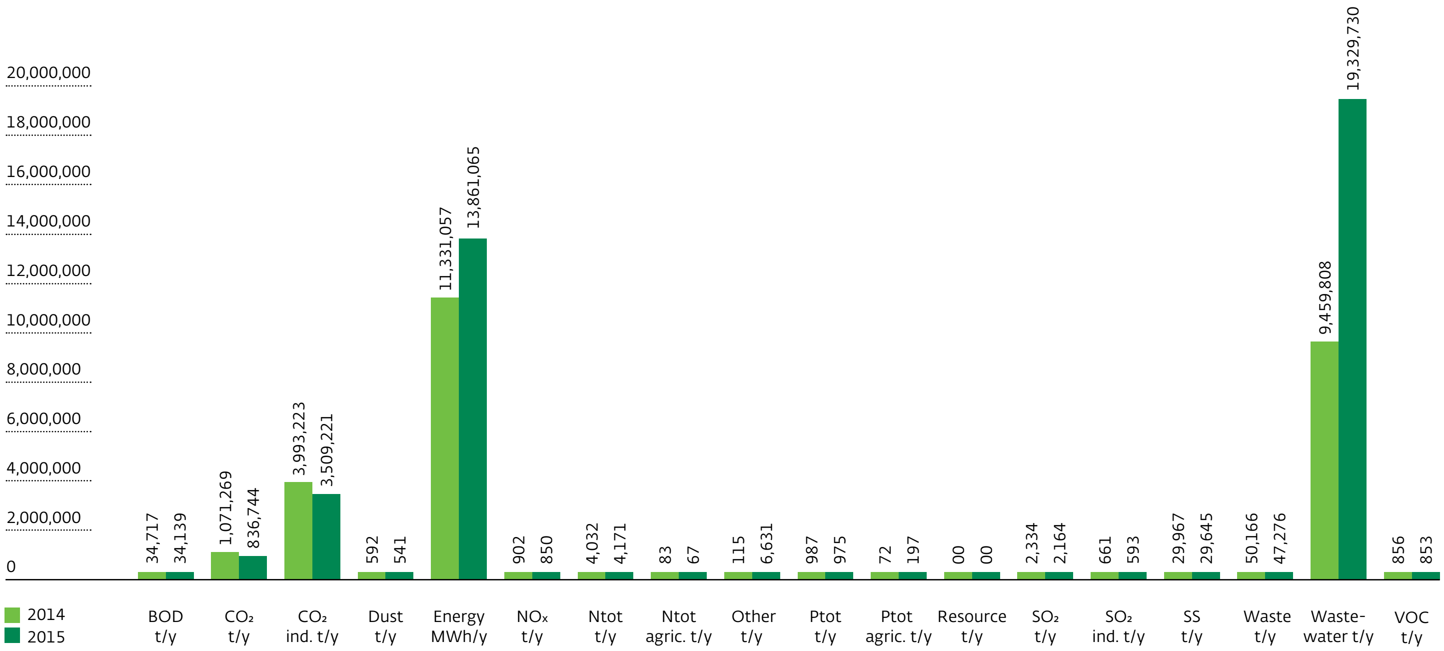
Performance in the water and waste management, energy, industrial, and waste sectors are shown in specific sections below. Emission reductions associated with the NMF and projects within the Cleaner Production Facility (CPF) are presented at the end of this environmental status report.

Water and wastewater management

Most of all untreated municipal sewage water into the Baltic Sea from the Baltic countries comes from small and medium-sized municipalities. In connection with accession to the EU, the water and sewage sector in the Baltic countries had high priority and have thus been upgraded in order to better meet the environmental requirements EU membership entails. This work has now been completed, but continued efforts to improve the treatment capacity of smaller towns are being made in north-western Russia.

The positive effects that are being prioritised are acceptable quality of drinking water and an increased degree of connection and, above all, reduced discharges of biochemical oxygen demand (BOD), phosphorus and nitrogen to water, primarily into the Baltic Sea.

Figure 2 Investment Fund: Total reductions



NEFCO's industrial projects aim at improving resource efficiency in order to reduce emissions to air, soil and water.

Work is continued along with the efforts to achieve further reductions under HELCOM's Baltic Sea Action Plan in Kaliningrad and Leningrad Oblast as well in Belarus.

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 continued largely to progress well during 2015, but its importance in NEFCO's portfolio is on the decline.

Energy

The combustion of fossil fuels produces acidifying emissions, CO_2 (which contributes to the greenhouse effect), and emissions of hydrocarbons, dust, and heavy metals, among others. More efficient energy production and conversion to less polluting fuels leads to reduced atmospheric emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_x), CO_2, heavy metals, and dust from combustion processes.

All of NEFCO's energy projects aim at improving energy efficiency in order to generate positive effects for the environment. Typical goals for these projects include a general reduction in energy consumption, more efficient production and/or conversion to less polluting fuels.

Where quantitative targets have been set, reductions have been measured, as shown in Figure 4.

Within the energy sector, the reduction of carbon dioxide emissions in 2015 decreased in comparison with 2014. The sector on the whole shows a positive result regarding the reduction of CO_2. Energy savings increased, however, due in part to non-reporting by a customer in 2014. Energy savings were otherwise at around the same levels as 2014. The wind power projects that NEFCO participated in have continued to work well. In general, no other major changes in reductions have taken place during 2015.

Industry

Industrial activity impacts on the environment in a number of ways:

- the extraction of raw materials has a physical impact on the environment;
- emissions affect air, land, and water;
- the manufacture of certain goods such as chemicals can be environmentally harmful;
- landfill sites pollute groundwater through various types of leakages, and many end-products tend to burden landfill sites at the end of their lifecycle;
- some industries cause odours and create noise; and
- industrial buildings and roads have an impact on the landscape and plant and animal habitats.

NEFCO's industrial projects aim at improving resource efficiency in order to reduce emissions to air, soil and water. Environmental bene-

Figure 3 Investment Fund: Water and wastewater sector

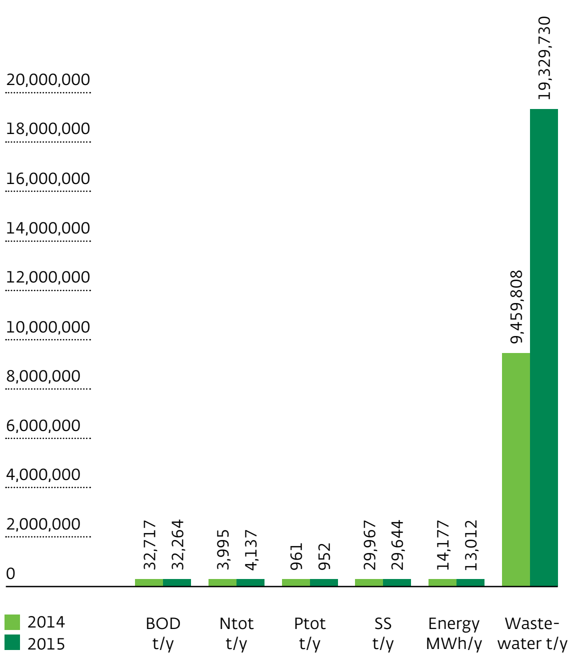
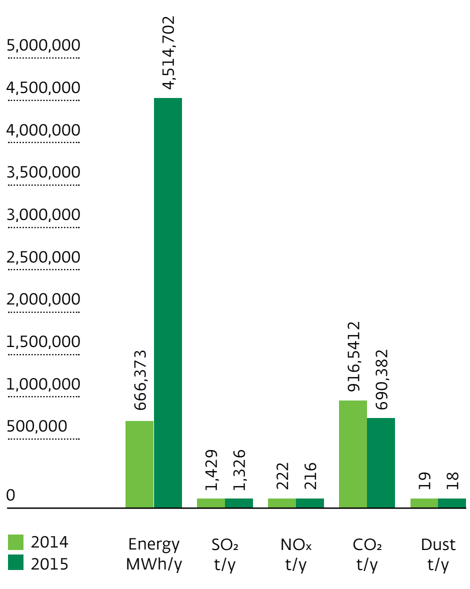


Figure 4 Investment Fund: Energy sector



fits can be achieved as a direct consequence of investments but also indirectly as NEFCO supports companies manufacturing environment-related products, such as water cleaning agents and insulation materials. In these cases, the benefits are only felt at the consumer level.

Compared to 2014, the reduction of indirect CO_2 reduced in 2015. NOx and SO_2 reductions also reduced slightly. The latter also applies to the direct reductions of CO_2. This partly is due to non-reporting. The amount of reduced waste in 2015 was higher than in 2014. Several of NEFCO's industrial projects have been negatively affected by the sanctions and the political situation in Russia as well as the weak economy in Ukraine. Industrial sector results can be seen in Figure 5.

Waste

Waste causes a range of environmental problems:

- Toxins and other pollutants escape from landfill sites into air, soil, and water;
- Waste incineration causes air pollution;
- Waste management involves extensive transportation; and
- Waste depletes natural resources if not recycled.

The overall aim of NEFCO's participation in waste projects is to minimise the amount of waste and to deal with the ever-increasing quantities of waste in improved ways, e.g. through sorting, re-use, and/or recycling. These projects target both household and industrial waste, which can include paper, plastics, chemicals, and heavy metals.

The latest waste projects in NEFCO's portfolio include the landfill gas project in Belarus. No new waste projects have been started in 2015, even if resources have been actively allocated to the Barents region, amongst others.

Nordic Environmental Development Fund

Financing from the Nordic Environmental Development Fund is used to support specific environmental projects in the regions neighboring the Nordic countries. The goal is to attain environmental benefits by enhancing the potential profitability of high-priority environmental projects, facilitating financing with higher risk, advancing the completion of projects, or by attracting additional environmental investments. This support is intended to complement bilateral initiatives.

Compared with 2014, a fall in the rate of reduction in CO_2 emissions can be noted (Figure 7). The trend is the same for atmospheric emissions of NOx. For the nutrients nitrogen and phosphorus, it can be established that reductions have reduced compared to 2014. The reduced amount of treated wastewater may be assumed to be behind the increased reduction of nutrients.

Cleaner Production Facility

Cleaner production aims at reducing industrial pollution through improved resource and

Figure 5 Investment Fund: Industrial sector

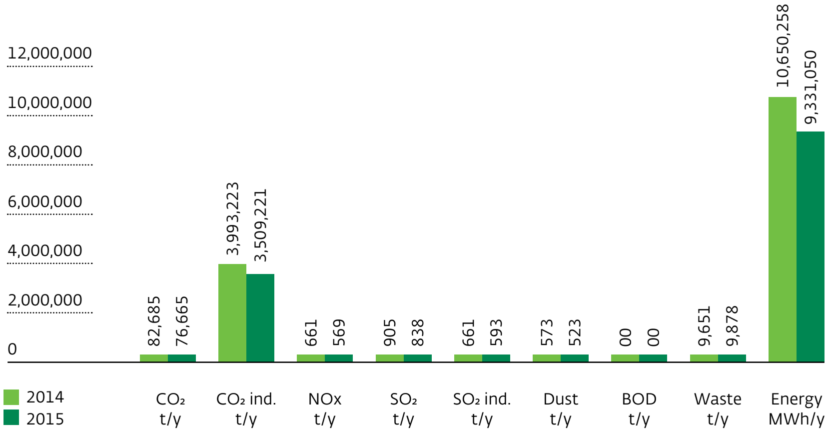
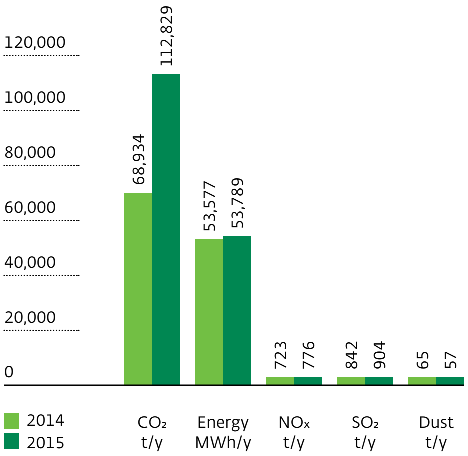


Figure 6 NMF: CPF - Reduction of emissions to air



energy efficiency, process modifications, and reduced wastage. The overriding objective of this financing facility is to use a series of positive examples of 'win-win' projects to instill a mindset that is compatible with sustainable development in industry and other forms of production. The starting point for each project approved under the scheme is that it should bring about clear and measurable environmental benefits.

Investments in cleaner technology result in real reductions in emissions and/or waste. More environmentally friendly production and consumption are achieved through, for example, the use of less resource-intensive processes. Priority is given to projects that provide environmental benefits to the Nordic region, i.e. projects that will result in reduced discharges into the Baltic Sea or Barents Sea, or those resulting in reduced transboundary and global air pollution. In particular, small and medium-sized private companies have helped to reduce emissions to air and water by making investments in cleaner technology in their processes.

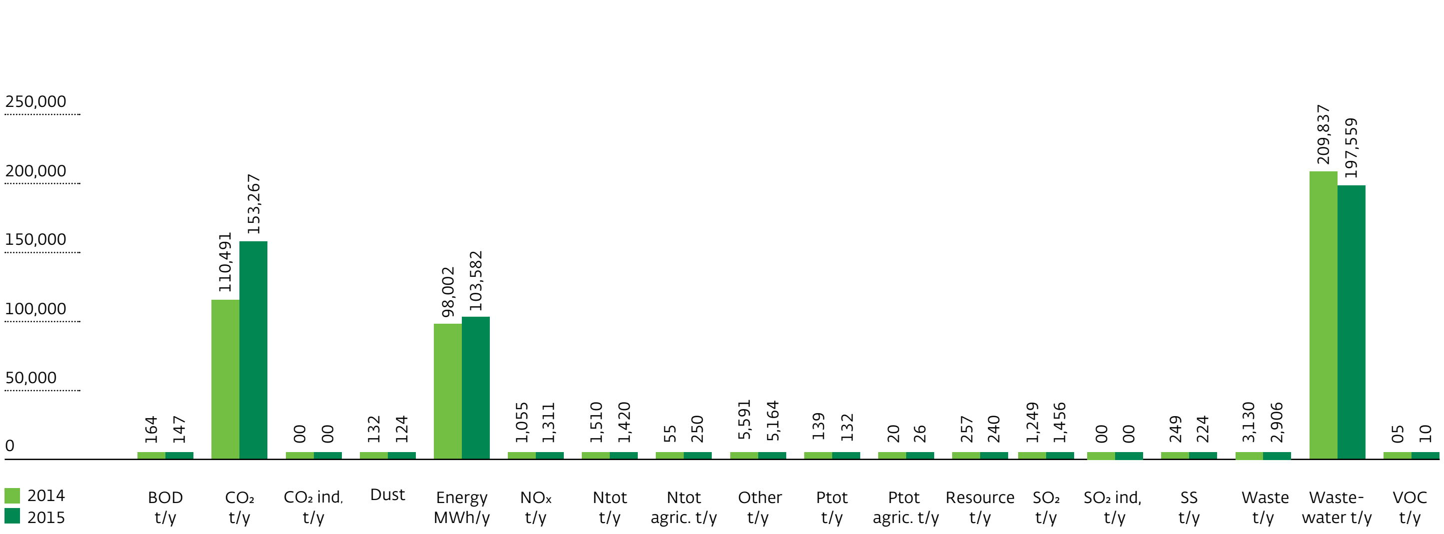
Selected parameters relevant to environmental benefits are presented below, where quantitative results have been reported. It can be generally noted that there are positive differences in the reduction of energy compared with 2014. For all indicators, improved reduction has been achieved. As the economic downturn continues, interest in small loans by type of cleaner production has increased. A contributing factor to the success of these soft credits and improved reporting is the local presence in some of NEFCO's target countries. Access to cheap energy is no longer to be taken for granted by many small companies, which has meant increased interest in energy-saving measures.

NEFCO's management of carbon credit funds

NEFCO manages two carbon credit funds: NEFCO Carbon Fund (NeCF) and NEFCO Norwegian Carbon Procurement Facility (NorCaP). NeCF has consolidated its operations and reduced its active procurement as a consequence of the 2011/2012 price collapse, with the exception of specific procurement as commissioned by Norway in 2015. Through its already-agreed projects, NeCF is expected to continue to reduce CO_2 emissions by around 490,000 tCO_2eq annually. In addition, NEFCO has administered the NorCaP fund since 2013, as financed by Norway. The primary objective with this fund is to purchase emission rights from registered CDM projects and under the condition that the project risks being discontinued due to the low CER prices. This is expected to result in a considerably larger reduction of CO_2 in coming years. The latest NorCaP calculations for delivery of emission rights clarifies that a volume of around 31 million emission rights will be supplied during the period 2014–2021, i.e. an estimated average annual volume of 4.42 million tCO_2eq.

NEFCO 18 February 2016
Karl-Johan Lehtinen, Anja Nystén

Figure 7 NMF: Total reductions



Financial statement

03

Statement of comprehensive income

1 January - 31 December

(Amounts in EUR)	Notes	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	(1)	-631,923	435,788
Other income		4,551,702	4,457,558
Total income		**7,047,730**	**8,007,797**
Operating expenses			
Administrative expenses	(2), (3), (4)	5,762,254	6,012,532
Depreciation and write-down in value of tangible and intangible assets	(9)	27,944	15,037
Foreign exchange gains and losses		318,222	1,593,009
Impairment of loans / reversals	(6)	-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**

Statement of financial position

31 December

(Amounts in EUR)	Notes	2015	2014
ASSETS			
Cash and cash equivalents	(5)	2,748,672	3,251,257
Placements with credit institutions	(5)	82,572,702	86,949,216
Total, cash and cash equivalents and placements with credit institutions		**85,321,374**	**90,200,473**
Debt securities	(5)	10,206,336	10,123,969
Investment assets	(7)	14,786,544	15,417,324
Other placements	(8)	3,571,579	3,627,224
Loans outstanding	(6)	42,399,697	34,329,160
Other receivables	(6)	309,194	1,671,312
Accrued interest	(6)	772,252	908,254
Intangible assets	(9)	8,950	10,616
Tangible assets	(9)	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	(10)	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**

05

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**

06

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.

07

Notes to the financial statement

GENERAL OPERATING PRINCIPLES

The operations of the Nordic Environment Finance Corporation (hereinafter the Corporation or NEFCO) are governed by an agreement that was made on 6 November 1998 between the governments of Denmark, Finland, Iceland, Norway and Sweden and related statutes, which replaced the previous agreement of 2 March 1990 regarding the formation of the Corporation on 9 October 1999. This agreement both strengthened the Corporation's status as a multilateral institution, as well as its legal position.

NEFCO's role is to promote investments of Nordic environmental interest in Eastern Europe by helping to finance companies in these countries.

The Corporation is an international legal person with full legal capacity and is exempt from payment restrictions and credit policy measures in the member countries. In addition, the 1998 agreement contains immunity provisions exempting the Corporation from all taxation.

The Corporation operates in the Nordic Investment Bank's premises at Fabianinkatu 34, Helsinki.

The Corporation also manages *trust funds* on behalf of various principals.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis for preparing the financial statements

The Corporation's financial statements have been prepared in accordance with the *International Financial Reporting Standards* (IFRS) issued by the *International Accounting Standards Board* (IASB). The accounts of the Corporation are kept in euro.

The Corporation's financial statements are presented in euro. With the exceptions noted below they are based on historical cost.

Assessments made in preparing the financial statements

In preparing the financial statements, the management is called upon to make estimates that have an effect on the reported result, financial position and other disclosures. These assessments of impairment of loans and the fair value of the investments are based on the information available to the management (Notes 6–8). Actual outcomes may deviate from the assessments made, and these deviations may be significant in relation to financial statements.

As with investment companies, the company management has decided to report all investments in other companies at fair value via the statement of comprehensive income instead of consolidating the investments in accordance with the equity method or as holdings in subsidiaries, as NEFCO can be considered as meeting the criteria that are characteristic of an investment company in accordance with IFRS 10.

Foreign currency translation

Monetary assets and liabilities in currencies other than the euro are converted at the exchange rates published by the European Central Bank at the balance sheet date (see Note 12). Realised and unrealised exchange gains/losses are recognised separately in the statement of comprehensive income under 'Foreign exchange gains and losses'. Non-monetary assets are converted at the exchange rate applied on the transaction date.

Cash and cash equivalents

Cash and cash equivalents comprise monetary assets and placements with an original maturity of up to six months.

Placements with credit institutions

NEFCO invests its short-term liquidity, which is primarily in euros, with credit institutions, preferably Nordic banks.

According to IAS 39, placements with credit institutions are classified as held-to-maturity financial assets and recognised at cost (normally nominal value) on the settlement date. These placements are carried at amortised cost in the annual financial statements. Accrued interest on these placements is recognised as 'Accrued interest' in the statement of financial position. Due to the short maturities of these placements, the difference between their fair value and book value including accrued interest is not significant.

Lending

Loan receivables are recognised in the statement of financial position on the transfer of funds to the borrower. Loans are initially recognised at historical cost as determined by NEFCO to reflect the fair value inclusive of any transaction cost. Loans outstanding are carried at amortised cost after deductions for any impairment losses.

Loans to public-sector borrowers are issued primarily against municipal risk, while loans to private-sector borrowers are generally secured by a lien on the company's assets or with a negative pledge clause and other financial covenants.

In the absence of a relevant market interest rate reflecting the loan terms, it has not been possible to calculate the fair value reliably for disclosure in the Notes. However, NEFCO is of the opinion that fair value is not lower than book value.

According to IAS 39, loans outstanding are classified as loan receivables.

Impairment of loans

Impairment is based on individual or collective assessment of outstanding loans. An impairment loss is booked if the management recognises a risk of the borrower not being able to meet his payment obligations. Impairment losses affect the result for the year and are recognised as a separate item in the statement of comprehensive income.

Intangible assets

Intangible assets are primarily investments in software and licenses for the development of NEFCO's *Project Registration and Information System*. The investments are carried at historical cost and amortised over the assessed useful life of the assets estimated to be 3 to 5 years. The amortisations are made on a straight-line basis.

Tangible assets

Tangible assets include inventories. Tangible assets are recognised at historical cost less accumulated depreciation and impairment. Tangible assets are depreciated on a straight-line basis over their useful life of 3 to 5 years.

Write-downs and impairment of intangible and tangible assets

NEFCO's assets are reviewed annually for impairment. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets.

Financial assets

Measurement of financial assets at fair value is carried out according to the following hierarchy based on fair value:

Level 1: Market prices quoted on an active market for identical assets.

Level 2: Valuation model based on observable data either directly (i.e. prices) or indirectly (i.e. derived from prices). This category includes assets valued using quoted market prices in an active marketplace for similar assets; quoted prices for identical or similar assets in a less active market place or other valuation method, in which all significant data can be determined either directly or indirectly in the marketplace.

Level 3: Valuation method based on data not directly observable. This category includes all assets where the valuation method includes inputs not based on observable data and the unobservable inputs have a significant effect on the valuation. If there is any objective evidence of impairment, the impairment loss is determined based on the recoverable amount of the assets.

- *Investment assets*

NEFCO's investment assets include participating interests in a number of companies. NEFCO is regarded as an investor in companies with the aim of generating positive environmental impacts in accordance with the Corporation's mandate and statutes. The primary objective is to achieve environmental benefits, not to maximise profits. However, the statutes require that the companies in which NEFCO invests are financially profitable in order to ensure that the Corporation's paid-in authorised capital remains intact.

Aside from one exception, NEFCO is a minority shareholder in all the companies. A prerequisite for NEFCO's participation is that the majority (or other) shareholder assumes responsibility for the business operations. Each new investment always involves an exit agreement setting out the conditions for NEFCO's withdrawal from the company.

Even if NEFCO's participating interest exceeds 20%, NEFCO, as an investment company, recognises such investments as financial instruments instead of using the equity method. For the foregoing reasons, the Corporation's investment assets are carried at fair value via the statement of comprehensive income.

The Corporation regularly assesses its investment assets using its own valuation model. However, the assessed fair value is greatly affected by the market conditions in the individual countries and other circumstances beyond NEFCO's control. If fair value cannot be reliably determined, the assets are carried at cost.

NEFCO's investment assets only fall under Level 3 as at 31 December 2015 (Note 7).

- *Other placements*

NEFCO's other placements include placements in the NEFCO Carbon Fund and the Nordic Environmental Development Fund as well as the emission reductions received. NEFCO's other placements are carried at fair value. Changes in fair value are recognised in the statement of comprehensive income. The Corporation regularly assesses its other placements using its own valuation model. However, the assessed fair value is greatly affected by the market conditions and other circumstances beyond NEFCO's control. If fair value cannot be reliably determined, the assets are carried at cost.

NEFCO's other placements only fall under Level 3 as at 31 December 2015 (Note 8).

Equity

Paid-in capital reached its full amount of EUR 113.4 million on 31 December 2007.

Additionally, the Corporation has built up a general reserve in equity to cover the risk of losses on loans outstanding and investment assets. This reserve is used to cover major investment or credit losses arising during the course of the Corporation's operations.

NEFCO's equity includes a provision for an Operational Fund to secure resources for the Corporation's development and for preparation of projects.

Administrative expenses

NEFCO purchases administrative services from a related party, the Nordic Investment Bank (NIB). The cost of these services is shown under 'Other administrative expenses'. The Corporation receives a host country reimbursement from the Finnish Government equal to the tax withheld from the salaries earned by its employees. The host country reimbursement is reported as a deduction from administrative expenses (Note 2).

Employee pensions and insurance

In accordance with the Headquarters Agreement between the Corporation and the Finnish Government, the Corporation is responsible for providing full pension security to its employees. NEFCO applies the Finnish state pension system in respect of its employees based in Helsinki. Pension contributions, which are paid to the Finnish State Pension Fund, are calculated as a percentage of the wage bill. The Finnish Ministry of Finance determines the basis for these contributions and the actual percentage of the contributions on the recommendation of Keva (formerly Municipal Pension Insurance).

At the end of 2015, the Corporation's pension obligations were fully covered. The normal retirement age under the Finnish pension system is currently between 63 and 68 years.

NEFCO has also a supplementary pension insurance scheme for its permanent employees based in Helsinki. This pension insurance is based on a defined contribution plan.

In addition to the applicable local social security system, NEFCO has also taken out comprehensive life, accident, health, disability and travel insurance for its employees based in Helsinki.

The Corporation has a Representative Office in Kiev, Ukraine, with four employees whose contract is based on the local terms of employment and health and safety regulations as defined in Ukrainian law.

Reclassifications

There have been some reclassifications, with the comparative figures being adjusted accordingly.

STANDARDS, AMENDMENTS AND INTERPRETATIONS

NEFCO has no transactions that have been affected by new amendments or standards during 2015.

NEFCO has not opted for early application of the following standards, amendments and interpretations.

- *Annual improvements to IFRS 2012-2014;* effective for financial years beginning on or after 1 January 2016
- IAS 1 *Presentation of Financial Statements: Disclosure Initiative;* effective for financial years beginning on or after 1 January 2016
- IFRS 9 *Financial Instruments;* effective for financial years beginning on or after 1 January 2018.
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*; effective for financial years beginning on or after 1 January 2016

NEFCO is investigating the impact of IFRS 9. The other standards and amendments are not considered to have any significant impact on NEFCO's financial statements.

MANAGEMENT OF FINANCIAL RISKS BY NEFCO

NEFCO has adopted a risk management policy that provides guidelines for reporting and monitoring the risks associated with its operations. In accordance with said guidelines, the risk management process includes an evaluation of the portfolio four times per year accompanied by country risk reports. The goal is to provide an objective on-going assessment of the portfolio risk.

The purpose of NEFCO's business is to provide risk capital and loans to finance investments in Eastern Europe that are of interest to the Nordic countries from the environmental point of view. The paid-in authorised capital—the Investment Fund—is used to finance NEFCO's investments. In addition, NEFCO has a risk reserve fund comprising approximately 21.7% of the authorised capital. The main financial risks – credit risk, foreign exchange rate risk, interest rate risk, price risk, liquidity risk and operational risk – are carefully managed and risk management procedures are closely integrated into NEFCO's business routines. NEFCO's financial investments cannot exceed the paid-in authorised capital.

Market risk

- *Foreign exchange rate risk*

Outstanding loans are denominated in euros, roubles and US dollars. Rouble-denominated lending accounts for 8.4% and dollar-denominated lending for 2.6% of all outstanding loans three of which are in roubles and one in dollars. NEFCO is exposed to a currency risk in respect of the rouble and the dollar. Risks due to exchange rate fluctuations are not hedged.

A guarantee facility for the Investment Fund rouble-denominated loans is available from the Nordic Environmental Development Fund (NMF). As at 31 December 2015, the guarantee facility had been used to a total of EUR 951,799 to cover the foreign exchange losses following the rouble's drop in value in 2014. The utilised guarantee facility reduced foreign exchange losses in 2014. The foreign exchange rate risk in respect of other activities is insignificant.

- *Interest rate risk*

Interest rate risk refers to the effect of market rate fluctuations on the Corporation's interest-bearing assets and related interest income.

Of the loans outstanding, 62.3% are floating-rate and 37.7% fixed-rate loans on which interest accrues up until the final repayment date. The distribution of loans outstanding according to the length of the interest rate fixing period is indicated in Note 11. The liquidity reserve of approximately EUR 83 million is primarily placed in bank deposits with maturity up to one year. As the maturity dates are spread across the year, the interest rate risk is distributed in such a way that any change in interest rate levels resulting from a fall in market interest rates is not immediately fully reflected in the financial result. A 0.5% fall in the annual interest rate would result in a reduction in earnings of around EUR 0.41 million. Conversely, an increase in interest rates would have a positive impact on financial performance.

- *Price risk*

The price risk associated with NEFCO's equity investments is subjected to thorough examination before presentation to NEFCO's Board for an investment decision. The maximum price risk exposure at the balance sheet date consists of the investment assets totalling EUR 14.8 million as at 31 December 2015. The cumulative risk reserves protect the Corporation's authorised capital against losses. Equity investments account for 13.0% of the authorised capital.

An indirect price risk may occur in investment in NEFCO Carbon Fund (NeCF). NEFCO is involved in projects that delivered the last emission reductions in 2013. NEFCO's investment generated a total of 84,372 emission reductions. In addition, a total of 71 emission reductions were transferred to NEFCO from the Baltic Sea Region Testing Ground Facility (TGF). However, a large proportion of the NeCF funds remain unused.

In 2014, NEFCO's Board of Directors determined that the emission reductions should be used to cancel out emissions from business travel and energy usage at NEFCO's facilities for the first 25 years and next 25 years of business operation and that remaining emission reductions will be donated through annulment to owner countries in proportion to their share of ownership. This was implemented in 2015 and as at 31 December 2015 there were no emission reductions in NEFCO's possession.

Credit risk

The credit risk associated with NEFCO's lending is subjected to thorough examination before presentation to NEFCO's Board for a lending decision. The maximum credit risk exposure at the balance sheet date consists of the amounts outstanding for loans totalling EUR 42.4 million as at 31 December 2015. The cumulative risk reserves protect the Corporation's authorised capital against losses.

Credit risk is NEFCO's main financial risk. It involves the risk that the Corporation's borrowers or other counterparties fail to fulfil their contractual undertakings and that the collateral provided as security does not cover the Corporation's claims. In accordance with NEFCO's mandate, all of the Corporation's lending can be classified as high risk. The main risk consists of lending to companies in the target countries, which accounts for 37.4% of the paid-in authorised capital. Collateral for the loans consists of local authority guarantees (13.7%) or guarantees given by a parent company or bank (11.4%) while various types of liens and charges account for 26.2%. Negative clauses and other financial commitments represent 10.4% of the total and 25.9% are loans issued to banks.

- *Liquidity risk*

The effective management of liquidity risk ensures that NEFCO can fulfil all its payment obligations as they mature. In total, 69.8% of the liquid funds and other placements with credit institutions (accounting for 75.2% of the authorised capital) consist of euro-denominated deposits with Nordic banks placed for a period of one year or less. The deposits mature at regular intervals, guaranteeing access to liquid funds when necessary. A small percentage of the liquid assets not to be used over the next few years have been invested in bonds with a maturity of five years. The plan is to hold the investment to maturity.

Status reports regarding the liquid funds are regularly presented to NEFCO's Board of Directors. NEFCO is not burdened by any substantial financial liabilities.

- *Operational risk*

Operational risk is the risk of financial loss or loss of reputation through shortcomings or failings relating to technology, the Corporation's employees or physical circumstances. Legal risk is also considered an operational risk. NEFCO's management of operational risk focuses on proactive measures designed to ensure business continuity as well as the accuracy and appropriateness of internal and external information. The main responsibility of Internal Audit is to evaluate the in-house controls, risk management and governance processes in NEFCO. Internal Audit reports on a regular basis to NEFCO's Board of Directors, Control Committee and the Managing Director. The annual internal audit activity plan is approved by the Board of Directors.

Capital management

NEFCO is not governed by any national or international regulations. The Corporation maintains an adequate capital base to cover the risks inherent in its lending and investment activities.

(1) NET RESULT OF FINANCIAL OPERATIONS

(Amounts in EUR 1,000)	**2015**	**2014**
Investment assets, realised gains and losses	21	834
Other placements, realised gains and losses	-	-
Other realised gains and losses	11	4
Total realised gains and losses	**32**	**838**
Investment assets, unrealised gains and losses	-676	-389
Other placements, unrealised gains and losses	12	-13
Total unrealised gains and losses	**-664**	**-402**
Net result of financial operations	**-632**	**436**

(2) ADMINISTRATIVE EXPENSES

(Amounts in EUR 1,000)	**2015**	**2014**
Staff costs	3,194	3,474
Pension premiums in accordance with the Finnish state pension system	679	747
Other pension premiums	168	169
Office premises expenses	253	383
Other administrative expenses	2,451	2,166
Miscellaneous administrative income	-	-4
Total administrative expenses[1)]	**6,745**	**6,936**
Host country reimbursement according to agreement with Finnish government	-983	-923
Net administrative expenses	**5,762**	**6,013**

1) The Corporation's administrative expenses include the administrative expenses for i.a. NeCF, NorCaP, NMF, NOPEF and NCF. Income from administration amounting to EUR 670,201 (2014: EUR 1,295,838) for NeCF; EUR 1,306,039 (2014: EUR 1,112,000) for NorCaP; EUR 862,623 (2014: EUR 889,429) for NMF; EUR 515,000 (2014: EUR 481,642) for NOPEF; and EUR 197,443 (2014: EUR 237,560) for NCF as well as EUR 383,025 (2014: EUR 211,045) for other funds are included in the statement of comprehensive income under 'Other income'.

In 2015 the average number of employees was 27 (30 in 2014).

NEFCO is renting an office with a floor area of 827 m^2 from NIB in Helsinki. Additionally, the Corporation is renting an 103.5 m^2 office in Kiev.

(3) COMPENSATIONS AND BENEFITS

Compensation paid to the Board of Directors, Control Committee and Managing Director
The compensation paid to the Board of Directors and the Control Committee is determined by the Nordic Council of Ministers. The members of the Board of Directors and Control Committee are also entitled to reimbursement of the cost of travel and accommodation and per diem in accordance with the Corporation's travel regulations. The compensation paid to the Managing Director of the Corporation as determined annually by the Board of Directors consists of a basic salary and regular taxable benefits.

The Managing Director's pension benefits are based on the terms of the Finnish state pension with certain supplements.

The remuneration of the Board of Directors, Control Committee and Managing Director was as follows:

	2015	2014
(Amounts in EUR)	**Compensation/ taxable income**	**Compensation/ taxable income**
Chairman of the Board	3,364	3,364
Other Directors and Alternates	17,162	16,489
Managing Director	326,944	287,847
Control Committee	1,500	1,500

Pension obligations

NEFCO is responsible for providing pension security for its employees. The current pension arrangement consists of pensions based on the Finnish state pension system (VaEL Pension) as the basis for the pension benefits. The VaEL Pension is calculated on the basis of the employee's annual taxable income and the applicable age-linked pension accrual rate.

In 2015 the employer's pension contribution was 18.67% of the income used as a basis for determining the amount of pension. The employee's pension contribution in 2015 was either 5.70% or 7.20%, depending on the employee's age. This contribution paid by NEFCO for the permanent staff based in Helsinki is a taxable benefit for the employees.

In addition to the VaEL Pension, the Corporation has taken out a supplementary group pension insurance policy for its permanent staff and the Managing Director. This pension insurance is based on a defined contribution plan. The insurance premium (6.5%) is calculated on the basis of the employee's taxable income and paid by NEFCO until the employee reaches the age of 63.

In 2015 NEFCO paid a total of EUR 113,439 (EUR 100,719 in 2014) in pension insurance premiums for the Managing Director.

Staff loans

Staff loans can be granted on the Corporation's recommendation to permanent staff members based in Helsinki who have been employed by NEFCO for a minimum period of one year.
The Managing Director is extended staff loans subject to a recommendation from NEFCO's Board.
Staff loans are granted by commercial bank.

The total amount of loans may not exceed EUR 200,000. The employee pays interest on the loan in accordance with the official base rate established by the Ministry of Finance of Finland (0.25% in July–December 2015). The same interest rates, terms and conditions are applied to all permanent staff members of the Corporation, including the Managing Director. The total amount of staff loans extended to employees in key positions was EUR 0 (EUR 0 in 2014).

Additional benefits to expatriates

Professional staff (including the Managing Director) who move to Finland for the sole purpose of taking up employment with the Corporation are entitled to certain expatriate benefits, such as an expatriate allowance and a spouse allowance. In addition, NEFCO assists the expatriates in finding a residence and with other practical arrangements. Such staff members are required to pay the Corporation the part of the rent equivalent to the minimum tax value of the accommodation benefit received. The tax value is determined annually by the Finnish tax authorities.

(4) RELATED PARTY DISCLOSURES

The Nordic Investment Bank (NIB), which has for the most part the same owners as NEFCO, is considered a related party of NEFCO. NEFCO acquires services from and enters into transactions with NIB. The table below shows the outstanding balance of NEFCO's receivables from and amounts owed to NIB. NEFCO's key individuals are also considered related parties. Information regarding key individuals is presented in Note 3.

(Amounts in EUR 1,000)	Interest income	Amounts owed by NEFCO to NIB	Amounts owed by NIB to NEFCO	Rents paid to NIB
2015	-	12	-	98
2014	-	28	-	294

(5) CASH AND CASH EQUIVALENTS, PLACEMENTS WITH CREDIT INSTITUTIONS AND DEBT SECURITIES

(Amounts in EUR 1,000)			**2015**			**2014**
	Book value	**Fair value**	**Differ-ence**	**Book value**	**Fair value**	**Differ-ence**
Cash and cash equivalents						
Cash and balances with banks	2,749	2,749	-	3,251	3,251	-
Placements with credit institutions, held-to-maturity	-	-		-	-	-
Total cash and cash equivalents	**2,749**	**2,749**	**-**	**3,251**	**3,251**	**-**
Placements with credit institutions						
Placements with credit institutions, held-to-maturity	82,573	82,573	-	86,949	86,949	-
Total placements with credit institutions	**82,573**	**82,573**		**86,949**	**86,949**	**-**
Total cash and cash equivalents and placements with credit institutions	**85,321**	**85,321**	**-**	**90,200**	**90,200**	**-**

The remaining maturity of cash and cash equivalents and placements, counted from the balance sheet date to maturity, is as follows:

Maturity (Amounts in EUR 1,000)	**2015**	**2014**
Up to and including 3 months	11,798	12,267
3–6 months	24,072	25,844
6–12 months	48,341	51,740
Undefined	1,111	350
Total cash and cash equivalents and placements with credit institutions	**85,321**	**90,200**

(Amounts in EUR 1,000)		2015				2014
Debt securities	**Book value**	**Fair value**	**Differ-ence**	**Book value**	**Fair value**	**Differ-ence**
Debt securities with credit institutions, held-to-maturity	10,206	10,202	-4	10,124	10,124	-
Total debt securities	**10,206**	**10,202**	**-4**	**10,124**	**10,124**	**-**

The remaining maturity of debt securities, counted from the balance sheet date to maturity, is as follows:

Maturity (Amounts in EUR 1,000)	**2015**	**2014**
1–5 years	10,206	10,124
Total debt securities	**10,206**	**10,124**

The investment in debt securities falls in the Level 2 category in the fair value hierarchy.

(6) LENDING

Impairment of loans/reversals in the statement of comprehensive income (Amounts in EUR 1,000)	**2015**	**2014**
Realised credit losses	1,242	-
Individual impairment losses, net	-1,353	1,521
Collective impairment losses, net	-	-1,134
Total impairment of loans/reversals	**-111**	**387**

Impairment of loans, accrued interest on loans and other loan receivables
NEFCO's loans outstanding, accrued interest and other loan receivables under 'Other receivables' have been reduced by a total of EUR 1.5 million (EUR 2.85 million in 2014) in impairment losses. The following changes were recognised in the statement of financial position in respect of impairment losses.

Impairment, loans outstanding (Amounts in EUR 1,000)	**2015**	**2014**
Opening balance January 1	2,430	2,165
Increase/decrease in collective impairment losses	-	-1,134
Impairment losses, individual	-	1,500
Reversals of previously recognised individual impairment losses	-930	-101
Impairment losses December 31	**1,500**	**2,430**

Impairment, accrued interest (Amounts in EUR 1,000)	**2015**	**2014**
Opening balance January 1	1	1
Impairment losses recognised during the year	-	-
Reversals of previously recognised impairment losses	-1	-
Impairment losses December 31	**-**	**1**

Impairment, other receivables (Amounts in EUR 1,000)	**2015**	**2014**
Opening balance January 1	422	300
Impairment losses recognised during the year	-	122
Reversals of previously recognised impairment losses	-422	-
Impairment losses December 31	**-**	**422**

There were no non-performing loans as at 31 December 2015 (EUR 1,352,919 in 2014).

NEFCO finds that loan terms can be adjusted if the counterparty cannot meet his contractual obligations due to financial difficulties. Such adjustments of loan terms can, for example, include rescheduling of the due dates for repayments and interest payments, which affects the future cash flow. An adjustment of loan terms may be made in order to avoid an impending bankruptcy of the counterparty and to secure NEFCO's access to the cash flow foreseen in the loan contract. As at 31 December 2015, the total amount of outstanding loans subject to such adjustment was EUR 2,703,333 (EUR 2,708,029 in 2014) before impairment. After impairment, the equivalent amount as at 31 December 2015 was EUR 2,073,333 (EUR 1,777,778 in 2014). All interest in regards to these loans has been paid.

The following tables show net lending after deductions for impairment losses totalling EUR 1,500,000 (EUR 2,430,251 in 2014).

Lending by country as at 31 December:

Country (Amounts in EUR 1,000)	**2015**	**2014**
Belarus	6,598	5,692
Estonia	136	273
Finland	6,315	1,358
Latvia	2,037	2,571
Russia	9,593	11,058
Sweden	1,666	2,082
Ukraine	16,055	11,295
Total loans outstanding	**42,400**	**34,329**

As at 31 December 2015, the loans agreed but not yet disbursed totalled EUR 9.66 million (EUR 10.84 million in 2014).

The following table provides a summary of agreed but not yet disbursed loans according to the foreseen date of disbursement. In principle, all borrowers could request disbursement within three months but NEFCO does not disburse loans until the specified disbursement conditions are met.

(Amounts in EUR 1,000)	**2015**	**2014**
Up to and including 3 months	9,663	10,837
Total loans agreed but not yet disbursed	**9,663**	**10,837**

The maturity profile for loans outstanding as at 31 December:

Maturity (Amounts in EUR 1,000)	**2015**	**2014**
Up to and including 3 months	1,864	1,172
3–6 months	1,608	1,190
6–12 months	2,465	2,011
1–2 years	4,642	4,181
2–3 years	11,407	4,044
3–4 years	13,704	10,544
4–5 years	2,815	7,492
5–10 years	3,895	3,696
Total loans outstanding	**42,400**	**34,329**

Lending by currency:

Currency (Amounts in EUR 1,000)	**2015**	**2014**
EUR	37,761	29,173
RUB	3,541	3,964
USD	1,098	1,192
Total loans outstanding	**42,400**	**34,329**

As at 31 December, there were no guarantee commitments with a maturity of less than 1 year (EUR 517,047 in 2014).

Loans outstanding by type of security as at 31 December:

		2015		**2014**
(Amounts in EUR 1,000)	**Amount**	**Share %**	**Amount**	**Share %**
Loans to or guaranteed by local authorities	5,814	13.7	3,641	10.6
Loans guaranteed by banks	409	1.0	500	1.5
Loans with mortgage on immovable property	4,771	11.3	5,599	16.3
Loans with pledge on shares	6,189	14.6	7,113	20.7
Loans with floating charge	136	0.3	273	0.8
Loans issued to banks	11,000	25.9	11,000	32.0
Loans with a negative pledge clause and other covenants	4,410	10.4	2,921	8.5
Loans with a guarantee from the parent company	4,420	10.4	3,283	9.6
Loans without a formal security	5,250	12.4	-	-
Total loans outstanding	**42,400**	**100.0**	**34,329**	**100.0**

The maturities of the loans extended by the Corporation vary from 1 to 10 years. Of all outstanding loans, 89.1% are denominated in euros, 8.4% in roubles and 2.6% in U.S. dollars. Of the total of 24 loans, 18 are floating-rate loans. Such loans account for 64.0% of the total. The other 6 loans accounting for 36.0% of the total have fixed interest rates.

(7) INVESTMENT ASSETS

The Corporation's portfolio comprised the following holdings as at 31 December 2015:

Holding	**Country/region**	**% of total capital**
AMEC Foster Wheeler Energy Fakop Sp. zo.o	Poland	21.3
Ekovod LLC	Russia	22.0
LTM OOO	Russia	22.8
DGE Baltic Soil & Environment UAB	Lithuania	34.5
Vardar Eurus AS	Baltics	10.0
Halychyna-Zahid LLC	Ukraine	5.6
Rindibel JC JSC	Belarus	35.0
Eskaro Ukraine AS	Ukraine	20.0
International Pork Investments AS	Latvia	3.4
Dolle Ukraine ApS	Ukraine	33.3
4E Biofond OÜ	Estonia	30.1

The acquisition cost of the investment assets was EUR 19,655,277 (EUR 19,610,277 in 2014) while the fair value was EUR 14,786,544 (EUR 15,417,324 in 2014).

As at 31 December 2015, the agreed but not yet acquired holdings totalled EUR 11,642 (EUR 11,642 in 2014).

Fair value of investment assets as at year end

The following table provides an analysis of the fair value of investment assets at the end of the year broken down by the applicable Level in the fair value hierarchy.

(Amounts in EUR 1,000)	**2015**	**2014**
Level 1	-	-
Level 2	-	-
Level 3	14,787	15,417
Total	**14,787**	**15,417**

Level 1 refers to market prices quoted in an active marketplace.
Level 2 refers to observable data other than Level 1 market prices.
Level 3 refers to information not based on observable data.

The following table provides an analysis of the change in the fair value of Level 3 investment assets.

(Amounts in EUR 1,000)	**2015**	**2014**
January 1	**15,417**	**14,680**
Investments during 2015	45	1,127
Divestments during 2015	-	-
Change in value	-676	-389
Reassignment from Level 2	-	-
December 31	**14,787**	**15,417**

Sensitivity analysis

In the assessment of NEFCO's Level 3 assets, due consideration must be given to the inherent nature of the investments and the form of NEFCO's involvement. Initially, the investments – normally made in recently established entities – are assessed at acquisition cost if there is no indication of lower value. NEFCO pursues an exit strategy requiring that the invested capital is recovered in its entirety at a reasonable interest. Today exit agreements are made in respect of all investments. At a later stage, the companies are evaluated in terms of their financial performance in accordance with the exit agreement when exit is impending.

A sensitivity analysis is difficult to carry out because normally there is no market for the shares. As an aid in establishing the potentially highest or lowest value, the historical return on the portfolio may be used. The average historical rate of return on completed projects is around 55%. It should be pointed out that losses have been posted for around 36% of the investments. A 55% increase in the value of the existing portfolio would add EUR 8.1 million to the financial result whereas a loss of 36% would have a negative impact of EUR 5.3 million.

The table below illustrates how the sensitivity analysis of Level 3 investment assets would impact the result for the year.

Investment assets (Amounts in EUR 1,000)	**2015**	**2014**
Fair value	14,787	15,417
Positive impact	8,133	8,480
Negative impact	-5,323	-5,550

(8) OTHER PLACEMENTS

The following table provides an overview of other placements measured at fair value at the end of the year.

(Amounts in EUR 1,000)	**2015**	**2014**
NEFCO Carbon Fund	3,572	3,627
Emission reductions	-	-
NMF	-	-
Total	**3,572**	**3,627**

NEFCO's share of NeCF's authorised capital is 7.5% (4.8% in 2014).

The following table provides an analysis of other placements according to the fair value hierarchy.

(Amounts in EUR 1,000)	**2015**	**2014**
Level 1	-	-
Level 2	-	-
Level 3	3,572	3,627
Total	**3,572**	**3,627**

Level 1 refers to market prices quoted in an active marketplace.
Level 2 refers to observable data other than Level 1 market prices.
Level 3 refers to information not based on observable data.

NEFCO Carbon Fund and emission reductions

NEFCO has invested EUR 5 million in the NEFCO Carbon Fund (NeCF). A total of 5% of the investment is earmarked as Technical Assistance Provision of which half is committed. NEFCO has accumulated obtained emission reductions for a total of EUR 1,020,126. The management fee for NEFCO's investments is paid out of interest income and through reduction in capital. In the valuation of the investment in NeCF, due consideration is also given to the indirect price risk. The investment in NeCF falls in the Level 3 category in the fair value hierarchy. The change in fair value is due to the valuation of the investment in NeCF and the emission reductions received by NEFCO.

NEFCO's investment in NeCF has generated 84,372 emission reductions (CER and ERU) for NEFCO. The climate fund Testing Ground Facility (TGF) administered by NEFCO has transferred 71 emission reductions to NEFCO. A total of 84,443 emission reductions have been received by NEFCO, which were all annulled in 2015 in accordance with the 2014 decision of the Board of Directors.

Nordic Environmental Development Fund

During 2011–2013, NEFCO invested a total of EUR 5,346,308 in the Nordic Environmental Development Fund (NMF). As investments in the NMF are not financially profitable, this amount has been written down in its entirety upon payment. While the investment in NMF does not yield any financial profit, it contributes to NEFCO's investment activities. The investment in NMF falls in the Level 3 category in the fair value hierarchy.

(9) INTANGIBLE AND TANGIBLE ASSETS

(Amounts in EUR)	2015	2014
Intangible assets	**Computer software, development costs**	**Computer software, development costs**
Acquisition value January 1	109,529	106,570
Acquisitions during the year	188	2,959
Acquisition value December 31	109,717	109,529
Accumulated amortisation January 1	98,913	90,936
Amortisation according to plan	1,854	7,977
Accumulated amortisation December 31	100,767	98,913
Net Book value	**8,950**	**10,616**
Tangible assets	**Office inventories**	**Office inventories**
Acquisition value January 1	112,665	58,539
Acquisitions during the year	20,659	54,126
Acquisition value December 31	133,324	112,665
Accumulated depreciation January 1	56,510	49,450
Depreciation according to plan	26,090	7,060
Accumulated depreciation December 31	82,600	56,510
Net Book value	**50,724**	**56,155**

(10) EQUITY

NEFCO's paid-in authorised capital reached its full amount of EUR 113,406,560 in 2007. The breakdown of the authorised capital is as follows:

(Amounts in EUR)		**Share %**
Denmark	21,561,320	19.0
Finland	22,264,600	19.6
Iceland	1,319,560	1.2
Norway	24,191,560	21.3
Sweden	44,069,520	38.9
Total authorised capital	**113,406,560**	**100.0**

(11) INTEREST RATE RISK

Interest rate risk describes how the fluctuations in market interest rates affect the value of NEFCO's interest-bearing assets and liabilities, as well as interest income and expenses. The table below shows the interest rate profile for loans outstanding. Loans outstanding are broken down by maturity or interest adjustment date.

Loans outstanding (Amounts in EUR 1,000)	**2015**	**2014**
Up to and including 3 months	12,202	12,300
3–6 months	15,087	13,416
6–12 months	1,310	973
1–5 years	11,165	7,510
5–10 years	2,635	130
Total loans outstanding	**42,400**	**34,329**

(12) EXCHANGE RATES

The following exchange rates were used to convert monetary assets and liabilities into foreign currency:

		EUR rate 31.12.2015	**EUR rate 31.12.2014**
DKK	Danish krone	7.4626	7.44530
GBP	British pound	0.73395	0.77890
RUB	Russian rouble	80.6736	72.33700
SEK	Swedish krona	9.1895	9.39300
UAH	Ukrainian Hryvnia[1)]	26.22313	19.23291
USD	US dollar	1.0887	1.21410

1) National Bank of Ukraine

08

Independent Auditors' Report

TO THE CONTROL COMMITTEE OF THE NORDIC ENVIRONMENT FINANCE CORPORATION

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

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

Opinion

In our opinion, the financial statements 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

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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 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

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Karin Gaardsted
Michael Tetzschner
Penilla Gunther
Arto Pirttilahti
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