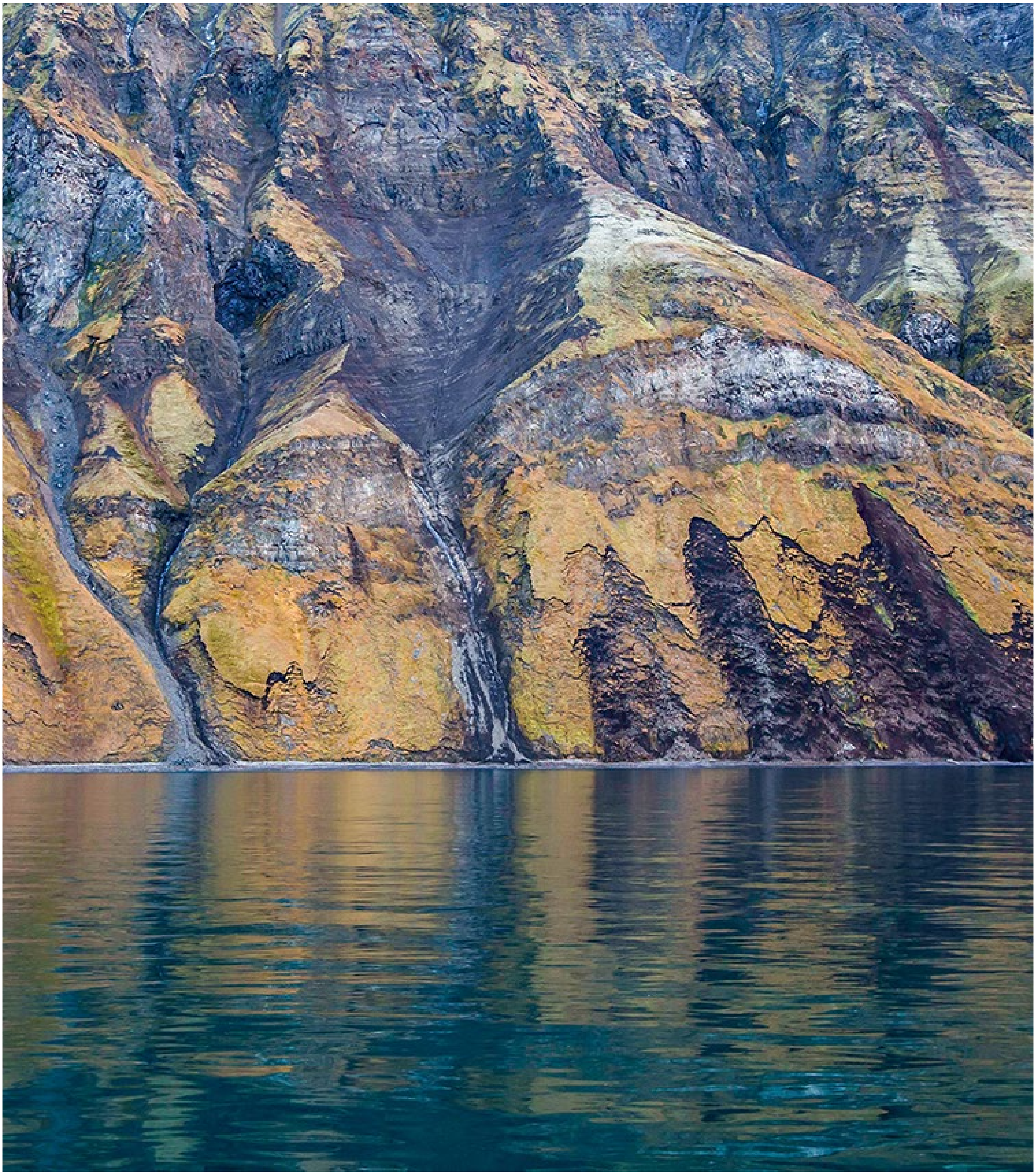
Nordic Environment Finance Corporation

Annual Report 2016

NEFCO



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Report from the Board of Directors 2016

The year ended with an important event for the corporation, as a change to NEFCO's agreement was signed by the Nordic countries. The change confirms the strategy that the Board approved in 2015 and means that NEFCO will continue to focus its activities on Eastern Europe while also being able to invest in other parts of the world. In the future, the corporation will be better able to follow the environmental priorities of the surrounding world and the Nordic countries, utilise the synergies between the fund management and investment activities and broaden the activities to better manage the risk level.

NEFCO has worked outside Eastern Europe for many years through the different fund management assignments, and the change means that the investment side can help support this work. It is the link to NEFCO's fund management activities and its focus on climate projects and internationalisation of small and medium-sized Nordic environmental companies that will be the focus of NEFCO's work outside Eastern Europe.

In Russia and Ukraine, where NEFCO has most of its investment activities, the situation continues to be problematic. The conflict in Eastern Ukraine is not considered to have moved any closer to a resolution in the past year, nor is there anything to suggest that the situation will change within the near future. Ukraine's economy continues to be weak though Ukraine has managed to stabilise it somewhat. In Russia, the increase in the oil price in 2016 has improved the economy, but the international sanctions are unlikely to change unless there is a clear positive change in the situation in Eastern Ukraine.

In 2016, NEFCO signed a status agreement with Armenia that allows the corporation to start activities in the country. In general, NEFCO has primarily worked in two areas during the year: projects with a direct link to purification of the Baltic Sea and projects in energy efficiency in Ukraine. The work on the Baltic Sea included the corporation approving an investment in a programme to renovate wastewater treatment plants in five cities in Belarus within the Baltic drainage basin. At the request of HELCOM (Baltic Marine Environment Protection Commission – Helsinki Commission), NEFCO has become involved in the work to reduce the environmental impact of Krasnyi Bor, which is a landfill site for hazardous waste outside St. Petersburg. In addition, agricultural projects were approved that will also lead to a reduction of the environmental impact on the Baltic Sea.

In Ukraine, energy-efficiency projects continue to be prioritised. At the moment, NEFCO is the international institution working with most municipal energy-efficiency projects in Ukraine. The high level of interest in energy-saving measures and NEFCO's activities has been noticed, including when NEFCO arranged a seminar in Kiev during the year attended by 180 persons from 50 municipalities. NEFCO will continue working actively on developing municipal projects in the country also in the future, which is in line with several large-scale Nordic and international programmes in Ukraine within energy efficiency and renewable energy.

The year 2016 was another active one for NEFCO's project activities. In all the funds managed by the corporation, 144 new projects were approved during the year to a total value of EUR 131.3 million. In the Investment Fund, NEFCO's paid-in capital, 16 new investments were approved to a total of EUR 87.3 million, and at the end of the year, the corporation had 64 active projects with commitments totalling EUR 218.7 million. Payments are made with a certain delay and thus a greater part of NEFCO's resources is allocated than is shown in the corporation's Report on Financial Position.

In addition to the projects financed with NEFCO's paid-in capital, the Investment Fund, NEFCO manages a number of other funds, not just 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 international funds, such as the Eastern Europe Energy Efficiency and Environment Partnership (E5P) and the Northern Dimension Environmental Partnership (NDEP). In July 2016, NEFCO was accepted as an Eligible Finance Institution for the EU's Neighbourhood Investment Facility (NIF), which finances technical support for projects in energy, environment, transport and the social sector in Armenia, Azerbaijan, Belarus, Georgia, Moldavia and Ukraine.

Two new funds have been established during the year. The new funds are a Swedish initiative for identification, preparation, implementation and monitoring of projects that are expected to result in an improved environment and reduce the climate impact on the countries in the Eastern partnership and one for funds from the Eastern Europe Energy Efficiency and Environment Partnership (E5P) to support the implementation of energy-efficiency measures in public buildings in the social sector and street lighting in cities in Ukraine. At the end of 2016, NEFCO's fund management included 36 funds with a total value of EUR 358 million.

Over the years, financing has been granted within NEFCO's activities to more than 830 small and medium-sized private and public projects spread across different sectors in over 60 countries.

The financial and environmental results of activities were both in line with expectations. The high risk in the Investment Fund activity countries and the low interest level mean that, as in recent years, the activities show a relatively modest result. Details of the environmental result are presented in the environmental status report.

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NEFCO had 64 active projects in the end of 2016, which amounts to EUR 218.7 million and the total investments in these projects amount to approximately EUR 1,076 million.

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 is taken on participation in financing, and when the project has been completed, NEFCO follows up the real effects. The projects of both the Investment Fund and the Nordic Environmental Development Fund (details on the funds are presented below) show on average positive environmental effects at the expected level. Of the 80 active projects that have been analysed, 31 are classified as projects that have exceeded the environmental expectations, 16 are at the expected level, 23 do not yet meet expectations, and in 10 cases no conclusions can yet be drawn or there is no reporting.

NEFCO also systematically assesses the environmental cost-efficiency 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 approximately one-eighth of the corresponding costs in the Nordic countries.

Investment Fund

During the year, the Board approved 17 new investments, including additional financing for a previously approved project. In addition, 22 so-called indications of interest, i.e. an initial approval in principle of a project for further consideration, were approved. In 2016, NEFCO was able to complete three projects: one water and wastewater project in Estonia, one project within joinery in Ukraine and one in the construction industry in Russia. As of 2016, NEFCO has completed 77 projects, with its commitment amounting to EUR 95.4 million in total. During the year, four projects, which were no longer deemed to have the conditions to be realised in the manner planned, were discontinued.

This leaves a total of 64 active projects approved by the Board of Directors, 40 of which have been contracted. In the other 24 cases, negotiations or studies are ongoing. NEFCO's commitment in these 64 projects amounts to EUR 218.7 million, while the total investments in these projects amount to approximately EUR 1,076 million, which shows the considerable lever effect. Most of NEFCO's resources are thus allocated, even though the Report on Financial Position states that the total investments amount to EUR 68.8 million (net after amortisations and write-downs), which is a noticeable increase as the corresponding figure at the end of 2015 was EUR 60.8 million.

In the 40 contracted projects, NEFCO's commitment amounts to EUR 116.1 million and the total investments in them to approximately EUR 726 million.

NEFCO has equity investments in ten of the commitments. In one of them, a loan from NEFCO has also be given. In 30 cases, the commitment is only in the form of loans. Developments in the 40 contracted companies are on average satisfactory. With regard to results, based on the different companies' annual accounts as per 2015, 10 projects showed a profit and 19 a loss, while operative activities have yet to begin in 11.

The new investments are widely spread among the sectors. Seven of the new projects are in agriculture and include improved manure handling, energy efficiency through modernisation of equipment and production of biogas and electricity from manure. Three projects are for the production of renewable energy within water, wind and biogas, and five projects are for energy efficiency measures in public buildings and through modernisation of street lighting. Furthermore, financing was granted to develop the market for electric vehicles.

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 financed through annual contributions from the Nordic countries and the Nordic Council of Ministers. The aggregate framework for funds for the NMF at the end of the year amounted to EUR 81.3 million. The NMF is administered by NEFCO, and NEFCO's Board of Directors decides on allocations according to the NMF. The Nordic Investment Bank (NIB) participates in project evaluation.

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

During 2016, 25 new projects were given final approval through the NMF and NMF Credits, including one supplementary investment in a previously approved project. Of these 25 projects, 11 are within the framework of the loan programme for energy-efficiency projects and 4 projects fall under the cleaner production programme.

Financing from NEFCO's loan programme for energy savings has been approved for energy-savings measures for a total of 117 projects, while loans from the Programme for cleaner production projects have been approved for 100 projects in the Baltic countries, Belarus, Russia and Ukraine.

There are 300 completed, contracted and approved projects (including two indications of interest) taking into account the specific projects within both funds. Of the current total framework for funds, EUR 70.8 million have thus been used.

The Nordic Project Fund

The Nordic Project Fund (Nopef) was established by the Nordic countries in 1982 with the aim of strengthening the international competitiveness of Nordic companies through support for preliminary studies and export projects. As of 1 January 2014, Nopef has been administered as a trust fund by NEFCO. Nopef is financed by annual budgetary funds from the Nordic Council of Ministers. In 2016, EUR 2.1 million was allocated to the fund. In 2016, financing for 76 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 financed with funds from the Nordic countries and funds from the Nordic Environmental Development Fund (NMF) and is primarily intended for project development. The intention is to pursue, together with the relevant Russian authorities and project owners, the prioritised environmental issues ('hot spots') identified in Northwest Russia in the report that NEFCO, in collaboration with the Arctic Council's Monitoring and Assessment Programme for the Arctic Environment (AMAP), originally presented in 2003. The fund's equity amounts to just over EUR 7.3 million. Financing has been allocated from the BHSF to a total of 72 different preliminary studies and preparatory measures for projects, 59 of which have been completed. The BHSF also supports so-called Support Activities linked to 'hot spots', and 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 USA are the contributors. The fund's activities began in 2014, and up until now financing has been allocated to 17 projects at a total value of EUR 2.9 million by the PSI.

NEFCO Carbon and Climate Funds (NEFCO Carbon Finance and Funds – CFF)

NEFCO's first climate fund the Baltic Sea Region Testing Ground Facility (TGF) was established in 2003. TGF served under the Kyoto Protocol mechanism for so-called Joint Implementation (JI) and was the first multilateral public-private climate fund outside the World Bank group. TGF's total equity was, at its greatest, EUR 35 million. The fund ended in 2015 and an accumulated total of 2.63 million emission rights, distributed to the investors, were delivered through the fund.

NEFCO has also managed the NEFCO Carbon Fund (NeCF) global climate fund 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 Clean Development Mechanism (CDM). NeCF's total equity currently amounts to EUR 65.9 million. At the end of 2016, NeCF had 15 active purchase contracts for emission reductions, and during the year the fund was able 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) from UN-approved projects that are at risk of being stopped due to the low market prices for credits. NorCaP reached its goal of 30 million credits at the end of 2015. In 2016, the fund delivered 3.8 million emission credits to Norway.

At the end of 2016, a total of 15.7 million emission credits, distributed to the investors, were delivered through NEFCO's climate funds, 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 through support for innovative collaboration between Nordic organisations 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, while NCF's fifth and future rounds of tenders is and will be administered by NDF.

In order to develop climate financing opportunities, NEFCO is responsible for a joint Nordic project together with the Nordic task force for global climate negotiations (NOAK) regarding a sector programme (Nationally Appropriate Mitigation Actions – NAMAs) in the waste sector in Peru. The project, which is a subproject within the Nordic Partnership Initiative (NPI), completed its final phase in August 2015. The second phase was started in 2016 with the purchase of several small consultancy assignments to support the implementation of the sector programme in waste management in Peru.

Together, NeCF, NorCaP and NCF represent a portfolio of approximately 45 active climate projects in different sectors in more than 20 countries. Over the years, NEFCO has administered climate funds totalling approximately EUR 300 million, including the ended TGF fund. Through the climate funds and participation in the implementation of the NCF projects, NEFCO has built up a significant network and gained practical experience and expertise of climate financing in terms of developing countries, including the least developed countries (LDCs).

Other management assignments

In addition to the above-mentioned funds, NEFCO manages a number of other external funds. These are of the so-called 'trust fund' type, i.e. funds in which funding is provided for a specific purpose or project specified by the contributor but in which NEFCO is responsible for the utilisation of the funds.

Finnish, Norwegian and Swedish grants are allocated for analysis, preparation and follow-up of environmental projects. NEFCO also manages Norwegian funding for water management in the Kenozero National Park in Russia; measures against pollution from oil-polluted water in the Barents area; support for environmental and energy-efficiency 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, for the preparation of prioritised environmental projects within the Baltic Sea Action Programme (BSAP) and/or 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 set aside 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. 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 beleaguered 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 administer, together with NIB, a project development fund for the support of the realisation of the Baltic Sea Action Plan. In addition, Finland has allocated funds to finance turnkey, mobile buildings in Ukraine, while 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 NDEP to three separate projects and funds from the E5P for four projects and for co-financing the Nordic initiative in Ukraine. NEFCO produces special accounts for all external funds.

For these other management assignments, the various contributors have allocated a total of EUR 82.3 million. The contributions for the completed management assignments amount to EUR 82 million.

STAFF

At the end of 2016, 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 542,286.97. In accordance with previous practice, the Board proposes that the profit be returned to the business as retained earnings.

Helsinki,9 March 2017

Søren Bukh Svenningsen
Chair

Ann-Britt Ylinen
Vice Chair

Harald Rensvik

Jessica Andersson

Danfríður Skarphéðinsdóttir

Magnus Rystedt
Director

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

02

Environmental status report 2016

1. INTRODUCTION

This report summarises the environmental results in NEFCO's funds and focus areas: the Baltic Sea, Climate change, the Arctic and Barents and Green growth.

NEFCO's environmental reporting covers the Investment Fund (IF) and NMF credits (Energy Saving Credits [ESC], Cleaner Production [CPF] and Nordic Initiative Ukraine [NIU]). NEFCO administers several trust funds on behalf of different donors and investors to support environmental and climate projects. This report gives an overview of the environmental benefits achieved in Carbon Climate Funds, Nopef and specific trust funds, such as those addressing the Arctic and Barents regions.

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

NEFCO's environmental database also takes into account projects in which its involvement has ceased. 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.

In total, 95 % of the projects reported in 2016. The performances of the projects in the Investment Fund, ESC, CPF and NIU are presented in Annexes 1 and 2.

2. THE BALTIC SEA

When assessing NEFCO's two main financial instruments, namely the Investment Fund and the Nordic Environmental Development Fund, approx. 16 % of the investments related to water projects in 2016.

2.1. Investment Fund (IF) and Nordic Environmental Development Fund (NMF)

According to NEFCO's environmental status report, the corporation succeeded in reducing discharges of phosphorus from waste water treatment plants by 953 tonnes and from agriculture by 100 tonnes in 2016. The total phosphorous discharge reductions of 1053 tonnes translate into discharges of untreated waste water from approx. 1.44 million people. The corresponding figure for nitrogen was 4164 tonnes. About 8 % of the reductions originate from old projects and 59 % from Ekovod St. Petersburg WWTP.

2.2. Baltic Sea Action Plan Fund (BSAP Fund)

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

There are a total of 24 completed and closed projects (From 2010 to December 2016). In 2016, one project was finalised and eight are under implementation.

The finalised project was a basic design and preparation for funding a waste water treatment plant renovation in Estonia.

Table 1. Reductions in IF and NMF

Indicator	Units	2016	2015
Ptot	t/a	953	919
Prot (agri)	t/a	100	218
Ptot total	**t/a**	**1,053**	**1,137**
Ntot	t/a	4164	4123
Ntot (agri)	t/a	30	147
Ntot total	**t/a**	**4,194**	**4,270**
BOD	t/a	33,734	33,545
SS	t/a	28,588	29,073

Table 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
t/y Tonnes per year

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NEFCO's investments reduced direct carbon dioxide emissions by approx. 5 million tonnes in 2016.

3. CLIMATE CHANGE

The climate investments and carbon financing reduced carbon dioxide emissions by a total of 8.5 million tonnes. This is about 7 % more than in 2015.

3.1. Investment Fund (IF) and Nordic Environmental Development Fund (NMF)

The bulk of NEFCO's investment activities is 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.

According to NEFCO's environmental status report, the climate investments in 2016 reduced carbon dioxide emissions by 1 million tonnes directly and 3.4 million tonnes indirectly. In terms of energy efficiency measures, NEFCO managed to reduce energy consumption by 1.5 gigawatt-hours directly and promoted a fuel switch to renewables of 9 430 gigawatt-hours indirectly in projects financed by the Corporation during the period under review. Until 2015, only energy MWh/a was reported regardless of whether it was electricity or heat. The new project management system was taken into use in 2016 allowing more flexibility, and electricity and heat are now separated in the reporting. The total CO_2 emission reductions and energy savings from IF, ESC, CPF and NIU are presented in Table 3.

Energy Savings Credits (ESC)

The energy-saving measures include wall insulation, replacement of doors and windows, reconstruction of ventilation systems as well as upgrading the heating systems in a range of schools and day care centres. In some cities the projects include the street lighting systems being upgraded by replacing outdated and inefficient street light fixtures with energy efficient light emitting diode lamps (LED).

Cleaner Production Facility (CPF)

The NEFCO Facility for Cleaner Production is a loan programme intended to promote the reduction of industrial pollution through efficient resource and energy utilisation.

The Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine (NIU)

The NIU fund finances upgrades of the municipal infrastructure in areas that have been

Table 2. CO_2 emission reductions in NEFCO's portfolio

Indicator	Unit	2016	2015
Investmend Fund and the Nordic Enviromental fund			
CO_2 (direct)	t/a	993,242	947,385
CO_2 (indirect)	t/a	3,403,234	3,458,572
NEFCO Carbon funds			
CO_2 (CER)	t/a	4,118,274	3,531,854
CO_2 total	**t/a**	**8,514,750**	**7,937,811**

Table 3. Total CO_2 emission and energy consumption reductions in IF, ESC, CPF and NIU

Indicator	Unit	2016	2015
CO_2 (direct)	t/a	993,242	947,385
CO_2 (indirect)	t/a	3,403,234	3,458,572
CO_2 total	**t/a**	**4,396,476**	**4,405,957**
Energy	MWh/a	1,440,872	1,475,408
Energy (electricity)	MWh/a	19,800	2,252
Energy (heat)	MWh/a	61,358	14,567
Energy total (direct)	**MWh/a**	**1,522,031**	**1,492,226**
Energy (indirect)	**MWh/a**	**9,430,593**	**9,191,266**
Energy (direct + indirect)	**MWh/a**	**10,952,624**	**10,683,492**

badly affected by the armed conflict in Eastern and Southern Ukraine.

Environmental benefits can be achieved as a direct consequence of investments and indirectly as NEFCO supports companies manufacturing environment-related products. The main indirect energy and CO_2 emission reductions originate from a project producing boilers. Biofuel boilers older than ten years are not included in the reporting.

The projects also give air pollutant reductions as shown in Table 4.

3.2. Carbon Finance and Funds (CFF)

The NEFCO Carbon Fund (NeCF) and the NEFCO Norwegian Carbon Procurement Facility (NorCaP).

NEFCO currently manages two funds for the purchase of carbon credits: the NEFCO Carbon Fund (NeCF) and the NEFCO Norwegian Carbon Procurement Facility (NorCaP).

The investors in NeCF are the Danish Energy Agency, DONG Energy (DK), Eesti Energia (EE), Electrabel (BE), EPV Energy (FI), the Finnish Ministry of Foreign Affairs, Industrialiseringsfonden for Udviklingslandene (IFU) or the Industrialisation Fund for Developing Countries (DK), Kymppivoima (FI), the Norwegian Ministry of Climate and Environment, Vapo (FI) and NEFCO.

The Norwegian Ministry of Climate and Environment is the only investor in NorCaP.

The NeCF portfolio consists of 15 and the NorCaP portfolio 16 ongoing projects. The projects fall within the sectorial areas (based on UNFCCC's categories) as presented in table 5 below.

During 2016, 318 081 CERs were delivered to the NeCF account and 3 800 193 CERs to the NorCaP account. One CER equals one tonne of CO_2. The total emission reductions were therefore 4 118 274 t/CO_2.

3.3. Nordic Climate Facility (NCF)

The Nordic Climate Facility (NCF) finances innovative climate change adaption and mitigation projects in low-income countries. NCF is funded by the Nordic Development Fund (NDF) and jointly administered with NEFCO. NCF is based on calls for proposal, and projects are selected on a competitive basis.

Since its inception in 2009, NCF has launched four calls under NEFCO management for the themes of:

- NCF 1: Water resources and energy efficiency
- NCF 2: Renewable energy and urban adaptation
- NCF 3: Innovative low-cost climate solutions with a focus on local business development
- NCF 4: Inclusive green growth projects contributing to private sector development

Nine of the eleven completed projects in 2016 included both mitigation and adaptation aspects. The projects also had strong positive development impacts. Examples of impacts:

Climate change mitigation

- CO_2e emission reductions/project ranging from 1300 to 180 000 tCO_2e (cumulatively)

Climate change adaptation

- Reduction of firewood usage by 3000-130 000 t/a (cumulatively)
- Traditional wood charcoal replaced, >100 t/a
- Degraded land restored by planting multipurpose tree species

Table 4. Air pollution emission reductions in IF, ESC, CPF and NIU

Indicator	Unit	2016	2015
SO_2	t/a	4,020	4,519
Nox	t/a	514	522
Dust	t/a	63	65

Table 5. Project types based on CER[1)] volumes

Energy industries	19%
Energy demand	2%
Waste handling and disposal	56%
Metal production	5%
Chemical industries	18%

1) Certified Emission Reduction

- Watersheds and erosion reduction and by planting trees
- Improved food security and increased income via the implementation of climate-resilient farming and land management practices and crop diversification, > 10 000 households

Development
- Average time spent collecting firewood reduced, fuel savings
- Reduction in indoor air pollution
- Impacts on health (fewer coughs, fewer headaches, less diarrhoea, drinking more water, less smoke in cooking areas)
- 2 000 low-income persons reached for improved energy access and security via solar water heaters installed at three social institutions
- Permanent, temporary or seasonal job for 1000 people, men and women
- >10 000 households now living above the poverty line of $1.25/person/day

4. ARCTIC AND BARENTS REGIONS

4.1. The Arctic Council Project Support Instrument (PSI)

The Arctic Council Project Support Instrument (PSI) provides financing 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.

The Tundra Reindeer Farm project and the recently completed installations at the Karelia Valday Cluster of projects are the first short-lived climate pollutant mitigation interventions implemented through the PSI. The emission reductions for 2016 at the Tundra site were about 1 tonne of CO_2 and 14 kg of black carbon.

4.2. Barents Hot Spots Facility (BHSF)

NEFCO has managed the Barents Hot Spots Facility (BHSF) since 2004. Its main aim is to promote relevant actions and investments in the environmental 'hot spots' identified in northwest Russia, together with the responsible Russian authorities and project owners. Funds are mostly allocated to expert and feasibility studies, and other technical assistance. BHSF also supports so-called Support Activities linked to 'hot spots' and co-finances an adviser on issues of climate, environment and 'hot spots' at the International Barents Secretariat in Kirkenes.

The first 'support activity' in Russia was organised in Archangelsk on 26-28 September 2016 together with the Russian BAT Bureau and hosted by the Archangelsk PPM with over 100 participants in attendance. Part of it was organised as role play related to permit granting, while focussing on best available technologies (BAT) issues and criteria for 'hot spot' exclusion in the Pulp and Paper sector. A number of invited Nordic legal and P&P sector experts also participated.

The Programme for Environment and Climate Co-operation was approved by the Nordic Ministers of Environment on 2 November in Copenhagen. Since then, NEFCO has developed this programme towards a joint Call for Proposals early in 2017 to support non-governmental co-operation between the Nordic countries and northwest Russia.

The environmental work in the Barents region is closely interlinked with the Arctic co-operation to exploit synergies and avoid overlaps. Many BHSF-funded studies aim to develop projects for further Arctic PSI funding. So, for instance, consultants funded by BHSF have been working on a study on diesel power stations in the Dolgoshcheliye and Leshukonskoye communities in Archangelsk Oblast with the regional operator ArchOblEnergo – with the aim of producing a project for PSI funding in early 2017. Similarly, studies funded by BHSF on the solid waste project in Syktyvkar in the Komi Republic related to the old landfill at Dyrnos and, to some extent, the new projected landfill at Munduch. Two studies addressing dioxins and other pollutants at the Vorkuta Cement Plant were also finalised in 2016.

There is also a close connection to the Nordic countries' bilateral environmental co-operation with Russia. One such example concerns Norway's programmes with Archangelsk Oblast within the areas of oil pollution and solid waste that BHSF supports to develop new project proposals. Sweden in particular supports the federal programme to introduce BAT in Russia. Projects and initiatives are developed to correlate with that, promoting a decrease of pollution in the Barents region.

5. GREEN GROWTH

5.1. Nordic Project Fund (NOPEF)

Nopef finances feasibility studies related to green growth and sustainable development in countries outside EU/EFTA for Nordic small and medium-sized companies (SMEs).

In 2016, a total of 40 projects were realised, meaning that the companies have established a daughter company or a joint venture in a new country. Table 6 shows the types of realised projects.

6. POLICY WORK

As NEFCO's environmental guidelines were launched in 2008, the document has been revised in 2016 to reflect the current practices more accurately.

The EU Commission has initiated the revision of the European Principles for the Environment (EPE). NEFCO has participated in this work with other European financial institutions. The EPE declaration is expected to be signed in spring 2017.

NEFCO's environmental unit participated in meetings hosted by the Working Group on Environment for Multilateral Financial Institutions in order to promote the Working Group's attempts to harmonise the environmental methodology applied at international financial institutions.

As regards NEFCO's participation in events related to the Baltic Sea, priority was given to attendance at HELCOM's and the EU's stakeholder events and conferences.

NEFCO's environmental unit has also held presentations for two Belarusian banks on environmental issues in project financing.

NEFCO, 20 February 2017
Anja Nystén

Table 6. Nopef projects completed in 2016

ENVIROMENTAL BENEFIT	Number of projects	Per cent of total projects
Climate change		
Energy savings	20	
Renewable energy	3	
Adaptation	2	
	25	**63%**
Resource savings	**6**	**15%**
Waste /pollution abatement	**4**	**10%**
Agriculture and forest	**5**	**13%**
Total	**40**	**100%**

Financial statements

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Statement of comprehensive income

1 January - 31 December

(Amounts in EUR)	Notes	2016	2015
Income			
Interest income, placements with credit institutions		77,931	350,670
Interest income, debt securities		83,638	82,510
Interest income, lending		2,864,083	2,694,771
Net result of financial operations	(1)	-134,986	-631,923
Other income	(2)	4,397,639	4,551,702
Total income		**7,288,305**	**7,047,730**
Operating expenses			
Administrative expenses	(2), (3), (4)	5,593,207	5,762,254
Depreciation and write-down in value of tangible and intangible assets	(9)	35,807	27,944
Foreign exchange gains and losses		-132,996	318,222
Impairment of loans / reversals	(6)	1,250,000	-111,094
Total operating expenses		**6,746,018**	**5,997,326**
RESULT FOR THE YEAR		**542,287**	**1,050,403**
TOTAL COMPREHENSIVE INCOME		**542,287**	**1,050,403**

Statement of financial position

31 December

(Amounts in EUR)	Notes	31/12/2016	31/12/2015
ASSETS			
Cash and cash equivalents	(5)	9,300,424	2,748,672
Placements with credit institutions	(5)	68,251,944	82,572,702
Total, cash and cash equivalents and placements with credit institutions		**77,552,368**	**85,321,374**
Debt securities	(5)	10,289,601	10,206,336
Investment assets	(7)	16,289,044	14,786,544
Other placements	(8)	3,509,410	3,571,579
Loans outstanding	(6)	49,012,193	42,399,697
Other receivables	(6)	1,323,272	309,194
Accrued interest	(6)	784,285	772,252
Intangible assets	(9)	33	8,950
Tangible assets	(9)	23,834	50,725
TOTAL ASSETS		**158,784,040**	**157,426,650**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities		1,576,963	761,860
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		14,201,053	13,150,650
Result for the year		542,287	1,050,403
Total equity		**157,207,077**	**156,664,790**
TOTAL LIABILITIES AND EQUITY		**158,784,040**	**157,426,650**

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 2015	113,406,560	24,557,177	4,500,000	13,150,650	-	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**
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**

Proposed allocation of the year's result:	**2016**	**2015**
Appropriation to the retained earnings	542,287	1,050,403
RESULT FOR THE YEAR	**542,287**	**1,050,403**

Cash flow statement

1 January - 31 December

(Amounts in EUR)	2016	2015
Cash flows from operating activities		
Result for the year	542,287	1,050,403
Depreciation and write-down in value of tangible and intangible assets	35,807	27,944
Value adjustments, investment assets	209,000	675,780
Value adjustments, other placements	-	-1,020,651
Capital adjustments, other placements	62,169	55,644
Impairments, lending	1,250,000	-1,352,919
Change in accrued interests	-12,033	136,885
Lending		
Disbursements	-15,024,479	-11,936,823
Repayments	5,465,300	3,549,479
Premature repayments	3,000,000	-
Realised credit losses	-	1,241,826
Capitalisations	-435,645	-249,550
Exchange rate adjustments	-867,673	254,782
Change in investment assets	-1,711,500	-45,000
Cash flows from operating activities	**-7,486,766**	**-7,612,200**
Cash flows from investing activities		
Change in placements with credit institutions	14,320,757	4,376,514
Change in debt securities	-83,265	-82,367
Change in other placements	-	1,020,651
Change in other receivables and liabilities, net	-198,975	1,815,665
Change in tangible and intangible assets	-	-20,847
Net cash flows from investing activities	**14,038,517**	**7,109,615**
Change in cash and cash equivalents	**6,551,751**	**-502,585**
Opening balance for cash and cash equivalents	**2,748,672**	**3,251,257**
Closing balance for cash and cash equivalents	**9,300,424**	**2,748,672**
Additional information to the statement of cash flows		
Interest income received	3,013,620	3,263,952

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.

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Notes to the financial statements

GENERAL OPERATING PRINCIPLES

The operations of the Nordic Environment Finance Corporation (hereinafter the Corporation or NEFCO) are governed by an agreement between the governments of Denmark, Finland, Iceland, Norway and Sweden and the related Statutes. On 14 December 2016 the owners signed an agreement on an amendment to the NEFCO Agreement. This amendment enhances NEFCO's ability to follow the environmental priorities of the Nordic countries and thereby increases the Corporation's relevance for the owners.

NEFCO's role going forward is to promote investments of Nordic environmental interest with focus on Eastern Europe.

NEFCO is an international financial institution. In the member countries the Corporation is an international legal person with full legal capacity, exempt from payment restrictions and credit policy measures. In addition, the NEFCO Agreement contains immunity provisions exempting the Corporation from all taxation.

The principal office of NEFCO is located 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

When 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 the investment companies, the Corporation's 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 three to five 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 three to five 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 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.

All of NEFCO's investment assets fall under Level 3 as of 31 December 2016 (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.

All of NEFCO's other placements fall under Level 3 as of 31 December 2016 (Note 8).

Equity

Paid-in authorised 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.

Trust Funds

Trust Funds are established in accordance with Section 3 of the Statutes of the Corporation and are administered under the terms governing each such Trust Fund. These Trust Funds may be investing funds and grant funds. They are primarily focused on project preparation, implementation and advisory. The Trust Funds may be bilateral or multilateral in nature. Investors of the Trust Funds are countries and private investors. The resources provided to NEFCO through these contribution agreements are held separately from the ordinary capital resources of the Corporation and are subject to external audit. Liquidity is managed in accordance with NEFCO's Risk Policy.

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 Host Country 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 2016, 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 the 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 2016.

NEFCO has not yet adopted the following new and amended standards and interpretations, already issued by the IASB.

- New IFRS 9 *Financial Instruments;* effective for financial years beginning on or after 1 January 2018. IFRS 9 replaces the existing guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets.
  Classification and Measurement. The new standard introduces a new financial asset classification type, Fair value through other comprehensive income (FVOCI) for financial assets held in a business model whose objective is hold assets to collect contractual cash flows and selling financial assets and the cash flows consist solely payments of principal and interest on the principal amount outstanding.
  Expected credit loss - NEFCO is developing its model for forecasting expected credit losses according to the new standard.
- IFRS 15 *Revenue from Contracts with Customers;* effective for financial years beginning on or after 1 January 2018. NEFCO is investigating the impact of IFRS 15.
- IFRS 16 *Leases* substantially changes the accounting treatment as the majority of leases will become on-balance sheet liabilities with corresponding right of use assets on the balance sheet. The standard replaces IAS 17 *Leases* and is effective January 1, 2019. However, NEFCO does not have significant leasing commitments and therefore the new standard is not expected to have a significant impact.

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 operations is to provide risk capital and loans to finance investments that are of interest to the Nordic countries from the environmental point of view. The geographical mandate has at the end of 2016 been broadened but the focus will remain in Eastern Europe. The authorised capital 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 authorised capital.

Market risk

- *Foreign exchange rate risk*

Outstanding loans are denominated in euros, roubles and US dollars. Rouble-denominated lending accounts for 7.8% and dollar-denominated lending for 1.8% 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 rouble-denominated loans is available from the Nordic Environmental Development Fund (NMF). As of 31 December 2016, the guarantee facility has been used to a total of EUR 190,588 to cover the foreign exchange losses following the rouble's drop in value in 2014, and after rouble gained its value in 2016 a repayment was made to replenish the guarantee. The utilised guarantee facility reduced NEFCO's foreign exchange losses in 2014 and foreign exchange gains in 2016. 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, 69.7% are floating-rate and 30.3% 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 78 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 0.39 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 16.3 million as of 31 December 2016. The cumulative risk reserves protect the Corporation's authorised capital against losses. Equity investments account for 14.4% of the authorised capital.

An indirect price risk may occur in the investment in NEFCO Carbon Fund (NeCF). NEFCO is involved in projects that delivered the last emission reductions in 2013. NEFCO donated these emission reductions in 2014 to the owner countries and as of 31 December 2016 there were no emission reductions in NEFCO's possession. A large proportion of the NeCF funds remain unused.

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 49.0 million as of 31 December 2016. 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 43.2% of the authorised capital. Collateral for the loans consists of local authority guarantees (11.4%) or guarantees given by a parent company or bank (30.9%) while various types of liens and charges account for 16.8%. Negative clauses and other financial commitments represent 9.4% of the total and 19.9% 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. The liquid funds and other placements with credit institutions (accounting for 68.4% of the authorised capital) consist mostly 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

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NEFCO is not governed by any national or international regulations.

when necessary. A part 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 investments 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.

Internal Audit

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 and Control Committee. 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)	2016	2015
Investment assets, realised gains and losses	-5,331	21
Other placements, realised gains and losses	-	-
Other realised gains and losses	1	11
Total realised gains and losses	**-5,331**	**32**
Investment assets, unrealised gains and losses	5,191	-676
Other placements, unrealised gains and losses	4	12
Total unrealised gains and losses	**5,196**	**-664**
Net result of financial operations	**-135**	**-632**

(2) OTHER INCOME AND ADMINISTRATIVE EXPENSES

Other income (Amounts in EUR 1,000)	2016	2015
Trust Fund Management Fees[1)]	3,587	3,934
Lending fee income	423	180
Service Fees and Guarantee commission	388	437
Total other income	**4,398**	**4,552**

1) Income from administration amounting to EUR 581,031 (2015: EUR 670,201) for NeCF; EUR 1,089,836 (2015: EUR 1,306,039) for NorCaP; EUR 834,117 (2015: EUR 862,623) for NMF and EUR 515,000 (2015: EUR 515,000) for NOPEF; as well as EUR 566,724 (2015: EUR 580,468) for other funds.

As of 31 December 2016 the Corporation administered 36 Trust Funds (2015: 34) with aggregate pledged contributions amounting to 358 million euros (2015: 345 million euros). The Corporation acts as manager and administrator of the Trust Funds for which it receives management and cost recovery fees. In 2016 the fees amounted to 3,6 million euros (2015: 3,9 million).

Administrative expenses (Amounts in EUR 1,000)	2016	2015
Staff costs	3,346	3,194
Pension premiums in accordance with the Finnish state pension system	637	679
Other pension premiums	168	168
Office premises expenses	355	253
Other administrative expenses	2,158	2,451
Miscellaneous administrative income	-	-
Total administrative expenses[2)]	**6,665**	**6,745**
Host country reimbursement according to agreement with Finnish government	-1,072	-983
Net administrative expenses	**5,593**	**5,762**

2) The Corporation's administrative expenses include the administrative expenses for i.a. NeCF, NorCaP, NMF and NOPEF.

In 2016 the average number of employees was 27 (2015: 27).

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:

	2016	2015
(Amounts in EUR)	Compensation/ taxable income	Compensation/ taxable income
Chairman of the Board	3,364	3,364
Other Directors and Alternates	17,498	17,162
Managing Director	342,916	326,944
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 2016 the employer's pension contribution was 15.95% of the income used as a basis for determining the amount of pension. The employee's pension contribution in 2016 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 2016 NEFCO paid a total of EUR 109,583 (2015: EUR 113,439) 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 granted staff loans subject to a recommendation from NEFCO's Board. Staff loans are granted by a 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.
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 (2015: EUR 0).

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/family 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

Statutes of NEFCO require it to have the same Control Committee which is responsible for the audit of NIB. The powers vested in NEFCO's Board may, to the extent considered appropriate, be delegated to the Managing Director of NEFCO and/or to NIB. NEFCO is required to have its principal office located in the principal office of the NIB.

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
2016	-	5	89	267
2015	-	12	-	98

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

(Amounts in EUR 1,000)			**2016**			**2015**
	Book value	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
Cash and cash equivalents						
Cash and balances with banks	9,300	9,300	-	2,749	2,749	-
Placements with credit institutions, held-to-maturity	-	-	-	-	-	-
Total cash and cash equivalents	**9,300**	**9,300**	**-**	**2,749**	**2,749**	**-**
Placements with credit institutions						
Placements with credit institutions, held-to-maturity	68,252	68,252	-	82,573	82,573	-
Total placements with credit institutions	**68,252**	**68,252**	**-**	**82,573**	**82,573**	**-**
Total cash and cash equivalents and placements with credit institutions	**77,552**	**77,552**	**-**	**85,321**	**85,321**	**-**

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)	**2016**	**2015**
Up to and including 3 months	20,300	11,798
3–6 months	27,000	24,072
6–12 months	26,000	48,341
1-2 years	3,000	-
Undefined	1,252	1,111
Total cash and cash equivalents and placements with credit institutions	**77,552**	**85,321**

Debt securities (Amounts in EUR 1,000)		**2016**				**2015**
	Book value	**Fair value**	**Differ-ence**	**Book value**	**Fair value**	**Differ-ence**
Debt securities with credit institutions, held-to-maturity	10,290	10,239	-51	10,206	10,202	-4
Total debt securities	**10,290**	**10,239**	**-51**	**10,206**	**10,202**	**-4**

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

Maturity (Amounts in EUR 1,000)	**2016**	**2015**
1–5 years	10,290	10,206
Total debt securities	**10,290**	**10,206**

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)	**2016**	**2015**
Realised credit losses	-	1,242
Individual impairment losses, net	1,250	-1,353
Collective impairment losses, net	-	-
Total impairment of loans/reversals	**1,250**	**-111**

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 2.75 million (2015: EUR 1.5 million) 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)	**2016**	**2015**
Opening balance January 1	1,500	2,430
Increase/decrease in collective impairment losses	-	-
Impairment losses, individual	1,250	-
Reversals of previously recognised individual impairment losses	-	-930
Impairment losses December 31	**2,750**	**1,500**

Impairment, accrued interest (Amounts in EUR 1,000)	2016	2015
Opening balance January 1	-	1
Impairment losses recognised during the year	-	-
Reversals of previously recognised impairment losses	-	-1
Impairment losses December 31	**-**	**-**

Impairment, other receivables (Amounts in EUR 1,000)	2016	2015
Opening balance January 1	-	422
Impairment losses recognised during the year	-	-
Reversals of previously recognised impairment losses	-	-422
Impairment losses December 31	**-**	**-**

Non-performing loans as of 31 December 2016 amounted to EUR 1,346,824 (2015: EUR 0).

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 of 31 December 2016, the total amount of outstanding loans subject to such adjustment was EUR 888,889 (2015: EUR 2,703,333) before impairment. After impairment, the equivalent amount as of 31 December 2016 was EUR 888,889 (2015: EUR 2,073,333). All interest in regards to these loans has been paid.

The following tables show net lending after deductions for impairment losses totalling EUR 2,750,000 (2015: EUR 1,500,000).

Lending by country as of 31 December:

Country (Amounts in EUR 1,000)	2016	2015
Belarus	11,304	6,598
Denmark	3,500	-
Estonia	-	136
Finland	6,831	6,315
Latvia	1,391	2,037
Russia	5,704	9,593
Sweden	1,249	1,666
Ukraine	19,033	16,055
Total loans outstanding	**49,012**	**42,400**

As of 31 December 2016, the loans agreed but not yet disbursed totalled EUR 28.97 million (2015: EUR 9.66 million).

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 conditions for disbursement are met.

Loans agreed, but not yet disbursed (Amounts in EUR 1,000)	2016	2015
Up to and including 3 months	28,969	9,663
Total loans agreed, but not yet disbursed	**28,969**	**9,663**

The maturity profile for loans outstanding as of 31 December:

Maturity (Amounts in EUR 1,000)	**2016**	**2015**
Up to and including 3 months	983	1,864
3–6 months	1,581	1,608
6–12 months	2,394	2,465
1–2 years	12,296	4,642
2–3 years	16,935	11,407
3–4 years	4,772	13,704
4–5 years	4,282	2,815
5–10 years	5,769	3,895
Total loans outstanding	**49,012**	**42,400**

Lending by currency:

Currency (Amounts in EUR 1,000)	**2016**	**2015**
EUR	44,301	37,761
RUB	3,816	3,541
USD	895	1,098
Total loans outstanding	**49,012**	**42,400**

Loans outstanding by type of security as of 31 December:

	2016		**2015**	
Security (Amounts in EUR 1,000)	**Amount**	**Share %**	**Amount**	**Share %**
Loans to or guaranteed by local authorities	5,576	11.4	5,814	13.7
Loans guaranteed by banks	5,318	10.9	409	1.0
Loans with mortgage on immovable property	5,984	12.2	4,771	11.3
Loans with pledge on shares	2,265	4.6	6,189	14.6
Loans with floating charge	-	0.0	136	0.3
Loans issued to banks	9,750	19.9	11,000	25.9
Loans with a negative pledge clause and other covenants	4,605	9.4	4,410	10.4
Loans with a guarantee from the parent company	9,830	20.1	4,420	10.4
Loans without a formal security	5,685	11.6	5,250	12.4
Total loans outstanding	**49,012**	**100.0**	**42,400**	**100.0**

The maturities of the loans extended by the Corporation vary from two to eight years. Of all outstanding loans, 90.4% are denominated in euros, 7.8% in roubles and 1.8% in US dollars. Of the total of 24 loans, 19 are floating-rate loans. Such loans account for 69.7% of the total. The other five loans accounting for 30.3% of the total have fixed interest rates.

(7) INVESTMENT ASSETS

The Corporation's portfolio comprised the following holdings as of 31 December 2016:

Holding	**Country/region**	**% of total capital**
4E Biofond OÜ	Estonia	30.1
AMEC Foster Wheeler Energy Fakop Sp. zo.o	Poland	21.3
DGE Baltic Soil & Environment UAB	Lithuania	34.5
Ekovod LLC	Russia	22.0
Eskaro Ukraine AS	Ukraine	20.0

GreenStream Network Ltd	Finland	23.7
Halychyna-Zahid LLC	Ukraine	5.6
International Pork Investments AS	Latvia	3.4
Rindibel JC JSC	Belarus	38.6
Vardar Eurus AS	Baltics	10.0

The acquisition cost of the investment assets was EUR 15,966,551 (2015: EUR 19,655,277) while the fair value was EUR 16,289,044 (2015: EUR 14,786,544).

As of 31 December 2016, the agreed but not yet acquired holdings totalled EUR 0.00. (2015: EUR 11,642).

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.

Fair value of investment assets (Amounts in EUR 1,000)	**2016**	**2015**
Level 1	-	-
Level 2	-	-
Level 3	16,289	14,787
Total	**16,289**	**14,787**

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)	**2016**	**2015**
January 1	**14,787**	**15,417**
Investments during	2,000	45
Divestments during	-289	-
Change in value	-209	-676
Reassignment from Level 2	-	-
December 31	**16,289**	**14,787**

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 9.0 million to the financial result whereas a loss of 36% would have a negative impact of EUR 5.9 million.

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

Level 3 Investment assets (Amounts in EUR 1,000)	**2016**	**2015**
Fair value	16,289	14,787
Positive impact	8,959	8,133
Negative impact	-5,864	-5,323

(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)	2016	2015
NEFCO Carbon Fund	3,509	3,572
Emission reductions	-	-
NMF	-	-
Total other placements	**3,509**	**3,572**

NEFCO's share of NeCF's authorised capital is 7.6% (2015: 7.5%).

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

(Amounts in EUR 1,000)	2016	2015
Level 1	-	-
Level 2	-	-
Level 3	3,509	3,572
Total other placements	**3,509**	**3,572**

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)	2016	2015
Intangible assets	**Computer software, development costs**	**Computer software, development costs**
Acquisition value January 1	109,717	109,529
Acquisitions during the year	-	188
Acquisition value December 31	109,717	109,717
Accumulated amortisation January 1	100,767	98,913
Amortisation according to plan	8,917	1,854
Accumulated amortisation December 31	109,684	100,767
Net Book value	**33**	**8,950**

Tangible assets	Office inventories	Office inventories
Acquisition value January 1	133,324	112,665
Acquisitions during the year	-	20,659
Acquisition value December 31	133,324	133,324
Accumulated depreciation January 1	82,600	56,510
Depreciation according to plan	26,890	26,090
Accumulated depreciation December 31	109,490	82,600
Net Book value	**23,834**	**50,724**

(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)	2016	2015
Up to and including 3 months	11,948	12,202
3–6 months	22,962	15,087
6–12 months	1,263	1,310
1–5 years	12,840	11,165
5–10 years	-	2,635
Total loans outstanding	**49,012**	**42,400**

(12) EXCHANGE RATES

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

		EUR rate 31.12.2016	EUR rate 31.12.2015
DKK	Danish krone	7.4344	7.4626
GBP	British pound	0.85618	0.73395
RUB	Russian rouble	64.3	80.6736
SEK	Swedish krona	9.5525	9.1895
UAH	Ukrainian Hryvnia[1)]	28.4226	26.22313
USD	US dollar	1.0541	1.0887

1) National Bank of Ukraine

08

Independent Auditors' 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, 2016. The financial statements comprise the statement of financial position as at 31 December 2016, 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.

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 judgment and maintain professional skepticism 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 information included in 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 information included in the report of the Board of Directors and, in doing so, consider whether the information included in the report of the Board of Directors is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements.

If, based on the work we have performed, we conclude that there is a material misstatement in the information included in the report of the Board of Directors, we are required to report this 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, 9 March 2017

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

09

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 2016, 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 9 March 2017, at which time we also received the Auditors' Report submitted on 9 March 2017 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 2016 provides a true and fair view of the financial position as at December 31st 2016, as well as on the result of the operations and cash flows during year 2016. In accordance with the statement of comprehensive income the profit for 2016 amounts to EUR 542.287.

We recommend to the Nordic Council of Ministers that:

- the result for year 2016 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, 9 March 2017

Bill Fransson
Penilla Gunther
Arto Pirttilahti
Sjúrður Skaale
Michael Tetzschner
Höskuldur Þórhallsson

10

Board of Directors, Control Committee, Personnel

BOARD OF DIRECTORS 2016

DENMARK
Søren Bukh Svenningsen
Head of Division,
The Environmental Protection Agency/Ministry of the Environment and Food

Mikkel Hagen Hess
Deputy Head of Department,
The Trade Council/Ministry of Foreign Affairs

FINLAND
Ann-Britt Ylinen
Director, Ministry of the Environment

Kristiina Isokallio
Director, Ministry of the Environment, Alternate

ICELAND
Danfríður Skarphéðinsdóttir
Head of Division, Ministry for the Environment and Natural Resources

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

NORWAY
Harald Rensvik
Secretary General, Ministry of the Environment

Jan Thompson
Senior Adviser, Ministry of the Environment, Alternate

SWEDEN
Jessica Andersson
Senior Advisor, Ministry of the Environment and Energy

Mikael Benthe
Deputy Director, Ministry for Foreign Affairs, Alternate

OBSERVERS
Anna Maria Hill Mikkelsen
Senior Adviser, Nordic Council of Ministers (until February 2016)

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

Søren Kjær Mortensen
Senior Director,
Head of Origination,
Nordic Investment Bank

CONTROL COMMITTEE 2016

Chairman
Bill Fransson, Director

DENMARK
Mr Sjúrður Skaale
Member of Parliament

FINLAND
Arto Pirttilahti
Member of Parliament

ICELAND
Höskuldur Þórhallsson
Member of Parliament

NORWAY
Michael Tetzschner
Member of Parliament

SWEDEN
Penilla Gunther
Member of Parliament

AUDITORS
Marcus Tötterman
Secretary to the Control Committee, Authorised Public Accountant
KPMG Finland, Helsinki

Anders Tagde
Authorised Public Accountant KPMG
Stockholm, Sweden

PERSONNEL 2016

Magnus Rystedt
Managing Director

Johanna Ahlström
Legal Counsel,
from August 2016

Husamuddin Ahmadzai
Special Adviser, Environment and Technology

Mia Alén
Financial Controller

Tita Anttila
Vice President, Head of Legal and Project Administration, Chief Counsel

Vivi Avikainen
Assistant

Amund Beitnes
Senior Investment Manager

Janika Blom
Legal Counsel,
until August 2016

Ulf Bojö
Senior Investment Manager

Aliona Fomenco
Project Manager

Henrik Forsström
Senior Adviser

Kari Homanen
Executive Vice President

Kari Hämekoski
Manager

Andriy Katashov
Technical Adviser - Representative Office in Kiev, Ukraine

Karl-Johan Lehtinen
Senior Manager,
Environmental Affairs,
until June 2016

Helle Lindegaard
Vice President, Head of Trust Funds and Climate, Senior Legal Counsel

Iryna Lyashenko
Investment Specialist - Representative Office in Kiev, Ukraine

Tetiana Lytvyn
Investment Specialist - Representative Office in Kiev, Ukraine,
from June 2016

Helena Lähteenmäki
Senior Investment Manager,
from September 2016

Maria Maliniemi
Investment Manager,
until April 2017

Ronny Nilsson
Senior Adviser

Tina Nyberg
Project Officer

Bo Eske Nyhus
Senior Investment Manager

Anja Nystén
Senior Manager
Environmental Affairs

Lia Oker-Blom
Communications and Administration Officer

Per Ovesen
Regional Manager,
until March 2017

Søren Rasmussen
Project Officer,
from March 2017

Mikael Reims
Senior Manager

Bia Saarinen
Assistant / Paralegal,
from October 2016

Maija Saijonmaa
Project Manager
(maternity leave)

Mirjam Scheinin
Associate Legal Counsel,
until August 2016

Mykhailo Senchuk
Assistant - Representative Office in Kiev, Ukraine,
until June 2016

Ash Sharma
Special Adviser, Climate Change and
Lead Financial Specialist,
until August 2016

Julia Shevchuk
Chief Investment Adviser - Representative Office in Kiev, Ukraine

Heli Sinkko
Project Officer
(maternity leave)

Mikael Sjövall
Communications Manager
(leave of absence)

Tua Skand
Financial Controller

Mia Ståhle-Lauritzon
Financial Controller / Financial Analyst

Thor Thorsteinsson
Senior Financial Manager

Marina Westerholm
Executive Assistant to the Managing Director

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