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NEFCO is an international financial institution (IFI) established in 1990 by the Nordic countries Denmark, Finland, Iceland, Norway and Sweden. Our objective is to generate positive environmental impact of interest to the Nordic countries. To reach this goal, we finance and implement exclusively green growth and climate projects globally, with a strong focus on Eastern Europe, as well as the Baltic Sea, Arctic and Barents regions. Read more at [www.nefco.org](http://www.nefco.org)

# Annual Report by the Board of Directors 2019

The year 2019 has been characterised by an increased flow of new projects and new fund management assignments. The result of the decision of the owners, the Nordic countries, to expand the activity and support the internationalisation of small and medium-sized green technology companies also outside Eastern Europe was seen clearly in 2019. Of a total of 41 new project proposals processed by the Board during the year, 11 are investments under the so-called Global Mandate.

The new Managing Director, Trond Moe, who took office on 1 June 2019 after Magnus Rystedt who had been NEFCO's Managing Director since 2006, was thus able to bring a successful financial year to a close. During the year, work was started in cooperation with the Board on a new strategy for NEFCO. The strategy work will be completed in 2020 and focus on the next five years.

A total of 154 projects, worth EUR 101 million, were approved throughout the activity. In the Investment Fund, NEFCO's basic capital, 33 new investments totalling EUR 78 million were approved, and at the end of the year NEFCO had a total of 84 active projects with commitments totalling EUR 101 million in outstanding loans and investments excluding value adjustments, EUR 74 million agreed with unpaid commitments and EUR 69 million allocated to projects approved by the Board but still under negotiation. There is a certain backlog with the payments and a greater proportion of NEFCO's funds than shown in NEFCO's Statement of Financial Position have therefore been allocated.

From an environmental perspective, climate-related investments and projects continue to dominate. As in recent years, energy-efficiency measures are the biggest single category, but there has also been a positive increase in projects related to renewable energy production, innovative solutions and cleaner technology through circular economy and resource efficiency.

During the year, NEFCO has signed agreements for three new fund assignments. The new fund assignments are Sida's (Sweden) expansion of its programme Beyond the Grid Fund for Africa (BGFA), which aims to stimulate electrification of rural areas in Africa; the Nordic Council of Ministers' phase II of the Nordic pilot Programme for Nordic Co-operation on the Environment and Climate for projects in Northwest Russia (PECC); and the EU NIP Ukraine Water Modernisation Programme for upgrading the infrastructure of the Ukrainian water and water treatment system.

NEFCO administers many fund assignments for its owners and other private and public contributors and investors through its trust fund management activity. NEFCO is

also an Accredited Entity of the Green Climate Fund, though it has not yet implemented specific projects for the fund, and an Implementing Agency for a number of projects in large multinational funds, such as the Eastern Europe Energy Efficiency and Environment Partnership (E5P) and the Northern Dimension Environmental Partnership (NDEP).

The financial and environmental results of the activity were both in line with expectations. Interest income on lending increased sharply compared with 2018, primarily due to the rise in lending, which in turn is associated with favourable green tariffs for renewable energy projects in Ukraine. The net income from financial transactions is significantly lower due to a favourable sale of shares in a company in 2018.

## EVALUATION OF THE PROJECTS' ENVIRONMENTAL IMPACTS

In accordance with the procedure that has gradually been developed at NEFCO, each project is evaluated with regard to its environmental impacts. The expected environmental impacts are analysed before a decision on participation in financing is taken, and once the project has been completed, NEFCO follows up the actual impacts. The projects under the Investment Fund and under the Environmental Development Fund (the funds are presented in more detail below) on average show good environmental impacts that exceed the expected level. The annual environmental report is attached.

## THE INVESTMENT FUND

The Investment Fund consists of NEFCO's basic capital. The owners originally paid EUR 113.4 million, and due to accumulated profits NEFCO's capital now totals EUR 166 million. NEFCO can invest on market terms in the form of loans or equity in environmental investments outside the Nordic countries, though originally only in Eastern Europe, and since 2018 also globally. The annual accounts only report on the Investment Fund. The other fund assignments are reported separately. The administrative fee accruing to NEFCO from the fund assignments is reported in the Statement on Comprehensive Income under the item Other income.

During the year, the Board approved 24 new investments, of which one is a programme of ten individual projects co-financed under the EU programmes for infrastructure projects – Neighbourhood Investment Platform (NIP) – and 17 so-called expressions of interest, i.e. a first approval in principle of a project for further processing.



A total of 154 projects, worth EUR 101 million, were approved throughout the activity in 2019.

NEFCO was able to conclude four projects within the Investment Fund in 2019, including one on biogas in the Baltic States; one loan scheme for electrification of the transport sector in Belarus, which has subsequently been renewed; and two projects on municipal waste water management, of which one in Latvia and one in Russia. During the year, 18 previously approved projects that were no longer deemed viable to realise according to plan were dropped. Negotiations or studies are still under way in 29 approved projects.

Of the active projects, nine are ones in which NEFCO has invested in share capital or equivalent. Two of these also include loans from NEFCO. In 46 active projects, the commitment only takes the form of loans. On the whole, the development in the agreed projects is satisfactory.

In terms of earnings, based on the respective project companies' annual accounts for 2018, 11 companies reported surpluses, two reported a nil return, ten made a loss, 24 are projects in which operating activities have not yet started, and eight have municipal or government borrowers.

The investments carried out in 2019 have a wide sector spread, but the emphasis is on measures that promote renewable energy production and energy efficiency. During the year, a number of projects were also approved to modernise municipal water and wastewater management, including energy-efficiency measures, and district heating projects based on biofuel. In addition, projects investing in innovative solutions and cleaner technologies, such as circular economy and resource efficiency, were approved.

### MANAGEMENT ASSIGNMENTS

According to the statutes, NEFCO may manage external funds in accordance with these existing specific guidelines. The fund activity shall be carried out in line with NEFCO's overall objective of promoting environmental projects. NEFCO mainly manages three types of fund assignments:

#### 1. Funds managed on behalf of the Nordic Council of Ministers:

- the Nordic Environmental Development Fund (NMF) and the Nordic Project Fund (Nopef). The funds are described in more detail below.

#### 2. Funds managed primarily for the Nordic governments.

These consist of a number of small bilateral as well as big multilateral funds that can be used to support NEFCO's own investment activities in Eastern Europe and that can also promote the specific objectives of the contributors. The multilateral funds include:

- the Arctic Council Project Support Fund (PSI), the Barents Hot Spot Facility (BHSF), the BSAP Fund, the Nordic-Russian Programme for Environment and Climate Co-operation (PECC), as well as the funds Nordic Energy Efficiency and Humanitarian Support Initiative for Ukraine, the Finland-Ukraine Trust Fund, the Norwegian Ukrainian Energy Efficiency Initiative, the Sweden-funded DemoUkrain-aDH and the Sweden-Ukraine District Heating for different kinds of energy-efficiency projects in Ukraine. PSI and BHSF are described in more detail below.

#### 3. Funds that are managed mainly on behalf of one or several Nordic governments not related to Eastern Europe:

- climate funds for procuring Certified Emission Reductions (CER) that include a number of public and private investors.
- Sweden's programme Beyond the Grid Fund for Africa (BGFA) aimed at stimulating electrification in rural areas in Africa.
- the Nordic Initiative for Cooperative Approaches (NICA), which promotes the Paris Agreement from a broader perspective.

The Carbon Funds and NICA are described in more detail below.

At the end of 2019, NEFCO managed a total of 15 (2018: 13) funds with a total agreed value of EUR 338 million (2018: EUR 292 million), while there were a total of 23 (2018: 26) fund assignments with a total agreed value of EUR 63 million (2018: EUR 60 million). Of the fund assignments, 11 (2018: 11) are part of the EU programmes E5P, NDEP and NIP.

### THE NORDIC ENVIRONMENTAL DEVELOPMENT FUND

NEFCO has managed the Nordic Environmental Development Fund (NMF) on behalf of the member states since 1996. The aim of NMF is to achieve positive environmental impacts by strengthening the profitability of urgent environmental projects, enabling greater risk taking with financing, bringing forward the implementation of the projects or producing additional environmental investments. The aid shall complement and contribute to a catalytic effect for, among others, NEFCO's Investment Fund. The investments are smaller in size than those of the Investment Fund but do not have to be based on market terms. NMF's flexibility also enables involvement in the identification and disposal of environmental toxins as well as measures in the areas of the Baltic Sea, the Barents Region and the Arctic, in which the environment has been severely impacted.

NMF is administered by NEFCO, and NEFCO's Board decides on allocations under NMF.

The Nordic Investment Bank (NIB) takes part in the project evaluation. The revolving loan instruments, drawn up with funds from NMF, are managed under a separate fund, NMF Credits. Separate annual accounts are reported for NMF and NMF Credits funds.

NMF is currently financed by annual contributions from the Nordic Council of Ministers, according to what is separately decided for each year. At the end of 2019, NMF's funds totalled EUR 51.6 million, of which EUR 44.3 million has been allocated to NMF Credits.

Under NMF and NMF Credits, a total of 22 new projects were approved as well as one additional investment in a previously approved project. Of these 22 projects, 15 fall within the frame of the loan scheme for energy-efficiency projects and four under the Cleaner Production Facility (CPF). All four projects under the Cleaner Production Facility concern upgrading of the district heating in Ukraine.

In 2018, the loan scheme for energy savings was extended to include Armenia, Georgia and Moldova, and in 2019 the first project was approved in Moldova. No projects have been realised in Armenia and Georgia so far.

### THE NORDIC PROJECT FUND

NEFCO has administered the Nordic Project Fund (Nopef) since 2014. Nopef's activities are financed through annual budgetary funds from the Nordic Council of Ministers. Nopef's aim is to promote internationalisation of Nordic small and medium-sized companies, with particular focus on Nordic environmental and climate solutions with demonstration value and potential for global upscaling. Nopef grants funding for feasibility studies for demonstration and pilot projects for Nordic environmental and climate innovations in international markets.

In 2019, the fund was allocated EUR 2.0 million. All the performance targets for the year have been met. Nopef awarded financing to 66 projects with a value of EUR 2.1 million. During the year, 36 projects were realised, corresponding to a realisation percentage of 73% of completed projects. At the end of the year, Nopef's project portfolio covered 156 projects with geographical emphasis on Asia, North America, and South and Central America. In accordance with Nopef's objectives, during the year, several projects were identified for potential continued financing by NEFCO's Investment Fund.

### THE BARENTS HOT SPOTS FACILITY

NEFCO has managed the Barents Hot Spots facility (BHSF) since 2004. The main aim of the fund is to promote relevant measures and investments for the 'hot spots' identified by the Barents Euro-Arctic Council in Northwest Russia. BHSF funds are primarily allocated to expert and feasibility studies and similar support measures.

In 2019, NEFCO worked closely with the Swedish Presidency of the Barents Euro-Arctic Council's environment working group and its subgroups, especially SHE (hot spots subgroup). BHSF is the main source of funding for the SHE work programme and its various support activities. During the year, BHSF funded, among other things, a series of seminars in all the Russian Barents regions linked to the introduction of best available technology (BAT) and the new procedure for granting environmental permits in Russia. NEFCO has worked particularly closely with the new thematic expert groups that are increasingly coordinating these efforts.

NEFCO's activities in Barents contexts are closely linked to the Arctic priorities, and BHSF supports preparatory project measures for possible financing from the Northern Dimension Environmental Partnership (NDEP) with the focus on waste management and soot emissions with particular impact on the Arctic.

Together with the Nordic Council of Ministers, BHSF also provides grants under the Programme for Environmental and Climate Cooperation (PECC), which is also managed by NEFCO on behalf of the Nordic Council of Ministers. A new call for proposals, PECC-2, has been prepared for launch in early 2020.

### THE ARCTIC COUNCIL PROJECT SUPPORT INSTRUMENT

NEFCO has administered the project preparation fund Arctic Council Project Support Instrument (PSI) since 2014. PSI is intended for project development and preparation, and demonstration projects prioritised by the Arctic Council's working and expert groups. So far, most of the project initiatives have come from the working group Arctic Contaminants Action Programme (ACAP), but the working group for Conservation of Arctic Flora and Fauna (CAFF) has also received PSI funding, and project proposals are being prepared in other working groups. Contributors are Finland, Iceland, Norway, Russia, Sweden, the USA, the Sami parliament of Norway and the Nordic Environment Development Fund, which include contributions from all Nordic countries, the Nordic Council of Ministers and NEFCO. In 2019, two projects totalling

EUR 4.1 million were approved. A total of 17 projects have received financing from the fund to a value of EUR 9.3 million, of which seven projects have been implemented.

Following an independent evaluation of PSI, carried out in 2018, the Arctic Council decided to extend the fund's pilot phase until 2021.

### NEFCO'S CARBON FUND ACTIVITY

NEFCO's carbon fund activity began in 2003, and over the years NEFCO has administered funds to a total value of approximately EUR 300 million, for private and public contributors. Through the carbon funds, NEFCO has built up a significant network and gained practical experience and expertise in climate financing, primarily in developing countries, including the least developed countries (LDCs). Based on its experience in the climate area, in 2018, NEFCO was the first Nordic institution to become an accredited entity of the Green Climate Fund (GCF), the world's biggest climate fund. The accreditation means that NEFCO has the right to apply for financing for projects that meet its criteria.

In 2018, under NEFCO's management and based on the Nordic climate cooperation, a new Nordic initiative, the Nordic Initiative for Cooperative Approaches (NICA), was established to work on issues relating to the Paris Agreement, in particular Article 6. The initiative seeks to provide tangible support for the development of a regulatory framework for international forms of cooperation and promotion of pilot projects to implement Article 6. In 2019, a consultancy assignment was launched to identify host countries suitable for testing and potential pilot activities.

At the end of 2019, NEFCO managed a portfolio of 18 active climate projects in different sectors in eight countries, which represent the funds NEFCO Carbon Fund (NeCF) and NEFCO Norwegian Carbon Procurement Facility (NorCaP). The funds are described in more detail below. A total of 26.8 million emission rights have been distributed to the investors in 2019.

NEFCO Carbon Fund (NeCF) – NEFCO has managed this global climate fund since 2008. The aim of NeCF is to procure emission rights from environmental projects that meet the Kyoto Protocol's requirements for joint implementation or the Clean Development Mechanism (CDM). At the end of 2019, NeCF's remaining capital totalled EUR 43 million. At the same time, NeCF had nine active purchasing agreements for emission reductions in China, Indonesia, Vietnam and Mozambique. During the year, the fund was able to deliver 0.3 million emission rights that have been distributed to the fund's investors.

NEFCO Norwegian Carbon Procurement Facility (NorCaP) – The fund was established with Norwegian funding in 2013, and its main aim is to procure emission rights within the second commitment period of the Kyoto Protocol (2013-2020) from UN-approved projects where there is a risk that the project will be cancelled due to the low market prices for credits. By the end of 2015, NorCaP reached its target of 30 million contracted credits. At the end of 2019, NorCaP had nine active procurement agreements for emission reductions in Brazil, Colombia, Mexico and South Africa. In 2019, the fund delivered 5.1 million emission rights to Norway.

### OTHER FUND MANAGEMENT ASSIGNMENTS

In addition to the above-mentioned funds, NEFCO manages a number of 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 where NEFCO is responsible for the use of the funds.

Finnish, Norwegian and Swedish grants are allocated for analysis, preparation and follow-up of environmental projects.

NEFCO also administers Norwegian funds for water management in Kenozero National Park in Russia; for measures against pollution from oil-contaminated water in the Barents Region; to support environmental and energy-efficiency projects in ODA-approved OSCE countries, the Arctic and Russia; for co-financing the identification, development and follow-up of projects with the Barents Hot Spots Facility; for the Norwegian initiative to support the Ukrainian gas reform; and for demonstration projects to promote energy efficiency in Ukraine.

Swedish funding has been set aside for co-operation with the Ukrainian government on district heating and for project preparation of environmental projects prioritised within the Baltic Sea Action Programme (BSAP) and/or NDEP; for an environmental project on the Solovki Islands in the Russian Barents; and for a new initiative to demonstrate the development of modern and energy-efficient district heating with the emphasis on renewable fuels in Ukraine. Additional Swedish financing has been set aside for projects that reduce SLCF emissions, for demonstration projects in district heating in Ukraine and for a joint Nordic initiative aimed at creating conditions for emission-reduction programmes in developing countries.

Finnish, Norwegian and Swedish funding has been set aside for the Nordic initiative, which has received support from the Nordic ministers for foreign affairs, with the aim

of financing renovation and construction of municipal buildings in the vulnerable areas of Ukraine. In addition, Finland and Sweden have set aside funds for the development and funding of a demonstration project for destroying ozone-depleting substances through the market for voluntary carbon credits and, together with NIB, administer a project development fund to support the implementation of the Baltic Sea Action Plan.

Similarly, Swedish and Finnish funds have been set aside to support activity linked to the so-called Nordic Initiative for Cooperative Approaches (NICA), which promotes the implementation of the Paris Agreement from a broader perspective.

In addition, Finland has set aside funds to finance projects in energy efficiency, renewable energy and alternative energy sources in Ukraine, while Denmark has set aside funds to support energy efficiency and sustainable energy development in Georgia.

Furthermore, NEFCO has an ongoing assignment with funds from NDEP for a project and funds from the E5P for nine ongoing separate projects and initiatives. Separate accounts are rendered for all external fund assignments administered by NEFCO.

For these other ongoing management assignments, the contributors have allocated a total of EUR 158 million as of 31 December 2019. The contributions for the completed management assignments totalled EUR 109 million as of 31 December 2019.

## STAFF

At the end of 2019, 33 persons worked directly for NEFCO, of whom five were employed by the Representative Office in Kyiv, Ukraine. NEFCO also has 11 full-time advisors linked to the activity as well as several consultants involved in individual projects.

## RESULTS

The annual accounts show a surplus of EUR 1,398,133.61. In accordance with previous practice, the Board proposes that the surplus be returned to the activity as retained profits.

Helsinki, 12 February 2020

**Danfríður Skarphéðinsdóttir**, Chair  
**Søren Bukh Svenningsen**, Vice-Chair

**Ismo Tiainen**

**Agnethe Dahl**

**Jessica Andersson**

**Trond Moe**, 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.

# NEFCO Annual Environmental Report 2019

## 1. INTRODUCTION

This report summarises the environmental results in NEFCO's funds and focus areas: Green Growth, Climate, Arctic & Barents and the Baltic Sea. In addition to its own capital, the Investment Fund (IF), NEFCO manages several trust funds on behalf of various donors and investors for the support of environmental and climate projects.

NEFCO's environmental reporting covers activities financed through the Investment Fund (IF), as well as through the Nordic Environmental Development Fund (NMF), Credits such as Energy Savings Credit (ESC) and the Cleaner Production Facility, and the Nordic Energy Efficiency and Humanitarian Support Initiative (NIU). This report also provides an overview of the environmental benefits or status achieved through the Carbon Climate Funds, the Nordic Project Fund (Nopef), the Arctic Council Project Support Instrument (PSI), the Barents Hot Spots Facility (BHSF), the Nordic-Russian Programme for Environment and Climate Co-operation (PECC), and the Baltic Sea Action Plan Fund (BSAP Fund).

NEFCO reports the results from active and ended projects. Annual environmental impact figures are based on actual realised results reported by the projects.

## 2. NEFCO'S ENVIRONMENTAL PURPOSE

### 2.1 Focus on projects with high demonstration value impact

NEFCO's financing is targeted at small and medium-sized private and public projects (SMPs), which demonstrate new technologies or methods with the potential to be replicated by others (referred to as demonstration value in NEFCO). Many of the numerous SMPs financed by NEFCO are at the forefront of technological innovation and aimed at testing the application of Nordic green solutions, with upscaling possibilities in local, non-Nordic circumstances. The ultimate goal of NEFCO's activities is the successful implementation of solutions that benefit the environment and climate in a cost-efficient way.

NEFCO's role in the internationalisation of green growth companies benefits not only the environment and climate but also creates new jobs in both the Nordic and the project countries. The majority of these private sector projects financed by NEFCO address energy efficiency, renewable energy or resource efficiency.

Projects with a high demonstration value have the potential for environmental impacts that are orders of magnitude greater than NEFCO's investment. However, these impacts are not calculated, as they are uncertain and often realised far into the future.

## MAIN ENVIRONMENTAL RESULTS OF STRATEGIC FOCUS AREAS IN 2019



### Green Growth

- 36 Nopef projects completed and 66 new ones agreed
- Four new global investment projects agreed
- These investments support the upscaling of Nordic green solutions



### Climate

- 5,463,520 t/CO<sub>2</sub> avoided through the Climate Funds
- 1,261,278 tCO<sub>2</sub> avoided through other investments, of which NEFCO's share is 12%



### Arctic & Barents

- Three Arctic projects completed, four under implementation, six in contracting phase
- New PECC-2 programme to be launched



### Baltic Sea

- 941 t Ptot and 4425 t Ntot reduced\*
- One BSAP Fund project completed, seven new projects approved and three projects under implementation

\*) in 2018; results for 2019 not yet available



## 2.2 Providing high additionality

In general, NEFCO seeks projects in which its financing leads to a significantly higher probability of achieving the environmental targets as well as reducing the time for the implementation compared with what would have been required or offered by the market; in some cases, these projects may never be implemented without NEFCO financing. This is referred to as additionality in NEFCO.

By connecting relevant project owners and various financiers, NEFCO helps its stakeholders to reach their environmental and sustainability goals. NEFCO's risk financing for small projects, growth-phase companies and risky geographical areas supplements financing offered by larger IFIs and other financiers. In addition, NEFCO facilitates hands-on environmental advice and capacity building to enable smaller customers and beneficiaries to become better at mobilising additional finance. NEFCO is seen as a financier and co-financier that gives projects a high environmental status.

## 3. CONTRIBUTION TO SUSTAINABLE DEVELOPMENT GOALS

NEFCO's financing activities contribute to both the Nordic Vision 2030 and the global Agenda 2030. The projects are mainly related to the following universal Sustainable Development Goals (SDGs):

### 6. Clean water and sanitation

NEFCO has financed a number of projects related to wastewater management through its Investment Fund and dedicated trust funds, primarily concerning projects that reduce discharges of nutrients into the Baltic Sea. NEFCO is also assessing other environmental threats such as the abundance of microplastics, pharmaceuticals and persistent organic pollutants, and how to reduce such substances in wastewater.

### 7. Affordable and clean energy

A significant part of NEFCO's financing operations relate to energy efficiency and renewable energy. NEFCO has financed, e.g., solar and wind energy projects in Eastern Europe through the Investment Fund, the ESC and NIU programmes, and bilateral funds, improving energy security and helping the countries reach their emission targets. Energy-related projects have also been realised through the green growth programmes, the Carbon Funds, and Arctic and Barents funding instruments.

### 9. Industry, innovation and infrastructure

NEFCO enables the internationalisation of Nordic green companies to scale up innovative solutions that help industries or service providers to save or utilise resources more efficiently and reduce pollution. In industrial projects, NEFCO pays special attention to resource efficiency that can translate into efficient use of raw materials such as metals, chemicals and water.

### 13. Climate Action

NEFCO contributes to climate change mitigation and adaptation in many of its activities. The large number of energy-efficiency and renewable energy investments and Carbon Fund projects have a direct impact on greenhouse gas emissions. In addition, by financing feasibility studies and demonstration projects in the Arctic and Barents regions, NEFCO paves the way for the implementation of BAT-BAP policies and larger-scale projects that generate a positive climate impact.

### 17. Partnership for the goals

The internationalisation of Nordic small and medium-sized companies contributes to increased employment in the Nordic and project countries. Nopef-financed projects shall deploy Nordic values in terms of company culture, CSR regulations and equality in the project countries.

## Additionally, NEFCO's activities contribute to the following common goals:

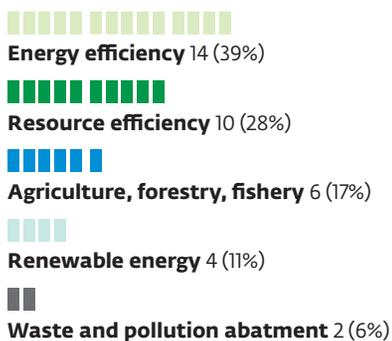
### 8. Decent work and economic growth

Projects in emerging markets have a stated aim to improve local working conditions and economic growth. The global mandate enables NEFCO to further finance Nordic green companies seeking risk capital to scale up their operations in global markets.

### 11. Sustainable cities and communities

Investments in the public sector, in, e.g., energy-efficiency, district heating and street lighting, as well as water and waste management, contribute to the goal of creating safer, healthier and more sustainable cities and communities and prosperity for their inhabitants. NEFCO-financed projects enable municipalities and cities to utilise Nordic solutions based on best practices and technologies.

**Realised Nopef projects 2019 per environmental sector:**



**12. Responsible consumption and production**

The Cleaner Production Facility (CPF) enables the reduction of industrial pollution through efficient resource and energy utilisation in both the public and private sectors in Eastern Europe. The on-lending programmes for the banking segment promote more sustainable habits among consumers. Financing has also been provided to many Nordic companies going global with solutions for more sustainable production methods and use of natural resources in various industry segments, e.g. the food industry and plastic recycling.

**14. Life below water**

The ecological state of the Baltic Sea has been a main priority since NEFCO was established by the Nordic countries. BSAP Fund projects aim to reduce discharges of phosphorus and nitrogen mainly from wastewater treatment plants and agriculture. NEFCO also works in close cooperation with HELCOM (the Baltic Marine Environment Protection Commission – also known as the Helsinki Commission). Investment projects related to ecological fish farming and new ways of protein production contribute to combatting overfishing and pollution.

**15. Life on land**

By facilitating and implementing environmental projects such as waste management, pollution reduction and improved forestry management, NEFCO also contributes to improved conditions for life on land. Several projects in the Arctic region have a strong emphasis on biodiversity.

**4. GREEN GROWTH**

**4.1 Investment Fund (IF) and Nordic Environmental Development Fund (NMF)**

NEFCO supports green growth globally through its Investment Fund. Dedicated instruments such as the Cleaner Production Facility, part of the NMF Credits, provide financing for specific segments and geographical areas. As the majority of these projects currently relate to tackling climate change, all IF and NMF Credits projects are presented in the section 5 Climate in this report.

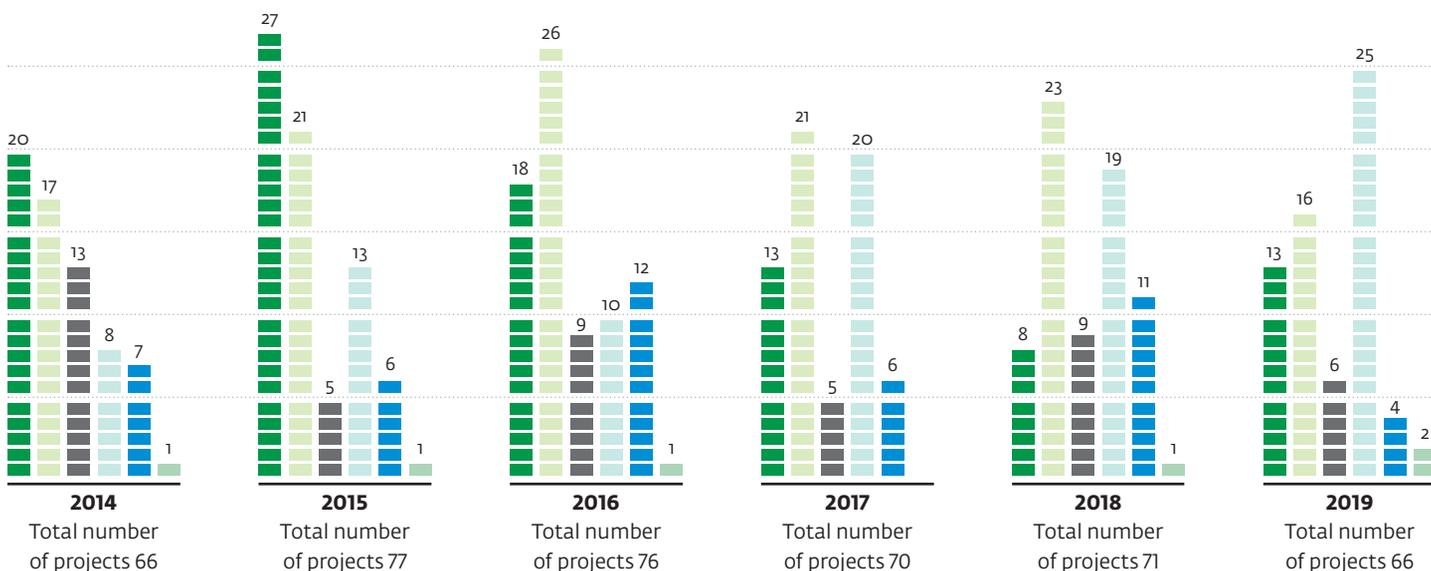
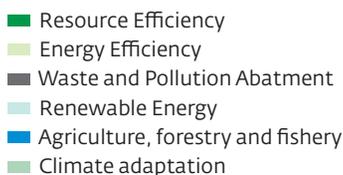
**4.2 Nordic Project Fund (Nopef)**

The Nordic Project Fund (Nopef) provides financing to Nordic small and medium-sized enterprises (SMEs) for feasibility studies aimed at green investments outside the EU/EEA. Nopef works specifically to promote the internationalisation of Nordic environmental and climate solutions with demonstration value and upscaling possibilities on global markets.

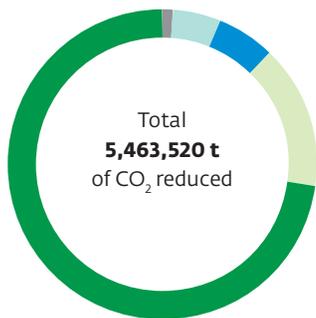
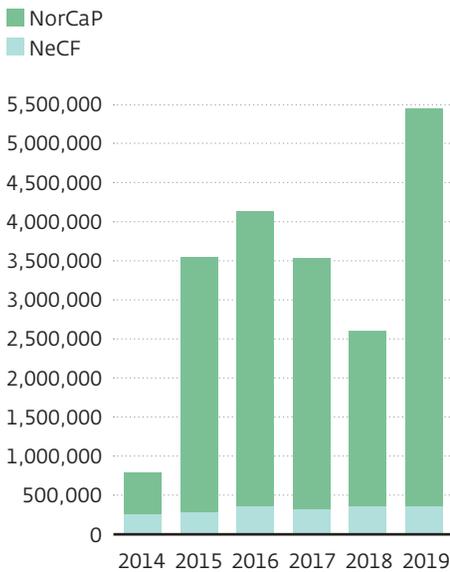
During the year, 36 projects were realised through a completed foreign establishment in the targeted project country. The realised projects represent Nordic environmental and climate solutions related to energy efficiency (39%); resource efficiency (28%); agriculture, forestry and fishery (17%); and renewable energy (11%) and wastes/pollution abatement (6%).

In 2019, Nopef approved financing for 66 new projects with a geographical focus on Asia, North America and South America. A majority of approved projects (64%) were climate related, with a continued increase in renewable energy projects, in particular within solar energy and offshore wind energy projects. Projects related to energy efficiency represented the second largest sector, followed by projects addressing solutions for increased resource efficiency.

**Number of Approved Nopef Projects 2014–2019**



### Emissions tCO<sub>2</sub> avoided through NEFCO's carbon funds



### Carbon fund project types based on CER volumes

Includes also projects that have ended but still leverage CERs

- 1% Energy demand
- 5% Metal production
- 6% Energy industries
- 15% Chemical industries
- 73% Waste handling and disposal

## 5. CLIMATE

### 5.1 Investment Fund (IF), Nordic Environmental Development Fund (NMF) and Nordic Energy-Efficiency and Humanitarian Support Initiative (NIU)

The majority of NEFCO's investment activities are related to renewable energy and energy-efficiency measures. Moreover, most projects co-financed by NEFCO in the industrial sector included energy-efficiency measures with tangible emission reductions. Public energy-efficiency projects generate environmental and/or climate benefits and positive economic returns at the same time to the municipalities.

The climate investments directly avoided 1.26 million tonnes of carbon dioxide emissions, of which NEFCO's share was 12% or 154,000 tonnes, in 2018. In terms of energy-efficiency measures, NEFCO managed to directly reduce energy consumption by 110 gigawatt-hours. The corresponding figures for 2019 are not yet available. In 2019, two (2) energy- and climate-related IF projects were completed (ended); see Table 2.

### Energy Savings Credits (ESC)

The Energy Saving Credits (ESC) loan programme offers small scale financing to municipalities in Armenia, Belarus, Georgia, the Republic of Moldova, Russia and Ukraine. Energy-saving measures include wall insulation, replacement of doors and windows, reconstruction of ventilation systems as well as upgrading of heating systems in a range of schools and day-care centres. In some cities, the project includes upgrades to the street lighting systems by replacing outdated and inefficient fixtures with energy-efficient light emitting diode lamps (LED).

### Cleaner Production Facility (CPF)

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

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

The purpose of the NIU fund is to finance upgrades to municipal infrastructure in areas that have been badly affected by the armed conflict in Eastern and Southern Ukraine.

In 2019, eight (8) NMF (ESC and CPF) and four (4) NIU projects were completed. Table 1 shows the environmental results from 2018. The environmental results from 2019 are not yet available.

### 5.2 Carbon Funds

#### NEFCO Carbon Fund (NeCF) and NEFCO Norwegian Carbon Procurement Facility (NorCaP)

At present, NEFCO manages two funds for the purchase of carbon credits through Clean Development Mechanism (CDM) projects, based on the Kyoto Protocol compliance scheme:

1. NEFCO Carbon Fund (NeCF), and
2. NEFCO Norwegian Carbon Procurement Facility (NorCaP).

The investors in NeCF are the Danish Energy Agency, Ørsted (formerly DONG Energy; DK), Eesti Energia (EE), Electrabel (BE), EPV Energy (FI), the Finnish Ministry of Foreign Affairs, Industrialiseringsfonden for Udviklingslandene (IFU, 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 nine (9) ongoing projects and the NorCaP portfolio encompasses nine (9). The projects fall within sectorial areas that are based on UNFCCC's categories, see graphics.

During 2019, Certified Emission Reductions (CERs) were delivered as follows:

- 320,242 into the NeCF account, and
- 5,143,278 into the NorCaP account.

One CER equals one tonne of CO<sub>2</sub>. **The total emission reductions correspond to 5,463,520 t/CO<sub>2</sub>.**

**Table 1.** CO<sub>2</sub> emission reductions in NEFCO's portfolio

Indicator	Active and ended projects	Active projects	Ended projects	Active and ended projects
	2017	2018	2018	2018
<b>IF, ESC, CPF, NIU</b>				
CO <sub>2</sub> indirect, t/a				
Sum of Reduction	191,293		175,352	175,352
Sum of NEFCO's share of reduction	7,977		7,312	7,312
NEFCO's share				4%
CO <sub>2</sub> direct, t/a				
Sum of Reduction	1,229,606	248,301	1,012,977	1,261,278
Sum of NEFCO's share of reduction	280,561	69,746	84,948	154,694
NEFCO's share				12%

**Table 2.** Investment Fund (IF) completed projects in 2019

Completed projects in 2019

Project	Project number	Country	Type	Environmental impact
4E Biofond OÜ	NEFCO 08/10	Estonia	Renewable energy	The biogas plants in Oisu and Vinni produce the expected amount of biogas and energy totalling 75,600 t CO <sub>2</sub> emission reduction/year
BNB Truck Renewal	NEFCO 11/13	Belarus	Energy efficiency	Environmental reductions by introducing new Euro-5 trucks to Belarus. The project has achieved about 19% of the expected results in 2014 and 2015. The reason for the low environmental impact is that there are no new truck contracts since 2015.

## 6 ARCTIC AND BARENTS

### 6.1 Arctic Council Project Support Instrument (PSI)

The Arctic Council Project Support Instrument (PSI) focuses on actions against pollution in the Arctic. The Instrument is a voluntary, non-exclusive mechanism for financing specific priority projects that have been approved by the Arctic Council Working Groups. PSI funding is available to projects by all of the Arctic Council's working groups. Since 2014, the PSI Committee (PCOM) has approved funding for 21 Arctic Council projects in the fields of combating climate change, hazardous waste management, and enhancing biodiversity.

A new PSI Manual was approved by the PSI Project Steering Committee (PCOM) and has been taken into use. The manual addresses procedural issues in project management which will streamline the project implementation.

In 2019, three projects were completed, four projects were under implementation and

six were under contracting. The completed projects are reported in Table 3.

The Karelia Diesel BC project was completed with emission reductions of NO<sub>x</sub> 35,386 kg, CO 631 kg, SO<sub>2</sub> 4,167 kg, PM-10 5,191 kg, CO<sub>2</sub> 2,104 tonnes and Black Carbon 813 kg. The two other completed projects were preparatory work, and there are no emission reductions to report from these. The Arctic Migratory Bird Initiative – Two Flyways project enabled the coordinators for both the East Asian Australasian Flyway and the African Eurasian Flyway to develop crosswalk comparisons and implementation plans. The project also helped to leverage other funding for this work. The next phase is already ongoing. The Murmansk Fisheries project succeeded in leading the work to its second phase, which is about to start.

In the long run, the PSI-funded projects are expected to lead to the reduction of black carbon and CO<sub>2</sub> emissions, mitigation of persistent toxic substances, non-methane volatile organic compounds and improved biodiversity.

## 6.2 Barents Hot Spots Facility (BHSF)

NEFCO has managed the Barents Hot Spots Facility (BHSF) since 2004. The main aim is to promote relevant actions and investments at the environmental ‘hot spots’ identified in Northwest Russia, together with the responsible Russian authorities and the project owners. BHSF funds are allocated primarily to expert and feasibility studies, and other technical assistance. The facility also co-finances the Adviser on issues of climate, environment and ‘hot spots’ at the International Barents Secretariat in Kirkenes. Preparations have been made to facilitate the exclusion of additional hot spots at the Barents Environment Ministers meeting in early 2020.

NEFCO has worked very closely with the Swedish Chair of the Barents Working Group on Environment (WGE) and its subgroups, in particular the Subgroup on Hot Spot Exclusion (SHE). BHSF is the primary source of funding for the SHE Work Programme and its defined ‘Support Activities’. In 2019, among other things, BHSF funded seminars in all Russian Barents regions on the theme of the introduction of Best Available Techniques (BAT) and the new environmental permitting procedure in Russia. NEFCO has cooperated closely with the newly established task forces that co-ordinate these efforts in various sectors linked to the hot spots:

NEFCO's activities in the Barents context are closely linked to the Arctic priorities, and BHSF supports project preparatory measures for possible funding from NDEP with a focus on waste management and soot emissions with special impact on the Arctic.

Together with the Nordic Council of Ministers, BHSF also provides grants within the cooperation programme Programme for Environment and Climate Co-operation (PECC), which is managed by NEFCO. A new call for proposals, PECC-2, will be launched in early 2020.

## 7 THE BALTIC SEA

### 7.1 Investment Fund (IF) and Nordic Environmental Development Fund (NMF)

In 2018, through NEFCO-financed projects, phosphorus (P) discharges from wastewater treatment plants were reduced by 941 tonnes and from agriculture by 38 tonnes. The total annual phosphorous discharge reduction of 979 tonnes equals the amount of discharges from untreated wastewater from approx. 1.34 million people. NEFCO's pro rata share of the reduction is 203 tonnes P/year equalling wastewater from approx. 280,000 people.

The corresponding figure for nitrogen (N) was 4,498 tonnes N/year of which NEFCO's share was 890 tonnes N/year. In 2019, two projects related to nutrient reductions were completed (Table 5).

The environmental results for active and completed (ended) projects in 2019 are not yet available.

### 7.2 Baltic Sea Action Plan Fund (BSAP Fund)

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

In total, 37 projects have ended or been discontinued during the period from 2010 to December 2019. In 2019, one project was completed (Table 6) and three projects were under implementation.

**Table 3.** Completed Arctic projects in 2019

	PSI Location	PSI sector	PSI project type
Arctic Migratory Bird Initiative – Two Flyways	Circumpolar	Biodiversity	Implementation (IP)
Karelia – Diesel Black Carbon (BC)	Russia	Climate	Implementation (IP)
Murmansk – Ozone Depleting Substances – Fisheries (Phase 1)	Russia	Climate	Technical Assistance (TA)

**Table 4.** Reductions in IF and NMF Credits

Indicator	Active and ended projects	Active projects	Ended projects	Active and ended projects
	2017	2018	2018	2018
<b>Ntot agriculture, t/a</b>				
Sum of Reduction	65	37	36	<b>73</b>
Sum of NEFCO's share of reduction	23	20	22	<b>42</b>
NEFCO's share				58%
<b>Ntot, t/a</b>				
Sum of Reduction	4,227	3,504	921	<b>4,425</b>
Sum of NEFCO's share of reduction	814	745	103	<b>848</b>
NEFCO's share				19%
<b>Ptot agriculture, t/a</b>				
Sum of Reduction	63	23	15	<b>38</b>
Sum of NEFCO's share of reduction	8	10	6	<b>16</b>
NEFCO's share				42%
<b>Ptot, t/a</b>				
Sum of Reduction	924	697	244	<b>941</b>
Sum of NEFCO's share of reduction	175	159	28	<b>187</b>
NEFCO's share				20%

**Table 5.** Completed Baltic Sea -related IF projects in 2019

Project	Project number	Country	Type	Comments
Ekovod LLC	NEFCO 03/01	Russia	Wastewater	Comments Ecovod has acted as operating advisor to Vodokanal of St Petersburg. SWWTP St. Petersburg fulfils more than the expected reductions regarding all parameters (BOD, Ntot, Ptot and SS) and is providing a major part of the P reductions in NEFCO's portfolio. In 2018, the Ptot reduction was 572 t/year and Ntot 2800 t/year.
BNB Truck Renewal	NEFCO 11/13	Latvia	Wastewater	In 2018, the Jurmala WWTP results exceed (Ptot, Ntot, suspended solids and BOD) the expected values. Ptot removal was 11 t/a and Ntot removal 85 t/year.

**Table 6.** Completed BSAP Fund projects in 2019

Lead partner / Applicant	Project	Project number	Country	Use of funds	Comments
Gasum Oyj (former Biovakka Suomi Ltd/ Biovakka Oy) Biokymppi Oy	Closing nutrient cycles of material flows from agriculture, industry and communities by combining biogas and pyrolysis processes	BSAP 21/12	Finland	Studies, equipment and work	Pyrolysis of wastewater sludge was demonstrated at industrial scale for the first time. Test runs proved the concept to be able to produce solid biochar and energy gases. Harmful chemicals were analysed. Biochar can be used as a soil enrichment material. Gasum did not continue the project.

## 8 POLICY WORK

### Gender training

The implementation of NEFCO's Gender policy (launched in 2018) took place in 2019. The purpose of the policy is to promote gender equality. While NEFCO operates under an environmental mandate, not one of gender equality as such, acknowledging gender issues advances environmental and financial results and further promotes the SDGs, as well as the objectives of NEFCO's owner countries. Proactive action with respect to gender means for NEFCO that the gender perspective is mainstreamed in all of its financing activities. Gender aspects are included in NEFCO's sustainability questionnaire, and the staff have been educated to acknowledge gender issues in the projects proposed for NEFCO financing.

In 2019, NIB, NEFCO and NDF arranged gender-related training sessions aligned with their various mandates. Training sessions were coordinated across the three organisations. NEFCO arranged two separate one-day sessions with group work.

### Thematic working group on gender equality

This is an inter-institutional thematic working group on gender equality. The objective of the group is envisioned to be three-fold:

1. Support NIB, NEFCO and NDF in gaining further understanding of the opportunities, risks and challenges of gender equality from each organisation's perspective;
2. Promote the inclusion of gender equality in the three organisations' operations and investments;
3. Facilitate knowledge sharing and learning between the organisations on issues relating to gender equality.

The working group on gender is planning to arrange meetings at regular intervals (every 3-4 months) to share experiences and plan further activities.

### NEFCO Environmental Handbook updates

NEFCO's Environmental Unit has updated the Environmental Handbook series with two sector-specific sections, namely Energy efficiency and Biogas. In addition, internal training seminars on these sectors have been arranged.

NEFCO also arranged a seminar afternoon for NEFCO and NIB staff on forest issues focusing on biodiversity and climate effects.

### MFI environmental and social experts' meeting

NEFCO's environmental unit participated in a meeting hosted by the Multilateral Financial Institutions Working Group on Environment and Social Standards to promote the Working Group's attempts to harmonise the environmental methodology applied at international financial institutions.

### Collaboration with HELCOM

NEFCO received HELCOM Observer status in 2019.

## ANNEX 1

### Accounting principles

NEFCO has requested annual environmental status reports for every project and from every client since it was established in 1990. The environmental and sustainability indicators of NEFCO-financed projects enable comparison and follow-up of the actual impact of each project. Environmental and resource efficiency indicators are selected to allow evaluation of the situation prior to the implementation of each project. The selected indicators are followed in the annual environmental reporting process.

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

### Harmonised approaches in project impact accounting

The International Financial Institutions (IFIs) have been working together to agree on a harmonised approach to project-level greenhouse gas (GHG) accounting<sup>1</sup>. The rationale for this work is to harmonise GHG accounting in project appraisals. The aim is also to establish minimum requirements for appraisals, which can be exceeded with additional considerations and reporting.

Environmental benefits gained through completed projects (Investment Fund and

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

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

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

It is good to note that this methodology is limited to measuring the environmental effects of NEFCO's projects since it ignores additionality, which has a high relevance in financing decisions. The purpose of NEFCO's investment in a project is to reduce the environmental impact of the whole project, not only NEFCO's share. This has been the main rationale for NEFCO's project reporting.

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<sup>1</sup> International Financial Institution Framework for a Harmonised Approach to Greenhouse Gas Accounting November 2015

# Financial statements

# Statement of comprehensive income

1 January – 31 December

(Amounts in EUR)	Notes	2019	2018
<b>Income</b>			
Interest income*		4,774,460	3,794,678
Interest expense		-795,616	-610,300
Net interest income	(3)	3,978,843	3,184,378
Net result of financial operations	(4)	2,472,125	6,818,630
Lending fee income	(5)	970,213	649,639
Other income	(6)	2,968,963	2,883,890
<b>Total income</b>		<b>10,390,144</b>	<b>13,536,536</b>
<b>Operating expenses</b>			
Administrative expenses	(7), (8), (9)	6,146,847	6,040,183
Depreciation and write-down in value of tangible and intangible assets		276,019	1,936
Foreign exchange gains and losses		-44,489	306,028
Impairment of loans / reversals	(12)	2,613,634	-1,363,060
<b>Total operating expenses</b>		<b>8,992,011</b>	<b>4,985,086</b>
<b>RESULT FOR THE YEAR</b>		<b>1,398,134</b>	<b>8,551,450</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>1,398,134</b>	<b>8,551,450</b>

\*) Interest income is from financial assets held at amortised cost

# Statement of financial position

31 December

(Amounts in EUR)	Notes	31/12/2019	31/12/2018
<b>ASSETS</b>			
Cash and cash equivalents	(16), (17)	24,369,259	38,946,117
Placements with credit institutions	(16), (17)	57,891,953	67,531,978
<b>Total, cash and cash equivalents and placements with credit institutions</b>		<b>82,261,212</b>	<b>106,478,095</b>
Investment assets	(10)	3,340,689	4,078,067
Other placements	(11)	17,442	3,380,383
Loans outstanding	(12)	87,276,021	57,875,911
Other receivables		768,754	1,577,732
Accrued interest income		2,192,325	1,067,475
Intangible assets	(13)	1,498,363	-
<b>TOTAL ASSETS</b>		<b>177,354,807</b>	<b>174,457,662</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Long-term debt	(14)	7,970,142	8,520,034
Other liabilities		2,467,142	942,331
Accrued interest expense		877,635	353,541
<b>Total liabilities</b>		<b>11,314,919</b>	<b>9,815,907</b>
<b>Equity</b>			
Paid-in capital	(15)	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		22,178,018	13,626,568
Result for the year		1,398,134	8,551,450
<b>Total equity</b>		<b>166,039,889</b>	<b>164,641,755</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>177,354,807</b>	<b>174,457,662</b>

## Changes in equity

(Amounts in EUR)	Paid-in capital	Reserve for investment/ credit losses	Operational fund	Retained earnings	Total comprehensive income	Total
<b>Equity at 1 January 2018</b>	<b>113,406,560</b>	<b>24,557,177</b>	<b>4,500,000</b>	<b>14,743,340</b>	<b>483,228</b>	<b>157,690,305</b>
Appropriation to the retained earnings				-1,116,772	-483,228	-1,600,000
Appropriation to the reserve for investment/ credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Total comprehensive income					8,551,450	8,551,450
<b>Equity at 31 December 2018</b>	<b>113,406,560</b>	<b>24,557,177</b>	<b>4,500,000</b>	<b>13,626,568</b>	<b>8,551,450</b>	<b>164,641,755</b>
<b>Equity at 1 January 2019</b>	<b>113,406,560</b>	<b>24,557,177</b>	<b>4,500,000</b>	<b>13,626,568</b>	<b>8,551,450</b>	<b>164,641,755</b>
Appropriation to the retained earnings				8,551,450	-8,551,450	-
Appropriation to the reserve for investment/ credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Total comprehensive income					1,398,134	1,398,134
<b>Equity at 31 December 2019</b>	<b>113,406,560</b>	<b>24,557,177</b>	<b>4,500,000</b>	<b>22,178,018</b>	<b>1,398,134</b>	<b>166,039,889</b>

Proposed allocation of the year's result:	2019	2018
Appropriation to the retained earnings	1,398,134	8,551,450
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>1,398,134</b>	<b>8,551,450</b>

# Cash flow statement

1 January – 31 December

(Amounts in EUR 1,000)	2019	2018
<b>Cash flows from operating activities</b>		
Result for the year	1,398	8,551
<b>Adjustment for non-cash items</b>		
Depreciation and write-down in value of tangible and intangible assets	276	2
Value adjustments, investment assets	-2,365	4,500
Value adjustments, other placements	-140	-
Capital adjustments, other placements	3	65
Impairments, lending	2,614	-1,363
Capitalisations, lending	-349	-423
Exchange rate adjustments	-177	279
Change in accrued interests, assets	-1,125	-337
Change in accrued interests, liabilities	524	268
<b>Adjustment for non-cash items, total</b>	<b>-740</b>	<b>2,991</b>
<b>Lending</b>		
Disbursements	-39,686	-21,336
Repayments	7,956	13,555
Prepayments	242	4,136
Change in investment assets	3,102	6,784
Change in other liabilities	-258	185
Other adjustments to the year's result	8	-
<b>Cash flows from operating activities</b>	<b>-27,976</b>	<b>14,867</b>
<b>Cash flows from investing activities</b>		
Change in placements with credit institutions	9,640	-9,086
Change in debt securities	-	10,373
Change in other placements	3,500	-
Change in other receivables	809	-1,376
<b>Net cash flows from investing activities</b>	<b>13,949</b>	<b>-88</b>
<b>Cash flows from financing activities</b>		
Change in long-term debt	-550	3,024
<b>Net cash flows from financing activities</b>	<b>-550</b>	<b>3,024</b>
<b>Change in cash and cash equivalents</b>	<b>-14,577</b>	<b>17,803</b>
<b>Opening balance for cash and cash equivalents</b>	<b>38,946</b>	<b>21,143</b>
<b>Closing balance for cash and cash equivalents</b>	<b>24,369</b>	<b>38,946</b>
<b>Additional information to the statement of cash flows</b>		
Interest income received	3,650	3,458
Interest expense paid	-272	-342

# Notes to the financial statements

## 1 ACCOUNTING POLICIES

### 1.1 Reporting entity

The operations of the Nordic Environment Finance Corporation (hereinafter the Corporation or NEFCO) are governed by the Agreement between the governments of Denmark, Finland, Iceland, Norway and Sweden and the related Statutes. NEFCO's purpose is to promote investments of Nordic environmental interest with a focus on Eastern Europe. The Corporation also manages trust funds on behalf of various principals.

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.

NEFCO's principal office is located in the Nordic Investment Bank's premises at Fabianinkatu 34, Helsinki, Finland. In addition, NEFCO's representative office rents office premises in Kyiv, Ukraine.

### 1.2 Basis of accounting

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.

### 1.3 Accounting standards adopted in 2019

IFRS 16 Leases substantially changed the accounting treatment by recognising more leases as liabilities with corresponding right of use assets on the balance sheet. The standard replaced IAS 17 Leases and is effective as of 1 January 2019. However, the Corporation does not have significant leasing commitments and therefore the new standard had an immaterial impact.

### 1.4 New Accounting standards for financial years beginning on or after 1 January 2020

There are no IFRS standards or interpretations that are not yet effective that would be expected to have a material impact on NEFCO's financial statements.

### 1.5 Functional and presentation currency

The Corporation's financial statements' functional and presentation currency is euro.

### 1.6 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are recognised in the

accounts at the exchange rate prevailing on the closing date. Non-monetary assets and liabilities are recognised in the accounts at the euro rate prevailing on the transaction date. Income and expenses recognised in currencies other than euro are converted on a daily basis to euro, in accordance with the euro exchange rate prevailing on that day.

Realised and unrealised exchange rate gains and losses are recognised in the statement of comprehensive income.

The Corporation uses the official euro exchange rates published by ICE Data Services. See Note 18.

### 1.7 Significant accounting judgments and estimates

When preparing the financial statements, management is required 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 management (Notes 10–12). Actual outcomes may deviate from the assessments made and these deviations may be significant in relation to financial statements.

### 1.8 Recognition and derecognition of financial instruments

Financial instruments are recognised in the statement of financial position on a settlement date basis. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire. A financial liability is derecognised from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expires.

### 1.9 Basis for classification and measurement

The Corporation classifies its financial assets into the following categories: those measured at amortised cost and those measured at fair value. This classification depends on both the contractual characteristics of the assets and the business model adopted for their management.

#### Financial assets at amortised cost

An investment is classified at "amortised cost" only if both of the following criteria are met: the objective of the Corporation's business model is to hold the assets in order to collect the contractual cash flows, and the contractual terms of the financial assets must give rise on specified dates to cash flows that are only payments of principal and interest on the principal amount outstanding.

### **Financial assets at fair value**

If either of the two criteria above is not met, the asset cannot be classified in the amortised cost category and must be classified at fair value through profit and loss (FVTPL) or at fair value through other comprehensive income (FVOCI). FVOCI is used to classify assets held for payments of principal, interest and to sell. All other financial assets are classified as FVTPL.

### **Determination of fair value**

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 either directly (i.e. prices) or indirectly (i.e. derived from prices) observable data. 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 marketplace or another valuation method, in which all significant data can be determined either directly or indirectly in the marketplace.

**Level 3** - Valuation model based on other than directly observable data. This category includes all assets where the valuation method includes inputs, which are 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.

### **1.10 Cash and cash equivalents**

Cash and cash equivalents comprise monetary assets and placements with original maturities of three months or less, calculated from the date the acquisition and placements were made.

Cash and cash equivalents in the cash flow statement refers to the net amount of monetary assets, placements and liabilities with original maturities of three months or less, calculated from the time the transaction was entered into.

### **1.11 Placements with credit institutions**

NEFCO invests its short-term liquidity, which is primarily in euros, with credit institutions, preferably Nordic banks. Due to the short maturities of these placements, the difference between their fair value and carrying amount including accrued interest is not significant.

Placements with credit institutions are recognised at cost on the settlement date. If the business model for managing the placements and their contractual cash flow characteristics fulfil the criteria for financial assets at amortised costs, these placements are car-

ried at amortised cost in the annual financial statements.

### **1.12 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.

The Corporation's management has decided to report all investments in other companies at fair value through the statement of comprehensive income.

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 with the majority investor (or project developer) setting out the conditions for NEFCO's withdrawal from the company.

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.

All of NEFCO's investment assets fall under Level 3 as of 31 December 2019 (Note 10).

### **1.13 Other placements**

NEFCO's other placements include placements in the NEFCO Carbon Fund and the Nordic Environmental Development Fund. 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 2019 (Note 11).

### **1.14 Loans outstanding**

The Corporation's lending transactions are recognised in the statement of financial position on the transfer of funds to the borrower. Loans are initially recognised at fair value and transaction cost. Loans outstanding are carried at amortised cost after deductions for any impairment losses. See Note 12.

### 1.15 Impairment of loans

Valuations and impairments are part of NEFCO's risk management process. The final decision lies with the Board, where the Managing Director makes a proposal based on the decision by Investment Committee. The Investment Committee assesses each project regularly and the risk report and portfolio analysis form a basis for the assessment. (Note 12).

### Expected Credit Losses

Credit losses are estimated based on Expected Credit Loss (ECL) model. IFRS 9 introduced in 2018 a stage model, where credit risk is divided into three stages:

**Stage 1** - financial assets where no significant increase in credit risk has been identified since initial recognition are placed in this stage. ECL is calculated on a 12-month basis and interest revenue is calculated on a gross basis.

**Stage 2** - financial assets where a significant increase in credit risk has been identified (but no objective evidence) since initial recognition are placed in this stage. ECL is calculated on a lifetime basis and interest revenue is calculated on a gross basis. No objective evidence means, for example, that the project country rating has worsened and therefore the project is assigned in this stage.

**Stage 3** - financial assets are credit impaired. ECL is calculated on a lifetime basis and interest income is calculated on a net basis. All non-performing loans are assigned in this stage.

### 1.16 Intangible assets

Intangible assets mainly consist of investments in software, software licences and right-of-use assets arising from leasing arrangements. Acquisitions that generate economic benefits exceeding costs beyond one year are recognised as intangible assets. The investments are carried at historical cost and are amortised over the assessed useful life of the assets, which is estimated to be between three and five years, except for the leasing depreciations. The amortisations are made on a straight-line basis (Note 13).

### 1.17 Tangible assets

Tangible assets in the statement of financial position include office equipment and other tangible assets owned by the Corporation. The assets are recognised at historical cost, less any accumulated depreciation based on their assessed useful life. The depreciation period for office equipment and other tangible assets is determined by assessing the individual item. The depreciation period is usually three to five years. The depreciations are calculated on a straight-line basis (Note 13).

### 1.18 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 (Note 13).

### 1.19 Liabilities

Since 2017, NEFCO has on-lent funds from Nordic partners to projects in Ukraine and these loans are presented in both Loans outstanding and Liabilities. Liabilities are measured at amortised cost. So far, NEFCO does not have risk of default towards these lenders due to contractual terms (Note 14).

### 1.20 Equity

NEFCO's paid-in capital reached its full amount of EUR 113.4 million in 2007.

In addition, the Corporation accumulated until 2009 a reserve for investment/credit losses to cover the risk of losses on loans outstanding and investment assets. This reserve can be used to cover 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 investment projects (Note 15).

### 1.21 Net interest income

NEFCO's net interest income includes accrued interest on loans, debt securities and placements. Net interest income also includes interest expenses on borrowing (Note 3).

### 1.22 Lending fee income

Fees collected when signing loan agreements are recognised as income at the time of the payment or disbursement, which means that they are recognised as income when the costs are incurred. Also other fees may be charged from borrowers and recognised as income at payment.

Prepayment fees may be charged when a prepayment is made and recognised as income at the time of the payment.

Commitment fees are charged on loans that are agreed, but not yet disbursed and are accrued in the statement of comprehensive income over the commitment period (Note 5).

### 1.23 Other income

Other income consists mainly of trust fund management fees. The performance obligations are earned over time (Note 6).

### 1.24 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' (Note 8).

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 8).

### 1.25 Leasing agreements

Following the adoption of IFRS 16 effective from 1 January 2019, the Corporation applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Corporation recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The initial lease asset equals the lease liability in most cases.

#### Right-of-use assets

The Corporation recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term. The right-of-use assets are presented as part of intangible assets in Note 13.

#### Lease liabilities

At the commencement date of the lease, the Corporation recognises lease liabilities measured at the present value of lease payments to be made over the lease term.

### 1.26 Employee benefits

#### Defined contribution plans

The Corporation is responsible for arranging pension security for its employees. In accordance with the Host Country Agreement between the Corporation and the Finnish Government and as part of the Corporation's pension arrangements, the Corporation has decided to apply the Finnish state pension system. Contributions to this pension system, which are paid into the Finnish State Pension Fund, are calculated as a percentage of salaries. KEVA, Finland's largest pension provider, confirms the basis for the pension contribution determined by the Finnish Ministry

of Finance. This pension is based on a defined contribution plan. See Note 7.

NEFCO also provides its permanent employees with a supplementary pension insurance scheme arranged by a private pension insurance company. This is a group pension insurance based on a defined contribution plan.

The Corporation has a Representative Office in Kyiv, Ukraine, with five employees whose contracts are based on the local terms of employment and health and safety regulations as defined under Ukrainian law.

#### Staff loans

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

#### Additional benefits for expatriate personnel

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 expatriate in finding accommodation, usually by renting a house or a flat. The staff member reimburses the Corporation for a part of the rent, which is equal to at least the taxable value of the accommodation benefit established annually by the Finnish National Board of Taxes.

#### Host Country reimbursement

According to the Host Country Agreement between the government of the Republic of Finland and the Corporation, the amount of tax withheld in advance on the salaries of the Corporation's staff and the final tax on salaries collected shall be repaid to the Corporation.

### 1.27 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 or providing grant funds. Trust funds are primarily focused on project preparation, implementation and advisory and may be bilateral or multilateral in nature. Trust fund donors are countries and private investors. The resources provided to NEFCO through the contribution agreements are held separately from the Corporation's ordinary capital resources and are subject to external audit. Liquidity of trust funds is managed in accordance with NEFCO's Risk Policy.

### 1.28 Cash flow statement

The cash flow statement has been prepared using the indirect method whereby operating profit is adjusted for effects of non-cash transactions such as depreciation and loan losses. The cash flows are classified by operating, investing and financing activities. Cash flow items cannot be directly determined from the statement of financial position.

Cash and cash equivalents in the cash flow statement refers to the net amount of monetary assets, placements and liabilities with original maturities of three months or less, calculated from the time the transaction was entered into.

## 2 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, including guidelines for possible future borrowing based on lending portfolio risk level. In accordance with the 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 environmental interest to the Nordic countries. As of June 2017, the geographical mandate was broadened beyond Eastern Europe while the focus remains in this area. The authorised capital is used to finance NEFCO's investments. In addition, NEFCO has a reserve for investment/credit losses 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.

### 2.1 Market risk

#### Foreign exchange rate risk

Outstanding loans are denominated in euros and roubles. Rouble-denominated lending (currently two loans) accounts for 1.4% of all outstanding loans.

A guarantee facility for the rouble-denominated loans is available from the Nordic Environmental Development Fund (NMF). As of 31 December 2019, the guarantee facility has been used to a total of EUR 0.1 million to cover the foreign exchange losses following the rouble's fall in value in 2014. Following a gain in the value in 2016 and 2019, repayments were made to replenish the guarantee. The utilised guarantee facility reduced NEFCO's

foreign exchange losses in 2014 and foreign exchange gains in 2016 and 2019. The foreign exchange rate risk in respect of other activities is insignificant.

#### Interest rate risk

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

Of the loans outstanding, 62.6% are floating-rate, 25.9% fixed-rate loans on which interest accrues up until the final repayment date. Three loans (totalling 11.5% of the loans outstanding amount) have both floating and fixed interest tranches. The distribution of loans outstanding according to the length of the interest rate fixing period is indicated in Note 12.

The liquidity reserve of approximately EUR 82.3 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 decrease 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 0.4 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 3.3 million as at 31 December 2019. The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses. Equity investments account for 3.0% 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 member countries and as at 31 December 2019 NEFCO had no emission reductions.

#### Concentration risk

Concentration risk associated with NEFCO's investments arises from investments being concentrated to, for example, a single counterparty, sector or country. Counterparty may also be a project sponsor (rather than individual customer). As environmental investor, there may be situations when a single sector is concentrated, and these are followed up on

a case-by-case basis. All concentration risks are monitored on quarterly basis in the risk report presented to the Board.

## 2.2 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 totaling EUR 87.3 million as at 31 December 2019. The cumulative reserve for investment/credit losses protects the Corporation's authorised capital against losses.

Credit risk constitutes 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 banks and companies, which accounts for 48.9% of the authorised capital. A thorough distribution of collaterals is provided in Note 12.

## 2.3 Liquidity risk

The effective management of liquidity risk ensures that NEFCO can meet all its payment obligations as they mature. The cash, cash equivalents and placements with credit institutions (accounting for 72.5% 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 funds when necessary.

## 2.4 Operational risk

Operational risk is the risk of financial loss or loss of reputation through shortcomings or failings relating to internal processes, human errors, data systems and external events. Legal risk is also considered an operational risk. NEFCO's management of operational risk is governed by internal instructions and focuses on proactive measures designed to ensure business continuity as well as the accuracy and appropriateness of internal and external information.

## 2.5 Internal Audit

The main responsibility of Internal Audit is to evaluate NEFCO's in-house controls, risk management and governance processes. 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.

## 2.6 Capital management

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

## 3 NET INTEREST INCOME

<b>Interest income</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Interest income, placements with credit institutions	-278	-263
Interest income, debt securities	-	25
Interest income, lending	5,053	4,033
<b>Interest income total</b>	<b>4,774</b>	<b>3,795</b>
Interest expense	-796	-610
<b>Net interest income</b>	<b>3,979</b>	<b>3,184</b>

#### 4 NET RESULT OF FINANCIAL OPERATIONS

<b>Financial operations</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Investment assets, realised gains and losses	102	11,463
Other placements, realised gains and losses	-	-
Other realised gains and losses	3	-
<b>Total realised gains and losses</b>	<b>105</b>	<b>11,463</b>
Investment assets, unrealised gains and losses	2,365	-4,500
Other placements, unrealised gains and losses	140	-
<b>Total unrealised gains and losses</b>	<b>2,505</b>	<b>-4,500</b>
<b>Borrowing costs</b>	<b>-137</b>	<b>-144</b>
<b>Net result of financial operations</b>	<b>2,472</b>	<b>6,819</b>

#### 5 LENDING FEE INCOME

<b>Lending fee income</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Commitment fees	371	268
Lending fee income	599	381
<b>Total lending fee income</b>	<b>970</b>	<b>650</b>

#### 6 OTHER INCOME

<b>Other income</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Trust fund management fees	2,957	2,884
Service fees	12	-
<b>Total other income</b>	<b>2,969</b>	<b>2,884</b>

As at 31 December 2019 the Corporation administered 38 trust funds (2018: 39) with aggregate pledged contributions amounting to EUR 401 million (2018: EUR 352 million).

The Corporation acts as manager and administrator of the trust funds for which it receives management and cost recovery fees. In 2019 the trust fund management fees amounted to EUR 2,957 thousand (2018: EUR 2,884 thousand) as follows: NorCaP: EUR 600 thousand (2018: EUR 756 thousand), NMF: EUR 882 thousand (2018: EUR 875 thousand), NOPEF: EUR 529 thousand (2018: EUR 523 thousand), NeCF: EUR 173 thousand (2018: EUR 293 thousand) and other trust funds: EUR 773 thousand (2018: EUR 437 thousand).

NEFCO has invested in NMF and NeCF, see Note 11.

## 7 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. Members of the Board of Directors and Control Committee are also entitled to reimbursement of their travel cost 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 Public Sector Pensions Act and certain supplements.

In 2019, NEFCO paid a total of EUR 174 thousand (2018: EUR 119 thousand) in pension insurance premiums for the Managing Director.

<b>Compensation/taxable income</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Chairman of the Board	4	4
Other Directors and Alternates	17	17
Managing Director*	541	367
Control Committee	2	2

\*The figures include the cost for the former Managing Director for the period January-May 2019 and the cost for the current Managing Director for the period June-December 2019.

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

### Pension obligations

NEFCO is responsible for arranging pension security for its employees. The Finnish public sector pension system (JuEL Pension) is the basis for the pension benefits. The JuEL Pension is calculated based on the employee's annual taxable income and the applicable age-linked pension accrual rate. The employer's pension contribution in 2019 was 17.23% of the pensionable income. The employee's pension contribution was either 6.75% or 8.25%, depending on the employee's age. NEFCO pays this contribution for its permanent staff based in Helsinki, and it is taxed as a benefit for the employee. The pension is accounted for as a defined contribution plan.

At the end of 2019, the Corporation's pension obligations were fully covered.

In addition to the JuEL Pension, the Corporation has taken out a supplementary group pension insurance policy for its entire permanently employed staff in Helsinki. The insurance premium, 6.5%, is calculated based on the employee's taxable income and paid until the age of 63. The supplementary pension is also accounted for as a defined contribution plan.

### Staff loans

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

At present, the maximum loan amount is EUR 200,000. The employee pays interest on the loan in accordance with the official base rate established by the Ministry of Finance in Finland or 0.25%, whichever is the higher. The same interest rates, terms and conditions are applicable to all the Corporation's employees, including the Managing Director.

As at 31 December 2019, the total amount outstanding of staff loans lent by commercial banks to employees in key positions was EUR 140 thousand (2018: EUR 154 thousand).

## 8 ADMINISTRATIVE EXPENSES

<b>Administrative expenses</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Staff costs	3,625	3,594
Pension premiums in accordance with the Finnish public sector pensions system	839	740
Other pension premiums	247	233
Office premises expenses	157	392
Other administrative expenses	2,382	2,135
Miscellaneous administrative income	-	-
<b>Total administrative expenses*</b>	<b>7,249</b>	<b>7,095</b>
Host country reimbursement under agreement with Finnish government	-1,102	-1,055
<b>Net administrative expenses</b>	<b>6,147</b>	<b>6,040</b>

\* The Corporation's administrative expenses include the administrative expenses for administered trust funds, such as NorCaP, NMF, NOPEF and NeCF.

In 2019, auditors' fees amounted to EUR 37 thousand (2018: EUR 30 thousand).

In 2019, the average number of employees was 28 (2018: 29).

## 9 RELATED PARTY DISCLOSURES

The 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 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 employees are also considered related parties. Information regarding key employees is presented in Note 7.

(Amounts in EUR 1,000)	<b>Borrowing fees paid to NIB</b>	<b>Amounts owed by NEFCO to NIB</b>	<b>Amounts owed by NIB to NEFCO</b>	<b>Rents paid to NIB</b>
<b>2019</b>	124	1	62	270
<b>2018</b>	103	76	-	268

## 10 INVESTMENT ASSETS

The Corporation's portfolio comprised the following holdings as at 31 December 2019:

<b>Holding</b>	<b>Country / Region</b>	<b>% of total capital</b>
BaltCap Infrastructure Fund	Baltics	2.9
Blue Circle SIA	Latvia	19.5
Eskaro Ukraine AB	Ukraine	20.0
GreenStream Network Ltd	China	23.7
Halychyna-Zahid LLC	Ukraine	5.6
International Pork Investments AS	Latvia	3.4
Rindibel JCS	Belarus	38.6

The acquisition cost of the investment assets was EUR 7.5 million (2018: EUR 8.3 million) while the fair value was EUR 3.3 million (2018: EUR 4.1 million). At 31 December 2019, the agreed but not disbursed capital commitments for investment assets totalled EUR 7.1 million (2018: EUR 2.4 million).

## 11 OTHER PLACEMENTS

The following table provides an overview of other placements measured at fair value at 31 December:

<b>Other placements</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
NEFCO Carbon Fund	17	3,380
NMF	0	0
<b>Total other placements</b>	<b>17</b>	<b>3,380</b>

NEFCO's share of NeCF's committed capital is 3.5% (2018: 9.6%). NEFCO acts as the Fund Manager for NeCF.

### NEFCO Carbon Fund

NEFCO has invested EUR 5.0 million in the NEFCO Carbon Fund (NeCF) and withdrawn EUR 3.5 million during 2019. A total of EUR 0.1 million of the investment is earmarked as Technical Assistance Provision. NEFCO has obtained emission reductions for a total of EUR 1.0 million. The management fee for NEFCO's investments is paid out of interest income or through a 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.

### Nordic Environmental Development Fund

During 2011-2013, NEFCO invested a total of EUR 5.4 million 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.

## 12 LOANS OUTSTANDING

At 31 December 2019, the Corporation had 45 loans outstanding amounting to EUR 87.3 million (before impairments EUR 92.9 million).

The following tables show net lending after deductions for Expected Credit Losses totalling at EUR 5.6 million (2018: EUR 1.4 million).

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.

The below table shows what net effect the impairments had on the result in each year.

<b>Impairment of loans/reversals in the statement of comprehensive income</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Realised credit losses	-	-
Expected Credit Losses, net	-2,614	1,363
<b>Total impairment of loans/reversals</b>	<b>-2,614</b>	<b>1,363</b>

Loans outstanding classified in stages according to Expected Credit Loss method.

<b>Loans outstanding</b> (Amounts in EUR 1,000)	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>Exposure at 1 January 2018</b>	<b>49,075</b>	<b>8,000</b>	-	<b>57,075</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-3,248	3,248	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-9,692	-8,000	-	-17,691
Disbursements and capitalisations	21,758	-	-	21,758
Remeasurements and FX changes	-278	-	-	-278
<b>Exposure at 31 December 2018</b>	<b>57,615</b>	<b>3,248</b>	-	<b>60,863</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-5,267	5,267	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-7,010	-1,188	-	-8,198
Disbursements and capitalisations	38,868	1,349	-	40,035
Remeasurements and FX changes	177	-	-	177
<b>Exposure at 31 December 2019</b>	<b>84,200</b>	<b>8,676</b>	-	<b>92,877</b>

Total ECL at 31 December 2019 amounted to EUR 5.6 million (2018: EUR 3.0 million) and is disclosed in loans outstanding. ECLs on other assets were considered not material. At 31 December 2019, three new loans were moved to stage 2 amounting to EUR 2.3 million (2018: 1.6 million), totalling ECL provision for Stage 2 loans at EUR 4.0 million (2018: EUR 1.6 million).

Impairments according to Expected Credit Loss stages and individually impaired.

<b>Expected Credit Loss</b> (Amounts in EUR 1,000)	<b>Stage 1</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Total</b>
<b>ECL at 1 January 2018</b>	<b>1,600</b>	<b>2,750</b>	-	<b>4,350</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-91	91	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-487	-2,750	-	-3,237
Disbursements and capitalisations	29	-	-	29
Remeasurements and FX changes	312	1,533	-	1,845
<b>ECL at 31 December 2018</b>	<b>1,363</b>	<b>1,624</b>	-	<b>2,987</b>
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-124	124	-	-
Transfer to Stage 3	-	-	-	-
Repayments	-51	-5	-	-56
Disbursements and capitalisations	20	36	-	56
Remeasurements and FX changes	435	2,179	-	2,614
<b>ECL at 31 December 2019</b>	<b>1,643</b>	<b>3,957</b>	-	<b>5,601</b>

Non-performing loans at 31 December 2019 amounted to EUR 0 (2018: EUR 0).

Of the loans, 32 are floating-rate loans. Such loans account for 62.6% of the total loan portfolio. Ten loans accounting for 25.9% of the total loan portfolio have fixed interest rates. In addition, three loans have fixed and floating mechanisms in different tranches, accounting for 11.5% of the total loan portfolio.

Interest rate risk describes how movements 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.

<b>Loans outstanding</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Up to and including 3 months	21,003	21,489
3–6 months	40,179	21,080
6–12 months	1,240	-
1–5 years	11,960	8,848
over 5 years	18,494	9,446
<b>Total loans outstanding</b>	<b>92,877</b>	<b>60,863</b>
Expected Credit Loss	-5,601	-2,987
<b>Exposure at 31 December</b>	<b>87,276</b>	<b>57,876</b>

The maturities of the loans extended by the Corporation vary from below one to eleven years.

Lending by country at 31 December:

<b>Country</b> (Amounts in EUR 1,000)	<b>2019</b>	<b>2018</b>
Belarus	5,386	7,402
Denmark*	2,760	3,355
Finland*	6,000	6,578
Georgia	723	-
Germany*	6,578	-
Iceland*	1,500	-
Latvia	1,469	1,775
Norway*	100	-
Russia	4,328	4,921
Sweden*	3,000	-
Ukraine	61,033	36,832
<b>Total loans outstanding</b>	<b>92,877</b>	<b>60,863</b>
Expected Credit Loss	-5,601	-2,987
<b>Exposure at 31 December</b>	<b>87,276</b>	<b>57,876</b>

\*Loans to countries marked with asterisk are channelled by borrowers to countries of operation.

Lending by currency:

<b>Currency</b> (Amounts in EUR 1,000)	<b>2019</b>		<b>2018</b>	
	Amount	Share %	Amount	Share %
EUR	91,636	98.7	59,606	97.9
RUB	1,240	1.4	1,257	2.1
<b>Total loans outstanding</b>	<b>92,877</b>	<b>100.0</b>	<b>60,863</b>	<b>100.0</b>
Expected Credit Loss	-5,601		-2,987	
<b>Exposure at 31 December</b>	<b>87,276</b>		<b>57,876</b>	

Loans outstanding by type of security at 31 December:

Security (Amounts in EUR 1,000)	2019		2018	
	Amount	Share %	Amount	Share %
Loans guaranteed by member countries	8,173	8.8	5,687	9.3
Loans to or guaranteed by other countries	1,737	1.9	1,186	2.0
Loans to or guaranteed by banks	12,795	13.8	9,720	16.0
Loans backed by security in property	46,614	50.2	24,592	40.4
Loans with negative pledge clause and other covenants	11,565	12.5	2,657	4.4
Loans guaranteed by parent companies and other guarantees	4,279	4.6	16,876	27.7
Loans without formal security	7,713	8.3	147	0.2
<b>Total loans outstanding</b>	<b>92,877</b>	<b>100.0</b>	<b>60,863</b>	<b>100.0</b>
Expected Credit Loss	-5,601		-2,987	
<b>Exposure at 31 December</b>	<b>87,276</b>		<b>57,876</b>	

At 31 December 2019, the loans agreed but not yet disbursed totalled EUR 66.6 million (2018: EUR 68.0 million). In principle, all borrowers could request disbursement within three months but NEFCO does not disburse loans until the specified conditions precedent for disbursement are met (this period for current portfolio extends up to 3 years). NEFCO has the capacity to make all disbursements.

### 13 INTANGIBLE AND TANGIBLE ASSETS

Intangible assets comprise of the right-of-use assets relating to lease agreements for the office premises in Helsinki. The amount at the end of 2019 is EUR 1.5 million (2018: EUR 0).

There were no tangible assets in 2019 (2018: EUR 0).

### 14 LIABILITIES

At 31 December 2019, NEFCO had EUR 8.0 million outstanding of liabilities (2018: EUR 8.5 million), all of which had directly been lent on to NEFCO's borrowers. There is no risk of default by NEFCO towards lenders, as NEFCO is obliged to repay only after NEFCO's borrower repays. Borrowing is denominated in euros at either fixed interest or tied to 6-month Euribor.

At 31 December 2019, NEFCO has agreed on undrawn borrowing totalling at EUR 57.7 million (2018: EUR 30.0 million).

### 15 PAID-IN CAPITAL

NEFCO's paid-in capital reached its full amount of EUR 113.4 million in 2007. The breakdown of the paid-in capital by member country is as follows:

Paid-in capital (Amounts in EUR 1,000)	Amount	Share %
Denmark	21,561	19.0
Finland	22,265	19.6
Iceland	1,320	1.2
Norway	24,195	21.3
Sweden	44,070	38.9
<b>Total authorised capital</b>	<b>113,407</b>	<b>100.0</b>

## 16 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table provides an analysis of the fair value of financial instruments at the end of the year according to the fair value hierarchy.

Fair value of financial instruments (Amounts in EUR 1,000)	2019			2018		
	Carrying amount	Fair Value	Differ-ence	Carrying amount	Fair Value	Differ-ence
<b>Financial Assets</b>						
Cash and cash equivalents	24,369	24,369	-	38,946	38,946	-
Placements with credit institutions	57,892	57,892	-	67,532	67,532	-
<b>Cash and cash equivalents and placements with credit institutions, total</b>	<b>82,261</b>	<b>82,261</b>	<b>-</b>	<b>106,478</b>	<b>106,478</b>	<b>-</b>
Investment assets	3,341	3,341	-	4,078	4,078	-
Other placements	17	17	-	3,380	3,380	-
Loans outstanding	87,276	87,276	-	57,876	57,876	-
<b>Total</b>	<b>172,895</b>	<b>172,895</b>	<b>-</b>	<b>171,812</b>	<b>171,812</b>	<b>-</b>
<b>Financial Liabilities</b>						
Long-term amounts owed to credit institutions	7,970	7,970	-	8,520	8,520	-
<b>Total</b>	<b>7,970</b>	<b>7,970</b>	<b>-</b>	<b>8,520</b>	<b>8,520</b>	<b>-</b>

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

Level of fair value of financial instruments (Amounts in EUR 1,000)	2019			2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
<b>Financial Assets</b>						
Cash and cash equivalents	24,369	-	-	38,946	-	-
Placements with credit institutions	-	57,892	-	-	67,532	-
<b>Cash and cash equivalents and placements with credit institutions, total</b>	<b>24,369</b>	<b>57,892</b>	<b>-</b>	<b>38,946</b>	<b>67,532</b>	<b>-</b>
Investment assets	-	-	3,341	-	-	4,078
Other placements	-	-	17	-	-	3,380
Loans outstanding	-	87,276	-	-	57,876	-
<b>Total</b>	<b>24,369</b>	<b>145,168</b>	<b>3,358</b>	<b>38,946</b>	<b>125,408</b>	<b>7,459</b>
<b>Financial Liabilities</b>						
Long-term amounts owed to credit institutions	-	7,970	-	-	8,520	-
<b>Total</b>	<b>-</b>	<b>7,970</b>	<b>-</b>	<b>-</b>	<b>8,520</b>	<b>-</b>

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 based on other than directly observable data.

The table below shows the classification of financial instruments to held at amortised cost or at fair value at the end of the year.

Classification of financial instruments (Amounts in EUR 1,000)			2019			2018
	Amortised cost	Fair value through profit and loss	Total	Amortised cost	Fair value through profit and loss	Total
<b>Financial Assets</b>						
Cash and cash equivalents	24,369	-	24,369	38,946	-	38,946
Placements with credit institutions	57,892	-	57,892	67,532	-	67,532
<b>Cash and cash equivalents and placements with credit institutions, total</b>	<b>82,261</b>	<b>-</b>	<b>82,261</b>	<b>106,478</b>	<b>-</b>	<b>106,478</b>
Investment assets	-	3,341	3,341	-	4,078	4,078
Other placements	-	17	17	-	3,380	3,380
Loans outstanding	87,276	-	87,276	57,876	-	57,876
<b>Total</b>	<b>169,537</b>	<b>3,358</b>	<b>172,895</b>	<b>164,354</b>	<b>7,458</b>	<b>171,812</b>
<b>Financial Liabilities</b>						
Long-term amounts owed to credit institutions	7,970	-	7,970	8,520	-	8,520
<b>Total</b>	<b>7,970</b>	<b>-</b>	<b>7,970</b>	<b>8,520</b>	<b>-</b>	<b>8,520</b>

The following table provides an analysis of the changes in the fair value of Level 3 investment assets and other placements.

Changes in fair values categorised at level 3 (Amounts in EUR 1,000)	Investment assets	Other placements	Level 3, total
<b>31 December 2017</b>	<b>15,362</b>	<b>3,445</b>	<b>18,807</b>
Investments during the year	608	-	608
Divestments during the year	-10,392	-	-10,392
Change in value *	-1,500	-65	-1,565
Reassignment from Level 2	-	-	-
<b>31 December 2018</b>	<b>4,078</b>	<b>3,380</b>	<b>7,459</b>
Investments during the year	447	-	447
Divestments during the year	-523	-3,500	-4,023
Change in value *	-661	137	-524
Reassignment from Level 2	-	-	-
<b>31 December 2019</b>	<b>3,341</b>	<b>17</b>	<b>3,358</b>

\*) This line corresponds to the effect on profit and loss

### 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. Potentially highest or lowest value is established by the historical return on the portfolio. The average historical rate of return on completed projects is around 71% and losses have been posted for around 37% of the investments. A 71% increase in the value of the existing portfolio would add EUR 2.4 million to the financial result whereas a loss of 37% would have a negative impact of EUR 1.2 million.

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

Level 3 Investment assets (Amounts in EUR 1,000)	2019			2018		
	Fair value	Positive impact	Negative impact	Fair value	Positive impact	Negative impact
Investment assets categorised at Level 3	3,341	2,367	-1,241	4,078	2,243	-1,468

### 17 MATURITY PROFILE OF FINANCIAL ASSETS AND LIABILITIES

The following table provides an analysis of the maturity of financial assets and liabilities at the end of the year.

2019 (Amounts in EUR 1,000)	Carrying amount	Up to and incl. 3 months	Over 3 months and up to and incl. 6 months	Over 6 months and up to and incl. 1 year	Over 1 year and up to and incl. 5 years	Over 5 years	Undefined
Cash and cash equivalents	24,369	24,369	-	-	-	-	-
Placements with credit institutions	57,892	15,892	14,000	28,000	-	-	-
Investment assets	3,341	1,445	671	-	-	1,225	-
Other placements	17	-	-	-	17	-	-
Loans outstanding	92,877	1,603	3,172	5,628	55,781	26,692	-5,601
<b>Assets, total</b>	<b>178,496</b>	<b>43,309</b>	<b>17,843</b>	<b>33,628</b>	<b>55,799</b>	<b>27,917</b>	<b>-5,601</b>
<b>Liabilities, total</b>	<b>7,970</b>	<b>543</b>	<b>-</b>	<b>475</b>	<b>4,195</b>	<b>2,757</b>	<b>-</b>
<b>Net during the period</b>	<b>170,526</b>	<b>42,766</b>	<b>17,843</b>	<b>33,153</b>	<b>51,604</b>	<b>25,160</b>	<b>-5,601</b>
Loans agreed but not yet disbursed	66,559	-	-	-	-	-	66,559
Investment assets agreed but not yet received	7,099	-	-	-	-	-	7,099

<b>2018</b> (Amounts in EUR 1,000)	<b>Carrying amount</b>	<b>Up to and incl. 3 months</b>	<b>Over 3 months and up to and incl. 6 months</b>	<b>Over 6 months and up to and incl. 1 year</b>	<b>Over 1 year and up to and incl. 5 years</b>	<b>Over 5 years</b>	<b>Undefined</b>
Cash and cash equivalents	38,946	38,946	-	-	-	-	-
Placements with credit institutions	67,532	9,532	16,000	42,000	-	-	-
Investment assets	4,078	506	-	-	2,522	1,050	-
Other placements	3,380	-	-	-	3,380	-	-
Loans outstanding	60,863	2,434	2,410	3,537	40,467	12,014	-2,987
<b>Assets, total</b>	<b>174,799</b>	<b>51,418</b>	<b>18,410</b>	<b>45,537</b>	<b>46,370</b>	<b>13,064</b>	<b>-2,987</b>
<b>Liabilities, total</b>	<b>8,520</b>	<b>305</b>	<b>-</b>	<b>245</b>	<b>4,191</b>	<b>3,779</b>	<b>-</b>
<b>Net during the period</b>	<b>166,279</b>	<b>51,113</b>	<b>18,410</b>	<b>45,292</b>	<b>42,179</b>	<b>9,285</b>	<b>-2,987</b>
Loans agreed but not yet disbursed	68,019	-	-	-	-	-	68,019
Investment assets agreed but not yet received	2,439	-	-	-	-	-	2,439

At 31 December 2019, EUR 1.9 million (2018: EUR 1.5 million) was pledged as collateral for the staff loans and is shown above as placements with credit institutions.

## 18 EXCHANGE RATES

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

	<b>EUR rate 31.12.19</b>	<b>EUR rate 31.12.18</b>
DKK Danish krone	7.47168	7.46741
GBP British pound	0.85118	0.89483
NOK Norwegian krone	9.86548	9.94588
RUB Russian rouble	69.9658	79.809
SEK Swedish krona	10.4486	10.24248
UAH Ukrainian hryvnia	26.60265	31.79119
USD US dollar	1.12319	1.14557

## 19 POST BALANCE SHEET EVENTS

There have been no material post balance sheet events that would require disclosure or adjustment to these financial statements.

# Auditors' Report

## TO THE CONTROL COMMITTEE OF THE NORDIC ENVIRONMENT FINANCE CORPORATION

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Nordic Environment Finance Corporation (the Corporation or NEFCO) which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion the financial statements present fairly, in all material respects, the Nordic Environment Finance Corporation's financial position as at 31 December 2019 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### 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 Financial Statements section of our report.

We are independent of the Corporation in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code.

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

#### Other Information than the annual accounts

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 and the Annual Environmental Report, but does not include the financial statements and our auditor's report thereon. We have obtained the report of the Board of Directors and the Annual Environmental Report.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### 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 and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

#### Auditor's responsibility for the Audit of 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 ISA's 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 ISA's, 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 in a manner that achieves fair presentation.

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.

## REPORT ON OTHER REQUIREMENTS

### Opinion

In addition to our audit of the financial statements, we have also audited the administration of the Board of Directors and the Managing Director of the Nordic Environment Finance Corporation for the year 2019 in accordance with the Terms of the Engagement. In our opinion the administration of the Board of Directors and the Managing Director, in all material aspects, complied with the Statutes of the Corporation.

### Basis for opinion

We conducted the audit in accordance with generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the Corporation in accordance with professional ethics for accountants and have otherwise fulfilled our 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 opinions.

### Responsibilities of the Board of Directors and the Managing Director

All the powers of the Corporation shall be vested in the Board, which may, to the extent considered appropriate delegate these powers to the Managing Director and/or to the Nordic Investment Bank based on Section 7 of the Statutes.

The Managing Director is responsible for the conduct of the current operations of the Corporation and shall follow the guidelines and instructions issued by the Board of Directors.

### Auditor's responsibility

Our objective concerning the audit of whether the Board of Director's and the Managing Director's administration have complied with the Statutes of the Corporation, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect has acted in contravention of the Statutes.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International

Standards on Auditing will always detect actions or omissions that can give rise to liability to the Corporation.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. The examination of the administration is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the Corporation's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion.

Helsinki, 13 February 2020

**Terhi Mäkinen**

Authorized Public Accountant  
Ernst & Young Oy  
Authorized Public Accountant Firm

**Mona Alfredsson**

Authorized Public Accountant  
Ernst & Young AB  
Authorized Public Accountant Firm

# 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 2019, 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 13 February 2020, at which time we also received the Auditors' Report submitted on 13 February 2020 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 2019 provide a true and fair view of the financial position as at 31 December 2019, as well as on the result of the operations and cash flows during year 2019. In accordance with the statement of comprehensive income the profit for 2019 amounts to EUR1 398 134.

We recommend to the Nordic Council of Ministers that:

- the result for year 2019 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 13 February 2020

**Jan-Erik Enestam**, Chairman

**Johan Andersson**

**Vilhjálmur Árnason**

**Wille Rydman**

**Sjúróður Skaale**

**Michael Tetzschner**

# Board of Directors, Control Committee, Personnel

## BOARD OF DIRECTORS 2019

### DENMARK

**Søren Bukh Svenningsen**  
Head of Department,  
Environmental Protection  
Agency / Ministry of Envi-  
ronment and Food

### Morten Kruse

Global Anchor - Financing  
and High Value Projects,  
Ministry of Foreign Affairs,  
Alternate (until 30.6.2019)

### FINLAND

#### Ismo Tiainen

Director General, Ministry  
of the Environment

#### Sannamaaria Vanamo

Deputy Director General for  
Eastern Affairs, Ministry for  
Foreign Affairs

### 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, Alter-  
nate

### NORWAY

#### Agnethe Dahl

Deputy Director General,  
Ministry of Climate and  
Environment

#### Jon Opem

Senior Adviser, Ministry of  
Climate and Environment,  
Alternate

### SWEDEN

#### Jessica Andersson

Senior Advisor, Ministry of  
the Environment

#### Gabriel Hjort

Desk Officer, Ministry for  
Foreign Affairs, Alternate  
(until 31.8.2019)

### Henrik Norman

Head of Division, Ministry  
for Foreign Affairs, Alter-  
nate (from 1.9.2019)

## OBSERVERS

#### Anders Hedberg

Senior Adviser, Finance,  
Nordic Council of Ministers

#### Søren Kjær Mortensen

Senior Director, Head of  
Origination, Nordic Invest-  
ment Bank

## CONTROL COMMITTEE 2019

#### Jan-Erik Enestam

Chairman, Minister,  
Independent Consultant

### DENMARK

#### Sjúróur Skaale

Member of Parliament

### FINLAND

#### Arto Pirttilahti

Member of Parliament  
(until 28.10.2019)

#### Wille Rydman,

Member of Parliament  
(from 29.10.2019)

### ICELAND

#### Vilhjálmur Árnason,

Member of Parliament

### NORWAY

#### Michael Tetzschner

Member of Parliament

### SWEDEN

#### Johan Andersson

Member of Parliament

## AUDITORS

#### Terhi Mäkinen

Secretary to the Control  
Committee, Partner, Au-  
thorised Public Accountant  
Ernst & Young, Finland

#### Mona Alfredsson

Partner, Authorised Public  
Accountant Ernst & Young,  
Sweden

## PERSONNEL 2019

### Trond Moe

Managing Director, from  
1.6.2019

### Magnus Rystedt

Managing Director, until  
31.5.2019

### Husamuddin Ahmadzai

Special Adviser, Environ-  
ment and Technology,  
until 31.3.2019

### Mia Alén

Financial Controller

### Tita Anttila

Vice President, Head of  
Legal and Project Adminis-  
tration, Chief Counsel

### Vivi Avikainen

Project Officer

### Amund Beitnes

Senior Investment Manager

### Ulf Bojö

Senior Investment Manager  
/ PSI Facility Manager

### Nelly Eriksson

Assistant

### Iryna Fedorenko

Investment Advisor,  
Representative Office in  
Kyiv, Ukraine

### Aliona Fomenco

ESC Programme Manager /  
Project Manager

### Henrik G. Forsström

Senior Adviser

### Dennis Hamro-Drotz

Investment Manager

### Josefin Hoviniemi

Communications Manager

### Kari Hämekoski

Manager

### Andriy Katashov

Technical Adviser,  
Representative Office in  
Kyiv, Ukraine

### Ritva Kauppi

Senior Legal Counsel

### Helle Lindegaard

Vice President, Head of  
Trust Funds and Climate

### Tetiana Lytvyn

Investment Specialist,  
Representative Office in  
Kyiv, Ukraine

### Helena Lähteenmäki

Senior Investment Manager

### Ronny Nilsson

Senior Adviser, District  
Heating

### Tina Nyberg

Project Officer

### Bo Eske Nyhus

Senior Investment Manager

### Anja Nystén

Senior Manager, Environ-  
ment and Technology

### Lia Oker-Blom

Communications Officer

### Søren Rasmussen

Investment Officer

### Mikael Reims

Senior Manager, Head of  
Origination

### Bia Saarinen

Assistant / Paralegal

### Maija Saijonmaa

Manager, Environment and  
Technology (maternity leave  
from May 2019)

### Julia Shevchuk

Chief Investment Adviser,  
Representative Office in  
Kyiv, Ukraine

### Heli Sinkko

Project Manager (maternity  
leave from May 2019)

### Tua Skand

Financial Controller

### Tetiana Sliepchenko

Assistant, Representative  
Office in Kyiv, Ukraine

### Mia Ståhle-Lauritzon

Financial Controller /  
Financial Analyst

### Thor Thorsteinsson

Senior Financial Manager

### Annukka Valkeapää

Manager, Environment  
and Technology

### Marina Westerholm

Executive Assistant to the  
Managing Director



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