Nordic Environment Finance Corporation

Annual Report 2014

Contents

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

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Report of the Board of Directors 2014

Despite the challenges in 2014, NEFCO was able to maintain active project activities, where more projects and more funds for projects were approved than in any previous year. In all funds managed by the corporation, a total of 154 new projects were approved during the year to the total value of EUR 89 million. In the Investment Fund, NEFCO's base capital, new investments of in total EUR 17.2 million were approved and new preliminarily approved projects amounted to EUR 38.7 million. In the Investment Fund, the corporation had at the end of 2014 a total of 51 active projects, where commitments amounted to EUR 136.3 million. Payments are made with a certain delay and thus a greater part of NEFCO's resources are allocated than appear in the corporation's Report on Financial Position.

Active work in project activities could be carried out in spite of the political situation between Ukraine and Russia. The conflict between the countries has affected activities, as they are NEFCO's most important countries of operation. In addition, the conflict has made conditions considerably worse for conducting projects in these countries. It is hard to see that anything has previously affected NEFCO's activities so strongly and made them as difficult as the current situation between Ukraine and Russia. The situation between the countries has also led to increased risks in NEFCO's investment activities.

In Ukraine, NEFCO, with its focus on small and medium-sized projects, has been able to work with and initiate new, primarily municipal projects in the field of energy rationalisation. At the end of the year, NEFCO was commissioned by the foreign ministers of the Nordic countries to also conduct humanitarian projects connected with energy rationalisation (Nordic Initiative for Urgent Humanitarian and Energy Efficiency Efforts in Ukraine) with support from Norway and Sweden. NEFCO has in parallel also received support from Sweden for project activities in Ukraine.

By order of the Nordic Council of Ministers, administration of the Nordic Project Fund (Nopef) was transferred to NEFCO at the beginning of the year. At the same time, Nopef's mandate was adjusted to focus on the environment, climate and green growth in the internationalisation of small and medium-sized Nordic companies. In spite of the changes, Nopef was able to maintain a good flow of projects. Nopef's activities were also presented to the ministers for enterprise of the Nordic countries, who assumed responsibility for Nopef in connection with the change.

NEFCO's efforts in the Arctic intensified during the year as the Arctic Council Project Support Instrument (PSI) fund began activities when all contributors (Finland, Iceland, Norway, Sweden, Russia, the USA and the Saami Council) had paid their contributions. The fund supports environmental projects connected to the Arctic Council and the first four projects were approved during the year.

Negotiations regarding status agreements with Belarus have proceeded well during the year and the agreement was signed in January, 2015. This means that NEFCO will be able to increase activities in that country.

Three new funds have been established during the year. The new funds are the Norwegian Project Support Trust Fund, with funding from Norway to support environmental and energy rationalisation projects and the Contaminated Forests in Belarus fund, also with funding from Norway with the aim to finance a feasibility study of polluted forests in Belarus. The third fund was established for the Nordic initiative in Ukraine mentioned above.

In total, NEFCO managed 31 funds at the end of the year (excluding the Investment Fund) at a value of EUR 388 million. NEFCO produces special accounts for all funds. The funds are not included in NEFCO's Report on Financial Position.

The results of activities were in line with expectations. The negative developments in Russia and Ukraine caused exchange rate losses and reservations and reduced the value of the investments. This was however counterbalanced by the other activities and the fact that part of the exchange rate losses could be covered by the guarantee facility for the Investment Fund's rouble loan that is available through the Nordic Environment Development Fund. Use of the guarantee facility resulted in the company breaking even.

Activities also showed a good environmental result compared to previous years, which meets expectations. Details of the environmental result are presented in the environmental status report.

Evaluation of the environmental effects of the projects

In accordance with the procedure that has been gradually developed at NEFCO, each project is evaluated with regard to its environmental effects. The expected environmental effects are analysed before a decision on participation in financing is taken, and when the project has been completed, NEFCO follows up the real effects. The projects of both the Investment Fund and the Environment Development Fund (details on the funds are presented below) show on average positive environmental effects at the expected level. Of the 65 active projects that have been analysed, 18 are classified as projects that have exceeded environmental expectations, 12 are at the expected level, 10 do not yet meet expectations and in 18 cases no conclusions can

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In the 34 contracted Investment Fund projects, NEFCO's commitment amounts to EUR 85.6 million.

yet be drawn. Of all analysed projects, 217 have been completed. A summary of the assessment is attached.

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

The Investment Fund

The board of directors approved five new investments during the year. In addition, 11 so-called indications of interest, i.e. an initial approval in principle of a project for further treatment, were approved.

In 2014, NEFCO was able to complete a project where a project loan in Russia was repaid in advance. NEFCO has as of 2014 completed a total of 73 projects with its commitment amounting to EUR 85.9 million in total. During the year, six projects, which were no longer deemed to have the conditions for being realised in the manner planned, were abandoned.

Thus a total of 51 active projects approved by the board of directors remain, 34 of which have been contracted. In the other 17 cases, negotiations or studies are ongoing. NEFCO's commitment in these 51 projects is EUR 136.43 million in total, while total investments in these projects amount to approximately EUR 800 million, which gives evidence of a considerable lever effect. The greater part of NEFCO's resources are thus allocated, even though the Report on Financial Position states that total investments amount to a total of EUR 53.4 million (net after amortisations and write-downs), which is a minor increase as the corresponding figure at the end of 2013 was EUR 50.5 million.

In the 34 contracted projects, NEFCO's commitment amounts to EUR 85.6 million and total investments in them are approximately EUR 590 million.

NEFCO has placed its own capital in 12 of the commitments. In three of these, a loan from NEFCO will also be given. In 22 cases, commitment is only in the form of loans. Developments in the 34 contracted companies are on average satisfactory. With regard to results, based on the different companies' annual accounts as per 2013, 16 projects showed a profit and 10 showed a loss, while operative activities have yet to begin in eight.

New investments are widely spread among sectors. One of the new projects is a loan programme for various energy and process rationalisation projects that are conducted in collaboration with a local bank, one project concerns environmental investments in agriculture, two projects concern energy rationalisation and fertiliser management in two separate pig farms and one is an investment in the transportation sector.

MANAGEMENT ASSIGNMENT

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Nordic Environment Development Fund

NEFCO has managed the Nordic Environment Development Fund (NMF) by order of the Member States since 1996. The NMF is financed through annual contributions from the Nordic countries and the Nordic Council of Ministers. The aggregate framework for funds for the NMF amounted at the end of the year to EUR 75 million. The NMF is administered by NEFCO, and NEFCO's board of directors decides on allocations according to the NMF. The Nordic Investment Bank (NIB) participates in project evaluation.

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

During 2014, 24 new projects were given final approval through the NMF and NMF Credits, including a supplementary investment in a previously approved project. Of these, eleven are within the framework of the loan programme for energy rationalisation projects and five are through the programme for cleaner production.

Financing from NEFCO's loan programme for energy savings has been approved for energy savings measures for a total of 80 projects, while loans from the financing arrangement for cleaner production have been approved for a total of 94 projects in Russia, Ukraine, Belarus and the Baltic countries.

There are 272 completed, contracted and approved projects (including two indications of interest) taking into account the specific projects within both funds. Thus, of the current total framework for funds, EUR 66 million have been utilised.

The Nordic Project Fund and The Nopef Trust Fund

The Nordic Project Fund (Nopef) was established by the Nordic countries in 1982 with the aim of reinforcing the international competitive strength of Nordic companies through support for feasibility studies and export projects. As of 1 January 2014, Nopef is administered as a trust fund (Nopef TF) by NEFCO. Nopef TF is financed by annual budgetary funds from the Nordic Council of Ministers. In 2014, EUR 2.7 million was allocated to the fund. In 2014, financing for 66 projects was approved at a total value of EUR 2.1 million.

Barents Hot Spots Facility
NEFCO has managed the Barents Hot Spots Facility (BHSF) since 2004. The BHSF is financed using funds from the Nordic countries and funds from the Nordic Environment Development Fund (NMF) and is primarily intended for project development. The intention is, together with Russian authorities and project owners, to pursue the prioritised environmental issues ("hot spots") identified in north-western Russia in the report that NEFCO in collaboration with the AMAP (the Arctic Council's monitoring and assessment programme for the Arctic environment) originally presented in 2003. The fund's equity amounts to EUR 6.7 million. Financing has been allocated from the BHSF to a total of 70 different preliminary studies and preparatory measures for projects, 59 of which have been completed.

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

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

NEFCO has also managed the **NEFCO Carbon Fund (NeCF)** global climate fund since 2008. The aim of the NeCF is to finance environmental projects that meet the Kyoto Protocol's requirements on so-called joint implementation (JI) or the mechanism for clean development (CDM). The NeCF's total equity is today EUR 105 million. At the end of 2014, the NeCF had 13 active purchase contracts for emission reductions, and the fund was able during the year to deliver 0.2 million credits that were distributed to the fund's investors.

At the end of 2014, a total of eight million emission credits, distributed to the investors, were delivered through NEFCO's climate funds, the TGF and the NeCF.

The **Nordic Climate Facility (NCF)**, which is financed by the Nordic Development Fund (NDF) and administered by NEFCO, was established at the end of 2009. The fund finances climate projects in the poorest countries of Africa, Asia and Latin America and supports innovative collaboration between Nordic organisations and companies in climate-related areas. Activities have been successful and the fund has been extended four times. In the first call of proposals, financing was approved for 14 projects, in the second for 12 projects, in the third for 14 projects and in the fourth for 12 projects. The fifth call of proposals started in November 2014. A total of EUR 26 million has been allocated to the fund.

In order to develop the climate market, NEFCO is responsible for a pan-Nordic project together with the Nordic task force for global climate negotiations (NOAK) regarding a sector programme (Nationally Appropriate Mitigation Actions - NAMA's) in the waste sector in Peru. The project, which is progressing according to plan, is a sub-project in the Nordic Partnership Initiative (NPI).

In 2013, the **NEFCO Norwegian Carbon Procurement Facility (NorCaP)** was established. The fund is financed with Norwegian funding and its primary aim is to procure emission rights during the second commitment period of the Kyoto Protocol (2103-2020). The facility will procure as many as 30 million credits from UN-approved projects where there is a risk that the project is discontinued due to the low market prices for carbon dioxide. Ten projects were approved in the first call of proposals. The second call of proposals started in September 2014.

Other management assignments
In addition to the above mentioned funds, NEFCO also manages a number of other external funds. These are of the so-called trust fund type, i.e. funds where funding is provided for a particular purpose or project specified by the contributor, but where NEFCO is responsible for the utilisation of the funds.

Finnish, Norwegian and Swedish grants are allocated for the analysis, preparation and follow-up of environmental projects. NEFCO also manages Norwegian funding for water management in the Kenozero National Park in Russia, for measures against pollution from oil-polluted water in the Barents area, to support environmental and energy rationalisation projects in ODA-approved OSCE countries, Russia and the Arctic, a preparatory study regarding polluted forests in Belarus and funding for co-financing with the Barents Hot Spots Facility for the identification, development and follow-up of projects. Swedish funding has been allocated for collaboration in the area of district heating with the Ukrainian government and for the preparation of environmental projects within the Baltic Sea Action Programme (BSAP) and/or the NDEP, for an environmental project on the Solovki Islands in the Russian Barents Sea and for environmental efforts in the Kaliningrad region. Further Swedish funding has been added for projects that reduce SLCF emissions, for demonstration projects in district heating in Ukraine and for a pan-Nordic initiative with the aim of creating conditions for emission reduction programmes in developing countries. Swedish funding has also been added for the Nordic initiative, which has received support from the Nordic ministers for foreign affairs, with the aim of financing the renovation and construction of municipal buildings in the beleaguered areas of Ukraine. In addition, the EU has allocated funds to an investment programme for small sewage plants in Kaliningrad, while Finland and Sweden have allocated funds to the development and financing of a demonstration project for the destruction of ozone-degrading substances through the market for voluntary carbon credits. Finnish and Swedish funds have also been allocated in order to, together with the NIB, administer a project development fund for the support of the realisation of the Baltic Sea Action Plan. NEFCO has furthermore been commissioned to administer funds from the NDEP to four separate projects and funds from E5P for three projects. NEFCO produces special accounts for all external funds.

For these other management assignments, the various contributors have allocated a total of EUR 124.1 million, of which the contributions for completed management assignments amount to EUR 45.8 million.

Staff

At the end of 2014, 34 persons worked directly for NEFCO, three of whom are employed at the representation office in Kiev, Ukraine. There are also advisers who work for NEFCO on a consultancy basis.

Result

The annual accounts show a zero result.

Helsinki, 5 March 2015

Danfríður Skarphéðinsdóttir
Chairwoman

Søren Bukh Svenningsen
Vice Chairman

Ann-Britt Ylinen

Harald Rensvik

Jon Kahn

Magnus Rystedt
Director

02

Environmental status report 2014

Figure 1

BOD	Biochemical oxygen demand
CO_2	Carbon Dioxide
MWh	Megawatt hours
No_x	Nitrogen oxides
Ntot	Nitrogen total
Ptot	Phosphorus total
SO_2	Sulphur oxides
SS	Suspended solids
VOC	Volatile organic compounds
t/y	Tonnes per year

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

The fundamental goal of NEFCO's operations is the reduction of pollution originating in Eastern Europe. This means support for projects that, for example, reduce discharges into the catchment areas of the Baltic Sea and the Barents Sea or reduce transboundary airborne emissions of pollutants. As projects having a major impact on the Nordic region are given priority, the efforts focus on protecting water and air quality.

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

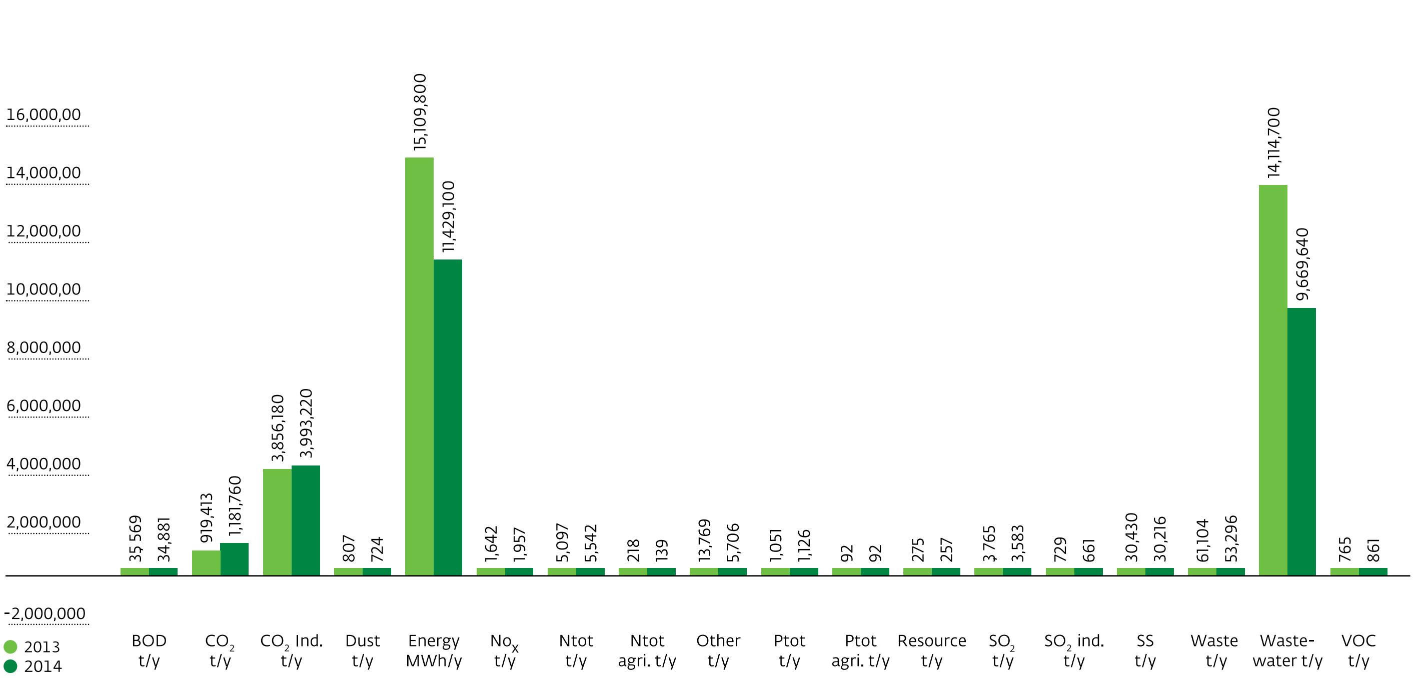
Typical projects include:

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

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

NEFCO's environmental database also takes into account projects in which its involvement has ceased. The justification for including emission reductions from projects

Figure 1 NEFCO: Total reductions



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Most of the untreated municipal wastewater entering the Baltic Sea comes from small and medium-sized municipalities.

in which NEFCO is no longer involved is that the relevant facilities have in post-evaluation been found to match or even significantly exceed expected reductions. The service life of an industrial facility is substantially longer than the repayment period of a loan, and as a result, the positive environmental effect of the facility will in all likelihood continue in a linear fashion for a long time into the future.

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

The results achieved in 2014 for the determinant indicators of CO_2 and energy improved slightly on 2013, which is linked to emission reductions increasing somewhat in the Nordic Environmental Development Fund (Figure 1). The clear decline in energy saving is due to a client not submitting a report, not due to direct deterioration. The elevated reduction of indirect CO_2 emissions that can be seen in Figure 1 has occurred through the sale of a larger bio-boiler. A contributing factor to the somewhat slow development within the sectors mentioned is probably the general global economic situation as well as the specific political/economic situation in NEFCO’s main countries of operation.

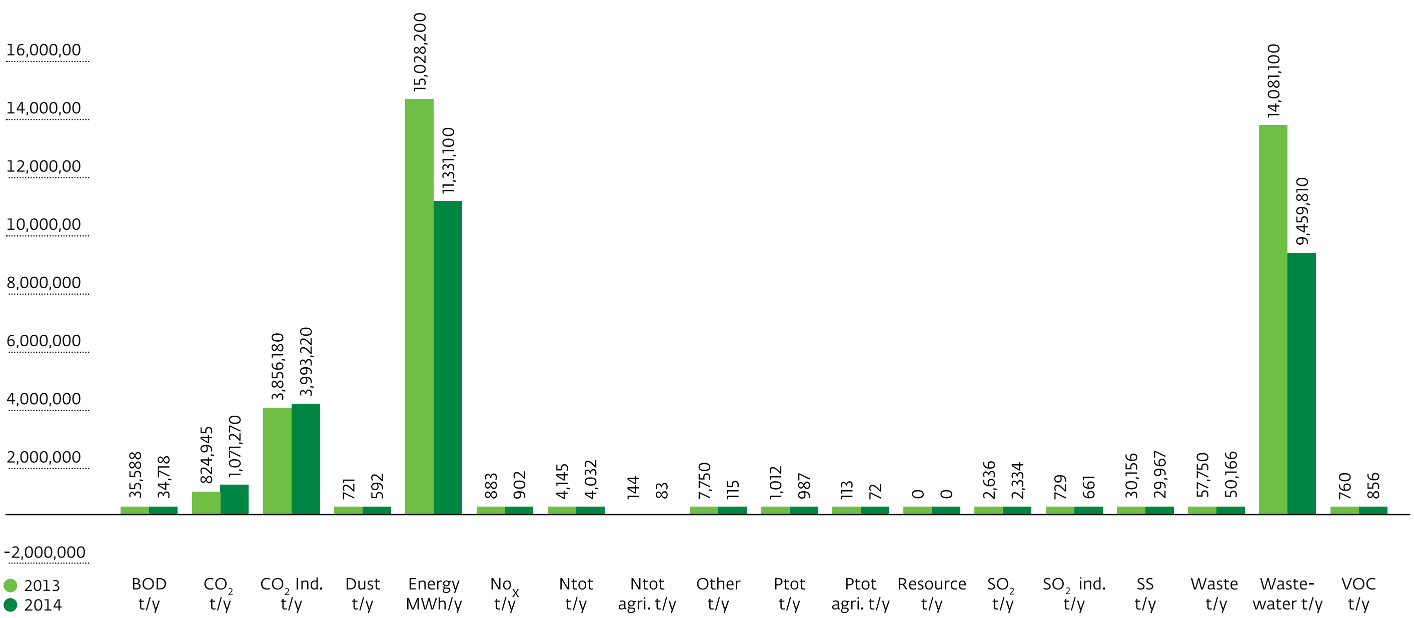
The figures for nitrogen (N) and phosphorus (P) are slightly above those for the preceding year, which is partly due to a biogas energy project within the energy sector and that completed projects within the NMF still can report good results.

Performance in the water and waste management, energy, industrial, and waste sectors are shown in specific sections below. Emission reductions associated with the Nordic Environmental Development Fund and the Facility for Cleaner Production are presented at the end of this environmental status report. Indirect CO_2 reductions are shown as a separate bar.

WATER AND WASTEWATER MANAGEMENT

Most of the untreated municipal wastewater entering the Baltic Sea from the Baltic countries comes from small and medium-sized municipalities. At the time when the negotiations on accession to the EU were under way, the water and wastewater management sector had a high priority in the Baltics and systems have subsequently been upgraded to better meet the environmental criteria imposed by membership. With this work now com-

Figure 2 Investment Fund: Total reductions



pleted, further efforts will be pursued to improve treatment capacity in northwest Russia.

While great importance is attached by NEFCO to benefits such as acceptable quality of drinking water and higher water connection rates, top priority is given to reduced discharges of phosphorus and nitrogen affecting the biochemical oxygen demand (BOD) to water, primarily into the Baltic Sea. Work is continued along with the efforts to achieve further reductions under HELCOM's Baltic Sea Action Plan in Kaliningrad and Leningrad Oblast as well as Belarus.

Figure 3 shows that performance in 2014 was slightly lower relative to 2013 with regard to phosphorus and nitrogen due to a number of new wastewater treatment plants not going on stream and that the depreciation for older wastewater treatment plants was successful. All of the other indicators follow the trend set by phosphorus and nitrogen. As in the previous years, the impact of the Southwest Wastewater Treatment Plant in St. Petersburg was excluded from the 2013 figures because of the dominant position of the facility in terms of the volume of wastewater treated (80 million m3). Overall, the treated volumes vary considerably from one treatment plant to another, due to climatic and economic conditions, among others.

The continued significant reduction in BOD and suspended solids (SS) was primarily due to the improved efficiency of the Southwest Wastewater Treatment Plant in St. Petersburg.

Overall, the water sector continued to put in a good performance in 2014, but its significance in NEFCO's portfolio is decreasing.

Energy

The combustion of fossil fuels produces acidifying emissions, CO_2 (which contributes to the greenhouse effect), and emissions of hydrocarbons, dust, and heavy metals, among others. With the appropriate technology and dimensioning, emissions can be reduced and efficiency increased substantially. More efficient energy production and conversion to less polluting fuels leads to reduced atmospheric emissions of sulphur dioxide (SO_2), nitrogen oxides (NO_X), CO_2, heavy metals, and dust from combustion processes.

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

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

Within the energy sector, the rate of reduction in carbon dioxide emissions clearly improved compared to 2013. On the whole, the sector' performance in terms of CO_2 reductions was positive. The increased CO_2 reductions and substantial energy savings were due to the fact that new projects report their

Figure 3 Investment Fund: Water and wastewater sector

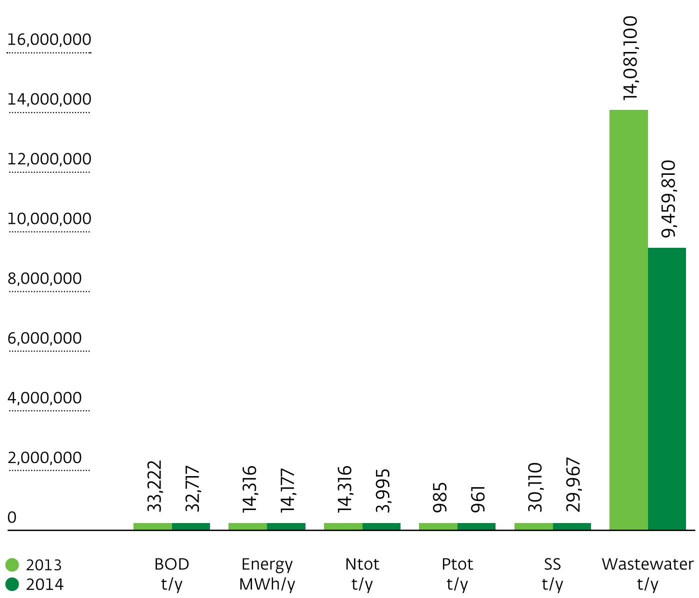
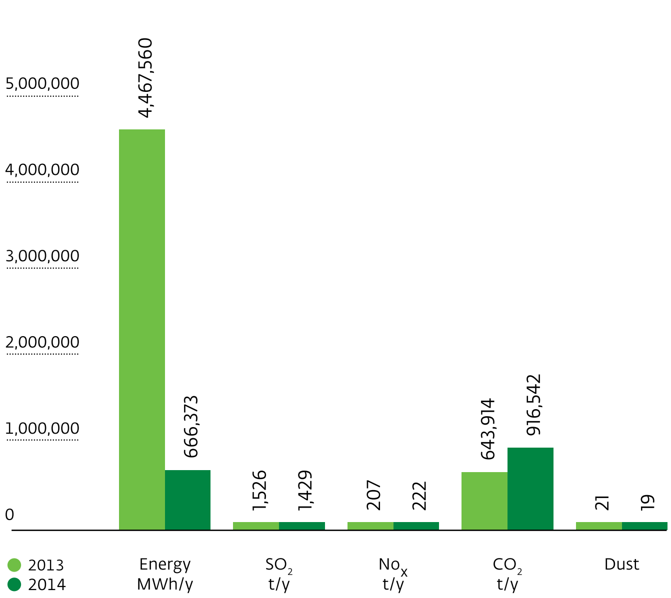


Figure 4 Investment Fund: Energy sector



In the energy sector, there was a clear reduction in carbon dioxide emissions compared to 2013. The total emission reductions of CO2 in 2014 counted for 5.2 million tonnes

environmental results in the form of CO_2 reductions but not in the form of energy savings made, which is an additional cause for deviations in the energy result. The wind power projects that NEFCO participate in have continued well despite energy production dropping slightly compared with 2013. In addition, a waste disposal site gained better results than in 2013. Otherwise no major changes in reductions took place in 2013. These indicators are shown in Figure 4.

Industry

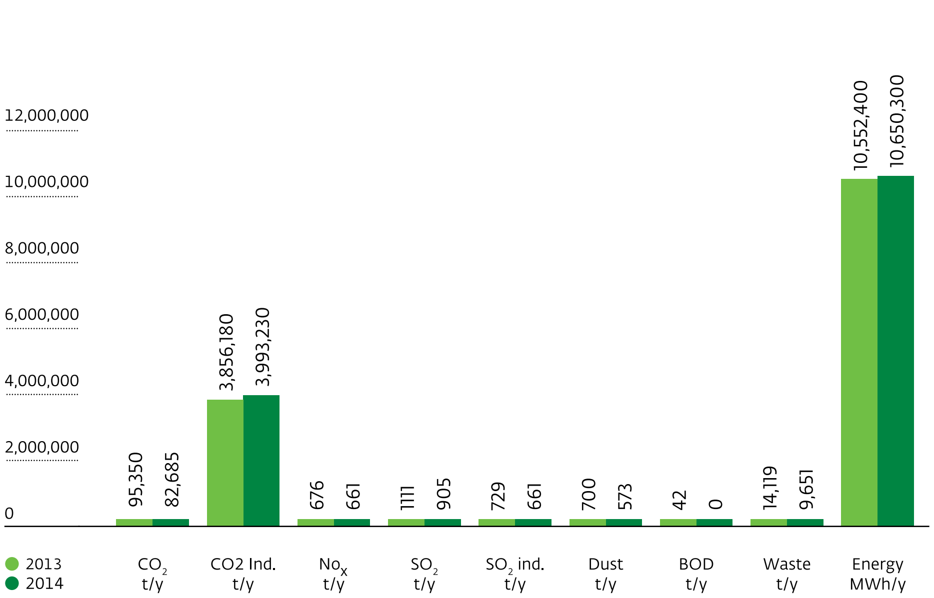
Industrial activity impacts on the environment in a number of ways:

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

NEFCO's industrial projects aim at improving resource efficiency in order to reduce emissions to air, soil and water. Environmental benefits can be achieved as a direct consequence of investments but also indirectly as NEFCO supports companies manufacturing environment-related products, such as water cleaning agents and insulation materials. In these cases, the benefits are only felt at the consumer level.

Compared with 2013, reductions in indirect CO_2 emissions clearly increased during 2014, which is explained by one of NEFO's clients selling its bio-fuel boiler equipment. The fact that NO_X and SO_2 emissions failed to decrease despite the deployment of the new bio-boilers is partly because the potential reductions and the impact of depreciation on completed projects were not factored in. The latter also applies to direct CO_2 reductions. That industrial projects lead to higher rates of reduction in wastes goes to show that industry in NEFCO's target countries is improving its performance in recovering and recycling resources in its processes, which is also indicated by the fall in the volume of wastes as shown in Figure 4. This is likely to be temporary as many of NEFCOs industrial projects are negatively affected by the general political situation. Industrial sector results can be seen in Figure 5.

Figure 5 Investment Fund: Industrial sector



Waste

Waste causes a range of environmental problems:

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

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

A new waste management project was launched in Belarus during 2012 to recover gas from landfills. Biogas production was commenced as part of this project during 2013 but reached full capacity in 2014. The results are included in Figure 3 above.

The reduction in nitrogen emissions (Ntot) from the landfill in Sillamäe continues to play an important part in the efforts to manage nutrient levels in the Baltic Sea. Aside from nitrogen, the project has also helped to stop the entry of significant amounts of radioactive isotopes into the Gulf of Finland by stabilising and covering the landfill and isolating it from the sea. No other waste management projects were launched in Belarus during the reporting period in addition to the scheme to harness gas released from landfills, despite resources being actively allocated to the Barents region, amongst others.

Nordic Environmental Development Fund (NMF)

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

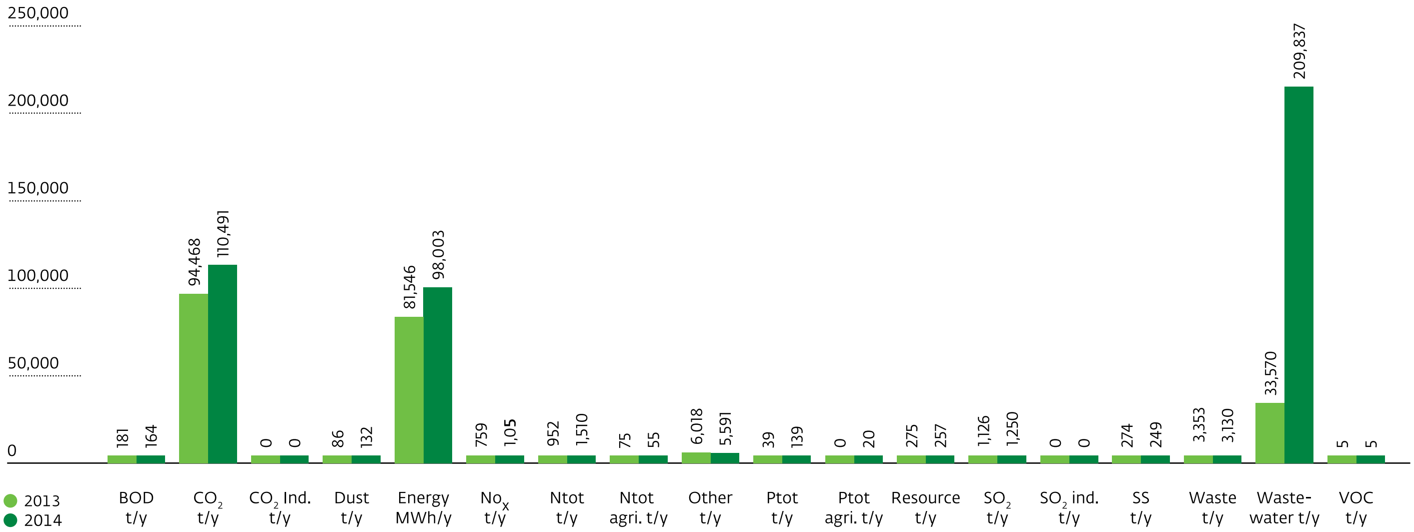
Compared with 2013, a fall in the rate of reduction in CO_2 emissions can be noted (Figure 5). The same applies to atmospheric emissions of NO_X. As far as the nutrients nitrogen and phosphorus are concerned, the statistics show a substantial decrease in the rate of reduction relative to 2013. The increased amount of purified wastewater is assumed to be behind the increased reduction of nutrients.

Cleaner production

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

Investments in cleaner technology result in real reductions in emissions and/or waste. More environmentally friendly production

Figure 6 NMF: Total



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

Selected parameters relevant to environmental benefits are presented below, where quantitative results have been reported. A number of positive differences in energy consumption relative to 2013 can be discerned (Figure 6). It can be generally noted that there are positive differences in the reduction of energy compared with 2013. For all indicators apart from SO2, there has been an improved reduction. As the economic downturn continues, interest in small loans by type of cleaner production (CP) has increased. A contributing factor to these soft credits gaining success and improved reporting, is the local presence in some of NEFCOs target countries. The availability of cheap energy is no longer obvious to many small businesses, which has led to increased interest in energy-saving measures.

NEFCO's carbon funds

Besides NEFCO's main financial instruments, the company also manages three carbon funds: the Testing Ground Facility (TGF), the NEFCO Carbon Fund (NeCF) and the NEFCO Norwegian Carbon Procurement Facility (NorCaP). The TGF was operational only until 2013, but the TGF projects funded through NEFCO are estimated to continue to reduce CO2 emissions by approximately 235,000–480,000 tonnes per year, depending on assumptions used and the actual activity level. The NeCF has during 2014 consolidated its activities and reduced its active procurement due to the price collapse in 2011-2012, but through already contracted projects is estimated to continue to reduce CO_2 emissions by some 370,000 tonnes per year. In addition to this, since the end of 2013 NEFCO has been administering the NorCaP, a fund fully financed by the Norwegian government. The principal purpose of this facility is to purchase carbon credits from registered CDM projects which are at risk of discontinuation due to the prevailing low CER prices. NEFCO has also initiated new procurement activities on Norway's behalf through the NeCF in least developed countries. This can be expected to result in a considerable number of additional CO_2

reductions in the years to come. The latest NorCaP delivery schedule suggests 19.3 million

contracted credits to be delivered during the period 2014–2021, i.e. an estimated average of additional 2.4 million tonnes of carbon dioxide equivalents per annum.

Figure 7a NMF: CPF. Reduction of emissions to air

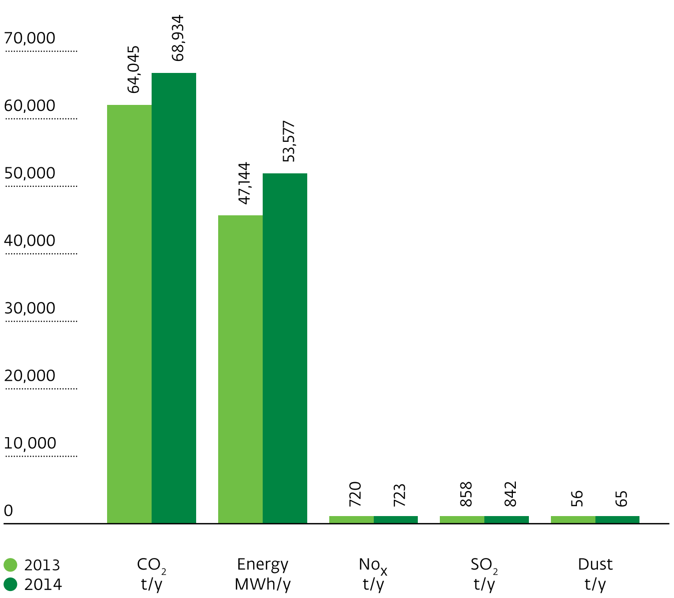
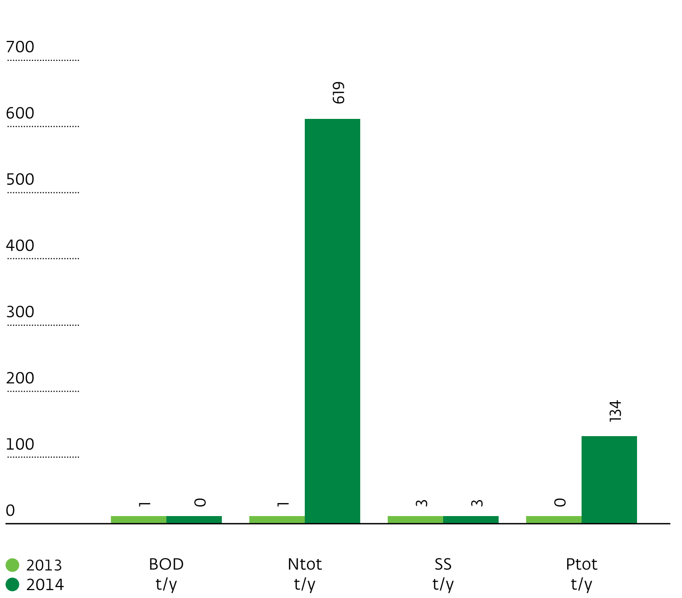


Figure 7b NMF: CPF. Reduction of emissions to water



Financial statement

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Statement of comprehensive income

1 January — 31 December

(Amounts in EUR)	Note	2014	2013
Income			
Interest income, placements with credit institutions		586,583	824,015
Interest income, debt securities		81,844	9,673
Interest income, lending		2,446,025	1,686,751
Net result of financial operations	(1)	435,788	2,082,714
Other income		4,457,558	3,594,306
Total income		**8,007,797**	**8,197,460**
Operating expenses			
Administrative expenses	(2) (3) (4)	6,012,532	5,260,943
Depreciation and write-down in value of tangible and intangible assets	(9)	15,037	19,642
Foreign exchange gains and losses		1,593,009	1,125,204
Impairment of loans / reversals	(6)	387,219	1,157,231
Total operating expenses		**8,007,797**	**7,563,020**
RESULT FOR THE YEAR		**0**	**634,440**
TOTAL RESULT		**0**	**634,440**

04

Statement of financial position

31 December

(Amounts in EUR)	Note	2014	2013
ASSETS			
Cash and cash equivalents	(5)	3,251,257	5,329,295
Placements with credit institutions	(5)	86,949,216	89,441,412
Total cash, cash equivalents and placements with credit institutions		**90,200,473**	**94,770,707**
Debt securities	(5)	10,123,969	10,042,267
Investment assets	(7)	15,417,324	16,448,817
Other placements	(8)	3,627,224	3,708,650
Loans outstanding	(6)	34,329,160	30,226,774
Other receivables	(6)	1,671,312	450,908
Accrued interest	(6)	908,254	568,944
Intangible assets	(9)	10,616	15,633
Tangible assets	(9)	56,155	9,089
TOTAL ASSETS		**156,344,485**	**156,241,789**
LIABILITIES AND EQUITY			
Liabilities			
Other liabilities		730,099	627,402
Equity			
Paid-in capital	(10)	113,406,560	113,406,560
Reserve for investment/credit losses		24,557,177	24,557,177
Operational fund		4,500,000	4,500,000
Retained earnings		13,150,650	12,516,210
Result for the year		0	634,440
Total equity		**155,614,387**	**155,614,387**
TOTAL LIABILITIES AND EQUITY		**156,344,485**	**156,241,789**

05

Changes in equity

(Amounts in EUR)	Paid-in capital	Reserve for investment/ credit losses	Operational fund	Retained earnings	Result for the year	Total
Equity as of 1 January 2013	113,406,560	24,557,177	4,500,000	12,488,711	27,500	154,979,947
Appropriation to the retained earnings				27,500	-27,500	-
Appropriation to the reserve for investment/credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Result for the year					634,440	634,440
Equity as of 31 December 2013	**113,406,560**	**24,557,177**	**4,500,000**	**12,516,210**	**634,440**	**155,614,387**
Equity as of 1 January 2014	113,406,560	24,557,177	4,500,000	12,516,210	634,440	155,614,387
Appropriation to the retained earnings				634,440	-634,440	-
Appropriation to the reserve for investment/credit losses		-				-
Appropriation to the Operational fund			-			-
Paid-in capital	-					-
Result for the year					0	0
Equity as of 31 December 2014	**113,406,560**	**24,557,177**	**4,500,000**	**13,150,649**	**0**	**155,614,387**

Proposed allocation of the year's result:	**2014**	**2013**
Appropriation to the retained earnings	0	634,440
RESULT FOR THE YEAR	**0**	**634,440**

Cash flow statement

1 January — 31 December

(Amounts in EUR 1,000)	2014	2013
Cash flow from operating activities		
Result for the year	0	634
Depreciation and write-down in value of tangible and intangible assets	15	20
Value adjustments, investment assets	389	350
Value adjustments, other placements	23	-7
Capital adjustments, other placements	59	267
Impairments, lending	387	1,157
Change in accrued interests	-339	297
Lending		
Disbursements	-13,334	-14,904
Repayments	4,199	5,438
Premature repayments	2,461	737
Exchange rate adjustments	2,307	1,048
Change in investment assets	642	-345
Cash flow from operating activities	**-3,191**	**-5,308**
Cash flow from investing activities		
Change in placements with credit institutions	2,492	17,908
Change in debt securities	-82	-10,042
Change in other placements	-1	-218
Change in other receivables and liabilities, net	-1,239	-1,841
Change in tangible and intangible assets	-57	-9
Net cash flow from investing activities	**1,113**	**5,798**
Change in cash and cash equivalents	**-2,078**	**490**
Opening balance for cash and cash equivalents	5,329	4,839
Closing balance for cash and cash equivalents	3,251	5,329

i

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

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Notes to the financial statement

GENERAL OPERATING PRINCIPLES

—

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

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

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

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

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

—

Basis for preparing the financial statements

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

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

Assessments made in preparing the financial statements

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

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

Foreign currency translation

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

Cash and cash equivalents

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

Placements with credit institutions

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

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

Lending

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

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

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

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

Impairment of loans

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

Intangible assets

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

Tangible assets

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

Write-downs and impairment of intangible and tangible assets

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

Financial assets

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

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

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

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

- *Investment assets*

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

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

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

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

NEFCO's investment assets only fall under Level 3 as at 31 December 2014.

- *Other placements*

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

NEFCO's other investments only fall under Level 3 (Note 8).

Equity

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

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

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

Administrative expenses

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

Employee pensions and insurance

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

At the end of 2014, the Corporation's pension obligations were fully covered. The normal retirement age under the Finnish pension system is currently between 63 and 68 years.

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

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

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

Reclassifications

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

STANDARDS, AMENDMENTS AND INTERPRETATIONS

—

As of 1 January 2014, NEFCO has applied the following revised standards that have come into effect. The standards do not have any significant impact on the Corporation's financial statements.

- IAS 32 *Financial instruments*: Presentation; effective for financial years beginning on or after 1 January 2014
- IAS 36 *Impairment of Assets*; effective for financial years beginning on or after 1 January 2014

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

- *Annual improvements to IFRS 2011-2013 and 2010–2012* (December 2013); effective for financial years beginning on or after 1 July 2014
- *Annual improvements to IFRS 2012-2014*; effective for financial years beginning on or after 1 January 2016
- IAS 1 *Presentation of Financial Statements*: Disclosure Initiative; effective for financial years beginning on or after 1 January 2016
- IFRS 9 *Financial Instruments*; effective for financial years beginning on or after 1 January 2018.
- IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets;* effective for financial years beginning on or after 1 January 2016

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

MANAGEMENT OF FINANCIAL RISKS BY NEFCO

—

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

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

Market risk

- *Foreign exchange rate risk*

Outstanding loans are denominated in euros, roubles and US dollars. Rouble-denominated lending accounts for 11.5 % and dollar-denominated lending for 3.5% of all outstanding loans three of which are in roubles and one in dollars. NEFCO is exposed to a currency risk in respect of the rouble and the dollar. Risks due to exchange rate fluctuations are not hedged.

A guarantee facility for the Investment Fund rouble-denominated loans is available from the Nordic Environmental Development Fund (NMF). As at 31 December 2014, the guarantee facility had been used to a total of EUR 951,799.39 to cover the foreign exchange losses following the rouble's drop in value in 2014. The utilised guarantee facility reduces the annual foreign exchange losses. 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, 74.6 % are floating-rate and 25.4 % fixed-rate loans on which interest accrues up until the final repayment date. The distribution of loans outstanding according to the length of the interest rate fixing period is indicated in Note 11. The liquidity reserve of approximately EUR 87 million is primarily placed in bank deposits with maturity up to one year. As the maturity dates are spread across the year, the interest rate risk is distributed in such a way that any change in interest rate levels resulting from a fall in market interest rates is not immediately fully reflected in the financial result. A 0.5% fall in the annual interest rate would result in a reduction in earnings of around EUR 0.43 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 15.4 million as at 31 December 2014. The cumulative risk reserves protect the Corporation's authorised capital against losses. Equity investments account for 13.6% of the authorised capital.

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

In the 2013 financial statements, NEFCO valued the obtained emission reductions at market price (EUR/CER 0.32 and EUR/ERU 0.22). In 2014, NEFCO's Board of Directors determined that the emission reductions should be used to cancel out emissions from business travel and energy usage at NEFCO's facilities for the first 25 years and next 25 years of business operation. Remaining emission reductions will be donated through annulment to owner countries in proportion to their share of ownership. As at 31 December 2014, the total received emission reductions were valued at EUR 0.

Credit risk

The credit risk associated with NEFCO's lending is subjected to thorough examination before presentation to NEFCO's Board for a lending decision. The maximum credit risk exposure at the balance sheet date consists of the amounts outstanding for loans totalling EUR 34.3 million as at 31 December 2014. The cumulative risk reserves protect the Corporation's authorised capital against losses.

Credit risk is NEFCO's main financial risk. It involves the risk that the Corporation's borrowers or other counterparties fail to fulfil their contractual undertakings and that the collateral provided as security does not cover the Corporation's claims. In accordance with NEFCO's mandate, all of the Corporation's lending can be classified as high risk. The main risk consists of lending to companies in the target countries, which accounts for 30.3% of the paid-in authorised capital. Collateral for the loans consists of local authority guarantees (10.6%) or guarantees given by a parent company or bank (11%) while various types of liens and charges account for 37.8%. Negative pledge or other financial covenants represent 40.6% of the total.

Liquidity risk

The effective management of liquidity risk ensures that NEFCO can fulfil all its payment obligations as they mature. In total, 96% of the liquid funds and other placements with credit institutions (accounting for 79.5% of the authorised capital) consist of euro-denominated deposits with Nordic banks placed for a period of one year or less. The deposits mature at regular intervals, guaranteeing access to liquid funds when necessary. A small percentage of the liquid assets not to be used over the next few years have been invested in bonds with a maturity of five years. The plan is to hold the investment to maturity.

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

Operational risk

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

Capital management

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

(1) NET RESULT OF FINANCIAL OPERATIONS

(Amounts in EUR 1,000)	**2014**	**2013**
Investment assets, realised gains and losses	834	2,400
Other placements, realised gains and losses	-	-
Other realised gains and losses	4	2
Total realised gains and losses	**838**	**2,402**
Investment assets, unrealised gains and losses	-389	-350
Other placements, unrealised gains and losses	-13	31
Total unrealised gains and losses	**-402**	**-319**
Net result of financial operations	**436**	**2,083**

(2) ADMINISTRATIVE EXPENSES

(Amounts in EUR 1,000)	**2014**	**2013**
Staff costs	3,474	3,175
Pension premiums in accordance with the Finnish state pension system	747	636
Other pension premiums	169	144
Office premises expenses	383	305
Other administrative expenses	2,166	1,829
Miscellaneous administrative income	-4	-13
Total administrative expenses[1]	**6,936**	**6,077**
Host country reimbursement according to agreement with Finnish government	-923	-816
Net administrative expenses	**6,013**	**5,261**

1) The Corporation's administrative expenses include the administrative expenses for i.a. NeCF, NorCaP, NMF, NOPEF and NCF. Income from administration amounting to EUR 1,295,838 (2013: EUR 1,465,364) for NeCF; EUR 1,112,000 (2013: EUR 370,666) for NorCaP; EUR 889,429 (2013: EUR 893,165) for NMF; EUR 481,642 (2013: EUR 0) for NOPEF; and EUR 237,560 EUR (2013: EUR 263,834) for NCF as well as EUR 211,045 for other funds are included in the statement of comprehensive income under 'Other income'.

In 2014 the average number of employees was 30 (27 in 2013).

NEFCO is renting an office with a floor area of 900 m2 from NIB in Helsinki. Additionally, the Corporation is renting an 80.5 m2 office in Kiev.

(3) COMPENSATIONS AND BENEFITS

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

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

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

(Amounts in EUR)	2014 Compensation/ taxable income	2013 Compensation/ taxable income
Chairman of the Board	3,364	3,364
Other Directors and Alternates	16,489	16,264
Managing Director	287,847	293,841
Control Committee	1,500	1,500

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

In 2014 the employer's pension contribution was 19.05% of the income used as a basis for determining the amount of pension. The employee's pension contribution in 2014 was either 5.55% or 7.05%, depending on the employee's age. This contribution paid by NEFCO for the permanent staff based in Helsinki is a taxable benefit for the employees.

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

In 2014 NEFCO paid a total of EUR 100,719 (EUR 99,658 in 2013) in pension insurance premiums for the Managing Director.

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

The total amount of loans may not exceed EUR 200,000. The employee pays interest on the loan in accordance with the official base rate established by the Ministry of Finance of Finland (0.5% in July–December 2014). The same interest rates, terms and conditions are applied to all permanent staff members of the Corporation, including the Managing Director. The total amount of staff loans extended to employees in key positions was EUR 0 (EUR 0 in 2013).

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

(4) RELATED PARTY DISCLOSURES

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

(Amounts in EUR 1,000)	Interest income	Amounts owed by NEFCO to NIB	Amounts owed by NIB to NEFCO	Rents paid to NIB
2014	-	28	-	294
2013	-	53	-	234

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

(Amounts in EUR 1,000)			**2014**			**2013**
	Book value	**Fair value**	**Difference**	**Book value**	**Fair value**	**Difference**
Cash and cash equivalents						
Cash and balances with banks	3,251	3,251	-	5,329	5,329	-
Placements with credit institutions, held-to-maturity	-	-	-	-	-	-
Total cash and cash equivalents	**3,251**	**3,251**	**-**	**5,329**	**5,329**	**-**
Placements with credit institutions						
Placements with credit institutions, held-to-maturity	86,949	86,949	-	89,441	89,441	-
Total placements with credit institutions	**86,949**	**86,949**	-	**89,441**	**89,441**	-
Total cash and cash equivalents and placements with credit institutions	**90,200**	**90,200**	-	**94,771**	**94,771**	-

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

Maturity (Amounts in EUR 1,000)	**2014**	**2013**
Up to and including 3 months	12,267	14,329
3–6 months	25,844	16,838
6–12 months	51,740	63,254
Undefined	350	350
Total cash and cash equivalents and placements with credit institutions	**90,200**	**94,771**

DEBT SECURITIES

(Amounts in EUR 1,000)		2014			2013	
	Book value	Fair value	Difference	Book value	Fair value	Difference
Debt securities with credit institutions, held-to-maturity	10,124	10,124	0	10,042	9,766	-276
Total debt securities	**10,124**	**10,124**	**0**	**10,042**	**9,766**	**-276**

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

Maturity (Amounts in EUR 1,000)	2014	2013
1–5 years	10,124	10,042
Total debt securities	**10,124**	**10,042**

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

(6) LENDING

Impairment of loans/reversals in the statement of comprehensive income (Amounts in EUR 1,000)	2014	2013
Realised credit losses	-	-
Individual impairment losses, net	1,521	23
Collective impairment losses, net	-1,134	1,134
Total impairment of loans/reversals	**387**	**1,157**

No realised credit losses were recognised in 2014 (EUR 0 in 2013).

Impairment of loans, accrued interest on loans and other loan receivables

NEFCO's loans outstanding, accrued interest and other loan receivables under 'Other receivables' have been reduced by a total of EUR 2.85 million (EUR 2.47 million in 2013) in impairment losses. The following changes were recognised in the statement of financial position in respect of impairment losses.

Impairment, loans outstanding (Amounts in EUR 1,000)	2014	2013
Opening balance January 1	2,165	1,131
Increase/decrease in collective impairment losses	-1,134	1,134
Impairment losses, individual	1,500	-
Reversals of previously recognised individual impairment losses	-101	-101
Impairment losses December 31	**2,430**	**2,165**

Impairment, accrued interest (Amounts in EUR 1,000)	2014	2013
Opening balance January 1	1	1
Impairment losses recognised during the year	-	-
Reversals of previously recognised impairment losses	-	-
Impairment losses December 31	**1**	**1**

Impairment, other receivables (Amounts in EUR 1,000)	2014	2013
Opening balance January 1	300	176
Impairment losses recognised during the year	122	124
Reversals of previously recognised impairment losses	-	-
Impairment losses December 31	**422**	**300**

Non-performing loans as at 31 December 2014 amounted to EUR 1,352,919 (EUR 1,331,801 in 2013).

NEFCO finds that loan terms can be adjusted if the counterparty cannot meet his contractual obligations due to financial difficulties. Such adjustments of loan terms can, for example, include rescheduling of the due dates for repayments and interest payments, which affects the future cash flow. An adjustment of loan terms may be made in order to avoid an impending bankruptcy of the counterparty and to secure NEFCO's access to the cash flow foreseen in the loan contract. As at 31 December 2014, the total amount of outstanding loans subject to such adjustment was EUR 2,708,029 (EUR 1,030,819 in 2013) before impairment. After impairment, the equivalent amount as at 31 December 2014 was EUR 1,777,778 (EUR 0 in 2013). Unpaid interest on these loans was written off.

The following tables show net lending after deductions for impairment losses totalling EUR 2,430,251 (EUR 2,164,719 in 2013).

Lending by country as at 31 December:

Country (Amounts in EUR 1,000)	**2014**	**2013**
Estonia	273	409
Finland	1,358	2,438
Latvia	2,571	2,883
Russia	11,058	11,697
Sweden	2,082	-
Ukraine	11,295	10,205
Belarus	5,692	2,595
Total loans outstanding	**34,329**	**30,227**

As at 31 December 2014, the loans signed but not yet disbursed totalled EUR 10.84 million (EUR 15.36 million in 2013).

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

(Amounts in EUR 1,000)	**2014**	**2013**
Up to and including 3 months	10,837	15,362
Total loans signed but not yet disbursed	**10,837**	**15,362**

The maturity profile for loans outstanding as at 31 December:

Maturity (Amounts in EUR 1,000)	**2014**	**2013**
Up to and including 3 months	1,172	843
3–6 months	1,190	1,144
6–12 months	2,011	2,010
1–2 years	4,181	3,983
2–3 years	4,044	3,241
3–4 years	10,544	3,187
4–5 years	7,492	11,401
5–10 years	3,696	4,418
Total loans outstanding	**34,329**	**30,227**

Lending by currency:

Currency (Amounts in EUR 1,000)	**2014**	**2013**
EUR	29,173	20,714
RUB	3,964	8,418
USD	1,192	1,095
Total loans outstanding	**34,329**	**30,227**

As at 31 December, the guarantee commitments with a maturity of less than 1 year totalled EUR 517,047 (EUR 678,999 in 2013). Any extensions to the commitments are approved annually for 1 year ahead.

Loans outstanding by type of security:

As at December 31, 2014 (Amounts in EUR 1,000)	**Amount**	**Share %**
Loans to or guaranteed by local authorities	3,641	10.6
Loans guaranteed by banks	500	1.5
Loans with mortgage on immovable property	5,599	16.3
Loans with pledge on shares	7,113	20.7
Loans with floating charge	273	0.8
Loans with a guarantee from the parent company	3,283	9.6
Loans with a negative pledge clause and other covenants	13,921	40.6
Total loans outstanding	**34,329**	**100.0**

As at December 31, 2013 (Amounts in EUR 1,000)	**Amount**	**Share %**
Loans to or guaranteed by local authorities	7,095	23.5
Loans guaranteed by banks	591	2.0
Loans with mortgage on immovable property	4,205	13.9
Loans with pledge on shares	2,538	8.4
Loans with floating charge	409	1.4
Loans with a guarantee from the parent company	4,102	13.6
Loans with a negative pledge clause and other covenants	11,287	37.3
Total loans outstanding	**30,227**	**100.0**

The maturities of the loans extended by the Corporation vary from 2 to 10 years. Of all outstanding loans, 85.0% are denominated in euros, 11.5% in roubles and 3.5% in U.S. dollars. Of the total of 23 loans, 16 are floating-rate loans. Such loans account for 74.6% of the total. The other 7 loans accounting for 25.4% of the total have fixed interest rates.

(7) INVESTMENT ASSETS

The Corporation's portfolio comprised the following holdings as at 31 December 2014:

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

The acquisition cost of the investment assets was EUR 19,610,277 (EUR 20,252,447 in 2013) while the fair value was EUR 15,417,324 (EUR 16,448,817 in 2013).

As at 31 December 2014, the signed but not yet acquired holdings totalled EUR 11,642 (EUR 11,642 in 2013).

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

(Amounts in EUR 1,000)	2014	2013
Level 1	-	-
Level 2	-	1,769
Level 3	15,417	14,680
Total	**15,417**	**16,449**

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

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

(Amounts in EUR 1,000)	2014	2013
January 1	**14,680**	**14,685**
Investments during 2014	1,127	345
Divestments during 2014	-	-
Change in value	-389	-350
Reassignment from Level 2	-	-
December 31	**15,417**	**14,680**

Sensitivity analysis
In the assessment of NEFCO's Level 3 assets, due consideration must be given to the inherent nature of the investments and the form of NEFCO's involvement. Initially, the investments – normally made in recently established entities – are assessed at acquisition cost if there is no indication of lower value. NEFCO pursues an exit strategy requiring that the invested capital is recovered in its entirety at a reasonable interest. Today exit agreements are made in respect of

all investments. At a later stage, the companies are evaluated in terms of their financial performance in accordance with the exit agreement when exit is impending.

A sensitivity analysis is difficult to carry out because normally there is no market for the shares. As an aid in establishing the potentially highest or lowest value, the historical return on the portfolio may be used. The average historical rate of return on completed projects is around 55%. It should be pointed out that losses have been posted for around 36% of the investments. A 55% increase in the value of the existing portfolio would add EUR 8.5 million to the financial result whereas a loss of 36% would have a negative impact of EUR 5.6 million.

A sensitivity analysis of Level 3 investment assets is provided below:

(Amounts in EUR 1,000)		Impact on financial result in 2014	
	Fair value	**Positive impact**	**Negative impact**
Investment assets	15,417	8,480	-5,550

(Amounts in EUR 1,000)		Impact on financial result in 2013	
	Fair value	**Positive impact**	**Negative impact**
Investment assets	14,680	8,074	-5,285

(8) OTHER PLACEMENTS

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

(Amounts in EUR 1,000)	**2014**	**2013**
NEFCO Carbon Fund	3,627	3,687
Emission reductions	-	22
NMF	-	-
Total	**3,627**	**3,709**

NEFCO's share of NeCF's authorised capital is 4.8% (4.8% in 2013).

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

(Amounts in EUR 1,000)	**2014**	**2013**
Level 1	-	22
Level 2	-	-
Level 3	3,627	3,687
Total	**3,627**	**3,709**

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

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

NEFCO's investment in NeCF has generated 84,372 emission reductions (CER and ERU) for NEFCO. The climate fund Testing Ground Facility (TGF) administered by NEFCO has transferred

71 emission reductions to NEFCO. A total of 84,443 emission reductions have been received by NEFCO. The Board of Directors at NEFCO have determined that these emission reductions are partly to be utilised for the company's own use, and partly to be annulled; hence the fair value is zero (as at 31 December 2013: 84,372 emission reductions, at a total of EUR 21,999).

NEFCO's investment in emission reductions falls in the Level 3 category in the fair value hierarchy.

Nordic Environmental Development Fund
During 2011–2013, NEFCO invested a total of EUR 5,346,308 in the Nordic Environmental Development Fund (NMF). While the investment in NMF does not yield any financial profit, it contributes to NEFCO's investment activities. The investment in NMF falls in the Level 3 category in the fair value hierarchy.

(9) INTANGIBLE AND TANGIBLE ASSETS

(Amounts in EUR)	**2014**	**2013**
Intangible assets	**Computer software, development costs**	**Computer software, development costs**
Acquisition value January 1	106,570	104,804
Acquisitions during the year	2,959	1,766
Acquisition value December 31	109,529	106,570
Accumulated amortisation January 1	90,936	76,128
Amortisation according to plan	7,977	14,808
Accumulated amortisation December 31	98,913	90,936
Net book value	**10,616**	**15,633**
Tangible assets	**Office inventories**	**Office inventories**
Acquisition value January 1	58,539	50,842
Acquisitions during the year	54,126	7,697
Acquisition value December 31	112,665	58,539
Accumulated depreciation January 1	49,450	44,616
Depreciation according to plan	7,060	4,834
Accumulated depreciation December 31	56,510	49,450
Net book value	**56,155**	**9,089**

(10) EQUITY

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

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

(11) INTEREST RATE RISK

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

Loans outstanding (Amounts in EUR 1,000)	**2014**	**2013**
Up to and including 3 months	12,300	10,442
3–6 months	13,416	12,208
6–12 months	973	1,553
1–5 years	7,510	6,015
5–10 years	130	9
Total loans outstanding	**34,329**	**30,227**

(12) EXCHANGE RATES

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

		EUR rate 31.12.2014	**EUR rate 31.12.2013**
DKK	Danish krone	7.44530	7.45930
GBP	British pound	0.77890	0.83370
NOK	Norwegian krone	9.04200	8.36300
PLN	Polish zloty	4.27320	4.15430
RUB	Russian rouble	72.33700	45.32460
SEK	Swedish krona	9.39300	8.85910
UAH	Ukrainian hryvnia [1)]	19.23291	11.04153
USD	US dollar	1.21410	1.37910

1) National Bank of Ukraine

Independent Auditors' Report

To the control committee of the Nordic Environment Finance Corporation
Independent auditors' report on the financial statements

In our capacity as auditors appointed by the Control Committee of the Nordic Environment Finance Corporation we have audited the accompanying financial statements of the Corporation, which comprise the statement of financial position as at 31 December 2014, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

The Board of Directors and the Managing Director are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Nordic Environment Finance Corporation as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the other requirements

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

Helsinki, 5 March 2015

Sixten Nyman
Authorised Public Accountant
KPMG Oy Ab

Hans Åkervall
Authorised Public Accountant
KPMG Ab

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

Statement by the Control Committee

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

Statement by the Control Committee 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 2014, 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 5 March 2015, at which time we also received the Auditor's Report submitted on 5 March 2015 by the authorised public accountants appointed by the Control Committee.

Following the audit performed, we note that:

- the Corporation's operations during the financial year have been conducted in accordance with the Statutes, and that
- the financial statements give a true and fair view of the financial position of the Corporation as at 31 December 2014 and of its results and cash flows for the year then ended. The Statement of Comprehensive Income shows a result of EUR 0,00.

We recommend to the Nordic Council of Ministers that:

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

Helsinki, 5 March 2015

Bill Fransson
Karin Gaardsted
Kristian Norheim
Penilla Gunther
Arto Pirttilahti
Höskuldur Þórhallsson

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