



# BULLETIN

NORDIC INVESTMENT BANK

JUNE 2010

TRANSPORT:

## Racing with time

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INFRASTRUCTURE  
INVESTMENTS**

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Increasing the capacity is to attract more cargo to the environment-friendly railway in Sweden.

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Photo: Mårten Höglund

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Photo: Pamela Schönberg

#### NIB BULLETIN JUNE 2010

Nordic Investment Bank Bulletin is published in English

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**GRAPHIC DESIGN:** Miltton Oy  
**PRINTED BY:** Erweko Painotuote Oy  
**PUBLISHER:**  
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#### COVER PHOTO:

A train in motion at the central station in Stockholm, Sweden.  
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Intelligent metering helps optimise electricity use in some 350,000 households in Helsinki.

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Photo: Juhani Eskelinen



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## When will the financial crisis be over?

Johnny Åkerholm, President & CEO, NIB

### Editorial

The events of this past spring have revealed that the global economy is not back to normal. The large funding needs of governments have rapidly become structural in nature. In the absence of corrective measures, the risks to financiers have increased. Under these circumstances, the situation in Greece developed into a global panic in a matter of weeks.

The Greek situation has affected other sovereigns with significant financial needs. Unlike in the early stage of the crisis, they are no longer trustworthy rescuers. The EU's large financial package will, hopefully, quell the acute panic. But when will the crisis be over?

While the timing is impossible to predict, the conditions to ease us out of the crisis can at least be perceived. Here is a brief list of what needs to be done in the realm of public policy:

- Identify medium-term measures for re-establishing public sector balances.
- Abort extreme money creation, as this would raise long-term interest rates.
- Revisit the Basel framework and the valuation principles to reduce volatility.

Until the trust in the sovereigns is restored, the role of international cooperation and international financial institutions grows even more important.

The investments presented in this issue of the NIB Bulletin are all long term and require long-term financing. While high on the political agenda, these investments are not always attractive from a financing point of view.

This is why NIB attaches so much importance to these sectors. Given good access to the financial markets, NIB offers direct financing and exerts a catalytic role, which makes it easier for others to participate, be it often with shorter maturities.

# NIB in focus

## Share of high-mandate loans on the rise



“The environment has become the single largest sector.”

**Nils E. Emilsson**, First Vice-President, Head of Lending, NIB

Since January 2007 NIB has implemented focus sectors in its classifications of lending activities. The focus sectors include those sectors that particularly support the fulfilment of the Bank’s mandate of enhancing competitiveness and the environment. The four focus sectors are environment; energy; transport, logistics and communication; and innovation.

“We have successfully been able to develop our lending activities in line with our objective to strengthen the fulfilment of our mandate by introducing focus sectors. The share of loans in these sectors has grown dramatically,” says Nils E. Emilsson, First Vice-President, Head of Lending.

In the first year the classifications were implemented, 40% of the Bank’s new lending went to these sectors. In 2008 the number reached 57%. Last year, over 75% of new lending activities targeted projects within the focus sectors totalling EUR 1,097 million.

“Not only has there been an increase in loans to the focus sectors but there has also

been a shift in the distribution of loans between these and the environment has become the single largest sector,” says Mr Emilsson.

In 2009, 48% of the loans were within the environmental sector, up from 13% in 2007. A large part of the loans agreed within this sector are also related to the energy sector, in particular renewable energy projects, and innovation. The transport, logistics and communications sector has also grown from 4% in 2007 to 18% in 2009. The share of loans within the innovation sector was 5% in 2009.

In 2009, 15% of all loans agreed went to projects outside the Bank’s membership area. Out of these the vast majority were focus sector loans. The largest loan recipients were clients in Russia, Poland and Brazil.

“Focus sector loans in member countries have mostly been aimed at environmental projects whereas over half of the focus sector lending in the non-member area has been directed to transport, logistics and communication,” says Mr Emilsson. ▴

### NIB IN NUMBERS

Share of transport, logistics and communications in total new loans

**18%**

Lending in the member countries in 2009

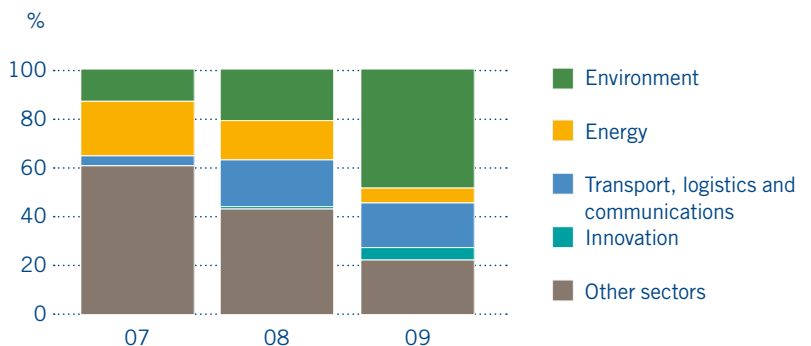
**€951 million**

The environmental loans within new lending

**48%**

#### Focus sector loans agreed

As a share of total loans





## Board of Governors: NIB to increase focus lending

“NIB should further direct its lending capacity towards its four focus sectors.”

Ingrida Šimonytė,  
Lithuania's  
Minister of  
Finance

At its annual meeting in late May, the Board of Governors expressed strong support for NIB's activities in the current economic situation.

“NIB should further direct its lending capacity towards its four focus sectors: environment; energy; transport, logistics and communication; and innovation. These are sectors which still suffer from the economic crisis in the membership area,” says Ms Ingrida Šimonytė, Finance Minister of Lithuania, who chaired the Board meeting.

In 2009, the share of these focus sectors rose already to 76% of the disbursements and a further increase is envisaged for 2010.

At the meeting, the Board of Governors approved NIB's annual accounts for 2009. No dividends will be made available to the Bank's member countries.

The meeting was held on 25 May in Turku, Finland. ▴

### CLIMATE CHANGE

## CLEERE extended by EUR 1 billion

**N**IB has extended its Climate Change, Energy Efficiency and Renewable Energy (CLEERE) lending facility by another EUR 1 billion. There are new environmental projects in the pipeline.

The facility targets projects aimed at combating and adapting to climate change through increasing energy efficiency in industry, the housing sector and transport as well as through promoting energy generation from renewable sources. Loans under this facility are provided as part of NIB's regular lending operations.

“The extension of the climate lending facility is our response to a continuously strong demand for financing in this area,” says Johnny Åkerholm, NIB President and CEO.

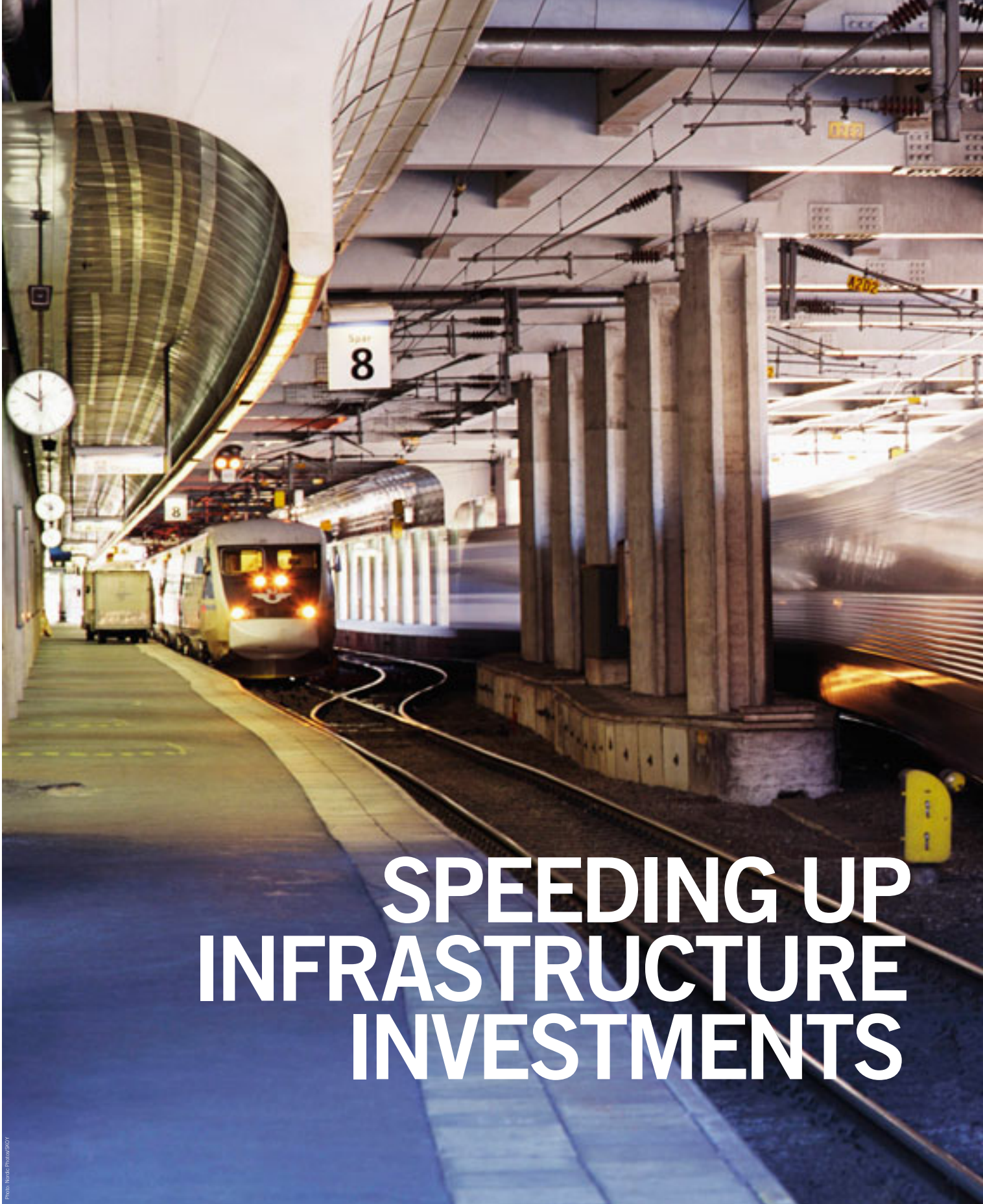
The Bank is considering several new loans under the CLEERE facility for projects in the pipeline. In the first months of 2010, CLEERE loans have been allocated to the electricity producers—Energa SA in Poland and Rajakiiri Oy in Finland.

Launched in early 2008 with a framework of EUR 1 billion, CLEERE helped NIB identify and finance projects in renewable energy and energy saving.

“The facility has been essential in helping implement the climate changes policies of the Bank's member countries during the recession,” says Mr Åkerholm.

The entire amount was allocated by the end of 2009 to more than 30 environmental projects, including the launch of the world's largest offshore windmill farm Horns Rev II, a solar-grade silicon factory in Norway, the refurbishment of hydropower plants in Finland and Latvia, better energy efficiency of buildings in Lithuania, as well as many other actions. ▴





# SPEEDING UP INFRASTRUCTURE INVESTMENTS





**Transport:** As Sweden opens up to public-private partnerships to invest in modern and environment-friendly infrastructure, NIB takes on the challenge.





**65%**  
increase in  
railway passenger  
traffic in Sweden  
since 1990.

**“A**lthough the government has made commitments on an unprecedented scale, we admit that the needs are bigger than what the state is able to meet by itself. On this basis we find it important to offer the possibility to those who wish to engage in co-financing. By doing so we create a win-win situation in which we can handle more urgent infrastructure projects than we would have been able to carry out on our own,” says Åsa Torstensson, Minister of Communications in the Swedish Ministry of Enterprise, Energy and Communications.

Transport, logistics and communications is one of NIB’s focus sectors. “Increased focus

on this sector brings us closer to our Swedish owners, the country’s infrastructure and the industry behind it. NIB is involved in PPPs in Denmark, Finland and Norway. Why not in our biggest member country,” says Ulf Westergård, Senior Manager of Origination at NIB.

In the debate on financing expensive infrastructure projects, Mr Westergård says it is important not to stare blindly at the prices. Time is also an important aspect.

“With NIB involvement, the projects can be initiated right away—and not in ten years’ time,” he says. He adds that the Bank is interested in various financing solutions for infrastructure projects and that he is currently discussing these with different parties, such as the Swedish Transport Administration, municipalities and regions and private sponsors and companies.





One initiative discussed is to assist municipalities with pre-financing projects approved by the government. In this way, NIB can provide the long-term financing to assist municipalities in quick implementation of these projects.

**L**ow consumption of energy puts railway transport on the winner's podium in the competition for reduced CO<sup>2</sup> emission. In the past year, NIB has cooperated with the Swedish Rail Administration to spot relevant railway projects. Two major investments which have been discussed are new high-speed trains and "Norrbotniabanan". NIB has already financed railway projects in SJ and Green Cargo (read more on page 12).

"Co-financing is only possible if there is an interest from more parties in building new infrastructure. We appreciate NIB's interest

in these projects," says Minoo Akhtarzand, former Director-General of the Swedish Rail Administration (currently Director-General at the Ministry of Enterprise, Energy and Communications).

The Swedish railway market has expanded rapidly in the last decade and railway travel has increased significantly in recent years. Growing environmental awareness among consumers pushes companies to find environmentally friendly ways to transport goods and encourages politicians to prioritise railway investments.

"The increased interest in the railway is significant. Passenger traffic has risen by about 65% and freight traffic by about 21% in the past 20 years," Akhtarzand continues, and adds:

"While building big infrastructure projects for the future, we have to maintain the current structure. It takes a long time for new projects




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"We appreciate NIB's interest in co-financing infrastructure projects."

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**Minoo Akhtarzand,**  
Former Director-General  
of the Swedish Rail  
Administration

&gt;&gt;&gt;

to be finalised, so we always have to maintain and reinvest in the current system in order to handle increased needs.”

Infrastructure investments are an important part of the political debate in preparation for Sweden’s governmental elections in the autumn of 2010. Access to a wider job market is one important reason for directing resources towards infrastructure investments, according to Ms Torstensson.

”Functioning communications is necessary to get people to work in a growing number of companies around the country. With good and reliable communications we give people a possibility to commute longer distances, which gives people a chance of remaining in their home town, but still having access to exciting job opportunities,” she explains. ▴

“Co-financing can sustain more urgent infrastructure projects.”

**Åsa Torstensson,**  
Minister of  
Communications,  
Swedish Ministry of  
Enterprise, Energy and  
Communications



Photo: Swedish Ministry of Enterprise

## “More railway for money”



**Gunnar Malm,** Director-General at the Swedish Transport Administration

In April 2010 a new public authority, the Swedish Transport Administration, was launched in order to obtain a more comprehensive perspective on transport projects. It also allows for a better regional approach to infrastructure investments.

“The new administration creates a base at the political level for more efficient and better connected solutions to various challenges within the transport sector. This will allow a more distinctive regional approach, both within Sweden and across the Nordic borders. We aim to deliver more railway and road for the money,” says Gunnar Malm, Director-General at the Swedish Transport Administration.

The comprehensive nature of infrastructure demands a cross border approach which seems tailor made for NIB. “NIB’s increased focus on infrastructure investments may also increase knowledge of the Bank, which operates across borders in the Nordic-Baltic region,” says Ulf Westergård, Senior Manager of Origination at NIB, who is already in discussion with Mr Malm on financing future projects.

“With all the resources concentrated in one administration we can improve the relationships with our various shareholders. The administration will explore which role NIB can play within our financing framework,” Mr Malm says.

The new authority assumes responsibility for long-term planning of the transport system for road, rail, maritime and air traffic. It is also responsible for the construction, operation and maintenance of public roads and railways. ▴



The NDPTL will focus on improving transport connections between the countries in the Northern region as well as to other regions. Completing the A1 motorway in Poland is one project example.

## New partnership on regional transport infrastructure

**Transport:** The new Northern Dimension Partnership on Transport and Logistics, NDPTL, will promote investments in regional transport infrastructure.

**T**he new NDPTL is expected to promote investments in the development of regional transport infrastructure such as roads and railroads, harbours and airports.

A list of partnership projects, endorsed by individual participating countries, is currently under development.

Although the list is not completed, it is envisaged that projects could include road and rail upgrades on the 'Northern Triangle'—the main transport corridors between Copenhagen, Oslo, Stockholm and Helsinki. Improved transport linkages and border crossings between Russia, Belarus and the EU are also envisaged as part of the 'Northern Axis.'

Other examples are the Rail Baltica linking the Baltic countries to Central Europe, the Barents Link between Northern Scandinavia and the northern regions of Russia, the completion of the A1 motorway in Poland, and projects related to the 'motorways of the seas'.

"The NDPTL will focus on both infrastructure and non-infrastructure related bottlenecks with the view to improving transport connections and logistic processes between the countries in the region as well as to other regions," explains Harro Pitkänen, Senior Director and Deputy Head of Lending at NIB.

The Northern Dimension countries signed a memorandum of understanding on the new partnership in late 2009. Being actively involved in the creation of the NDPTL since 2007, NIB has been invited, along with the other international financial institutions (IFIs), to participate as an observer in the partnership.

"The new partnership is being born under the aegis of the EU Northern Dimension policy. The Northern Dimension provides a common framework for the promotion of dialogue and concrete cooperation in addressing challenges and opportunities in Northern Europe," says Mr Pitkänen. ▴



**"Northern Dimension is a framework for dialogue."**

**Harro Pitkänen**, Senior Director and Deputy Head of Lending, NIB







**Transport:** A new loan agreement between NIB and Swedish rail freight company Green Cargo reveals a common commitment to strengthening competitiveness and enhancing the environment.

## ENGINES OF EXPORT



Sweden needs reliable freight transport to compete in the global market.

“In NIB Green Cargo has found a stable partner with the same long-term perspective and common mission to strengthen Sweden’s competitiveness and create environmentally friendly conditions for growth. It’s a perfect match,” says Mats Hollander, Green Cargo’s Director of Communications.

Half of Sweden’s GDP is based on export and without access to effective and reliable transport Swedish businesses could not compete in the global market.

Harbours and freight transport are engines of the export industry, and their level of activity reflects the well-being of a country’s economy. In 2009, Green Cargo reduced their transport volumes by more than 20%—an indication of the downturn in the economy.

“We are now seeing an upward movement of trade across the transport sector; however, it will take a while before Green Cargo reaches the volume we had in the autumn of 2008,” says Mr Hollander.

“Although the financial crisis hit some of our customers hard—the steel industry, for example, saw their transport volumes halved—Green Cargo made deals with 28 new customers that had never used railway transport before,” he continues, citing increased awareness among customers of the environmental benefits of railway transport as an important factor in the record number of new customers.

“Particularly companies within the trade

sector that work in direct contact with consumers are eager to shift to climate friendly transport,” he says.

Mr Hollander believes there is a second reason for the influx of new customers: Green Cargo’s on-time record. “We set another record in 2009 when 95% of our trains ran according to schedule for the third consecutive year. After security, punctuality is the most important factor to us. It is by being punctual that we can be a real commercially competitive alternative to air and road transport,” Mr Hollander explains.

With the help of NIB’s EUR 30 million loan, Green Cargo has invested in the modernisation of 104 of the company’s locomotives, a project that will help maintain the same high level of punctuality in the future.

The loan project will increase the locomotives working life by approximately 20 years at just one third of the cost of comparable new locomotives. The overhaul will also improve the drivers’ working environment.

“More than 90% of the goods we transport are carried on electrically powered trains. However, we do have some diesel locomotives and the modernisation includes these locomotives. The engines will be replaced and emissions of CO<sup>2</sup> are expected to decrease by some 20% due to improved energy efficiency,” Mr Hollander concludes. ▀

**The Baltic Sea:** Just back from HELCOM's ministerial meeting in Moscow, the organisation's Executive Secretary Anne Christine Brusendorff is happy to report that the Baltic Sea Action Plan (BSAP) is proceeding according to schedule.

## RESCUE ON TRACK

“The national implementation plans are a major step forward to meet our goals.”

**Anne Christine Brusendorff**, Executive Secretary, HELCOM





In the middle of May, ministers of all the HELCOM member countries met in Moscow, to present their national implementation plans for the BSAP.

“We have now received the member states’ national BSAP implementation plans. Three years ago in Krakow, it was decided that these national implementation plans were to be developed by 2010, and we can now see that the time frame was realistic. This is a major step forward to meet our goal, which is to restore the ecological status of the Baltic Sea by the year 2021,” says Anne Christine Brusendorff, HELCOM’s Executive Secretary.

“Together with international financial institutions and other stakeholders, it was decided to assess the plans by March 2011. We will then discuss how to speed up and facilitate the implementation of specific projects,” Ms Brusendorff continues.

The Moscow meeting resulted in a declaration where, among other things, numerous important actions are listed. One example of the actions is the reduction of inputs of nitrogen and phosphorus to the sea, to fight eutrophication.

“We see the advanced phosphorus removal from wastewaters as a cost-efficient way to improve the ecological status of the sea, but agriculture is naturally also a field of great importance.”

Some important actions have already been taken by individual countries. Ms Brusendorff emphasises wastewater treatment as a measure that gives quick results.

“A good example is the wastewater treatment plant in Szczecin, Poland, that opened recently. From this treatment plant, we are expecting to see improvements not only of Poland’s coastal waters, but also of the sea as a whole. Major results are also expected from the improved wastewater treatment plant that is to open soon in Warsaw.”

The next step for HELCOM is to assess the national implementation plans, and then to meet the stakeholders during a high-level segment of the Helsinki Commission meeting in March next year. Financing will be high on the agenda.

“We know that this is a matter of aligning different financing possibilities, stemming from national and regional funding. First, we need to find out how to employ the wide range of available financial instruments, such as the EU Cohesion and Structural Funds, the Northern Dimension Environmental Partnership, the

Nordic Council of Ministers and the IFIs. Then we need to combine longer term investments with shorter term investments for projects that give quicker results,” Ms Brusendorff explains.

Extensive cooperation between various counterparties is crucial in order to get the financial structure in place.

“I’m looking forward to doing these assessments together with the IFIs, including NIB, and other stakeholders like the John Nurminen Foundation, the Baltic Sea Action Group and the Baltic Sea 2020. It is a big job that lies ahead of us, but it is a job that has now been made possible as the countries have fulfilled their first obligations, namely, to present their national implementation plans,” concludes Ms Brusendorff. ▴



## Financing available for clean-up of the Baltic Sea

**IN RECENT YEARS**, the demand for financing of renewable energy and energy savings projects has been higher than that for Baltic Sea projects. NIB has made financial resources available for both purposes.

In order to support the implementation of the HELCOM Baltic Sea Action Plan (BSAP), NIB and the Nordic Environment Finance Corporation (NEFCO) have established a jointly managed BSAP Fund. The fund facilitates the development of relevant projects providing funds for institutional support and project preparation. ▴

“We need to ensure that the actions in the national implementation plans are carried out.”

Andreas Carlgren,  
Sweden's Minister of  
the Environment

Photo: Victor Bratt

## Sweden to ensure Baltic Sea Action Plan

### The Baltic Sea: Putting words into action

As HELCOM's incoming chair—from 1 July 2010—Sweden will ensure the implementation of the Baltic Sea Action Plan. The cost of no action is threatening. In an interview with the NIB Bulletin, Andreas Carlgren, Sweden's Minister of the Environment, says NIB has a substantial contribution to make to the plan.

“We need to work with our future implementation partners to ensure that the actions in the national implementation plans are carried out. The EU Strategy for the Baltic Sea Region, the EU Marine Directive, the follow-up to the Baltic Sea Action Summit and other processes are key forums for this,” says Mr Carlgren.

The EU Baltic Sea strategy has 15 priority areas. Under these are about 80 flagship projects as well as horizontal projects. One important

issue is to align financing to the priorities of the strategy.

“NIB, the European Investment Bank, the European Commission and other financing institutions have an important role here,” says the minister.

“We see NIB's environmental lending facility BASE with its framework of EUR 500 million as a very important and powerful instrument to help the countries with concrete actions.”

Sweden's minister sees encouraging trends regarding decreasing nutrient loads, showing clearly that investments in environmental protection pay off.

“The cost of no action, however, is threatening. More has to be done and NIB has a substantial contribution to make,” says Mr Carlgren. ▴



## THE BALTIC SEA

## Loan to improve water supply in Veliky Novgorod

Residents in the city of Veliky Novgorod, Northwest Russia, will get cleaner drinking water.

An investment project implemented by the municipal water utility company Novgorod Vodokanal aims to improve the drinking-water supply and

wastewater management in the city of Veliky Novgorod in Northwest Russia.

A long-term EUR 4 million NIB loan is financing the replacement of the city's water intake pumping station, the refurbishment of freshwater pipelines and the sewage collection system in order to reduce leakages of untreated wastewater.

This Novgorod project contributes to the fulfilment of the HELCOM Baltic Sea Action Plan adopted by the Baltic Marine Environment Protection Commission (HELCOM) and is being implemented as part of the Northern Dimension Environmental Partnership's (NDEP) programme for Northwest Russia.



“Our conclusion is very concrete: integrated, ecosystem-based management of the Baltic Sea is necessary.”

Björn Carlson, Chairman of the Board  
Baltic Sea 2020

## On sustainable fishing

### Column

The marine environment is in need of a comprehensive effort. New wastewater treatment plants and measures taken in the agricultural sector reduce emissions. Unfortunately, it will take some time before the effects are visible. A major—but often ignored—environmental problem in the Baltic Sea is overfishing.

Recently, 16 prominent marine scientists from countries around the Baltic Sea met to discuss the role that fish play in the ecosystem. The accumulated scientific evidence was evaluated. They agreed that fishery management adapted to the ecosystem can contribute to a healthier sea and can help offset the effects of excessive nutrients.

Fish largely determine the composition of the food web in the Baltic Sea. A healthy fish stock is a prerequisite for a healthy sea. More cod reduces the volume of its prey, sprat and Baltic herring, which in turn control the amount of zooplankton. A larger amount of zooplankton would limit the amount of phytoplankton, and we would have a cleaner sea. In brief—more cod leads to improved water quality.

Our conclusion is very concrete: integrated, ecosystem-based management of the Baltic Sea is necessary.

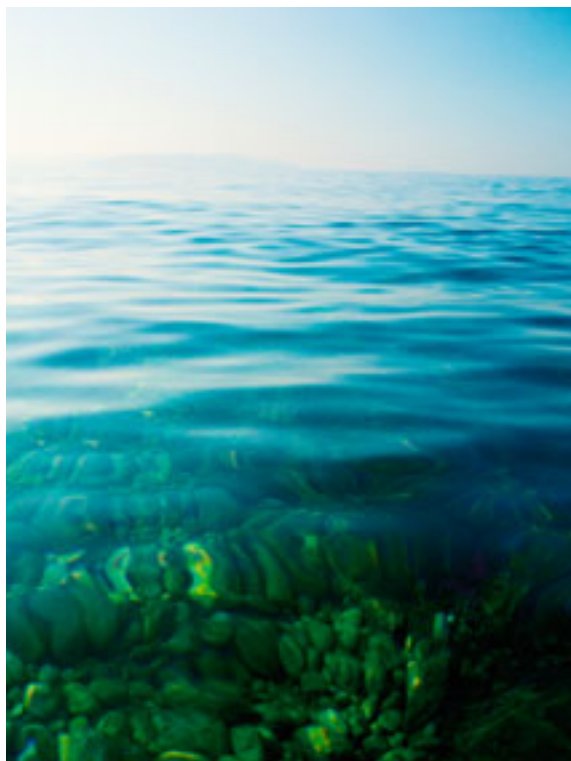




Photo: Rajakiri

# SPOTTING HIGH-MANDATE INVESTMENT NEEDS

**Energy:** In early 2010, NIB launched a business strategy for the energy sector. This approach will help identify energy investment projects where NIB's contribution makes a difference.





A new, NIB-financed windmill park in Tornio, Northern Finland, built by the energy company Rajakiiri, will increase the country's wind power production by one fifth.



**E**nergy has been a focus sector for NIB's lending operations for many years now. For instance, from early 2008 until the end of 2009, NIB financed 36 energy projects in the framework of its Climate Change, Energy Efficiency and Renewable Energy lending facility, CLEERE.

That array of projects included the launch of the world's largest offshore windmill farm Horns Rev II, a solar-grade silicon factory in Norway, the refurbishment of hydropower plants in Finland and Latvia, better energy efficiency of buildings in Lithuania, as well as many other actions. The total amount of loan financing within CLEERE was EUR 1 billion.

**S**o if the business strategy is not to redirect NIB's activities, shift its focus or shape a new priority for the Bank, what's the idea behind it?

Yngve Söderlund, Senior Manager at the Bank's Business Development Unit and the leader of a working group that developed NIB's business strategy for the energy sector, explains:

"This approach will help us increase proactivity and ensure that projects the Bank finances in this sector are in line with our mandate and have a good risk quality."

"We are dealing with huge investment needs in the energy sector. A proper prioritisation of NIB's energy investment portfolio is, therefore, crucial," he adds.

NIB's energy lending focuses on NIB's member countries as well as the other countries of the larger Baltic Sea region: Poland, North-west Russia and Ukraine.

"With regard to the security of supply and the reduction of the greenhouse gas emissions, the energy sector projects are becoming increasingly pan-regional," Mr Söderlund continues.

**A**mong the priority areas in the energy sector, NIB favours projects that improve energy efficiency through energy savings, by increased use of district heating/cooling and cogeneration, power plant modernisation and improving manufacturing methods.

Another area of the Bank's priorities is the strengthening of electricity transmission networks and interconnections. In particular, NIB will continue financing projects within the integrated Nordic, Baltic and Polish networks.

"This is a key to an increased use of renewable energy, market integration and the security

of supply," explains Mr Söderlund. "NIB is set to contribute to meeting the targets of the EU Baltic Energy Market Interconnection Plan for full integration of the three Baltic countries into the European energy market and strengthening of electricity and gas interconnections within the EU."

"One important task, for instance, is to facilitate the integration of the offshore wind energy produced in the Baltic Sea and North Sea into the European grid," he adds.

**T**he security of energy supply is another crucial subject in relation to the Bank's strategy for the energy sector. NIB's focus will remain on promoting power generation from renewable sources and carbon neutral technologies as well as the diversification of energy resources.

"These investments are vital for reaching the EU targets for climate change mitigation and promoting sustainable development. We will also support the balancing of power by financing new capacity based on suitable conventional technologies on a case-by-case basis," says Mr Söderlund.

NIB will also extend its loan financing to projects aimed at connecting gas pipeline systems and improving the storage capacity in the Baltic Sea region, including Norway and Denmark.

"The integration of the gas networks and a larger storage capacity will reduce the risk of short-term interruptions of gas supplies," Mr Söderlund explains.

**N**IB remains a devoted supporter of the development of innovative and environment-friendly energy solutions and technologies. This support is also included as a priority in the business strategy. According to it, the Bank supports the transfer of modern technologies between its member countries as well as from a member country to a focus non-member country.

"For the member countries, as it is often the case in advanced economies, being innovative is the ultimate recipe for increasing productivity. This is, therefore, a key to maintaining the competitiveness of the individual countries as well as of the whole Baltic Sea region," concludes Mr Söderlund. ▴

# Climate goals in an intelligent way

**Energy:** The Baltic Sea region can become a model for how meeting climate goals can create growth and prosperity.

“An integrated market is a key for meeting the emission targets.”

**Anders Kofoed-Wiuff,** energy analyst behind the study “Enhanced regional energy cooperation in the Baltic Sea region”

“In the future, the Baltic Sea region can become a showcase of how long-term climate goals may be met in an intelligent way—creating growth and prosperity,” says Anders Kofoed-Wiuff, a Danish energy analyst behind the study “Enhanced regional energy cooperation in the Baltic Sea region”.

The study came as a response to the growing acknowledgement of a pressing need for more efficient use of the region’s energy resources and connecting it to the rest of the EU. Initiated by the Baltic Development Forum and financed by the Nordic institutions as well as private donors, the study was carried out by the Danish consulting company Ea Energy Analyses.

“The aim of the research was to promote a common energy agenda for the Baltic Sea region,” says Anders Kofoed-Wiuff, energy analyst at Ea.

“We studied the potential to reduce CO<sup>2</sup> emissions in the region and identified projects that could benefit the region as a showcase for sustainable energy development and a pioneer in innovative solutions,” Mr Kofoed-Wiuff continues.

In his view, the region could promote new technologies for energy efficiency, the integration of wind power and

other forms of fluctuating energy production, new biomass-based technologies, and the use of carbon capture storage in connection with large power plants. The use of district heating and combined heat and power production is a key technology in environmentally sustainable cities.

Having a well-functioning, integrated regional electricity market is pivotal for meeting the targets of halving CO<sup>2</sup> emissions and the use of oil by 2030. In terms of the mix of the renewable and fossil-based electricity production, a regionally integrated system will always have more diversity than a national one.

“The integration of markets in combination with the strengthening of the transmission grid will allow integrating very significant amounts of wind power,” says Mr Kofoed-Wiuff.

A better price at a well-functioning electricity exchange would make a wind farm, for instance, somewhere in the Baltic countries, interested in investing in expanding its capacity despite the lack of financial support from the national government.

The power trade exchange Nordpool, which now includes four Nordic countries, is a good base for building a common energy market integrating Germany, Poland and the Baltic countries.

“Wind turbines, district heating schemes, and interconnections are capital-intensive projects. They need funding that would be secured by the EU and the international financial institutions active in the Baltic Sea region. NIB would have a key role to play in shaping financing structures for that large-scale transformation of the region’s energy systems,” concludes Mr Kofoed-Wiuff. ▴





# More clean energy investments required

**Energy:** David Buchan calls on governments, as free markets are insufficient for meeting environmental targets.



**David Buchan**, research fellow, Oxford Institute for Energy Studies

“It is becoming increasingly clear that free market solutions are no longer sufficient to meet low carbon energy needs and emission reduction commitments in time—and that more government intervention is needed,” says David Buchan, a research fellow at the Oxford Institute for Energy Studies and an author of seven books on the EU.

The EU is the only region to have firm emission and renewable targets beyond Kyoto. But Europe is alone. And flying solo with the Emission Trading System will not be easy.

The EU is taking a more proactive approach to energy investment. Under the European Economic Recovery Plan, nearly EUR 4 billion is being spent in 2009 and 2010 on energy infrastructure. More than EUR 1 billion of this will go into improving gas interconnections and some EUR 700 million into electricity connections in 2009 and 2010, with much of the rest

being used to support demonstration plants for carbon capture and storage.

“To make the EU’s plans for increasing renewable energy production and cutting carbon emission a reality, investments into clean energy should grow in a geometrical progression,” says Mr Buchan.

The lack of money in terms of credit is part of the problem. Another part is the lack of financial incentive to invest in alternatives to fossil fuels as long as the oil price is so variable.

“The price of carbon permits on the Emission Trading System is too low to be effective. There is little evidence of fuel switching caused by the carbon price—what does make the difference is the level of subsidy, which depends on a political decision,” Mr Buchan continues.

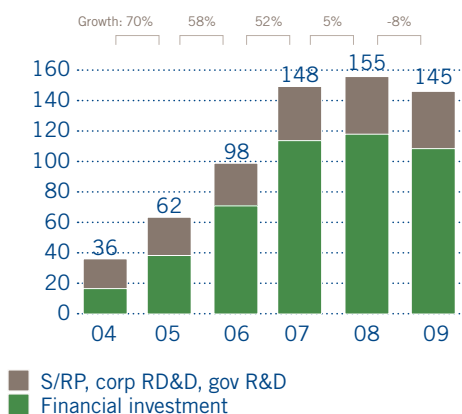
There is a danger in using non-market tools such as reduction targets. “The more we use these tools, the stronger is the long-term effect of weakening the market,” Mr Buchan explains.

“When compliance with reduction targets is low, producers have a bigger need for the carbon market, which, in turn, drives the carbon price higher. And the level of the carbon price naturally regulates the producer’s interest in reducing carbon emissions.”

Energy pricing is a very sensitive, political matter. Energy pricing is a tool to encourage conservation and new low-carbon generation, which always requires more upfront capital than the capacities based on fossil fuels.

“It is very important to get the energy prices right and realistic. It is natural for public investors and financiers, including the international financial institutions, to have more influence on pricing policies than the private sector banks,” Mr Buchan concludes. ▴

**Annual investment in clean energy,**  
in USD billion



Note: S/RP = small/residential projects. New investment volume adjusts for re-invested equity. Total values include estimates for undisclosed deals.

Source: New Energy Finance

# NIB loans



ENVIRONMENT

## Real-time metering saves electricity



Advanced metering systems will be used in 350,000 households in Helsinki.

**A**dvanced metering systems of electricity consumption are being taken into use in some 350,000 households and other consumption sites in Helsinki.

“Our customers will have exact and almost real-time data on their use of electricity. Several studies show that this is a very efficient way of reducing energy consumption,” says Mr Risto Harjanne, Managing Director of Helen Electricity Network Ltd.

Helen Electricity Network received a loan of EUR 28 million from NIB for the financing of an investment programme with the aim of taking a new system for remote electricity metering into use.

“This is the largest single investment in the 100 years’ history of our business—the total costs amount to some 40 to 50 million euro,” says Mr Harjanne.

The big investment programme is worthwhile as it brings advantages and benefits to our clients, the company and the environment. The real-time metering system will improve the service level in a number of practical ways. For example, because the new system enables fast two-way communication, Helen Electricity Network can connect power on to the client immediately after an agreement has been made.

“Many houses in Helsinki still have the electricity meters in the apartments. Now we do not need to bother our customers any longer to get in and read the meter,” explains Mr Harjanne.

“A legislation requirement in Finland states that from the beginning of 2014 remote reading systems should be in use. In Helsinki we will reach this already by the end of 2012,” adds Mr Harjanne.

**F**or Helen Electricity Network the new metering system will enable new solutions that optimise the network capacity. Moreover, automatic metering changes almost all processes of the distribution network company and is an essential part of the smart grid.

“A smart grid is an intelligent electricity network that integrates all users connected to it. This enables sustainable, economic and secure electricity delivery,” Mr Harjanne explains.

The smart grid keeps track of all electricity flowing in the system and has the capability of integrating also small-scale renewable electricity, such as solar and wind, into the power system.

From the environmental and climate change perspective, the main impact is the expected decrease in energy consumption. Customers can, for instance, allow the smart grid system to turn on selected home appliances, such as washing machines, during lower price hours. At peak times, when demand is at its highest, it could automatically turn off selected machines.

“The advanced metering system with the two-way communication is a key element of the smart grid of the future,” concludes Mr Harjanne. ▀



According to Matti Inha, Managing Director of the Mortgage Society of Finland, Finns are not only willing to invest in their living comfort but also in the environment.



Photo: Mortgage Society of Finland

#### ENERGY

## Energy awareness moves in

**F**inns are increasingly interested in energy-effective housing. New buildings are being built accordingly, but there is much to improve in already existing houses. The Mortgage Society of Finland is looking to provide funds for improved energy-efficiency in old houses.

“Energy and electricity prices keep rising, which is one reason for people’s interest in reducing their energy consumption. Increasingly there is also a very strong awareness, and concern, about climate change. People want to make a difference,” says Mr Matti Inha, Managing

Director of the Mortgage Society of Finland.

A loan of EUR 12 million from NIB will be targeted to the Society’s clients for energy-efficiency renovations in private households.

“With these funds we will offer our clients loans for projects such as beginning to use heat pumps or ground heat. Projects can also concern implementing renewable energy by changing to pellet heating or installing small-scale wind power or solar panels,” continues Mr Inha.

This year, the Mortgage Society of Finland celebrates 150 years of operations. Founded in 1860 it is the second oldest nationwide bank in Finland, behind only the Bank of Finland. It is the only one of its kind in Finland, offering solely mortgages to housing companies and private households.

“Our staff of less than 30 equals the typical branch office of a Nordic bank. We are a small and specialised bank, with lending operations only in Finland, mainly in the country’s southern regions,” says Mr Inha.

“Compared to central Europeans, Finns live in quite small homes. On the other hand, we usually have a second house, such as a summer cottage, where we spend much of our spare time. We will offer these loans for energy-efficiency improvements to these as well,” says Mr Inha.

With the interest rates being record-low, there is a concern about the housing market in Finland being overheated. On the other hand, the global economic unease does not seem to influence Finns’ confidence in their personal finances.

“People are willing to invest in their homes and standard of living, not only for the comfort, but more and more for the environment as well,” concludes Mr Inha. ▴

#### INTERMEDIARIES

## Loans to Latin American IFIs

NIB has signed new loan agreements with two international financial institutions in Latin America. The first loan, to Corporación Andina de Fomento (CAF), is in the form of a loan programme totalling USD 60 million (EUR 45 million). The funds are to be used for onlending to projects in the sectors of energy, environment, infrastructure and transport.

The second one is a loan programme totalling USD 30 million (EUR 21.3 million) to the Central American Bank of Economic Integration

(CABEI). The loan will mainly be utilised for onlending to projects in the fields of energy, including renewable energy, and infrastructure, specifically public transport and telecommunications, as well as other projects with strong environmental focus.

Nicolas Audibert, Senior Manager at NIB, comments that the close cooperation with CAF and CABEI is essential for the Bank’s activities in Latin America.

“Through our credit lines with CAF and CABEI we have the possibility to participate in the financing of projects important for the development of Central America. We strive to identify projects that make a substantial contribution to the sustainable development of the region at the same time as they strengthen the competitiveness of Nordic and Baltic companies.” ▴

The cooperation with CAF and CABEI is essential for NIB’s activities in Central America.

## ENERGY

## Polish Energa cuts network losses and carbon emissions

**T**he Polish electricity company Energa SA is set to construct and refurbish its low- and medium-voltage network as well as substations, with the total length exceeding 6,000 kilometres.

Energa's investments aim at reducing network losses by 204,000 MWh a year by 2011. This will have a positive environmental impact by reducing greenhouse gas emissions. The company will also invest in an Advanced Metering Management system and intelligent networks, actions which will help reduce network losses by another 100,000 MWh a year.

"Improving the stability of power distribution networks in the northern regions of Poland, which border NIB's member countries, is in line with the Bank's recently defined approach for the development of the energy sector," says Sami Loukkola, Senior Manager Origination at NIB.

With a loan of PLN 200 million (EUR 50 million), NIB participates in part of a structured finance package that also includes loans from the European Bank for Reconstruction and Development, the European Investment Bank as well as a group of commercial banks.



Photo: Energa

"Running these investments would not be possible without the trust of international financial institutions," says Leszek Nowak, Chairman of Energa SA.

Energa operates 187,000 kilometres of electric lines in the central and northern part of the country, servicing 2.8 million customers. Operating 45 hydroelectric power plants, a number of wind power plants and biogas works, the company is Poland's leading supplier of energy from renewable sources. ▴



Improved power distribution networks in Poland will decrease CO<sub>2</sub> emissions.

## TRANSPORT



Photo: Dmitry Andreyev

## St Petersburg airport capacity to double

**T**he airport will get a new international terminal built next to the domestic terminal. The construction is planned to be completed by the end of 2013. As a result of the project, the airport's capacity is expected to grow to 14 million passengers a year, which is double the amount of passenger traffic in 2009.

With its 5 million inhabitants, St Petersburg is the second largest city in Russia and an economic powerhouse that attracts major international investors in the auto, machinery and consumer goods industries. Last year, more than 3.5 million tourists visited the city, which is rapidly becoming one of Europe's most popular leisure destinations.

"Functional and adequate traffic connections are a prerequisite for St Petersburg to become a centre of business life in this very important part of the Baltic Sea region. A modern hub will help strengthen the region's competitiveness," says Nils E. Emilsson, NIB's First Vice-President and Head of Lending.

The NIB loan is part of a EUR 716 million long-term debt package committed by five international financial institutions, Russian Vnesheconombank as well as commercial lenders. The project will be carried out on the basis of a public-private partnership (PPP) agreement between the airport operator, the city and the borrower. ▴

NIB has committed a EUR 50 million loan to the consortium Northern Capital Gateway LLC for the renovation of the Pulkovo Airport in St Petersburg, Russia.

## ENERGY EFFICIENCY

## The art of weathering the cold and the slowdown



The needs for renovation of public buildings in Lithuania total EUR 1 billion.

The State Youth Theatre in Lithuania's capital Vilnius will start its 2010/11 season with a pleasant premiere—a fully renovated hall. Behind the neatly renovated interior, however, you wouldn't even notice the new heating system, which is the

major reason for the whole project.

The old radiators installed in 1982 were doing everything but protecting the theatre against the drama of relentless winter cold. "Every winter our electricity bills were grim, because we had to use additional high-powered heaters," says Algirdas Latenas, Director of the theatre.

Since the renovation started two years ago, the theatre has replaced the windows and installed new heaters. "Our heating bills went down by about 20% already in January and February this year compared to what we paid a year ago. This is despite the unusually harsh winter," says Mr Latenas.

The renovation of the theatre is one of 39 public-building projects financed from a EUR

100 million loan programme NIB has provided to the Lithuanian Government. The loan has a maturity of 20 years.

Other renovation projects will ensure better energy efficiency in the country's universities, hospitals, museums, schools, district courts, police stations and other public buildings.

"The investments will not only help reduce energy losses in old buildings but will also create new jobs in the construction sector suffering from the economic slowdown," says Aloyzas Vitkauskas, Vice-Minister at the Ministry of Finance of Lithuania.

The needs for renovation and improved energy efficiency of public buildings in the country total at least EUR 1 billion, according to the Ministry's estimates. This is a considerable cost for a Baltic country, but it's even more costly to use 30% to 50% of a building's energy consumption on "warming up the street" due to the low construction quality.

"It will also help optimise the heating costs and, of course, improve the hygienic conditions in the renovated buildings," adds Mr Vitkauskas.

Apart from the public buildings, energy efficiency needs to be improved in private apartment buildings all over the country. There are about 300 projects for the renovation of residential buildings in the pipeline. ▴

Photo: Vilnius University Hospital

## ENVIRONMENT

## Danish Vestas designs new wind turbine

Vestas Wind Systems A/S is developing a new wind turbine for low wind speeds.

Danish Vestas Wind Systems A/S, the world's largest producer of wind turbines, has developed a new type

of a 3 MW wind turbine for low and medium wind regimes.

With a five-year loan totalling EUR 30 million, NIB has financed Vestas' R&D programme, which focuses on improving the turbine's reliability, reducing its own energy consumption and increasing the output capacity. ▴

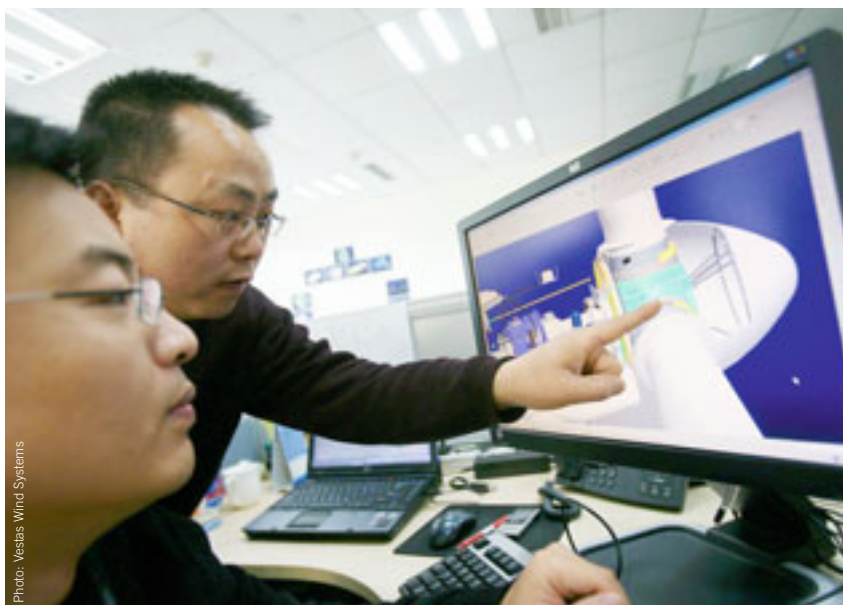


Photo: Vestas Wind Systems



# Treasury news

## Head of Treasury: Demand for NIB bonds unaffected by debt crisis

“NIB offers stability and reliability even in today’s volatile market.”

Lars Eibeholm, Vice President and Head of Treasury, NIB



**N**IB continues to issue global benchmark bonds as the demand proves to be strong. The Bank’s new funding team has got off to a good start in 2010.

“Our message to the investors is that the Bank, even in today’s volatile market conditions, offers stability and reliability along with the highest possible credit rating,” says Lars Eibeholm, Vice President and Head of Treasury at NIB.

Thanks to its high asset quality, strong balance sheet and ownership, NIB enjoys confidence from global investors who want to diversify into the only Nordic AAA/Aaa rated supranational issuer.

The Bank’s annual funding target is EUR 4.1 billion, which is in line with the funding programme of the last couple of years. During 2010, NIB plans to launch two to three benchmarks.

An ample supply of debt from many sovereigns with large funding needs combined with the uncertain economic outlook has resulted in volatility on the capital markets and affected the supranational sector.

Mr Eibeholm believes, however, that if the debt crises evolve, the investors’ flight to quality could benefit NIB with its Nordic assets and ownership, and result in relatively lower funding costs for NIB’s customers.

In 2010, NIB’s funding cost has improved compared to the beginning of 2009 and reverted back to more normalised levels. Mr Eibeholm also points out that NIB’s funding needs are significantly lower compared to those of its peers, which also helps NIB’s pricing.

**T**he Bank’s first benchmark of the year, a 3-year USD 1 billion global transaction launched on 20 January, confirms the strong demand. With oversubscription within just three hours, this transaction obtained the tightest pricing by a supranational issuer so far this year.

“This transaction makes me confident in our ability to raise funds at competitive prices to achieve our funding goals,” says Mr Eibeholm.

NIB’s funding team has got off to a good start in 2010 with its new unit head, Jens Hellerup. He has 10 years of experience working in the Bank’s Treasury Department. Hellerup’s experience and knowledge, together with the inspiration of the newly hired Chief Funding Manager, Kamal Grossard-Amin, and Funding Manager, Angela Brusas, shall maintain the tradition of NIB’s funding operations.

During the first months of the year, NIB has also launched a 4-year Kauri deal totaling NZD 150 million and a 5-year AUD 600 million deal in addition to a variety of smaller private placements.

**I**n February, NIB issued its first environmental support bond. The transaction raised the equivalent of USD 211 million through a Japanese retail offering. The proceeds will support NIB’s environmental investments. The Bank has an explicit environmental mandate to prioritise and actively seek projects which enhance direct or indirect global environmental benefits. ▴

# Organisation

## Lending fine-tunes operations

NIB's lending department was reorganised as of January 2010. There is now one unit for member country lending and one for non-member country lending. The aim is to fine-tune operations to increase the emphasis on NIB's focus sectors as well as the resources available for them.

The Lending Member Area is headed by Lars Selenius, Senior Director, while Vidar Omholt, Senior Manager, acts as deputy. The Lending Non-Member Area is headed by Søren K. Mortensen, Senior Director, with Tarja Kylänpää, Senior Director, as deputy. ▲

### NEW STAFF



**Ola Asplund (SE)** has been appointed Senior Corporate Analyst in the Corporate Analysis Unit at the Credit and Analysis Department. He has previously worked as Head of Research at Glitnir Securities / Fischer Partners Securities.



**Hanna Blomqvist (FI)** has been appointed Risk Analyst in the Risk and Accounting Department. She joins NIB from a position as Financial Analyst at Nordea.



**Kristian Kullberg (FI)** has been employed as Money Market Dealer in the Asset and Liability Management Unit at the Treasury Department. He joins NIB from a position as Senior Dealer at Kemira Oyj.



**Ville Mätkönen (FI)** has been appointed Senior Economist in the Country and Competitiveness Analysis Unit at the Credit and Analysis Department. He has previously worked as Senior Research Economist at the Finnish Government Institute for Economic Research (VATT).



**Tina Schumacher (FI)** has been employed as Head of Bank Analysis at the Risk and Accounting Department. She joins NIB from a position as Risk Manager at OP-Pohjola Bank Group.



**Katariina Vartiainen (FI)** has been appointed Environmental Analyst in the Environment Unit at the Credit and Analysis Department. She joins NIB from Pöyry Environment Oy where she worked as an environmental expert.

### PROMOTIONS

Credit and Analysis Department

**Carlos Rodriguez (SE)** has been appointed Chief Country Analyst in the newly established Country and Competitiveness Analysis Unit.

**Martin Carlens (SE)** has been appointed Director, Head of Country and Competitiveness Analysis.

Treasury Department

**Angela Brusas (FI)** has been appointed Funding Manager in the Funding and Investor Relations Unit.

**Jens Hellerup (DK)** has been appointed Director, Head of Funding and Investor Relations.

**Patrik Wainio (FI)** has been appointed Senior Director, Head of Asset and Liability Management.

Legal Department

**Pernelle de Klauman (DK)** has been appointed Deputy Chief Counsel for Treasury Operations.

HR Unit

**Päivi Elonen (FI)** has been appointed Senior Compensation Specialist.

**Marja Olkinuora (FI)** has been appointed Senior HRD Specialist.

Real Estate and Facilities Unit

**Jon Eriksson (FI)** has been appointed Senior Administrator.

Communications Unit

**Dimitrijs Alehins (LV)** and **Nina Monsen (NO)** have been appointed Senior Communications Specialists.





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