

# BULLETIN

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Theme:  
The Baltic Sea  
region

**NIB**

# Financial integration in the Baltic Sea region

Ari Mägg



Financial sector developments in the Baltic Sea region during the past few years have made clear that banking and financial markets in the region have grown out of their traditional, national frames. We are confronted now by a completely new business landscape, in which the players are many-faceted, multinational and cross-border financial enterprises.

The motive forces of the integration process have comprised both deregulation of financial activities and great advances in information technology. Cross-border banks operating in the Nordic area and the Baltic countries have been formed as a result of mergers and company acquisitions. A very large part of the Baltic banking sector is in fact owned, directly or indirectly, by Nordic banks. The process of consolidation has resulted in the establishment of complicated financial enterprises operating across both territorial and sectorial boundaries. The Nordic and Baltic banking sector is today highly concentrated, and accordingly its stability depends on a handful of banks.

**Two questions** relating to the increasing financial integration in the Baltic Sea region deserve to be highlighted.

First there is the growth aspect. Without question, the most important consequences of the region's financial integration are the growth-promoting effects. The role of the financial sector in mobilising resources for profitable investments and enabling the general public to obtain a return on its savings is growing more and more important. If the Baltic Sea region is to stay at the top of the growth league, it has to have a well-functioning financial services sector. This is important not least to small and medium-sized enterprises and export-oriented enterprises. The financial sector is also crucial for the internationalisation of the region's business activity, which in turn is the path to sustainable economic growth. There can be no doubt that the development of the financial sector has hastened and facilitated cross-border investments in the region, an important ingredient in the process of growth.

The second question to be considered is the supervisory aspect, which is somewhat more problematic. The Baltic Sea region, i.e. the Nordic and Baltic countries, has de facto acquired a regional banking system which comes under eight national supervisory authorities. There may be gaps here which need to be filled through joint action. True, the national supervisory authorities have developed their cooperation, but what we lack today is clear frames to indicate where ultimate responsibility for weak banks and bank failures is located within the regional system which has evolved.

Estonian, Latvian and Lithuanian NIB membership is a positive example of regional integration in the financial sector. The widening of NIB's circle of ownership is a milestone in the unfolding history of regional, intergovernmental cooperation. The enlargement of NIB is also an important adjunct to the integration of the Nordic and Baltic commercial banks.

**A European Union** with 25 or more member states requires new models of regional partnership within the European framework, especially where the small member states are concerned. Greater regional cooperation is needed in order to strengthen the position of the Nordic and Baltic countries in Europe. The financial sector is an important sphere for cooperation of this kind, the effects of which could then make themselves felt in a wider European context. The importance of the securities market will increase as time goes on. Integration of the Nordic and Baltic stock markets is already underway. To secure positive economic development for the Baltic Sea region in future, intergovernmental efforts are needed commensurate with the profound integration of the region's private sector. One important task for the public sector is to better integrate financial supervision in the region, matching the structure of the financial sector.

A handwritten signature in dark ink, appearing to read 'Jón Sigurðsson'.

Jón Sigurðsson  
December 2004



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Cover photo  
Kaius Hedenström

STIFF COMPETITION AROUND THE BALTIC

# Port of Tallinn intends to be among the winners

Port of Tallinn has big projects. The port company has established an ambitious investment programme for the coming years. Despite only 600 employees the company constitutes a motor for the Estonian economy.

Pedagüa Wolff



*Port of Tallinn wants to develop the area around the Old City Harbour in the centre of Tallinn. The idea is to have commercial real estate development in this area.*

The company plans to invest a total of more than 340 million euros in its harbours during the period 2004–2008.

“To stay in the competition we need to invest,” says Aare Tammemäe, Chief Financial Officer and Member of the Management Board.

Port of Tallinn, whose main competitors are in the Eastern Baltic and in the Gulf of Finland, has a total of four harbours, all of them in the area around Tallinn. In particular, the company invests in developing the Muuga harbour east of Tallinn and the Paldiski South harbour west of the capital, with financing inter alia from NIB. Muuga is the company’s largest cargo harbour and at present an industrial park is being developed there. Port of Tallinn is concentrating on developing new services, i.e. an industrial and logistics park and on generating new cargo stream within container traffic, since the passenger traffic, which generates about one third of the company’s revenue, has stabilised at a level of about six million passengers per year.

On the other hand, Tammemäe emphasises that the number of passengers has shown healthy increase in 2004, despite having been constant during the last few years. An attractive harbour area in the centre of Tallinn, accession to the European union and efforts to build new ships should attract more visitors. Port of Tallinn maintains the Old City Harbour and most of the land presently owned by





*The Muuga harbour, founded in 1986, is the deepest harbour in the Baltic Sea region and it will now be enlarged. Port of Tallinn has a total of four harbours.*



*The Paldiski harbour was a submarine teaching centre during the Soviet time. The harbour is small, but Port of Tallinn believes it has great potential. The emphasis is placed on ro-ro activity, export of local goods, and transit of liquid bulk and metals.*

the company remains fully unexploited. In the long term the company wishes to develop that area in cooperation with the City of Tallinn and real estate developers.

“Our intention is to convert this into a nice place for the citizens of Tallinn and for the tourists and to generate new revenue.”

**Oil** constitutes the most important product in cargo traffic via the harbours of Port of Tallinn. Most of it is transit traffic between Russia and Europe. Tammemäe says that Russian oil production has been increasing by 30–40 million tons per year and most of this increase is exported. Although Russia is at present developing its own harbours,

Russian capacity will simply not be sufficient at least in the near term.

“We want to be the best port serving Russian transit traffic.”

Tammemäe says that by developing a management system according to the ISO-standards for quality- and environment management Port of Tallinn has improved its management of security and environmental risks involved in oil transports and in cargo handling in general.

However, in the long term Port of Tallinn wants to get away from a revenue structure heavily dominated by oil products and to diversify its revenues. Alo Kelder, Counsellor at the Ministry of

Economic Affairs and Communications, says that a more diversified business is desirable for the state owned company. He believes that increased cooperation with operators responsible for railways, roads and terminals may be profitable in the future. In his view the port company’s role is to look for new business prospects, which are not only related to cargo and passenger traffic, but also to value-adding activities such as production and logistics.

**It is in the interest** of the Estonian State that the company develops in a positive way.

“From the owner’s point of view, the ultimate goal for Port of Tallinn is to deliver growth in shareholder value,” says Kelder.

He points out that Port of Tallinn constitutes an important part of the Estonian transport infrastructure and that a well working transport system is a prerequisite for successful integration within the European Union. Kelder adds that Port of Tallinn is important for passenger traffic in the Baltic.

The impact of the ports on employment is far from insignificant. Port of Tallinn company has only 600 employees, but if one also takes into account all the operators in the harbours the figure is much higher. Port of Tallinn is a so-called landlord port which owns the land and maintains infrastructure in the harbours. Private operators, such as shipping agents and stevedores and transportation companies are leasing the land and invest in terminals and warehouses for example.

“In a sense we are a small company. But by being a gateway between Russia and Western Europe and by providing job opportunities and new business we are quite important,” says Aare Tammemäe. ■

ACQUISITION OF BUILDING SYSTEMS MADE YIT INTO A SERVICE ENTERPRISE

# Even a house can be steered intelligently

Today the Finnish builder YIT Group provides an increasingly wide range of building systems services. In this sector, the company is the biggest in the Nordic countries. YIT's acquisition of the Swedish-Swiss ABB Building Systems in July 2003 was a sign of the coming change in direction. The Nordic Investment Bank contributed to the financing of the acquisition.



YIT Corporation

*Building Systems carries out independent business inside the YIT Group.*



The deal ensured a large segment of building systems business—worth over one billion euros—for YIT in the Nordic countries. There are also prospects for growth in the Baltic countries and in Russia, where separate subsidiaries have been set up.

“In line with the Group’s strategy, our target for annual growth is on average 5–10 per cent,” says Juhani Pitkääkoski, President of Building Systems.

Company acquisitions will also continue. The splintered sector has plenty of enterprises that will be offered for sale in future.

“We have a large product slate—property maintenance, piping, electricity, air-conditioning and security technology. At this stage, not all operations are sufficiently strongly represented in the various countries. In this sense, too, we’ll keep



*“We operate in 350 locations, which means that we are close to the customer,” says Juhani Pitkääkoski.*

growing,” adds Sakari Toikkanen, Executive Vice President of Building Systems.

Small enterprises can, for instance, do all the electrical work for a single-family house.

“We don’t compete in the same field as small enterprises. We aim at large contracts together with YIT Construction Services whenever possible.”

However, Pitkääkoski stresses that Building Systems is not the piping and electricity department of YIT’s business segment Construction Services. Building Systems carries out independent business inside the Group.

“If we didn’t master or develop our service concept, we wouldn’t be able to do this business inside the Group either.”

Sakari Toikkanen has a clear view on the issue of building quality:

“Each time we must start from the assumption that the work is finished in one go. As far as profitability is concerned, we couldn’t even afford to have work done three times.”

**“Acquisition of Building Systems** was mainly in keeping with two of YIT’s strategic outlines: increasing building systems business in Scandinavia, and focusing the Group’s operations on service business,” Juhani Pitkääkoski explains.

The building systems services provided by the subsidiaries of Building Systems in the Baltic Sea region accounted for 43 per cent of the YIT Group’s total turnover of 1.5 billion euros during the first six months of the year 2004.

Within the sector, upkeep, maintenance and renovation account for about 60 per cent of business, while the remaining 40 per cent comes from new building.

At present Building Systems has nine subsidiaries, and the most demanding part of integration will be over by Christmas 2004. Building Systems has a market share of roughly 10 per cent in the various countries.

“At the mental level, integration will naturally continue. It’s a long process when new people from different cultures come to work in one and the same company,” Pitkääkoski says.

It goes without saying that internal streamlining of the enterprise will continue



*Sakari Toikkanen has an unconditional opinion about the issue of building quality: work must be done well and in one go.*

ue even when the major mergers have been completed.

“It should actually be part of daily operations,” Sakari Toikkanen adds.

**The sector employs** over 12,000 people in the Group. This is 56 per cent of the total personnel strength.

“The most striking feature is that we operate in as many as 350 locations. On the map it looks as if someone had been shooting with a shotgun. Building systems services are produced very locally, and we can never be very far from the customer,” Juhani Pitkääkoski analyses the nature of the business.

Because work is done in so many locations, it is important to keep the organisation structure light and the management system simple. ►



Acquisition of Building Systems triggered a major change in the YIT Group's corporate structure. In September 2003, the Group was divided into four business segments: Building Systems, Construction Services, Services for Industry, and Data Network Services.

**Technical features** and automation have increased very rapidly in building systems services in the last few years. Yet, new technologies are just at the verge of their breakthrough.

"Automation aims at the intelligent steering of buildings. Among other things, this cuts energy costs and improves security. On the other hand, buildings cannot become too technical; the steering of different systems must remain easy," Sakari Toikkanen underlines.

He admits that it's a difficult equation to solve.

"We don't ourselves develop, for instance, new IT systems or design new pieces of piping. We put together technology acquired from various sources."

Building Systems also strives to enhance the efficiency of its operations by means of various technological solutions.

"For instance, service personnel can handle more maintenance assignments per day when they use the steering solutions in their hand-held terminals."

**According to Pitkääkoski**, in Finland building systems is a sector that needs to recruit workforce from abroad to meet its future demand for labour. This situation is not seen as a menace but as a natural development in circumstances where young people are not very interested in working as a plumber or as an electrician.

"On the other hand, technological advancements will also enhance the attractiveness of the sector as a field of study," Juhani Pitkääkoski predicts. ■



# Schibsted believes in diversity

Schibsted of Norway is a family enterprise that grew into a media group quoted on the stock exchange. The company, which operates in ten countries, wants to combine various media channels but underlines the importance of locally adapted content and editorial freedom.



Schibsted

Schibsted's head office is located in Oslo, where the company's shares have been quoted on the stock exchange since 1992.

"Our experience is that individual newspapers and magazines reach the best results if they can maintain and develop their unique characteristics," says Jan Hedenstad, Schibsted's Vice President, Information.

He does not believe that the presence of big players in the media field leads to uniformity and one-sidedness.

"Editorial independence, credibility and quality are the guiding principles for our media in all channels."

Schibsted runs newspapers and publishing houses and has activities in the sectors of TV, films, multimedia and mobile telephones. The group sees that its strength lies in this wide range of knowledge in the media field, and in its willingness to combine various channels and to try new things.

Schibsted has invested heavily in the Internet. Hedenstad says that the Web is particularly well suited to be a news channel, while the printed newspapers have other qualities. These two channels complement each other. In Norway, Schibsted's Verdens Gang is the biggest newspaper in both printed form and on-line. In Sweden, Aftonbladet has the same position.

In summer 2004, NIB and Schibsted

signed a contract for a loan that was partly used for Schibsted's acquisition of the Swedish Blocket.se, which runs a Web site for advertising. On previous occasions, too, NIB has granted loans for Schibsted's expansion.

The company intends to continue growing. Growth will probably take place both organically and through company acquisitions. Operations in new countries may become topical. Today, the company is active in countries around the Baltic and also publishes the free paper 20 minutes in Switzerland, France and Spain.

Hedenstad says that the free paper's goal is to attract young people who would not otherwise read any paper at all.

Schibsted also has experience of another trend in the media world: the tabloid format. Hedenstad points out that many people erroneously believe that adoption of the tabloid format has something to do with the quality of the content. However, the transition from broadsheet to tabloid means adapting the format to the needs of modern readers who lack time and want to read their papers on the train and on the bus.

"There has never been any contradiction between being serious and easily reached," Hedenstad concludes. ■



## OPERATIONS AROUND THE ENTIRE BALTIC RIM

- Schibsted has operations around the entire Baltic rim and in some other countries as well. Scandinavia is the company's principal market.
- The company owns Scandinavia's two biggest daily newspapers: Verdens Gang in Norway and Aftonbladet in Sweden. Schibsted is also behind Aftenposten in Norway and Svenska Dagbladet in Sweden.
- Schibsted has a majority holding in Metronome Film & Television, which operates today in Norway, Denmark, Finland and Sweden.
- Picture agency Scanpix and Schibsted Mobile, which provides mobile services, operate in both the Nordic and Baltic countries.
- Schibsted is the biggest owner of Eesti Meedia Group, Estonia's largest media group, which publishes, among other things, the newspaper Postimees.
- Schibsted also has a holding in Norway's TV2 and in the Estonian TV channel Kanal 2.

# Recognition for environmental work at the grassroots level

Environmental education for children and young people, and work for the environment in the eastern parts of the Baltic Sea received recognition as the Baltic Sea Fund awarded its environmental prizes for 2004. The prize-winners were two organisations that work at the grassroots level, and two individuals who play an important role in questions concerning protection of the Baltic Sea.

Of the total prize sum of 22,500 euros, a grant of 10,000 euros was awarded to the Kaliningrad Regional Children's Centre for Environmental and Biological Education and Tourism. The Centre, which was founded as early as 1951, engages in environmental education for children and young people, as well as for teachers. Activities include courses and excursions, and among the results achieved are campaigns about problems associated with oil transports in the Baltic Sea. Thousands of people are involved in the activities every year. The prize money will be used, among other things, to acquire new computer equipment for the Centre.

**Another organisation** that was acknowledged for its work on the grassroots level was Agenda 21 in Åland, which was granted a prize of 2,500 euros. The Agenda 21 information office, which has been in existence since 1995, strives to increase awareness of the environment in Åland and wants to anchor global environmental issues in people's everyday lives. For instance, the office gives information on how waste management and selection of



Jonas Edsick

*Felix Karmazinov of the St. Petersburg water utility Vodokanal said that 2004 was the first year that the city of St. Petersburg had adopted a programme for the planning of water supply and wastewater.*

transport modes affect the environment in the Baltic Sea. In addition, the office distributes brochures, and organises campaigns and exhibitions.

Apart from these organisations, two individuals received awards of 5,000 euros each. Felix Karmazinov, General Director at St. Petersburg water utility Vodokanal, was recognised for his contribution to the construction of the southwest wastewater treatment plant in the city. Twenty-five years ago all wastewater from St. Petersburg—3.5 million cubic metres per day—was

released into the river Neva untreated. The city's first treatment plant began operations in 1979, and today some 80 per cent of all wastewater is treated. Despite this, 800,000 cubic metres of untreated wastewater still flows into the water system every day. The southwest wastewater treatment plant is estimated to be ready in July 2005, when it will treat 300,000 cubic metres of wastewater per day.

**Director Roustam Sagitov**, who in 1995 founded the non-governmental organisa-



tion Baltic Fund for Nature (BFN), was awarded a prize for his environmental efforts in the Russian areas of the Baltic Sea region. The organisation aims to enhance awareness of the environment in northwestern Russia, for instance, by developing environmental education. BFN also supports research projects that protect biodiversity, and promotes both ecological tourism and environment-friendly agriculture.

NIB's President and CEO Jón Sigurðsson, a member of the Fund's delegation, presented the prize-winners at a ceremony arranged in Mariehamn on 15 May.

"A saying that we have in Iceland expresses the idea that unites all prize-winners this year: 'The sea is half my homeland'." ■

## BALTIC SEA FUND 15 YEARS

The Baltic Sea Fund or, more officially, the Åland Foundation for the Future of the Baltic Sea, was founded on 13 March 1989 to promote research and other activities benefiting the Baltic Sea environment. Besides distributing prizes and grants, the Fund disseminates information about the Baltic Sea environment to roughly 85 million people who live around the sea. The activities also include the arrangement of seminars on the environment; the theme of the 2004 seminar, held in Stockholm, was 'Transports in the Baltic Sea'.

The initiative to set up the Fund was taken by Commercial Counsellor Anders Wiklöf, whose private donation of three million Finnish marks (about 500,000 euros) made up the base of the Fund. At present, the Fund capital stands at about 700,000 euros. During its existence, the Fund has distributed approximately forty prizes, altogether almost 445,000 euros, to nearly 50 prize winners. The Fund gets contributions from both private individuals and enterprises.



*Director Vladimir Gurov and teacher Niyole Samoshko of the Kaliningrad Regional Children's Centre for Environmental and Biological Education and Tourism were happy for the recognition that the Centre's work received from the Baltic Sea Fund. Commercial Counsellor Anders Wiklöf on the left.*



*Under Roustam Sagitov's direction, the BFN has become an influential non-governmental organisation. It coordinates environmental cooperation in the Russian Baltic region and is an active participant in international cooperation projects.*



*"People in Åland live in the middle of the Baltic and know how badly the sea is faring," said Gunda Åbonde-Wickström, project manager at the Agenda 21 office (right), who together with the office coordinators Åsa Hägg (left) and Maria Stenroos (centre) accepted the prize of 2,500 euros.*

# Staff seminar on the Baltic countries

Active preparations for Baltic membership have been progressing in NIB throughout the autumn. In September the Estonian, Latvian and Lithuanian ambassadors in Helsinki gave presentations of their countries to NIB personnel, centring on reforms and the go-ahead spirit, the EU and NATO, the historical European roots of the three countries and the period of Soviet dominion.

Matti Maasikas, Estonia's Ambassador, stressed the importance of swift and comprehensive reforms for Estonian development since the restoration of independence at the beginning of the 1990s. The currency reform in 1992 paved the way for a stable currency. In connection with that reform, a currency board system was estab-



*Matti Maasikas, Ambassador of Estonia.*



*Valdis Krastīns, Ambassador of Latvia.*



*Audrius Brūzga, Ambassador of Lithuania.*



lished, fixing the exchange rate of the Estonian kroon against the German mark and later against the Euro. Ambassador Maasikas went on to say that low income taxation, with a universal flat rate of 26 per cent, has encouraged enterprise and activity in Estonian society. The liberalisation of foreign trade has also impacted favourably on the economy. The Ambassador said that Estonia's pursuit of EU and NATO membership spurred the process of change. All three Baltic countries became EU and NATO members in 2004.

Latvian Ambassador Valdis Krastiņš described Latvia's EU membership as marking a return to Europe. He was also referring to the "supreme achievement" of NATO membership, which was powerfully supported by the Latvian people. The thing now, he said, is to seize the opportunities presented by EU funding for restructuring the country's industry. The Soviet epoch left a legacy of huge factories, many of which produced goods for military purposes and are no longer relevant.

"We badly need more investments to develop our industrial production," Krastiņš said.

According to Krastiņš it is desirable that NIB becomes involved in both the private and local government sectors, where there is heavy pressure for investment. The concentration of Latvian business activity in and around Riga, the capital, is a challenge in itself.

Lithuanian Ambassador Audrius Brūzga said that Lithuania is committed to developing its infrastructure with a view to stimulating the country's economy. Lithuania's location between West and East, he observed, today constitutes an advantage.

"The time is ripe to think about geography as a golden opportunity, not a disaster."

He hoped that Baltic and Nordic cooperation would help to sustain the prosperity of the Baltic Sea region.

"The enlarged NIB," he said, "will certainly be instrumental in achieving this goal." ■

## New structures in NIB

From the beginning of 2005 NIB will have eight instead of five members when Estonia, Latvia and Lithuania become members of the Bank on equal terms with the five Nordic member countries. While the expansion involves changes in the governing bodies of NIB, the fundamental characteristics of the Bank's financial structure will be preserved.

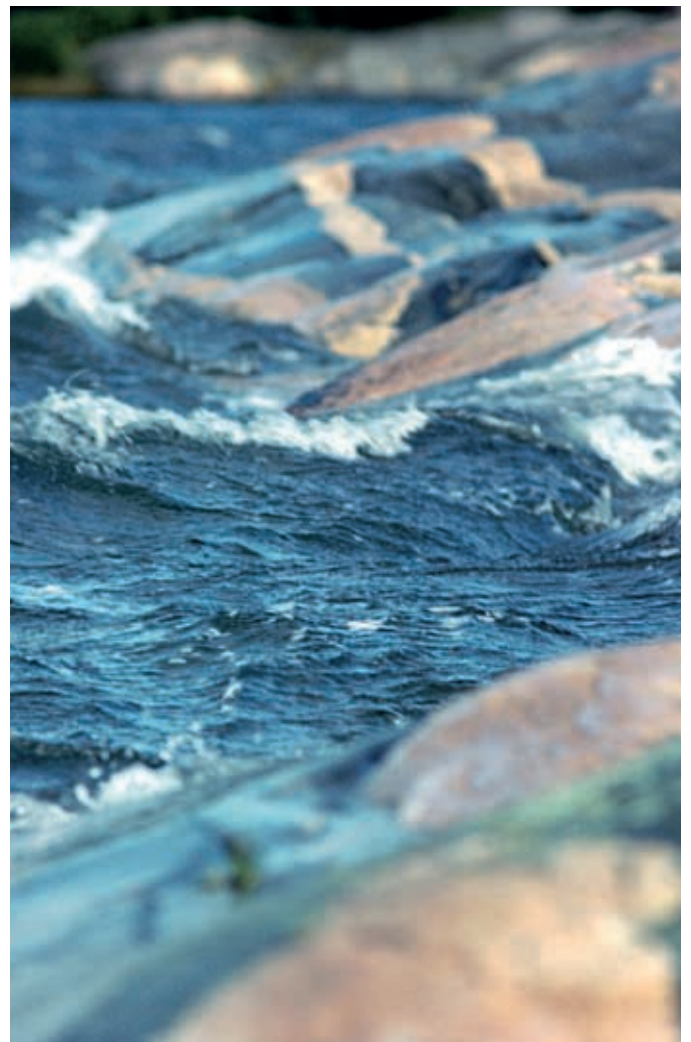
With the membership of the Baltic countries, NIB will have an entirely new body, the Board of Governors, which will decide upon questions relating to the general framework for the Bank's operations. The Board of Governors will essentially have the powers previously vested in the Nordic Council of Ministers. The Board of Governors will be responsible for, among other things, matters concerning NIB's membership agreement, statutes and authorised capital. In addition, the Board of Governors approves the annual report of the Board of Directors and the audited financial statements of the Bank. Each member country will select a member of its respective government to the Board of Governors and the chairmanship will rotate among the countries. Decisions of the Board of Governors will be made unanimously.

The Board of Directors of the Bank will have fewer members than before. Each member country will appoint only one Director to the Board, which will consequently comprise eight Directors instead of the previous ten. The Board members will each have one vote. With

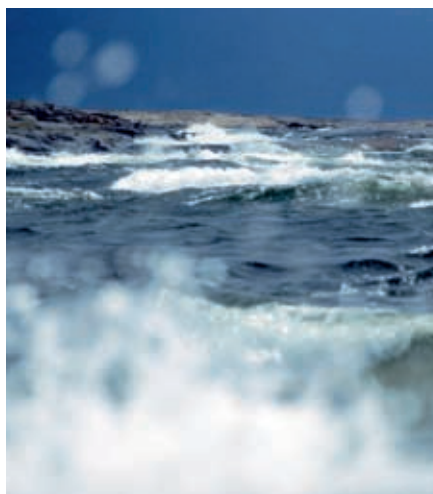
the exception of matters that fall within the authority of the Board of Governors, all the powers in the Bank are vested in the Board of Directors. The Board of Directors appoints the President, who is responsible for the day-to-day operations of the Bank. The Board may delegate its powers to the President.

The Control Committee, which oversees NIB's operations and is responsible for the audit of the Bank's accounts, will continue to comprise ten members, although the appointment process will be changed. The Nordic Council and the parliaments of Estonia, Latvia and Lithuania will appoint one member from each country respectively. In addition, the Board of Governors will appoint two members; the Chairman and the Deputy Chairman of the Committee.

The Baltic countries' total share of NIB will amount to 3.4 per cent. The authorised capital stock of NIB will increase from 4,000 million euros to 4,142 million euros. In addition, the Baltic countries will contribute approximately 42 million euros to the Bank's reserves. ■







## PEARLS IN THE ARCHIPELAGO

The pictures on this spread and on the cover were taken by photographer Kaius Hedenström, who lives and works in Helsinki, Finland, but prefers to spend his leisure out at sea, revelling in the beauty of the Sea of Archipelago.

Hedenström also addresses issues relating to the built environment and everyday architecture in the archipelago and in the countryside.

“My job is opening people’s eyes,” he says.

“We mustn’t go building ugly houses and wrecking the archipelago’s uniqueness.”

# Johnny Åkerholm NIB's new President and CEO

In September the Board of Directors of the Nordic Investment Bank appointed Johnny Åkerholm, Finland, the Bank's new President and Chief Executive Officer. He takes up his position on 1 April 2005 at the Bank's headquarters in Helsinki. Mr Åkerholm has been appointed for a term of five years, as provided in the Bank's Statutes.

He succeeds Icelander Jón Sigurðsson, who has been NIB's President and CEO since April 1994.

Born in 1948, Johnny Åkerholm holds a licentiate in political science and a master in economic sciences. He has been Secretary-General of the European Bank for Reconstruction and Development, EBRD, in London since 2003. Between 1995 and 2003 he was Under-Secretary of State for Economic Affairs at the Finnish Ministry of Finance. Between 1982 and 1995 he held a variety of senior appointments with the Bank of Finland, ending as head of its Economics Department and, prior to that, heading its Central Bank Policy Department.

Other appointments held by Johnny Åkerholm have included the chairmanship of the EU Economic and Financial Committee and of the Nordic-Baltic Monetary and Financial Committee.

Referring to Johnny Åkerholm's long experience of international appointments, Bolli Thór Bollason, Chairman of the Board of Directors, predicts that his knowledge of international financial institutions will help to strengthen the Bank's future development, e.g. in the light of the accession of the three Baltic countries to NIB membership. ■



Marijo Kötumäki

*Johnny Åkerholm succeeds as President and CEO of NIB as from 1 April 2005.*

## NIB PRESIDENTS

Bert Lindström	June 1976–June 1986
Jannik Lindbæk	June 1986–December 1993
Jan Callerström	January–March 1994 (Acting President)
Jón Sigurðsson	April 1994–March 2005
Johnny Åkerholm	April 2005–



# The future of the Baltic Sea region

By Uffe Ellemann-Jensen  
Chairman of Baltic Development Forum

History plays an important role in the Baltic Sea region. The region's past symbolises coherence and friendship as well as division and downright enmity. This historic legacy is the foundation for cooperation in the Baltic Sea area today and in the future.

One very critical factor for the Baltic Sea region is the significant differences among the countries of the Baltic Sea. Our economic performance, performance drivers, company practices as well as our business environments and the strength of our democratic institutions remain rather heterogeneous because of our history. However, in order to move ahead and capitalise on the momentum created by the successful enlargement of the European Union, a new regional initiative is needed.

According to the "State of the Region 2004" launched at the Baltic Development Forum summit in Hamburg in September, the Baltic Sea region has in recent years outperformed several European regions on key performance measures such as prosperity growth, labour productivity growth, and scientific innovation.

Over the last decade, the Baltic Sea region has outperformed the EU-15 and EU-25 in terms of real GDP growth. Nevertheless, the region's growth has not been strong enough to level differences across the cities, sub-regions and countries of the Baltic Sea area.

Moreover, the sub-regions around the Baltic Sea differ significantly in their cluster specialisation. Some overlap exists between the regions of the Baltic and the Nordic countries and between the Baltic countries and Poland. However, cluster specialisation across the entire region

exists only on a very small scale within forest products, telecom products, oil & gas and health care.

This is not good enough. Unfortunately, it could have something to do with the quality of the business environment. Our key strengths are our strong physical infrastructure, our skilled labour force, relatively low levels of corruption and demanding regulations, a strong science system and companies competing on innovation and uniqueness. However, we have a hard time in reducing bureaucracy, lowering government subsidies and cutting taxes that curb incentives and prevent us from rewarding innovation and hard work.

If we fail to mobilise coordinated regional action on these essential shortcomings, the challenges that our differences pose might just be too high for anyone to solve in the future. This could force companies currently located in the Baltic Sea area to downgrade their involvement in the region in order to gain stronger foothold in other parts of the world.

Estonia, Latvia and Lithuania's membership of the NIB is an example of a bold and far-sighted decision that can further push development and economic integration in our region. In order to maintain regional cooperation and improve our innovative capabilities and economic growth, the region must continue to set new and ambitious goals for regional cooperation in the new era that the Baltic Sea region has entered.

Nevertheless, in addition to ensuring economic growth and pushing for reforms, we must uphold demands for freedom and democracy.

Failure to side with the democratic forces will cast doubt on our overall commitment to freedom and worldwide

democracy as well as free and undistorted markets. These basic principles must always be in the back of our minds when we chose closeness over divide and friendship over animosity. They can never be taken for granted. We have learned that the hard way in this region.

The Baltic Sea region must continue to ensure that we meet the needs of the present without compromising the prospects of the future. However, to match this challenge each task accomplished must be followed by new goals and new visions.

Baltic Development Forum will in 2005 prepare a joint Baltic Sea Initiative that unlocks the benefits of regional cooperation and sets specific goals for what regional cooperation aims to achieve in the new era the Baltic Sea region has entered. A Baltic Sea Initiative could eventually become the basis for discussions and possible endorsement at Baltic Development Forum's 2005 Summit in Stockholm.

## About the author:

*Uffe Ellemann-Jensen (b. 1941) was Minister for Foreign Affairs of Denmark 1982–1993. He was President of the European Liberals (ELDR) 1995–2000 and co-founded the Council of the Baltic Sea States in 1992 as well as the international network organisation Baltic Development Forum in 1998.*



# Nordic Environmental Development Fund continues



The Nordic Environmental Development Fund, NMF, a fund for soft financing of environmental projects in the neighbouring regions to the Nordic area, will continue to operate. Its previous programme period expired at the end of 2003, but in August 2004 the Nordic Environment Ministers agreed in favour of a continuation. The Nordic countries are to put up a total of 14.25 million Danish kroner (about 1.9 million euros) annually for the period 2005–2007. Funding will also be provided by the Nordic Council of Ministers.

With the greater part of NMF's capital already used, the decision was necessary in order for its activities to continue.

"Only a small part of the fund's activities has comprised lending and thus the resources are gradually consumed," says

Harro Pitkänen, Managing Director of Nordic Environment Finance Corporation, NEFCO.

NMF, established in 1996, is managed by NEFCO, with NIB participating in the evaluation of projects for which finance has been requested. NMF is intended for financing on soft conditions, i.e. more favourable terms than those of the market, and the fund grants various kinds of support and advantageous loans for environmental projects. In the years ahead, the annual contributions of the Nordic countries to the fund will be halved in relation to their annual contributions between 2001 and 2003, partly with reference to new geographic constraints. Under the new operating NMF guidelines approved by the Environment Ministers in connection

with the decision concerning the fund's future, finance will be available for projects in Russia, Ukraine and Belarus, whereas projects in the Baltic countries will no longer qualify. The new guidelines also mean changed conditions for the granting of financing. For example, the greater part of NMF's inputs in future will be based on revolving financing mechanisms.

NEFCO's Managing Director Harro Pitkänen is pleased to see NMF continuing. The fund, as he sees it, broadens NEFCO's activities by making possible project finance of a kind which could not be considered within the scope of NEFCO's core operation.

"This is a valuable dimension to NEFCO's activities." ■

Mattiias Uusikylä



Joachim Claesson



Morten Vagnø Jensen



Anna Kiiskinen



Sirpa Korhonen



Torben Nielsen



Anders Holmén

## NEW APPOINTMENTS

**Joachim Claesson** (SE) has been appointed Deputy Regional Manager for region Africa and Middle East, and region Latin America. He has previously worked at Norddeutsche Landesbank in Stockholm and at SEB and Swedbank.

**Morten Vagnø Jensen** (DK) has been appointed Deputy Regional Manager for region Denmark. Prior to joining NIB he

worked for Jyske Bank where he was responsible for corporate customers. He works at NIB's office in Copenhagen.

**Anna Kiiskinen** (FI) has been temporarily employed as a lawyer in the General Counsel's Office.

**Sirpa Korhonen** (FI) has been appointed Financial Analyst in NIB's Treasury department. Korhonen joins NIB from Nordea Bank where she worked with corporate analysis.

**Torben Nielsen** (DK) has been appointed Chief Financial Officer and Treasurer. His areas of responsibility are funding, liquidity and portfolio management. Nielsen has also been appointed a member of NIB's Management Committee.

## Nordic Finance Group

**Anders Holmén** (FI) has been given a permanent position as Investment Officer at NEFCO.



# New partner countries for NDF



During 2004 Nordic Development Fund has signed cooperation agreements with Cambodia, Kenya and Rwanda. These are three of the world's poorest countries, with per capita gross national incomes of 210, 290 and 185 euros respectively.



Leena Saarilainen

The recent history of Cambodia and Rwanda has been one of war, genocide and conflicts. Maintenance of peace and stability, therefore, is at the heart of their national strategies for sustainable development. As recently as the 1970s, Kenya was being compared with South Korea in terms of socio-economic development. Following a change of regime in 2002, after almost two decades of misrule under the Moi regime, with corruption, violations of human rights, deepening poverty and plundering of its natural resources, Kenya has regained the confidence of the donor community and with it a chance of recovery.

NDF has identified the first cooperation projects in the three countries' energy, transport and water sectors. Initially, NDF financing is expected to total 43 million euros. Reliable energy supplies, as well as good transport and water supply infrastructure, are major prerequisites of economic growth and social development, new income-generating activities and, accordingly, the reduction of poverty.

In Cambodia, NDF and the Asian Development Bank will participate in the financing of a power transmission line from Vietnam to Phnom Penh, the Cambodian capital. Most of Cambodia's energy infrastructure was destroyed under the Khmer Rouge era, and the need for investments is obvious. The NDF-funded project is designed to improve power sup-



*Cambodia is one of NDF's new partner countries.*

ply by importing power from Vietnam and by extending the distribution network to the poorest groups of the population.

In Kenya too, NDF will be financing an energy project, but this time in association with the World Bank. The NDF funding will serve to upgrade the power distribution network, above all in parts of Nairobi where the power distribution system is substandard or non-existent. NDF is also to join the World Bank in financing improvements to a 35-kilometre stretch of road, as part of the Northern Corridor Transport Improvement project. The project aims at improving the infrastructure of the transport route running from

the port town Mombasa via Nairobi to the Ugandan border. The project is also expected to benefit adjacent countries dependent on transit through Kenya.

In Rwanda NDF and the World Bank are planning to finance two projects in cooperation: one in the energy sector and one in the urban water sector. Both sectors are in desperate need of extensive support after decades of neglect and underinvestment and following the devastation which accompanied the 1994 genocide. ■

## Loan to Brazil



*The Alunorte alumina refinery is enlarging its facility in the north of Brazil, raising the number of production lines from three to five.*

NIB has granted a loan of 30 million US dollars to Alumina do Norte do Brasil. Work is in progress on the addition of two more production lines to Alunorte's plant in northern Brazil. This enlargement will raise the company's annual output capacity by 1.8 million tonnes to 4.2 million. The project, scheduled for completion in mid-2006, will make Alunorte the world's

biggest supplier of the raw material called alumina.

Alumina is extracted from bauxite, of which northern Brazil has rich deposits. Alumina is a white crystalline powder and the raw material for aluminium, a metal used, for example, in the construction and motor industries and for consumer goods.

Alunorte's principal owners are the Brazilian mining and metallurgy company Companhia Vale do Rio Doce (CVRD) and Norsk Hydro. Norsk Hydro is one of Norway's biggest companies, specialising in oil and energy and in aluminium production.

Harald Martinsen, Norsk Hydro's Brazil Managing Director, comments:

"We are very pleased to have both NIB and DnB NOR financing this project.

Alunorte is a very important strategic investment for Hydro. The factory today is the main supplier of alumina to our extensive aluminium business in Norway, Germany and other countries."

NIB is financing the Alunorte factory enlargement together with KfW, DnB NOR Bank, ING BHF-BANK and West LB. ■

## Steel manufacturer gets loan

NIB has disbursed two loans to the Austrian listed steel group Böhler-Uddeholm AG for the financing of an investment aimed at expanding production capacity in Sweden. A loan of 10 million euros was granted for the group's subsidiary Böhler-Uddeholm Precision Strip AB in Munkfors, and a loan of 15 million euros for Uddeholm Tooling AB in Hagfors.

Since 2003, the group has been implementing a comprehensive investment programme at its Swedish plants. A new cold rolling mill will be installed at Munkfors. The new rolling facility will enable

the company to roll extremely thin and fine strip products for razor blades, etc. In Hagfors, the production equipment will be upgraded and modified in order to boost efficiency and prepare the facility for an increase in production.

Böhler-Uddeholm is a world-leading producer of toll steel, which is its most important product. The company also produces band steel, welded consumables and forged products.

The Böhler-Uddeholm AG group, with headquarters in Vienna, was established in 1991 through a merger of Austrian Böhler and Uddeholm. The latter is one of the oldest Swedish companies and has produced steel in the Värmland province for more than 300 years. The group has 11,500 employees. ■

## New loan programme for Vietnam

During NIB President Jón Sigurðsson's visit to Hanoi in September, he and Vietnam's Deputy Minister of Finance, Dr Le Thi Bang Tam, signed an agreement for a general loan programme of 30 million US dollars. Sigurðsson also met Deputy Prime Minister Vu Khoan to discuss potential future NIB financing in sectors where Nordic technology may be of interest. Sectors such as energy, infrastructure, telecommunications, food industry and shipbuilding were discussed.

During the summer of 2004 NIB and the Ministry of Finance in Vietnam agreed a 15 million US dollar loan for the Vietnam National Coal Corporation, Vinacoal. The company needs financing to modernise its coalmining and boost its output capacity. Equipment from Nordic suppliers will be used in connection with the company's investments.

Earlier in 2004 NIB and the Ministry of Finance agreed loans for the energy sector and a cement factory in Vietnam. A loan programme for small and medium-sized enterprises was also agreed upon. ■

## Copenhagen relocation

NIB's Copenhagen office moved into new premises on 1 December. The new address is Grønningen 17, 1270 København K, Denmark. The phone number remains +45 33 144 242. ■



# Wastewater processing in Turkey

A new wastewater pre-treatment plant has been completed in Kadıköy, a part of Istanbul. An outfall pipeline more than two kilometres long and with a diameter of about two metres carries the processed water to the sea. The plant processes wastewater from a large area on the Asian side of the Bosphorus.

"Previously the water went untreated into the Bosphorus," says Jorgen Ilsoe, NIB's Vice President and Regional Manager for Africa and the Middle East.

In 1999 NIB granted a loan of 7.7 million euros for the project, which the Istanbul Water and Sewerage Administration, ISKI, was in charge of. Nordic equipment was used for the construction works.

The aim has been to create a facility which will blend with its surroundings. This, Ilsoe maintains, has been amply achieved. The plan is for the facility to

*The pre-treatment plant is right on the coast, where the Bosphorus enters the Sea of Marmara. Under construction in this picture, it was completed in 2004.*



process wastewater from about 2.2 million people in the first stage up to 2010, but then to be able to receive wastewater from 3 million inhabitants, allowing for population growth in the area.

Ilsoe describes Turkey as an important NIB customer. Since the first Turkish loan was agreed in the mid-1980s, NIB has financed about 20 projects in the country.

NIB loans to Turkey go primarily to the state, for on-lending to individual projects.

Ilsoe says that more Turkish public infrastructure projects are in preparation with a view to possible NIB finance.

"We see very good prospects of further NIB financing in Turkey," he says. ■

## Torben Nielsen new CFO and Treasurer

Mattias Unsihyla



"NIB has the highest possible credit rating thanks to the good quality of its loan portfolio, coupled with high solvency and liquidity," says Torben Nielsen.

He took over as Chief Financial Officer and Treasurer this autumn, at the same time becoming a member of the NIB Management Committee.

Nielsen succeeds Bo Heide-Ottosen, who left NIB at the end of September to

take up a position as Executive Committee Member with the Depfa Group, headquartered in Dublin. Heide-Ottosen is in charge of the Treasury department at Depfa, which is a company that provides financial services to public sector customers the world over.

Nielsen, who joined NIB in 1997, says that the main task of NIB's Treasury department is to provide the necessary funding for the Bank's lending to different projects.

As a new feature in its funding strategy, NIB has carried out a global issue in the amount of 1 billion US dollars during each of the past three years.

**Will NIB continue with these global transactions?**

"NIB cannot guarantee that large and liquid transactions will be carried out every

year, but they are interesting as long as there is investor demand for them and they fit in with NIB's funding needs. With this kind of global transactions NIB can reach more investors in different regions. NIB also achieves a price reference to other multilateral financial institutions."

**NIB's debt instruments have sold well in Asia. Why?**

"Asian, and particularly Japanese, investors have been the Bank's most important investor group over the years. They have appreciated NIB's combination of a high creditworthiness and a funding strategy providing investors with different types of instruments." ■

# This is NIB

The Nordic Investment Bank (NIB) finances private and public projects that have high priority with the Bank's member countries and the borrowers. NIB finances projects both within and outside the member countries.

NIB offers its clients long-term loans and guarantees on competitive market terms. NIB acquires the funds to finance its lending by borrowing on the international capital markets. NIB's bonds enjoy

the highest possible credit rating, AAA/Aaa, with the leading rating agencies Standard & Poor's and Moody's.

NIB is a multilateral financial institution owned by eight member countries: Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway and Sweden. The Bank operates in accordance with commercially sound banking principles. The member countries appoint representatives to the Board of Governors, Board of

Directors and Control Committee. The Bank's operations are controlled by an agreement between the member countries, as well as the statutes connected with this agreement.

NIB has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. As of 31 August 2004, the Bank had 152 employees. ■

## NIB'S FINANCING POSSIBILITIES

NIB finances investment projects and project export, which are of mutual interest for the member countries and for the borrower. High priority is given to investments that improve economic cooperation between the member countries. Loans and guarantees are granted to finance investments that secure energy supplies, improve infrastructure or support research and development. High priority is also given to projects that improve the environment in the member countries and their neighbouring areas.

NIB participates in the financing of foreign direct investments that provide employment in the member countries.

NIB finances various international projects in emerging markets, as well as within the OECD area. The Bank grants loans to projects that support economic development in the member countries' neighbouring areas, as well as to investments of mutual interest for the member countries and the borrowing country in various parts of the world. In addition to loans, NIB provides guarantees for projects that meet the Bank's conditions.

Projects evaluated by the Bank for possible financing are subject to analyses of economic sustainability and environmental consequences. Further, increasing emphasis is attached to social consequences.

## ORDINARY LOANS

NIB offers medium- and long-term investment loans with maturities of 5 to 15

years. The loans are granted in various currencies at fixed or floating market-based interest rates, for up to half of the project's total cost.

NIB finances projects in:

- the manufacturing sector, including investments in facilities and machinery,
- infrastructure, including transportation, telecommunications, energy, water supply, sewerage and waste management,
- environmental improvement, in both the private and public sectors,
- research and development,
- cross-border investments, such as corporate acquisitions,
- foreign direct investments in the member countries.

Regional loans are granted to national credit institutions for the further development of business in priority regions.

## SPECIAL LOAN FACILITIES

For lending outside the member countries, the Bank maintains a set of special loan facilities. The core of NIB's lending operations outside the member countries consists of project investment loans. These are long-term loans—up to 20 years—for projects in emerging markets in Asia, the Middle East, Central and Eastern Europe, Latin America, and Africa. Project investment loans are usually granted to governments or with a government guarantee. Loans are also granted to the private sector without a government guarantee, par-

ticularly to infrastructure investments. The loans are granted for up to half of the project's total cost. Project investment loans can be utilised to finance all types of project costs, including local costs. The loans are granted at market-based interest rates in a currency preferred by the customer. Project investment loans have been granted for projects in about 40 countries.

In the member countries' neighbouring areas, NIB grants loans to projects that support economic development and to investments that improve the environment. The Bank has a special loan facility for environment-related projects in the member countries' neighbouring areas. Projects should promote the reduction of environmental hazards and thus also cross-border pollution. The environmental investment loans are granted on banking terms to governments, governmental authorities, institutions and companies.

NIB can also provide investment loans to projects and companies' investments, including joint ventures and corporate acquisitions, within the OECD area. ■



# Increased profits

NIB shows good results for the first eight months of the year. Profits for the period rose to EUR 111 million, which was an 11% increase compared with the corresponding period last year. Net interest income rose to EUR 109 million (corresponding period in 2003: EUR 102 million).

NIB's total assets amounted to EUR 16.9 billion, compared with EUR 16.7 billion at year-end 2003. During the period under review, the Bank paid its owners, the Nordic countries, EUR 41.3 million in dividends out of profits for year 2003.

**The energy sector** was the largest recipient of Nordic loans during the period under review. Among other investments, NIB financed investments in hydro- and geothermal power stations in Iceland, in a bio-fuelled power station in Austria, as well as investments in environment-friendly energy production in Norway and Sweden. In Finland and Denmark, the Bank financed improvements of the electrical transmission networks.

International lending continues to be dominated by loans for infrastructure investments, particularly within the energy, transportation, and telecommunica-

tions sectors. Among its loans, NIB has financed investments for the expansion of Tunisia's mobile telephone network, as well as for improvement in Rumania's state-owned power network.

New loan agreements entered into by the Bank during the period amounted to EUR 1,031 million (1,029), while loans disbursed amounted to EUR 779 million (910). NIB's clients made considerable prepayments during the period under review. This was the case for NIB's lending both within and outside the Nordic countries.

The Bank's Project Investment Loan facility (PIL) was increased from EUR 3,300 million to EUR 4,000 million on 1 July 2004. The increase provides greater possibilities for the Bank to grant loans to countries that are not members of NIB.

NIB places a great deal of importance on financing of environmental projects. During the period, the Bank granted nine new environmental loans, totalling EUR 145 million. Of total loans disbursed during the period, almost 15% were environmental loans. One of the Bank's loans was granted for investments that will result in reduced emissions of pollutants into water and air at a Swedish pulp factory. NIB also

granted a loan for investments in a new sewerage system in Reykjavik. Within the framework of the so-called Ladoga programme, loans were granted to several projects, e.g. projects within the pulp and paper industry. NIB launched the programme at the end of the year 2003 within the Northern Dimension Environmental Partnership (NDEP). In July, NIB assumed the chairmanship of the Steering Group for NDEP.

**During the period**, NIB carried out 13 borrowing transactions in 6 different currencies, in an amount corresponding to EUR 1,545 million (2,759). Call options on a total of EUR 630 million previously issued bonds were not exercised, thus bringing the total borrowing during the period to EUR 2,175 million.

The quality of the Bank's loan portfolios and of its financial counterparties remains at a high level. Reversals of previously made provisions for possible loan losses were larger than new provisions made during the period. The net effect was a positive contribution to the Bank's profit of EUR 3.3 million. ■

## Key figures (in EUR million)

	Jan.–Aug. 2004	Jan.–Aug. 2003	Jan.–Dec. 2003
Net interest income	109	102	155
Profit	111	100	151
Loans disbursed	779	910	1,841
New loan agreements	1,031	1,029	1,859
New debt issues	1,545	2,759	3,258
Profit/average equity (%)	9.9	9.5	9.5
	31 Aug. 2004	31 Aug. 2003	31 Dec. 2003
Loans outstanding	10,472	10,323	10,522
Total assets	16,908	17,303	16,666
Net liquidity	3,189	3,802	2,744
Number of employees	152	147	147



## **FINANCING SUCCESS**

The Nordic Investment Bank (NIB) offers long-term loans and guarantees on competitive market terms for both private and public sector projects.

Lending covers a wide spectrum, including infrastructure investments, research and development, and cross-border company acquisitions and start-ups. Loans are provided for projects in manufacturing industry, energy and metal extraction, construction, trade and services, transport and communication.

NIB was originally formed by the five Nordic countries and in 2005 will acquire three new owners with the accession of Estonia, Latvia and Lithuania. NIB has clients both in and outside the member countries. The Bank now has operations in about 40 countries.



NORDIC INVESTMENT BANK

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