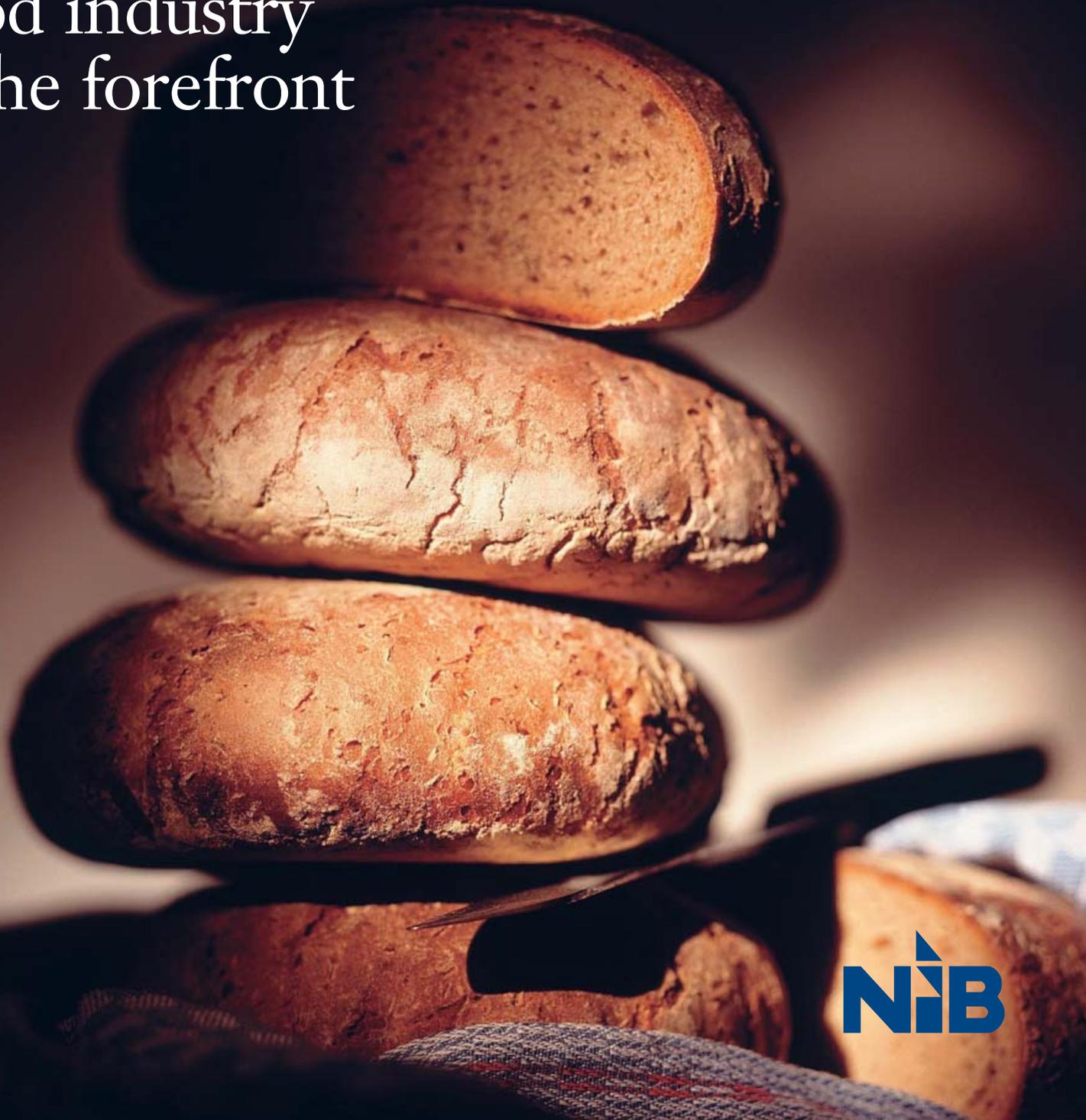


BULLETIN

NORDIC INVESTMENT BANK • DECEMBER 2003

Food industry
in the forefront



NIB

Baltic NIB membership

Matias Uusikylä



NIB has good figures to report for the first ten months of the year, and this performance is expected to continue to year-end. New lending has been kept at a strong level in spite of a generally weak economic activity in Europe. NIB's task is to promote economic integration in the Nordic area and the internationalisation of Nordic enterprise to support sustainable economic growth. Successes have been scored on both fronts.

The environment and the eastern neighbouring region have priority in the Bank's operations outside the Nordic area. NIB has been especially active in the Baltic countries during recent years, with credit exposure there now totalling close to 600 million euros.

Cooperation with Estonia, Latvia and Lithuania has been deepened year by year. The signal event of 2003 for NIB was the decision of the Nordic Prime Ministers in June to offer these three countries membership in NIB.

At the Oslo meeting of Prime Ministers on 26 October 2003, at which the Baltic heads of government met with their Nordic colleagues, the eight Prime Ministers agreed on the general terms of NIB's enlargement. They instructed their Ministers of Economy and Finance to negotiate an international agreement to realise Baltic membership on equal terms, meaning that Estonia, Latvia and Lithuania would become members of the Bank with the same rights and obligations as are defined in the present NIB agreement.

The Ministers of Economy and Finance have appointed a negotiating group for this assignment. A basic premise for the negotiations is that the Bank should retain its basic financial structure. This is an important criterion for maintaining the AAA/Aaa credit rating, which is the core of NIB's business idea. The Ministers of Economy and Finance have set the target that the new NIB agreement should be ready for

signing before the end of the year. The intention is for the national ratification process to be completed during 2004 and the new agreement to take effect at the beginning of 2005.

The Baltic countries are in the vanguard of the process of transition to open market economies, and in recent years have had the fastest growth rates in Europe. They have great investment needs but are short of capital. All three are now on the threshold of EU and NATO membership.

Finance for infrastructure and cross-border investment is now needed in support of further progress in the Baltic countries, and this is where NIB has an important part to play. The entire Baltic Sea region has a big growth potential for the future. Baltic NIB membership will spur the region's development, a matter of great interest to Nordic and Baltic countries alike.

»Baltic membership of NIB will spur the development of the Baltic Sea region.«

Baltic membership of NIB will not only be a milestone in the Bank's history but, in a wider context, will elevate Nordic policy for the neighbouring region to a new level. The Bank has an exciting task ahead of it when Baltic membership becomes a reality. This

will of course entail certain changes in the Bank's operations, both inwardly and outwardly—a challenge which will bring positive results.

Enterprise and institutions demonstrate their viability by adjusting to and coping with changes in their surroundings. NIB has hitherto been able to demonstrate such a capacity and will continue to do so by virtue of its financial and institutional strength, founded on the loyalty and dedication of its staff and on the strong support of its owners.

A handwritten signature in black ink, which appears to read 'Jón Sigurðsson'. The signature is fluid and cursive.

Jón Sigurðsson
November 2003

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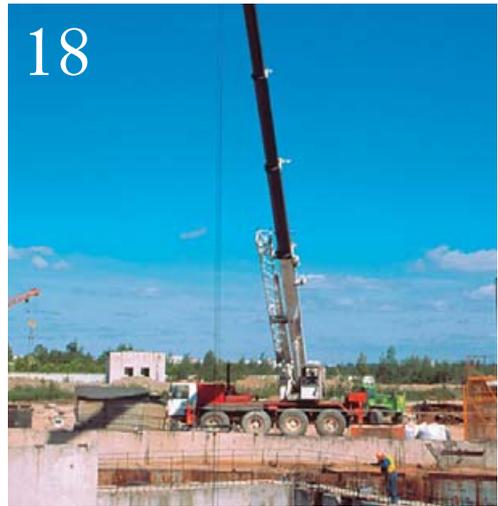
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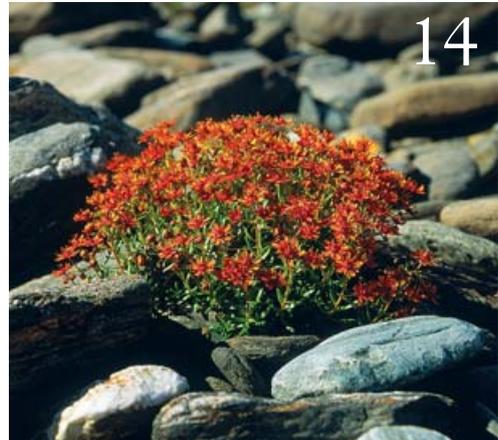
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BULLETIN

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Cover photo
Kuvapörssi

Dinner is served!

Would you like a hot dog or kebab with rice? Or maybe Karelian stew, Chinese wok or spinach pancakes?

Convenience food is something that is clearly growing in Finland, part of the reason being that single-person households are growing in number, and the large cohorts of the post-war baby boom are coming up to retirement age and will want to go on living independently for as long as possible. Family eating habits are changing, too.

“At weekends we dine in style, shopping the ingredients and preparing them ourselves. On weekdays families have less and less time for cooking, and often they don’t even eat at the same times,” says Seppo Paatelainen, Managing Director of the Finnish food manufacturing group Atria.

Atria’s product range in Finland comprises almost 250 dishes. Every day the 110,000 square metres production facility in Nurmo delivers 500 tons of fresh meat, poultry and convenience food to retail shelves and catering establishments. The 500-metre-long main building houses the entire production process, from slaughtering to butchering and the manufacture of finished products. The goods are then transferred to the highly automated logistical centre, which handles 40,000 plastic boxes daily. This production facility is a legacy of the changes occurring in the 1990s, when twelve factories were merged into three.

Quantitatively, Atria is the biggest meat producer in the Nordic area. Understand-

ably, then, meat is its most important product group. Convenience foods make up barely 10 per cent of turnover, but are nevertheless an important product group in which the company is investing.

Paatelainen says that ideas for new products come from within the company, from customers and retail outlets or from abroad. More than 20 people out of the group’s total employees of about 3,900 are mainly employed on product development, but a far greater number are involved in the product development process as a whole. They include personnel from the production line, sales and marketing, ranging from graduates to cooks and catering managers.

“What it all literally boils down to,” says Paatelainen, “is these professionals preparing the food on the cooker.”

So what do the consumers want to eat? The big challenge is to know this before the consumers know it themselves. Consumer surveys are the first step in all major product development projects.

“If the product isn’t consumer-oriented it won’t succeed and it will be short-lived. On the other hand, consumers want to try new dishes and to have a feeling that the convenience food sector is alive and changing. New products are seldom a

great success, but the hamburger was when it made it into Finnish stores,” says Paatelainen.

“Atria was first in the field with large-scale production of hamburgers for retail shelves. That was a real success. Before long there were five or six different producers, and production became fragmented. That’s how the convenience food market operates—someone hits on a good product group, then the competitors

imitate it, with a few changes and improvements of their own.”

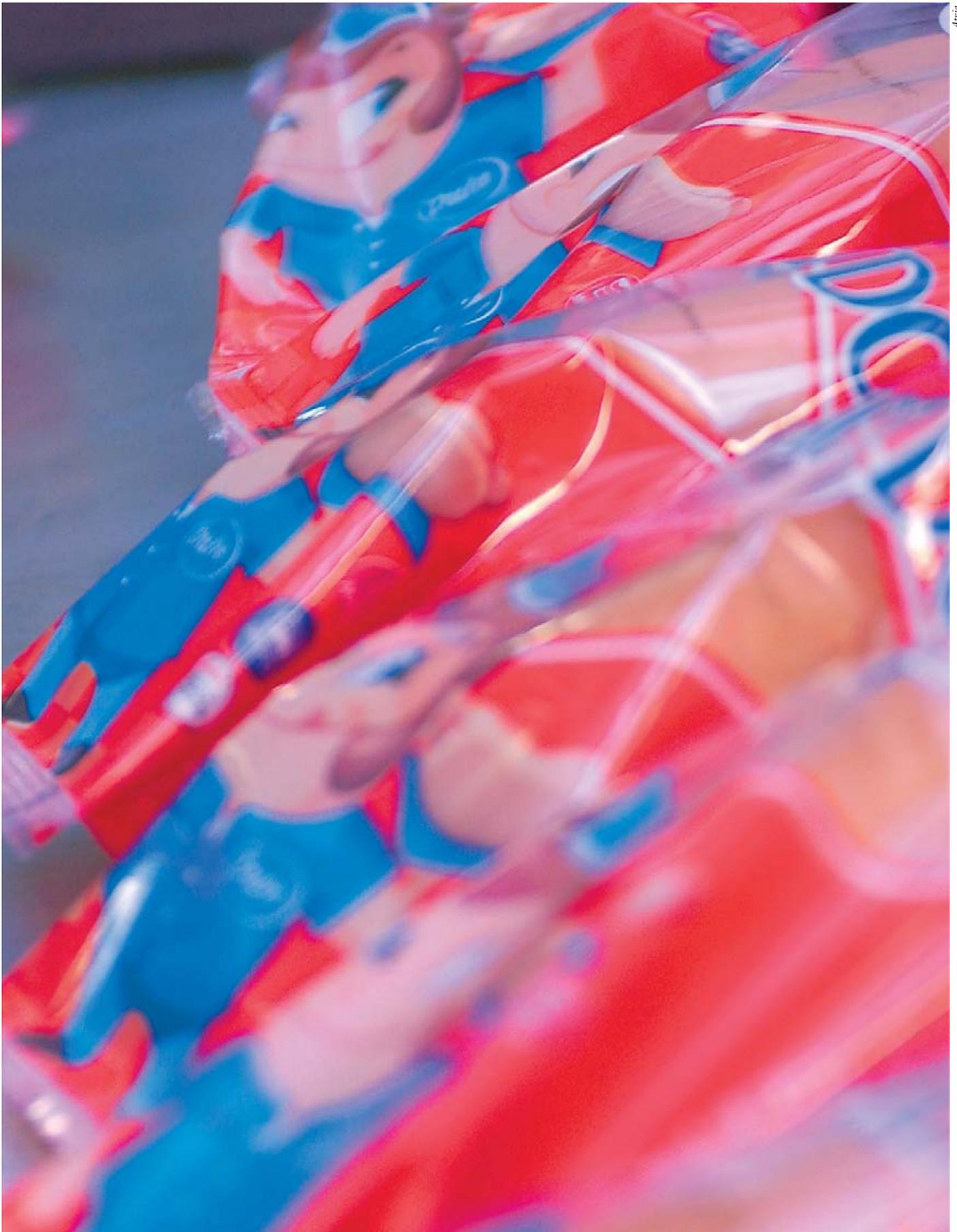
Renewal of existing products is an important part of product development. Packagings are getting more and more practical to use and are improving the durability of the products inside. Both the fat and salt content of familiar dishes are being reduced.

Tasting is a pivotal part of product development. Sometimes it takes place on a busy street corner, but generally use is made of test groups.

“For quality evaluations,” Paatelainen explains, “we use more experienced people, but otherwise the general idea is for the tasters to be perfectly ordinary consumers.”

Target groups are important in the convenience food sector. Different products

»Tasting is a pivotal part of product development.«



have very different consumer categories, and the dishes themselves are widely varied. For this reason production runs are often short, which Paatelainen says is a marketing problem.

“There is no new product group that would financially justify big advertising campaigns on television, hence everything depends on how the consumer finds the product in the shop.

One of Atria’s biggest acquisitions has been that of Swedish Lithells AB. In the summer of 2002 Atria expanded its Swedish operation still further by taking over the business of Samfood & Co AB. Through this acquisition, which NIB helped to finance, Atria now has a convenience food factory in Malmö as well. But few goods can be made for both the Finnish and Swedish markets, and that’s why, for all the close cooperation between them, each country has its own product development.

“National consumer habits are very strong in every country. Through the ages, fresh food has been produced locally, why food cultures have developed along their own lines. If you want to sell convenience foods in another country, you have to prepare food matching the consumer habits there, rather than attempt to change them,” Paatelainen points out.

Atria started producing convenience foods in the 1950s, at the same time as more and more women in Finland were going out to work. Production of pre-cooked foods like meatballs and cabbage rolls was a manual craft at that time, with small output quantities. Real production lines were introduced in the 1960s, and output grew correspondingly. The traditional Finnish liver casserole and pea soup are among Atria’s oldest precooked dishes. Today 100 tons of convenience foods a day are produced at the Nurmo factory, and over 350 of the group’s employees are active in the convenience food sector. ■

*The logistical centre handles
40,000 plastic boxes a day.*



Atria

Enzymes make bread better

“The possibilities are endless—as far as our imagination can take us,” says Novozymes Media Relations Manager Eva Louise Holm Petersen. She is talking about enzymes and all the ways in which they can be used in the food industry.



Novozymes

Linda Hintze



Ejner Bech Jensen, Novozymes' Research and Development Director: "There is hardly any branch in which one couldn't use enzymes."

Enzymes are everywhere—in humans, animals and plants. Enzymes are a type of protein that is found in all living organisms and they carry out, among other things, the organic process of decomposition. For example, they break down food in the stomach.

The Danish company Novozymes develops and produces enzymes that can be used in industrial processes and consumer products, for example in the production of juice, bread and beer or in products such as toothpaste and detergent.

"Enzymes cause chemical reactions in

nature and we try to find the reactions or processes that can be used in industry," explains Ejner Bech Jensen, Novozymes Research and Development Director. "We sell our products to almost all industries. There is hardly any branch in which one couldn't use enzymes."

Novozymes customers are located all over the world; in addition to the food industry, they are also in the pulp and paper industry, the textile industry and the animal feed industry, to name a few examples. The pharmaceutical industry is also a growth sector. In addition to enzymes, the

company also produces microorganisms that can be used to treat sewage and other wastewater.

"Our products are environmentally friendly. Traditional, harmful chemicals can be replaced with enzymes: when one dyes or bleaches textiles, in water and sewage treatment, or, in producing animal feed, thanks to enzymes, one can to some extent avoid the use of phosphates. Enzymes in detergent help remove stains at lower water temperatures. Enzymes and microorganisms are natural components

and are not a burden on the environment,” Bech Jensen explains.

The food industry comprises about a fourth of Novozymes’ sales and about a fifth of the company’s turnover.

How are enzymes used in food products?

“When bread is baked commercially, for example toasting bread or rolls, it is a challenge to obtain the right characteristics,” Bech Jensen explains. “We want our bread to taste good and have a sufficiently hard crust but at the same time to be soft inside.”

In commercial baking chemical additives are common ingredients in bread, added so that the baking process will be easier to control, that the bread will rise better and that it will be easier to knead and handle. Some of the additives can be replaced with enzymes, which are needed in smaller quantities than traditional additives. This means less storage space and lower transportation costs.

“For the consumer it’s interesting that the bread tastes better and that its quality is more consistent. Besides, the bread stays fresh longer,” Bech Jensen adds.

One can also introduce enzymes in an

earlier stage of the production process, for example when producing juice. Holm Petersen explains:

“When producing, for example, orange juice, the peel should be removed. By treating the oranges with enzymes, one can get the peels to almost come off on their own. So one doesn’t need to peel the oranges manually. In this way one can simplify a difficult work process and make the entire production process more efficient.”

Enzymes can also be used to reduce or alter unhealthy trans fatty acids that occur when margarine is produced. Cheese, wine and beer have been produced throughout history with the help of enzymes—without us being aware of it. Today specific enzymes are added in order to better control various processes, for example, the brewing process in the production of beer.

Do you use gene technology?

“Yes we do, but we do not use human genes. We use genes from organisms that produce the enzymes we can use, for example genes from fungi and bacteria. Quite a few enzymes can be produced without gene technology—the enzymes in toothpaste, for example. There are ethical

questions that we must consider when working with enzymes and microorganisms, for example what sorts of genes we will use. We are also responsible for ensuring that live, gene-modified microorganisms are not released into nature from our production facilities and affect the environment,” Holm Petersen says.

Where do you get the enzymes?

“Enzymes are everywhere in nature. But it’s not that the enzymes used to peel oranges are found in oranges. You don’t know what an enzyme can be used for until you take it into the laboratory and test it. Useful enzymes can be found in a forest in the tropics with extreme climate conditions, but also just as well out here in our parking lot,” Holm Petersen says. ■

AN UNUSUAL BIOTECH COMPANY

Novozymes was established in 2000 when Novo Nordisk A/S was split into two different companies. Novo Nordisk, which was founded in the 1920s, now focuses on pharmaceutical production, above all insulin, while Novozymes focuses on enzymes and microorganisms. For a biotech company, Novozymes is an exception with its long history and its own production—most of the companies in the biotech field are only a few years old and are only engaged in research and development.

NIB’s loan of approximately 40 million US-dollars is intended for Novozymes research and development activities. “We are very research-oriented—about twelve per cent of our turnover goes to R&D-related activities,” says Research and Development Director Ejner Bech Jensen.

Novozymes’ share of the food enzymes market totals about 35 per cent. Enzymes for the food industry are sold mainly in the USA and Europe. The market for food ingredients is growing by two to three per cent and the growth is expected to continue. In the long term Novozymes is expected to increase its sales by about 10 to 15 per cent. ■

Linda Hintze



Eva Louise Holm Petersen, Media Relations Manager: “Cheese, wine and beer have always been made with the help of enzymes—without our knowing.”

Expansion and strong trademarks in focus for Swedish food giant

Swedish Cerealina has done well in the fiercely competitive food industry. The company is expanding vigorously in Northern Europe and pursuing an active policy of acquisitions and alliances. It is deliberately focusing on strong trademarks and keeping a close watch on the trends that interest consumers.



Breakfast products are into a revival. Porridge is trendy again, even with young consumers.



Cerealia develops, manufactures and markets cereal-based food. Customers range from bakeries and the food industry to wholesalers, catering establishments and retailers.

The product range includes flour, cornflakes, muesli, pasta and bread. To consumers, brands like Kungsörnen, Start, Skogaholm, AXA, Hatting, Regal, NordMills and Havne-Møllerne, are perhaps more familiar than the name of Cerealia itself.

The company, with a history going back to the 1930s, has always been farmer-owned. The present-day group has evolved through acquisitions and has a multiple operation divided into three strategic business sectors: Mills, Foods and Bakeries. Sweden, Denmark and Norway are the principal markets. Northern Europe is Cerealia's home market, but it also exports to other continents.

"Flour and bread are our main strength: we are market leaders in several markets," says CFO Lennart Sandberg. "We aim to offer customers good, healthy foods under trust-inspiring trademarks."

The first signs of internationalisation came already in the 80s, in Denmark. The expansion has continued since then, and the acquisition of Schulstad in the spring of 2003 was Cerealia's biggest takeover yet, further strengthening the group's positions in the Nordic market.

"Our customers have grown more Nordic with the passing of time," Sandberg continues. "Our strategy was to become a strong Nordic player capable of meeting the customer's growing demands for service and the right products."

Cerealia has become an important player in a number of countries round the Baltic Sea, and has in the Baltic countries among other things acquired Latvia's biggest milling concern. Cooperation with Germany's biggest milling



group, VK Mühlen, in which Cerealia is now a partner, is also important.

"Together with the Germans," says Sandberg, "we are now reviewing the possibilities of further developing our co-operation in Poland."

The latest acquisition is a group of companies manufacturing and selling vegetarian, ecological and healthful products.

"We already occupy a strong position among health-conscious consumers. Ecological and vegetarian food is trendy today and an interesting and growing market. And this acquisition dovetails neatly with our previous product range."



Cerealia is intent on being both locally based and international. It is not only food traditions and recipes that differ. Packagings and ways of selling also have to be adapted to local markets. Bread and muesli are often thought of as basic essentials, but there again traditions vary. "Swedish bread culture", as it is called, actually varies from one part of the country to another. Viewed in a Nordic perspective there are many similarities, but also differences. At the same time, internationalisation is growing stronger and consumers are getting more interested in eating products from other countries.

Director of Corporate Communication Lotta Löwhagen Lundberg observes that in Ukraine and Russia, for example, Start products are looked on as snacks, to be bought in small quantities, whereas in Sweden people prefer having muesli for breakfast, with yoghurt or sour milk. Oat flakes are made into porridge in Sweden, while other countries prefer them as they are.

Present-day consumers are

Cerealia is working to build up AXA, Start and Kungsörnen, among others, as three strong Nordic trademarks.

CEREALIA

- processes and sells cereal-based foods,
- is an international food group with about 5,700 employees,
- operates about 70 production plants and sales offices in Denmark, Finland, Germany, Japan, Latvia, Norway, Poland, Spain, Sweden, Ukraine, the UK, the USA and other countries,
- grosses about 9,000 million Swedish kronor,
- is a subsidiary of Svenska Lantmännen (the Swedish Farmers' Supply and Crop Marketing Association), which is owned by 53,000 Swedish farmers.

NIB's loan of 40 million euros is intended for Cerealia's acquisition of Schulstad AS. Schulstad is the dominant bakery group in the Danish market and one of Scandinavia's biggest suppliers of fresh bread.

interested in the environment, health and nutritional issues and want foods that are nourishing, safe, tasty and easy to prepare. People are therefore getting more and more interested in light, healthy products without any unnecessary additives. Cerealia researches among other things the health-promoting properties of cereals and the importance of diet for physical health and stamina. A current project aims to show how people should eat in order to stay alert all day. The connection between diet and performance is also important for every sports enthusiast. Great successes have been achieved with a project entitled Energizing, an information package for athletes, containing facts about suitable food and drink for improving one's performance. ■

Successful billion-dollar issues

NIB finances its lending activities by borrowing and issuing bonds on global capital markets. During the course of one year, NIB has carried out its largest bond issues ever.

The Bank carried out its first benchmark issue of 1 billion US-dollars in December 2002, followed by the second issue in April 2003, also for 1 billion US-dollars. The issues were registered with the Securities and Exchange Commission (SEC) in the USA.

Why did NIB choose to carry out two large issues at this time?

“There are three reasons,” says NIB’s CFO and Vice President Bo Heide-Ottosen. “NIB’s annual financing need has grown during recent years from about 2.5 billion euros to about 3.5 billion euros and now there was a possibility to carry out larger issues. We also wanted to diversify our investor base, in other words to get, among others, American institutional investors and investors in the Middle East interested in our bonds. In addition, the timing was right, since there was a growing demand for bonds with high liquidity.”

Both issues, with maturities of three and five years respectively, were well received on the market and were fully subscribed within one or two days. The April bond, with maturity 2008, performed well in relation to the bonds of other multilateral institutions on the capital market and had a broad geographic distribution, with 35 per cent going to North America, 28 per cent to Asia, 22 per cent to Europe and the remaining to the Middle East and Africa.

“We are very satisfied with the issues, since they increased interest among investors that have not invested previously

in NIB bonds,” says NIB Head of Funding Kari Kukka.

“Since we have launched only two benchmark issues, we could benefit from their rarity value. We carry out global benchmark issues very seldom and that’s one reason why investors are so interested in our bonds,” Kukka explains.

In spite of these successful large issues, the majority of NIB’s funding is raised through various MTN (medium-term note) programmes. With an annual borrowing need of just over 3 billion euros, there is not sufficient capacity for additional large issues. The size of NIB’s MTN issues varies between about 10 and 150 million euros.

“Some investors invest only in global issues, while others are more interested in issues with a smaller size with standard documentation,” says Kukka.

The purpose of NIB’s borrowing activities is to always ensure that the Bank has sufficient liquidity for its lending activities as well as for repayments on previous loans. Through its funding activities, NIB ensures that it can meet the demand of its clients. The clients have various preferences and needs concerning the currency, the maturity and the form of interest on the loans.

During the summer of 2003 NIB carried out a four-year bond emission of 5 million Latvian lats, corresponding to about 7.7 million euros, which is listed on the Riga stock exchange. At the same time NIB disbursed a loan in lats to a company with activities in Latvia. The company sought to match its income in lats with financial exposure in the same currency.

»The issues increased interest among investors that have not invested previously in NIB bonds.«

“We have seen an increasing demand for this type of loan that reduces the currency exchange exposure of the borrowers. It is a challenge for us, since in such cases it is often a question of capital markets that are under development,” Heide-Ottosen says.

According to Heide-Ottosen a trend on the markets is the continued opening up of capital markets, for example in the Baltic countries and in Asia. Some of these have thus far been relatively closed and not as developed as traditional capital markets.

After several turbulent years on the capital markets, there is an increasing need among investors to diversify their portfo-

lios, Heide-Ottosen points out. Investors strive for a healthy distribution among various market and credit risks.

“NIB tries to adapt its issues to the changing needs of investors. We are and want to be known as an innovative and flexible bank that can react quickly to changing market demands. At the same time we want to reach a satisfactory price for the loans we take on the market, which I think we have succeeded in doing. It is important for us that our bonds are bought at prices that correspond to the prices for the other multilateral institutions with an AAA credit rating to which we compare ourselves,” says Heide-Ottosen.

During the first eight months of 2003 NIB carried out altogether 74 transactions in 11 different currencies, compared to 83 transactions distributed over 12 different currencies in 2002. NIB’s borrowing outstanding as of 31 August 2003 was 14,236 million euros. The corresponding figure for the end of 2002 was 13,150 million euros.

Since NIB began its activities in 1976, it has carried out more than 800 transactions in 33 different currencies on capital markets in various parts of the world. NIB has had the best possible rating, AAA/Aaa, from the leading credit rating institutions, Standard & Poor’s and Moody’s, since it was first given a credit rating in 1982. ■



Martius Uusikylä

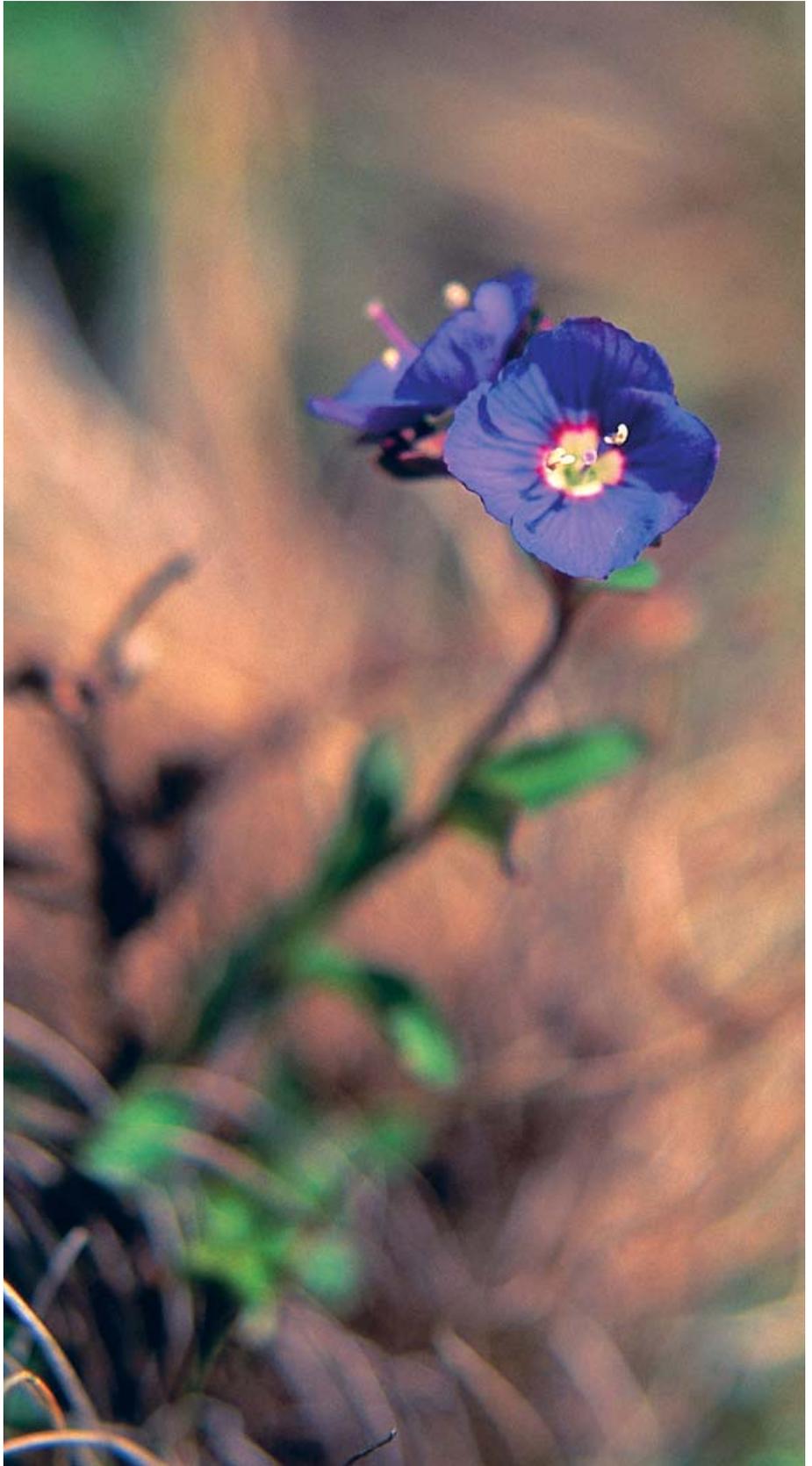
The NIB borrowing team is pleased with the issues, which were very well received by the market. From left: Jens Hellerup, Funding Officer, Kari Kukka, Head of Funding, and Bo Heide-Ottosen, CFO and Vice President.



BEAUTY IN BARREN NATURE

The photos on these pages were taken by a Finnish frontier guard, Kari Autto. Over several decades he has walked in the border areas between Finland, Norway and Sweden and photographed these wildflowers, which are beautiful in spite of extreme growing conditions. "These beauties have always been precious to me. It is amazing that they can grow in such a harsh environment," the photographer says.





PUBLIC-PRIVATE PARTNERSHIP IN NORWAY

New road to be ready in record time

Linda Hinze



Up to 400 people will be working on the road construction. Here Orkdalsvegen's Ann Judith Tinmannsvik, Responsible for Information and Ketil Sand, General Manager, are visiting the site.

A new way of financing road construction is being tried for the first time in Norway that will lower costs and shorten construction time.

The new form of financing is called public-private partnership (PPP), meaning that the public sector receives bids from private contractors for, in this case, the financing, construction, management and maintenance of 22 km of road in central Norway.

The project company Orkdalsvegen AS was established for the project and is owned by Laing Roads Ltd and Skanska BOT AB. Laing is a major player in PPP in the UK and is participating in the project as an investor and advisor. Skanska is building the road and will also hold the responsibility for management and main-

tenance when the road is completed. Skanska BOT is participating as an investor and will at the same time gain further knowledge of and experience with PPP projects. Two other road construction projects using the PPP model will be carried out in Norway in the near future.

Ketil Sand, who is leading the day-to-day work of building the road in his capacity as General Manager of Orkdalsvegen AS, says that one can save both time and money by allowing a private contractor to lead and take responsibility for the entire project.

"Skanska is responsible for ensuring that the road is completed within the time and cost parameters agreed upon and is free to carry out its own solutions. In a large project like this, the resources can be

better used and the project can be more cost-effective," he says.

The construction of the road was begun in April 2003 and the road is expected to be finished in two and a half years. According to Sand, it would have taken twice as long to build the road in the traditional way within the public sector. One reason for this is that the road construction would have been dependent on the parliament's annual appropriations. In that case construction proceeds only after the project has been funded.

"Now we work on 15-20 sites in parallel with a crew of about 250 people. Later on in the project up to 400 people will be working on the road construction at the same time," he says.



The construction of the new road will take two and a half years.

THE NEW ROAD

- Part of the European highway E39.
- Between Øysand and Thams-havn, 22 km.
- Seven tunnels, the longest of which is 3.3 km. Altogether almost half of the road will go through tunnels.
- Four bridges.
- The road will be shortened by 2.4 km, and the driving time by 6 minutes.

The costs of the project total just over NOK 1.5 billion (about 180 million euros). During the construction process the project is being financed with capital from the project company's owners along with short-term loans. A publicly owned company is already collecting tolls from motorists on the current road and it is anticipated that tolls will continue to be collected on the new road for 15 years. When the new road is finished and in use, the state will pay a fixed, ongoing amount to the construction company for the use of the road.

"So we are not dependent on the volume of traffic on the new road," Sand states.

NIB and Orkdalsvegen AS have agreed upon a long-term loan that constitutes part of the project's long-term financing.

"The NIB loan will be disbursed when the road is taken into use and will be utilised to convert parts of the construction loan to long-term financing," explains NIB's Deputy Regional Manager for Norway, Eirik Brekke. The loan of NOK 300 million (about 40 million euros) has a maturity of 25 years.

After 25 years the responsibility for the road and its maintenance will be transferred to the Norwegian national road administration. Until then Orkdalsvegen will be responsible for ensuring that the road is accessible as well as safe and convenient to drive on.

"It is our task to show that PPP works. We can't draw any definite conclusions as yet, but we hope it is a success in terms of time, implementation and costs," Sand says. ■

Wastewater treatment plant will be completed with joint resources

Work is in full progress in St. Petersburg on completing the city's Southwest Wastewater Treatment Plant. The parties have concluded their financial negotiations and construction work has begun. The project is progressing according to plan and the target date for commissioning is 2005.

Before 1979 St. Petersburg had no wastewater processing and all sewage was discharged straight into the rivers. Today things are looking a lot brighter. A number of wastewater treatment plants are already operating, e.g. in the central and northern parts of the city. The Southwest Wastewater Treatment Plant will be an important addition, because the city's pro-

cessing capacity today is not sufficient. At present raw wastewater from almost a million inhabitants is being discharged into the Gulf of Finland, affecting the water quality of the entire Baltic Sea. When the project is completed, the new plant will be capable of dealing with 330,000 m³ wastewater daily, and the treatment rate will rise from 75 to 87 per cent. The plant

occupies an area of 50 hectares and the construction site workforce numbers up to 500.

Getting the project started has been a matter of urgency. The plant will receive wastewater from more than 700,000 residents in the southwestern part of the city, and the investment will considerably reduce discharges of both unprocessed and contaminated wastewater into the Gulf of Finland and the Baltic Sea. The commissioning of the new plant will above all mean a significant reduction of emissions of oxygen-consuming substances (BOD₅), as well as nitrogen and phosphorus, and processing will then meet the requirements posed by HELCOM and the EU.

Construction work on St. Petersburg's Southwest Wastewater Treatment Plant began during the Soviet era, in the 1980s, but was discontinued in the 1990s owing to shortage of funds. By then about one-fifth of the plant's concrete structures had been completed. A large part of these old structures and sedimentation tanks can now be used and completed. In addition to the wastewater plant, the project also includes a sludge incineration plant and connection to the city wastewater management system.

NIB has been in charge of structuring the financial package since 2000. The project is being undertaken on a joint European basis as a public private partnership (PPP) of Nordic contractors, interna-



Jamima Loffstrom

Construction work was resumed in March 2003 and the wastewater plant is scheduled for commissioning in 2005.

tional financial institutions, funding agencies and local authorities. The funding model is tailored to Russian conditions.

In practice the PPP model means that the Nordvod project company, owned by the YIT, Skanska and NCC construction companies, the Nordic Environment Finance Corporation (NEFCO) and St. Petersburg water utility Vodokanal, will be responsible for implementing the project in partnership with the local authorities. The actual construction of the plant is being carried out by SWTP Construction company under a turn-key and management contract.

When completed the plant will be operated by a separate operating company under the same ownership as Nordvod. This arrangement is designed to secure efficient running of the wastewater plant. The company will be responsible for running the plant for twelve years, i.e. until the credits are repaid.

The project forms part of the investment programme for the Northern Dimension Environmental Partnership (NDEP). Project costs are being financed

through equity, credits, grants and local funding. Several international institutions are involved in the financing structure. NIB is contributing a long-term credit of 45 million euros. The project is also being financed with credits from the European Bank for Reconstruction and Development, Finnfund and Swedfund, share capital and subordinated credits through NEFCO, Nordic bilateral assistance mainly from Finland and Sweden (Sida), and assistance from the EU through TACIS and from the NDEP Support Fund. The City of St. Petersburg and Vodokanal have made notable contributions towards financing the project. The European Investment Bank is also expected to participate.

The Russian Federation and the City of St. Petersburg have expressed strong political support for the project. International support has also been very much in evidence. This project admirably illustrates the way in which improvements to the Baltic Sea environment can be made possible by coordinating Nordic and international financial resources with local partners. ■

PRIZE FOR THE FINANCIAL STRUCTURE

The Southwest Wastewater Treatment Plant project in St. Petersburg has been chosen for the Municipal Investment Award for Environmental Development on account of its financial solution. NIB is the lead bank for financing the project.

Oddvar Sten Rønsen, handling the project on NIB's behalf, describes it as "a large PPP on which other such projects can be modelled in the future."

This is the furthest advanced project under the NDEP investment programme. The award citation refers to the uniqueness of the project structure. The award is made by Project Finance Magazine, which is published by Euromoney Institutional Investor and is the world's leading journal on the subject of project finance. ■



During its June meeting in St. Petersburg, the NIB Board of Directors paid a visit to the Southwest Wastewater Treatment Plant.



More than just a power station

The Hitaveita Suðurnesja power station in southwest Iceland was founded in 1974 to utilise the area's geothermal energy and supply the nearby communities with district heat. Today the geothermal energy is not just being used for heating but is also an important driving force in local enterprise.

The difference between Hitaveita Suðurnesja and Iceland's other geothermal power stations is that the geothermal fluid cannot be used directly for heating purposes, because mineral scaling would quickly clog the pipes and other equipment and make them unserviceable. Methods have been developed for keeping the geothermal fluid at boiling point and using the steam as an energy source. This way the power station can supply the five surrounding communities with district heat but also with electricity, hot water and fresh water.

"Our earnings derive from eight different units which make up a resource park," says Hitaveita Suðurnesja's Executive Vice President Albert Albertsson. "Geothermal energy is the common denominator. This renewable natural resource underpins our pursuit of sustainable development."

One source of income is the Blue Lagoon, a natural pool filled with geothermal water. This inviting spectacle of steaming blue water has attracted growing numbers of visitors over the years. The first baths were built in 1986, and this has been followed ever since by determined efforts to make the facilities more and more attractive and safe for bathers. Today the Blue Lagoon sports a new, modern bathing centre whose amenities include, for example, a sauna, restaurant and other attractions. The Blue Lagoon is Iceland's foremost tourist attraction, with more than 300,000 visitors annually.

The blue water is not only warm and pleasant to bathe in. Its mineral content,



Ragnar Th. Sigurðsson

The Blue Lagoon is Iceland's foremost tourist attraction, with more than 300,000 visitors annually. The saying goes that every time you bathe in the lagoon takes a year off your age.

mainly comprising silicon, as well as salts and algae, is unique and has among other things been proved to benefit the immune system. The saying goes that every time you bathe in the lagoon takes a year off your age. The healing properties of the water have above all benefited psoriasis patients. The power station staff is continuously researching the constituents of the water and their effects on man.

"Recently," Albertsson continues, "we were able to launch our own cosmetic products and medical skin care products, all of them based on the unique ingredients of the Blue Lagoon's water."

In addition to the energy-producing units and the Blue Lagoon, Hitaveita

Suðurnesja is heavily committed to geothermal energy R&D. This renewable energy resource is an attractive proposition, both economically and environmentally speaking, and demand seems to be growing.

"We look forward to further growth in the company resulting from Iceland's heavy energy investments in coming years," says Albertsson. "It is encouraging that geothermal energy is also going to be more and more widely introduced in the industrial sector."

Hitaveita Suðurnesja is the only power station of its kind in Iceland and the third largest energy producer. NIB is the company's biggest credit provider. ■



PCB clean-up in Russia

NEFCO, the Nordic Environment Finance Corporation, is helping to finance the first PCB destruction plant in Northwest Russia. The facility will be located near St. Petersburg and is scheduled for completion in 2005. The assignment has been awarded to the Russian EnergoChemtech consortium, together with the Danish consultants COWI.

Magnus Rystedt, who is in charge of Russian projects at NEFCO, says that the new facility will destroy about 250 tons of

PCB annually, from old transformers. First the transformers are emptied of PCB, and then they are decontaminated for recycling. Finally the PCB oil itself is destroyed.

This is the first milestone of a project jointly initiated in 2001 by NEFCO and the multilateral PCB project forming part of the Arctic Council's Regional Programme of Action for the Protection of the Arctic Marine Environment from Land-Based activities (RPA).

In 2002 Russia signed the Stockholm Convention, which limits the production and use of persistent organic toxins, PCB among them. PCB is no longer produced in Russia, and its use will be gradually scaled down.

In July 2003, at the Finnish Consulate in St. Petersburg, NEFCO and Energo-Chemtech signed an agreement for setting up the new plant. NEFCO was signed for by Norwegian Environment Minister Børge Brende. ■



COWI

A Russian transformer is being loaded for further processing.

WHAT IS PCB?

PCB (short for polychlorinated biphenyl) is really a collective term for a group of persistent organic compounds discovered in the environment in the mid-1960s. Due to its insulating properties, PCB has been used in electric equipment such as transformers and condensers, and also as a plasticizer for jointing compounds and plastics.

PCB is on the UN list of the 12 persistent organic pollutants (POPs) that should be eliminated as soon as possible. PCB is omnipresent in the environment and accumulates in the food chain. In animals and humans it is stored in the fatty tissues and among other things can affect immune resistance, reproductive capacity and the nervous system.

NEWS FROM CHINA

Loans for health care and the environment

The Chinese Finance Minister Xiang Huaicheng visited Finland at the beginning of 2003. In conjunction with his visit to NIB headquarters, two loan programmes totalling USD 90 million were signed. The loan programmes are intended for financing projects in the health care and environmental sectors. China has extensive plans for the development of both sectors, mainly in the poorer interior areas of the country.

Several new investments have already been made in health care, especially in new equipment for hospitals. Within the environmental loan programme, the state-owned enterprise Korla Silon Heat Company Ltd is the first company that has been granted part financing. The enterprise will rebuild its heat exchanger equipment and thereby improve the heating supply for the residents of Korla, a city in northwest China. The project will have positive impact on the air quality in the area.

"We have worked together with the Chinese Ministry of Finance since the beginning of the 1980s," says Søren Kjær Mortensen, NIB's Regional Manager for Asia. China is NIB's largest borrower country in the Bank's international lending.



NIB's President and CEO Jón Sigurðsson and the Minister of Finance of the People's Republic of China, Xiang Huaicheng, during the Minister's visit to Helsinki.

Seminar for intermediaries

In September 2003 NIB arranged a seminar for its Chinese intermediary banks. The purpose of the seminar was to give cooperation partners insight into NIB's lending principles as well as to introduce NIB's environmental policy. Some twenty participants were present, from, among others, the Chinese Ministry of Finance, the Industrial and Commercial Bank of China (ICBC) and China EximBank. ■

Environmental investments in Danish slaughterhouses

NIB and Danish Crown have agreed on a long-term loan of 30 million euros for the company's environmental investments. Danish Crown is Europe's largest and the world's second-largest slaughterhouse company. The company is improving existing slaughterhouses and building a new one, scheduled for commissioning in 2004. Investments in the existing slaughterhouses will among other things result in

reduced electricity and water consumption, new cutting and boning facilities and less noise. The work environment will also be improved by the introduction of new technology to lighten the very heavy physical workload.

At the new slaughterhouse under construction at Horsens in Jutland, similar investments are being made in the external and working environments. These

investments will also conserve energy and other resources. The new slaughterhouse will have a throughput capacity of 15,000 pigs daily, making it the biggest in Europe.

Main export markets of Danish Crown are the EU countries, Japan and the USA. Nearly 70 per cent of the company's sales are to European countries. ■

Infrastructure and environment in the Baltic countries

HARBOUR RENEWAL IN ESTONIA

State-owned Tallinna Sadam AS is Estonia's largest harbour company and as such one of the biggest operators in the Baltic Sea. The company owns four harbours in and around Tallinn. More than 70 per cent of the volume of freight passing through them is transit traffic, mainly from Russia. Passenger and cruise traffic makes up another important segment of port activities. Tallinna Sadam AS and NIB have agreed on a credit of 40 million euros for the company's investments in new infrastructure for two of its ports, namely Muuga and Paldiski.

SOCIAL DEVELOPMENT IN TALLINN

NIB is financing Tallinn's investment programme for 2003 with a loan of 20 million euros. The programme includes investments in social housing production, development of the education and health care sectors, energy efficiency measures in public buildings, the road network and other infrastructure investments. This is NIB's first direct loan, without government guarantees, to a city or local authority in the Baltic countries.

ESTONIAN ENVIRONMENTAL CENTRE TO BE NIB'S INTERMEDIARY

The Estonian Ministry of Finance has appointed the Estonian Environmental Investment Centre, EIC, to be the intermediary for NIB's credit line to the Estonian state. Under this credit line, totalling 14 million euros, about ten credits have already been agreed on and several new environmental projects are in preparation. Most of the projects concern investment in municipal wastewater treatment plants.

NIB has served as a catalyst for transferring technical know-how from the Nordic countries to EIC. The Centre's task is to ensure that publicly funded environmental projects are conducted with sufficiently high quality and that Estonia can carry out environmental projects in keeping with its pre-accession agreements with the EU. In addition, EIC will have a pivotal role to play in the administration of future EU projects in Estonia.

So far NIB has financed 95 municipal environmental projects as well as energy efficiency projects in 170 administrative buildings in the Baltic countries.

HARBOUR INVESTMENTS IN KLAIPEDA

Lithuania's state-owned Klaipeda State Seaport Authority (KSSA), assisted by credits from NIB, is among other things investing in quayside enlargements and dredging of the pool in the Port of Klaipeda. This is one of the three biggest harbours in the Baltic Sea region, with an annual freight volume of between 13 and 19 million tons. NIB and KSSA have agreed on a credit of 4.3 million euros for the harbour investments. The loan is guaranteed by the Lithuanian state.

TWO LOANS TO LITHUANIAN ENERGY COMPANY

NIB and the state-owned Lithuanian energy corporation SJSC Latvenergo have agreed on two loans that relate to the company's extensive investments to improve its efficiency and competitive capacity, e.g. by making its power distribution more reliable. The first loan of USD 36.5 million was agreed on in May 2002, and a new loan of USD 57 million was signed in August 2003. Latvenergo's long-term credits from NIB now total USD 93.5 million, making it one of NIB's biggest borrowers in the Baltic Sea region. ■

Baltic countries invited to join NIB

The October session of the Nordic Council in Oslo was a historic occasion for NIB. The Nordic and Baltic prime ministers met to discuss current issues and cooperation. In the course of their meetings Estonia, Latvia and Lithuania were formally invited to become full members of NIB, making NIB the first Nordic institution, which the three countries have been invited to join. See also Letter from the President, page 2. ■



Michael Risedal (Nordiska ministerrådet/Nordiska rådet 2003)

New loan to Elkem

NIB has agreed on a long-term loan of 40 million euros to Elkem ASA, one of Norway's biggest industrial companies. The loan refers to Elkem's acquisition of a majority holding in the Swedish aluminium company Sapa AB. Elkem's main products are aluminium, energy, silicon metal, ferrosilicon and carbon products.

In recent years the company has moved increasingly away from bulk to specialised products.

The acquisition of Sapa, one of the biggest European producers of highly upgraded aluminium, will serve to reinforce Elkem's strategy of focusing on specialised products, the main customers

for which are in the aluminium, foundry, transport, construction, packaging, chemical and electronics industries.

The acquisition raises Elkem's holding in Sapa to over 70 per cent of the shares. Sapa remains a public company in its own right. ■

Photo: Marinas Unistykla



Christian Duncker



Kenneth Grönholm



Jens Hellerup



Jaana Ijas



Jacob Klingemann



Antti Koura



Johan Ljungberg



Linda Lundqvist



Guðmundur Ólason



Jouni Salokivi



Harriet Wingren-Hägglom



Magnus Magnusson

NEW APPOINTMENTS

Christian Duncker (FI) has taken over as Budget Director in the Accounting and Budgeting Department. He has worked earlier for NIB, but his most recent appointment was with Nordea.

Kenneth Grönholm (FI) has been appointed Deputy Director with responsibility for the credit unit in the Nordic Department.

Jens Hellerup (DK) has been selected as a Funding Officer in the Finance Department. He has worked for the Bank previously as a Portfolio Manager.

Jaana Ijas (FI) has been appointed Systems Specialist in the IT Department. Her most recent position was with the Finnish insurance company Suomi-yhtiöt.

Jacob Klingemann (DK) has been appointed Manager in the International Department, Central and Eastern Europe Region, and will work with projects within the framework of the Northern Dimension Environmental Partnership (NDEP). He joins NIB from DTU Innovation A/S in Denmark.

Antti Koura (FI) has joined the Finance Department as Senior Portfolio Manager. He comes most recently from the Council of Europe Development Bank (CEB) and was employed previously by the Bank of Finland and the Inter-American Development Bank.

Johan Ljungberg (SE) has been appointed Environmental Analyst in the Appraisal Department. He joins NIB from Skanska Teknik Ab in Sweden.

Linda Lundqvist (SE) has been employed as a lawyer in the International Department.

Guðmundur Ólason (IS) has been appointed Regional Manager for Iceland in the Nordic Department. His most recent appointment was with the Ministry of Finance of Iceland.

Jouni Salokivi (FI) has joined the IT Department as Development Manager. He comes most recently from Partek Abp Finland.

Harriet Wingren-Hägglom (FI) has been appointed Manager, Loan Administration in the Financial Administration and Planning Department.

Nordic Finance Group

Magnus Magnusson (SE) has joined the NDF (Nordic Development Fund) as Regional Manager. His previous career has included an appointment with the Nordic Council of Ministers in Copenhagen, but he comes most recently from the Stockholm office of UNEP/GRID-Arendal.

This is NIB

The Nordic Investment Bank (NIB) finances private and public projects, which have high priority with the Nordic countries and the borrowers. NIB finances projects both within and outside the Nordic countries.

NIB is a multilateral financial institution owned by the five Nordic countries. The Bank operates in accordance with commercially sound banking principles.

The member countries appoint representatives to the Bank's Board of Directors and to its Control Committee.

The Bank's operations are governed by an international agreement between the Nordic countries, and thereto related Statutes.

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 has its headquarters in Helsinki and offices in Copenhagen, Oslo, Reykjavik, Stockholm and Singapore. At year-end 2002 the Bank had 144 employees, recruited from all the five Nordic countries. ■

NIB'S FINANCING POSSIBILITIES

NIB finances investment projects and project export which are of mutual interest for the Nordic countries, and for the borrower. High priority is given to investments, which improve the economic cooperation in the Nordic countries. Loans and guarantees are granted to finance investments that assure energy supply, improve infrastructure or support research and development. High priority is also given to projects that improve the environment in the Nordic countries and their neighbouring areas. NIB participates in the financing of foreign investments that provide employment in the Nordic 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 Nordic countries' neighbouring areas as well as to investments of mutual interest for the Nordic countries and the borrowing country in various parts of the world.

In addition to loans, NIB also issues guarantees for projects that meet the Bank's conditions.

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

NORDIC LOANS

Investment 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, both in the private and the public sector,
- research and development,
- cross-border investments, such as mergers and corporate acquisitions,
- foreign investments in the Nordic countries.

Regional loans

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

INTERNATIONAL LOANS

The core of NIB's international lending operations 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 as well as Africa. Project investment loans are usually granted on a sovereign basis but may also be granted without a government guarantee, particularly to private sector 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 more than 40 countries.

NIB can also provide loans to Nordic companies' investments, including joint ventures and corporate acquisitions, within the OECD area and in the Baltic countries.

NEIGHBOURING AREAS

NIB gives priority to the financing of public and private infrastructure and industrial investments in the neighbouring areas to the Nordic region. Further, NIB participates in the financing of projects in the Baltic countries through investment loans to companies, which are investing in the Baltic countries.

NIB is authorised to grant special environmental investment loans to public and private sector environmental projects in the neighbouring areas to the Nordic region, i.e. to Poland, the Kaliningrad area, Estonia, Latvia, Lithuania and northwest Russia (St. Petersburg, the Leningrad area, the Karelian Republic and the Barents region). The projects are to help in reducing environmental degradation, and thereby also in reducing cross-border pollution. The environmental investment loans are granted on the basis of commercial banking terms to governments, governmental authorities, institutions and companies. ■

NIB a major environmental financier

The Bank shows good results for the first eight months of the year, notwithstanding the general slackness of economic activity in the Euro region. Period profits rose by 3.6% to EUR 100 million. Total assets amounted to EUR 17.3 billion and net liquidity rose to EUR 3,802 million.

NIB distributed EUR 40.3 million in dividends to its owners, the Nordic countries, from profits for the year 2002.

New lending for the period totalled EUR 910 million. Loans outstanding amounted to EUR 10,323 million at 31 August 2003.

New borrowing for the first eight months of the year equalled EUR 2,759 million. During the spring the Bank launched its second USD 1 billion global benchmark issue in the form of five-year bonds. These were well received by investors and were sold worldwide.

NIB's lending activities in the Nordic countries were dominated by infrastructure and industrial investments. Lending to the manufacturing and food industries was largest, with several loans to environmental investments or cross-border company acquisitions. The proportion of environmentally related investments in the Nordic countries shows a clear increase,

accounting for 25% of disbursements.

International lending was dominated by loans for infrastructure investments, above all in energy, transport and telecommunications. There was a growth of lending for projects in the environmental and health care sectors. At present NIB has loans outstanding in 32 countries outside the Nordic area. Lending through financial intermediaries accounts for a growing proportion of the Bank's international activities.

The Bank further increased its involvement in the Baltic countries and Poland, above all in the energy sector thereby contributing towards safer energy supply and improved energy efficiency. During the period, e.g., a loan agreement was signed with the state-owned Latvian power company.

Financing of environmental investments plays an important part in NIB's lending. During the period the Bank granted eight new environmental loans totalling EUR 135 million. Upwards of 18% of the loans disbursed during the period were environmental loans. The proportion of environmental loans, especially in the neighbouring areas, has continued to increase during the year. The

Bank has established a lending programme with a Russian intermediary bank for financing smaller environmental projects in northwest Russia, the intention being to allocate credits for water supply and wastewater treatment, among other purposes, in a number of small communities in the Leningrad region.

The Bank plays an active role in the Northern Dimension Environmental Partnership (NDEP), a partnership aimed at coordinating and streamlining the financing of environmental projects with cross-border effects in the Northern Dimension area. The NDEP has set up an investment programme of twelve environmental projects to be prepared within the Partnership framework. NIB is responsible for preparing and coordinating seven of them. In addition, the NDEP has initially set up a EUR 500 million programme for nuclear waste projects in the Kola Peninsula.

The Bank has continued to maintain the quality of its lending portfolio and financial counterparties at a high, stable level. The favourable development of the Bank's profits is expected to continue during the remainder of the year. ■

Key figures (in EUR million)

	1-8/2003	1-8/2002	1-12/2002
Net interest income	102	100	150
Profit	100	97	142
Loans disbursed	910	937	1,648
New loan agreements	1,029	1,020	1,807
New debt issues	2,759	1,679	3,320
Profit / average equity (%)	9.5	9.9	9.5
	31/8 2003	31/8 2002	31/12 2002
Loans outstanding	10,323	9,929	10,110
Total assets	17,303	14,892	15,948
Net liquidity	3,802	2,287	2,947
Number of employees	147	141	144



The Nordic Investment Bank (NIB) works to strengthen Nordic enterprise by financing joint Nordic projects. Environmental projects in the Nordic area and the neighbouring regions are an important field. The Bank grants loans for projects with positive impact on the water quality of the Baltic Sea and in this way is helping to clean up both sea and beaches in the Nordic area.

NIB's environmental commitments at 31 August 2003 totalled 1.5 billion euros.

NIB is owned by the five Nordic countries and has its headquarters in Helsinki.



NORDIC INVESTMENT BANK

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