GREEN FOR GROWTH FUND
SOUTHEAST EUROPE

INVESTING IN ENERGY EFFICIENCY
AND RENEWABLE ENERGY

ANNUAL REPORT 2013

IMPACT

MISSION

THE MISSION OF THE GREEN FOR GROWTH FUND, SOUTHEAST EUROPE (GGF) IS TO CONTRIBUTE, IN THE FORM OF A PUBLIC-PRIVATE PARTNERSHIP WITH A LAYERED RISK/RETURN STRUCTURE, TO ENHANCING ENERGY EFFICIENCY AND FOSTERING RENEWABLE ENERGY IN THE SOUTHEAST EUROPE REGION INCLUDING TURKEY AND IN THE EUROPEAN EASTERN NEIGHBOURHOOD REGION, PREDOMINANTLY THROUGH THE PROVISION OF DEDICATED FINANCING TO BUSINESSES AND HOUSEHOLDS VIA PARTNERING WITH FINANCIAL INSTITUTIONS AND DIRECT FINANCING.

INVESTORS

THE GGF IS SUPPORTED BY LEADING DONORS, INTERNATIONAL FINANCIAL INSTITUTIONS AND PRIVATE INVESTORS.

EUROPEAN INVESTMENT FUND
The European Investment Fund as Trustee for the European Commission

BMZ Federal Ministry for Economic Cooperation and Development

KFW

European Investment Bank

European Bank for Reconstruction and Development

IFC International Finance Corporation World Bank Group

OeEB Oesterreichische Entwicklungsbank AG

FMO Entrepreneurial Development Bank

SAL. OPPENHEIM

financeinmotion INVESTING IN DEVELOPMENT

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Investors and donors to date who have committed funds to the Green for Growth Fund, Southeast Europe.

13

Target countries of the Green for Growth Fund, Southeast Europe: Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Croatia, FYR Macedonia, Georgia, Kosovo*, Moldova, Montenegro, Serbia, Turkey, Ukraine.

19

Partner institutions the Green for Growth Fund, Southeast Europe has invested in to date.

26

Partner institutions the Fund has lent to and/or provided technical assistance to.

98

Technical Assistance Facility projects to date to support partner institutions and promote energy efficiency and renewable energy finance.

176 thousand

Tons of CO_2 saved annually through energy efficiency and renewable energy investments financed by the GGF.

671 thousand

MWh saved annually through energy efficiency and renewable energy investments financed by the GGF.

170 million

Total portfolio outstanding (in EUR).

258 million

Total investor commitments (in EUR).

* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

Letter from the Chair

Dear Investors and Partners

On behalf of the Board of Directors of the Green for Growth Fund, Southeast Europe (GGF), it is my pleasure to welcome you to the 2013 Annual Report. In this report, we will look back not just at the successes of the Fund in 2013 but, as it enters its fifth year of operations, also at the Fund's cumulative, positive environmental **impact** since its inception in December 2009. This impact was confirmed during 2013 in an in-depth verification exercise commissioned by the Board, which concluded that the Fund is a leader not only in its activities, but also in the transparent manner in which they are conducted.

The impact of the GGF can be assessed from several perspectives, all reflecting its core mission to enhance energy efficiency and foster renewable energy in its target regions. For the Fund, these are not just concepts, but concrete goals that can be measured, monitored, and reported. The Fund's success in **energy efficiency (EE)** is measured in megawatt hours of primary energy that is not consumed due to the measures financed by the Fund – insulation and windows in homes, modern equipment in small businesses, and improved manufacturing processes in large companies, to name just a few. Each megawatt hour that the Fund helps save is one that did not need to be generated, transmitted and consumed. This represents the most cost-effective way to reduce CO_2 emissions.

At the same time, we recognize that energy efficiency alone cannot solve the regions' energy needs, and that **renewable energy (RE)** is also a critical component in bringing standards up to international levels. This is explicitly encapsulated in the EU's 20-20-20 interim goals to reduce energy consumption by 20 %, to reduce CO_2 emissions by 20 %, and to have renewable energy represent at least 20 % of a country's energy mix by 2020, with even greater steps to be undertaken by 2030. For the GGF, investments in technologies such as small hydro, wind, and solar produce clean energy that replaces fossil fuels or other sources, measurably reducing the emissions of CO_2. In promoting these technologies, the GGF can help green the supply of energy in its target regions.

The GGF strives to ensure that the impact of its investments is sustainable by also providing technical assistance (TA) to its partner financial institutions to institutionalize green energy finance as a core competence, and by supporting renewable energy projects in achieving optimal results with minimal environmental risks. With an array of international and local experts standing by, the Fund can provide its partners with tailored and timely technical assistance. The GGF also promotes awareness of the benefits of energy efficiency and renewable energy in its regions, through its own efforts, and in coordination with its stakeholders to maximize the breadth of outreach.

These investments in EE, RE and TA are made possible by the Fund's public-private partnership model, which provides patient capital. Our investors – the European Commission and the German Federal Ministry for Economic Development, along with the European Investment Bank, KfW, the European Bank for Reconstruction and Development, the International Finance Corporation and the Netherlands Development Finance Company, and increasingly, private investors – have provided over EUR 250 million in capital and EUR 8 million in funding for technical assistance projects to fuel the impact detailed in this report.

I trust you will enjoy reading the report and learning about the Fund's activities.

CHRISTOPHER KNOWLES

GREETINGS

Making headway in achieving the European Union's objectives

Support for "green energy" is a key component of the enlargement strategy for the Western Balkans. Financial support under the Instruments for Pre-Accession Assistance (IPA and IPA II) is granted to help the countries in the Western Balkans and Turkey achieving similar objectives as the ones set for the Member States of the Union. Even more than in the past, the focus in the new programming period 2014-20 is on creating a measurable and durable impact. The Green for Growth Fund, Southeast Europe (GGF) is one of the most efficient tools in the EU's toolbox for meeting energy efficiency and renewable energy objectives.

In 2012 the Energy Community adopted a comprehensive strategy to fulfill three major policy objectives: create a competitive integrated energy market, provide a secure and sustainable energy supply, and attract investments in energy. By providing directly, or indirectly through financial institutions, funding for renewable energy projects, the GGF plays a major role in supporting these goals. Given the high potential for utilizing renewable resources in the GGF's target regions and the improving regulatory framework, there is a real chance to improve the local power supply and to make the countries less dependent on energy imports.

On the demand side, significant potential for increasing energy efficiency remains untapped. The countries of the Western Balkans as well as the countries in the neighborhood hold a large stock of equipment beyond its economic life. Still, there are many barriers, including a lack of awareness of the benefits of energy efficiency, a lack of technical knowledge, and difficulties in securing financing. With rising energy prices creating an additional burden on households and businesses in an already challenging economic environment, the imperative to improve energy efficiency is stronger than ever.

In 2013, we conducted an in-depth monitoring mission to evaluate the GGF's impact in reducing energy consumption and CO_2 emissions. The results confirmed our belief that the Fund is the right partner for the European Commission and that its Technical Assistance Facility (TAF) is a very effective complementary support mechanism.

The European Commission continues to be the largest investor in the GGF, a position set to further increase in 2014, for example with a EUR 10 million investment for the European Eastern Neighbourhood Region and a contribution of EUR 3 million to the TAF. The continued support of the EU will allow the GGF to further broaden its impact and enhance its financial sustainability.

GERHARD SCHUMANN-HITZLER
Director, DG Enlargement, European Commission

EUROPEAN INVESTMENT FUND
The European Investment Fund as Trustee for the European Commission

A key ally in mitigating climate change and promoting green energy

After four years of operations the Green for Growth Fund, Southeast Europe (GGF) has passed the start-up phase. With an invested portfolio of EUR 170 million covering 19 partner institutions in eight partner countries, the GGF proves to be a success story. Investments financed by the Fund have resulted in substantial energy savings and reductions of CO_2 emissions by far exceeding the Fund's minimum goal of 20 % for each category. Thus, the GGF was able to substantially contribute in promoting energy efficiency and renewable energy investments through suitable financing schemes in the GGF's partner countries.

Sustainability remains the key challenge for our and future generations. Massive investments in reducing greenhouse gas emissions are required. As a major shareholder, the BMZ welcomes the GGF's contribution towards our climate goals. Germany's position as major driver in the international discussion on "greening" economies is reflected in the BMZ's main goal to support developing countries and emerging markets in this respect. Mitigating climate change and promoting sustainable energy resources play an important role in the BMZ's strategy. The Fund, therefore, fits in perfectly with this concept as an important regional initiative, which will benefit households, small and medium enterprises as well as municipalities, and help them reduce energy consumption and greenhouse gas emissions.

However, activities and investments of the public sector alone will not be sufficient. For this reason, a substantial increase in private sector investments in the field of energy efficiency and renewable energy will be essential. In this context the GGF, as a public-private partnership, is a promising and innovative response to the question of how public and private capital can be jointly mobilized for climate protection in Southeast Europe, including Turkey, and the European Eastern Neighbourhood Region. We are particularly pleased that the Fund succeeded in bringing its first private institutional investors on board in 2013.

Despite the aftermath of the financial and economic crises affecting GGF partner countries during the last years, the Fund has shown sustained dynamic growth. Moreover, the GGF's holistic approach to addressing the gaps in funding, awareness and know-how has earned it a position as a major financing platform for energy efficiency and renewable energy finance in the regions. This deserves our recognition and our continued support.

ANNETTE SEIDEL
Head of Division Central, East and Southeast Europe

BMZ Federal Ministry for Economic Cooperation and Development

Letter from the Investment Management team

The Investment Management team (from left to right): Sylvia Wisniwski, Dr. Thomas Schiller, Lloyd Stevens, Elvira Lefting, Thomas Albert, Holger Roentgen, Max von Frantzius, Florian Meister, Claudia Dambax

Impact. This single word, the theme of this year's Annual Report, encapsulates the guiding principle of everything we as the Investment Management team do. We apply the achievement of impact as the overarching filter when executing any strategic decision of the Fund. When recommending a new partner institution (PI) to the Investment Committee, we ask tough questions about the PI's ability to effectively institutionalize green energy finance and, hence, maximize impact. When the Fund expands into new markets, as it did in the European Eastern Neighbourhood Region in 2012, we leverage our local offices and expertise to conduct extensive market analysis and gauge the potential for impact. When providing technical assistance, we partner with our clients to ensure that the best consultants are selected to implement top quality projects designed and customized to facilitate impact. While there are many measures of success for a Fund like the GGF, including clients served, funds deployed, and financial sustainability, ultimately these are all means to one end: achieving impact in the form of energy savings and CO_2 reductions.

We are very proud of the Fund's achievements in these areas in 2013, with our 18 financial institution partners financing over 4,500 investments in energy efficiency and renewable energy throughout the year alone. Cumulatively, the GGF has now financed nearly 10,000 sub-loans to households and businesses in eight countries in its regions of operation. In terms of impact, these investments are generating annual energy savings of over 671,000 MWh, and CO_2 emissions reductions of over 176,000 tons. Several of these investments are featured in this report, representing a range of measures – from improving the comfort level of a Bosnian house while lowering energy use, to making Armenian chocolate a less guilty pleasure by reducing electricity consumption on the production line, to generating emission-free solar energy off the coast of Croatia. We are particularly proud to have closed the Fund's first direct investment in a renewable energy project. Lengarica, a small hydro power plant jointly financed by the GGF and one of our stakeholders, the Austrian Development Bank, is under construction in Albania and will save 10,000 tons of CO_2 every year through the production of clean energy. By providing extensive technical assistance to the project's developers, we are ensuring that the project is constructed to the highest level of international environmental standards.

These achievements represent the fruits of four years of efforts to identify promising partner institutions and assist them in building their internal capacities, while also streamlining the way the GGF works to ensure maximum efficiency. Throughout this process, the Fund has been guided by its patient shareholders who consciously chose to forgo short-term profits in favor of long-term impact. These shareholders have appointed an expert Board to develop and fine-tune the GGF's strategy, and engaged specialized service providers to make sure that the strategy is implemented. The shareholders, Board and Investment Committee maintain strict oversight and require intensive, frequent checks to keep things on track. As the Investment Management team, we are proud that each of these verification exercises, which covered monitoring & reporting accuracy, adherence to Fund criteria, and environmental & social matters, has validated the work we are doing.

However, we recognize that there is still much more work to be done to green the economies of Southeast Europe and the European Eastern Neighbourhood Region, and to play our part in the fight against climate change in these difficult times for most economies and societies in the GGF regions. With a proven, effective platform, EUR 258 million in available capital (and growing), and effective products and strategies in both energy efficiency and renewable energy, the key elements are there to generate impact in 2014 and beyond.

MAX VON FRANTZIUS
Managing Director
Oppenheim Asset
Management Services

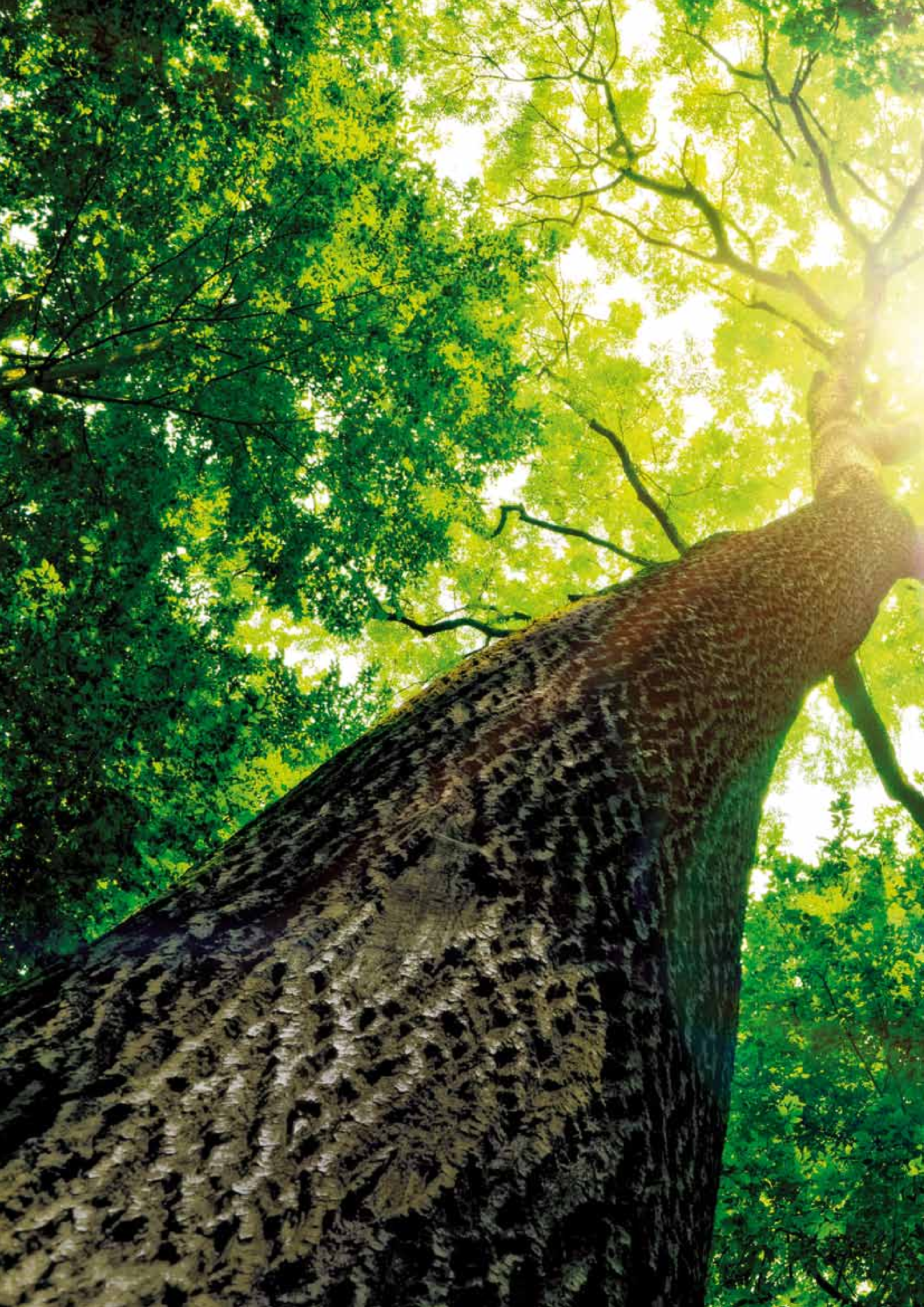
SYLVIA WISNIWSKI
Managing Director
Finance in Motion

FLORIAN MEISTER
Managing Director
Finance in Motion

ELVIRA LEFTING
Managing Director
Finance in Motion

LLOYD STEVENS
Director
Finance in Motion

DR. THOMAS SCHILLER
Managing Director
MACS Management and Consulting
Services (Technical Advisor)



IMPACT THROUGH GROWTH

AS GGF INVESTMENTS INCREASE IN VOLUME AND GEOGRAPHIC SCOPE, THE AIM REMAINS TO ACHIEVE OR EXCEED A 20 % REDUCTION IN ENERGY CONSUMPTION AND/OR IN CO_2 EMISSIONS.

NEED TO REDUCE ENERGY CONSUMPTION AND CO_2 EMISSIONS

annual energy savings

-43%

-42%

CO_2

annual CO_2 savings

CAPACITY
OF PARTNER
INSTITUTIONS

Enhancing energy efficiency (EE) and fostering renewable energy (RE) – the core mission of the Green for Growth Fund, Southeast Europe – has never been more critical. As Europe emerges from the depths of the financial crisis, the efficient use of green sources of energy is needed to power the recovery and put the regions on the path to a sustainable future.

BUILDING A GREENER EUROPE

Making a positive impact

The Green for Growth Fund, Southeast Europe (GGF) commenced operations in early 2010 to address the climate impact of the growing energy needs of the economies in the Fund's target regions. The timing, during the worst global financial crisis in nearly 70 years, provided a window of opportunity for the Fund to establish itself in the market, make investment capital available in an environment where liquidity was scarce, and maximize the impact of this capital through thoughtful, well-planned technical assistance. The GGF's initiators and donors understand the importance of leveraging and enabling the financial sector to advance green energy finance for households, businesses and municipalities. The Fund's investments are facilitating the regions' emergence from the downturn, placing them in a better position to more efficiently compete, while mitigating the negative environmental effects of energy production.

The following sections of this 2013 Annual Report take a detailed look at the impact the GGF has had in the countries in which it operates, and in particular in its two main areas of focus – EE to reduce the consumption of energy, in both absolute terms and relative to output, and RE to green the supply of the energy that is consumed. So far, EE and RE investments financed by the GGF are saving over 671,000 MWh of energy and reducing CO_2 emissions by 176,000 tons every year. This significant impact could not have been achieved without the successful implementation of nearly 100 technical assistance projects to support financial institutions in developing new products, project developers in implementing projects to international standards, and the markets themselves by raising environmental awareness and literacy.

As it begins its fifth year of operations, the GGF is needed more than ever. The countries in which it does business are beginning to grow again, if slowly and unevenly, yet they are still highly inefficient in terms of energy consumed per unit of output produced. At the same time, geopolitical stresses on the energy supply in Europe underscore the urgency to decouple economic growth from energy consumption and develop clean, indigenous energy sources – ideally renewable – to power homes, business, and cities across the Fund's target regions. This requires capital and know-how.

The scale of the challenge is enormous, especially in the global context. In 2005, energy consumption in the OECD countries was about equal to that in non-OECD countries. By 2040, OECD countries will consume about the same amount of energy as today, through modest improvements in efficiency and relatively slow growth, while energy consumption in non-OECD countries will more than double. This energy must be green to prevent disastrous impacts on the world's climate.

Unfortunately, the trends to date are not encouraging. While renewables increased from 2% of the global energy mix in 2001 to 4% in 2011, over that same decade fossil fuels went from 64% to 68%. In 2012 alone, government subsidies for fossil fuels in developing and emerging economies totaled USD 523 billion, more than four times the amount that went into green energy finance (USD 135 billion). The world is falling farther and farther behind in achieving safe emissions levels.

Against this backdrop, a broad palette of solutions is needed to address these challenges and put the world on a sustainable growth path. Along with judicious government incentives, international cooperation and technological advances, we need well-structured financial approaches that combine patient capital at a reasonable cost and provide an attractive, commercial return for both borrowers and lenders. These elements play a key role in increasing EE and RE to a scale that is sufficient to bend the emissions curve and slow climate change. The GGF has been making strides towards this goal, starting in eight countries of Southeast Europe, including Turkey, and expanding to thirteen countries to now also include the European Eastern Neighbourhood Region. Its unique combination of financing, tailored technical assistance, local expertise and international know-how makes the GGF an effective component in the green energy

finance landscape. Multiple independent assessments have found the GGF to be highly efficient in achieving results and to be complementary to the regional and global approaches of its stakeholders and other institutions. As the GGF continues to grow in size, and increasingly leverages its public funds with private investments, its impact will grow as well, contributing to a greener Europe and ultimately, a more sustainable global economy.

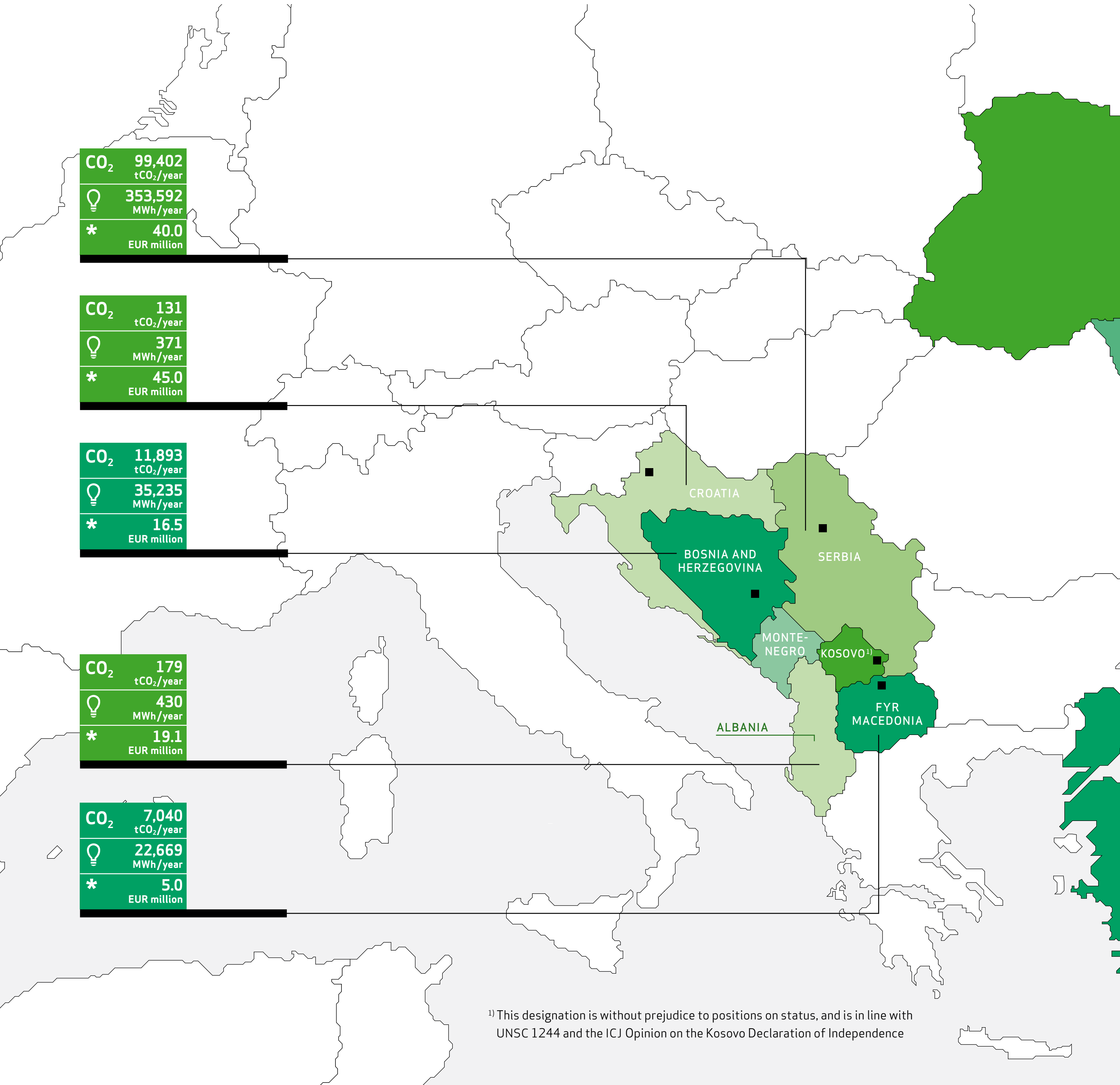
GGF funding has helped reduce emissions in the agricultural sector by 12,855 tons of CO_2 per year.

–12,855
tons of CO_2 per year

The statistics on pages 12 and 13 were excerpted from "Green Finance – A Landscape Overview," a white paper prepared by Finance in Motion, the Investment Advisor to the GGF, with contributions from the Climate Policy Initiative and with the financial support of the German Federal Ministry of Economic Cooperation and Development (BMZ) via KfW Development Bank.

During its four years of operation, the Green for Growth Fund, Southeast Europe (GGF) has substantially broadened its geographic scope to encompass pre-accession countries in the Western Balkans, including Turkey, and the partnership countries of the European Eastern Neighbourhood Region.

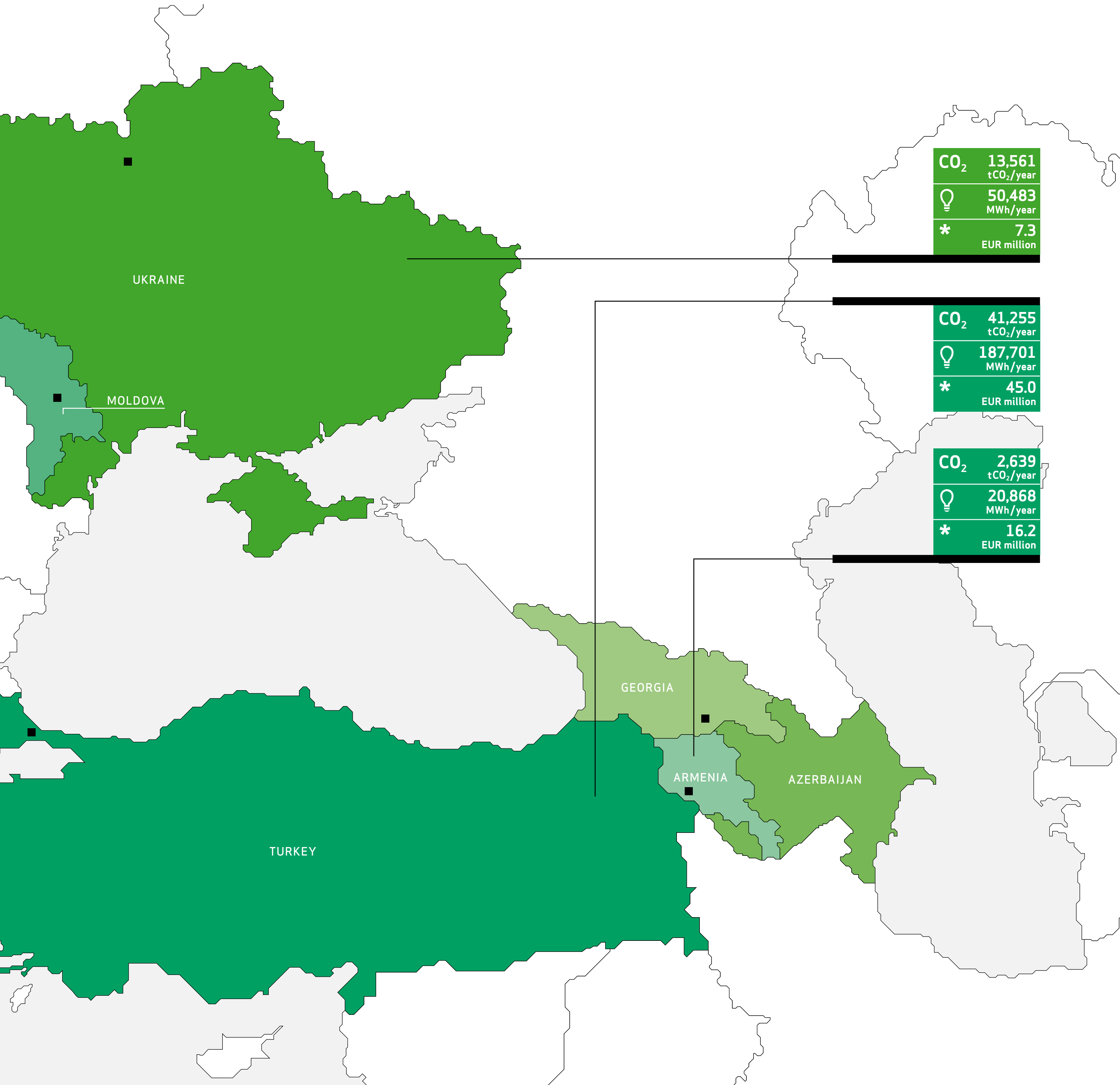
GEOGRAPHIC DIVERSITY



[1] This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence

In late 2012, the GGF expanded its successful model from its core region of the Western Balkans, including Turkey, to include five countries in the European Eastern Neighbourhood Region, bringing the total to thirteen countries. This provides the GGF's portfolio with geographic diversification and enables the efficient transfer of know-how between institutions across the Fund's regions of operation. At the end of 2013, the GGF had active investments or technical assistance projects in all thirteen countries.

■ Offices of the Investment Advisor Finance in Motion | CO_2 CO_2 Reduction | Energy savings | * GGF investments



IMPACT THROUGH ENERGY EFFICIENCY

SIMPLE SYSTEMS TO CONSERVE ENERGY IN HOMES, MODERN EQUIPMENT IN BUSINESSES – SMALL STEPS THAT MAKE A BIG DIFFERENCE. THE GGF STARTS BY RAISING AWARENESS AND FOLLOWS THROUGH BY FACILITATING INVESTMENTS.

IMPACT THROUGH ENERGY EFFICIENCY

Reducing the energy consumption of households, businesses and the public sector

EE INVESTMENTS FINANCED BY THE GGF

NEW BUILDINGS

BUILDING ENVELOPE IMPROVEMENTS
see page 22

AGRICULTURAL EQUIPMENT

HEAT SUPPLY SYSTEM REPLACEMENTS

PROCESS RELATED EQUIPMENT
see pp. 20 & 21

9,799 loans

8,542 households

1,268 businesses

In 2013, awareness of the benefits of energy efficiency (EE) and its importance in curbing fossil fuel consumption in developing regions continued to be highlighted by many international organizations. The GGF is keeping up impact momentum with investments in EE finance and in sensitizing households and businesses throughout its target regions.

ENERGY EFFICIENCY

Utilizing resources effectively

Since its formation, the Green for Growth Fund, Southeast Europe (GGF) has supported an increasing number of partner institutions (PIs) in promoting green energy finance, particularly EE. The Fund's diversified portfolio of PIs includes microfinance institutions, leasing companies, small and medium-sized banks, and affiliates of international banking groups. These institutions play a significant role in promoting EE investments to households, small and medium enterprises (SMEs) as well as larger companies, and help address a major field of green finance opportunity. Along with the increase in the number of PIs, the scope of measures eligible for financing has been broadened as well. In 2013, three new measures were introduced in varying capacities: agricultural equipment, new buildings, and the conversion of vehicles to compressed natural gas (CNG).

Of the new measures, those centering on agriculture are having the strongest impact on the GGF's portfolio. This was to be expected given the importance of this sector to the economies of the Fund's target countries. Starting with the five target countries of Bosnia & Herzegovina, FYR Macedonia, Moldova, Serbia, and Ukraine, four new farming equipment-specific EE measures were added to the Fund's white list of eligible measures, considerably streamlining the process of lending for this type of equipment. As a result of high demand for these and other agricultural measures, they are now being extended to all target regions in 2014. Here, research funded by the GGF Technical Assistance Facility helped to identify the most commonly used agricultural equipment for financing while meeting the GGF's energy savings and emissions reduction requirements.

In addition, the GGF is having a strong impact not only on the farm, but also throughout the entire food production value chain because many PIs have a strong client base in the food production sector. Here, the GGF is facilitating investments in automation and capacity with the effect of reducing energy consumption per output – chocolate producer Arkolad in Armenia, which is covered in this report, is just one example. Overall, the GGF is having a positive impact on the bottom line in these sectors through EE.

In 2013, based on demand from PIs and their clients, the conversion of gasoline-fueled cars to compressed natural gas (CNG) was also added to the Fund's growing white list of measures. This EE measure is focused on the Armenian and Ukrainian markets where this type of retrofitting is popular due to the fuel savings that can be achieved. Such conversions not only save the consumer money but also significantly reduce CO_2 emissions as well as other greenhouse gas and particulate matter emissions.

Lastly, having proved a success in existing target countries Croatia and Bosnia and Herzegovina, financing new, energy-efficient buildings has been extended to Serbia. This extension was facilitated by the introduction of a mandatory building certification program. Today, provided certain EE criteria are met, PIs serving the Serbian market are able to lend their customers up to 50% of new building construction costs through the GGF credit line.

Looking ahead in 2014, the GGF will continue to broaden the possibilities for PIs to address new customer groups or industries and complement these with technical assistance in raising awareness to fulfill the Fund's mission.

In 2013 alone, the GGF has doubled the number of partner institutions in Armenia, responding quickly and effectively to the growing demand for energy efficiency (EE) finance in this dynamic market of the European Eastern Neighbourhood Region.

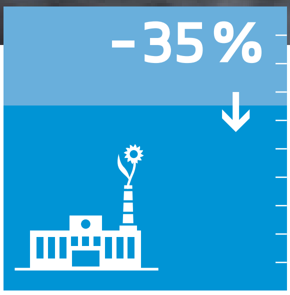
SWEET SUCCESS

More chocolate, fewer kilowatts

With the addition of two new Armenian partner institutions over the course of 2013, the Green for Growth Fund, Southeast Europe (GGF) is now working with four local financial institutions to address the demand for financing green energy in the country. With a growing economy, high reliance on imported energy has increasingly become a source of concern. With rising demand and short supplies, the government raised the price of natural gas by 18% to better reflect market conditions. This prompted Armenia to increase efforts in developing both energy efficiency (EE) and renewable energy (RE) to improve energy security and stabilize prices for end-customers. As the GGF had just a year earlier expanded its scope to the European Eastern Neighbourhood Eastern Region, the situation created a sizeable opportunity to have a very positive impact in a key market.

Investments in EE in particular are already making headway in the country, especially in the small and medium enterprise (SME) sector. Araratbank, which signed with the GGF in 2012, had already then begun addressing this sector with a GGF credit line. Araratbank, a medium-sized bank, ranks ninth in the banking sector in terms of market share. As many of its customers are in manufacturing, the bank is utilizing the GGF credit line to develop EE investments primarily within this sector. At the same time, Araratbank is broadening its focus to address new customer segments. Here, the GGF's Technical Assistance Facility (TAF) supported the bank with value-added energy auditing services: as part of the offer, energy experts visit current and prospective customers to conduct a free energy assessment to determine the potential for energy – and therefore cost – savings. With a thorough portfolio analysis, the TAF also helped Araratbank identify significant opportunities for EE development with existing customers in the food production sector.

Arkolad CJSC, a local chocolate manufacturer established in 2005, is one of these opportunities. It is also just one of the successes that demonstrate the broad impact of GGF funding. Arkolad prides itself on using Belgian techniques in the chocolate manufacturing process, and sourcing raw materials from Switzerland. It is prouder still to use only fruits and nuts from local suppliers, which not only makes the chocolate unique, but also benefits the local agricultural sector. Through a credit line from Araratbank, GGF funding enabled the company to purchase chocolate making equipment from Belgium to automate part of the production line. This investment alone increased output sixfold. Before, it took a day to make 80 kg of chocolate. Today, it takes just 80 minutes. Energy consumption has been reduced



35 % of emissions reductions achieved by the GGF are in the manufacturing sector.

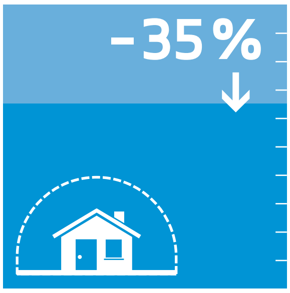
as well: each kilogram of chocolate is now produced with 80 % less energy and 80 % fewer emissions. With cost per unit down and production up, not only have revenues increased, but also profit margins. Arkolad is reinvesting the surplus into the business to broaden its product range and also begin exporting its fine chocolates.

Arkolad highlights the impact that investing in energy efficiency can have on a business, not only in terms of environmental performance, but also – and especially – in terms of securing growth and profitability. Although the GGF primarily tracks environmental impact, this case story underscores the GGF's broader perspective as to overall economic development of the target regions. Rarely has the taste of success been sweeter.

By investing in insulation for their home in the mountains in the heart of Bosnia and Herzegovina, the Čičikovića family can now look forward to winter months in comfort – with the added boon of cutting wood heating costs in half. Just one example of GGF green energy finance at work.

WARMING UP

Enhancing quality of life and lowering costs



35 % of energy savings achieved by the GGF come from building envelope improvements.

Partner Microcredit Foundation (Partner MCF) has been working with the Green for Growth Fund, Southeast Europe (GGF) since 2012 to serve low-income households in Bosnia and Herzegovina, a segment with little access to credit. Partner MCF's particular focus is on funding micro and small enterprises and improving living conditions. The latter involves using the GGF credit line for home energy efficiency (EE) projects – specifically, to upgrade heating systems and insulation to stand up to the harsh Bosnian winters.

Adis Čičikovića, a 28-year old lumberjack whose income also supports his parents and three siblings, had such a project in mind. The Čičikovićas live in Rijeka, a village high up in the mountains where winter temperatures can be severe. For a long time their home, with its aging walls and worn-out windows, lacked proper insulation.

Adis heard about the favorable terms Partner MCF provided for EE projects, and took out a loan of approximately EUR 1,000 to install insulation and replace four windows in the rooms where the family spends most of its time. The difference in terms of heat retention was noticeable almost instantly. Adis saved a lot of money by doing all the work himself, but the best news came when he ordered firewood for the following winter: wood consumption had dropped by half.

Once this first loan is repaid after the 18 months maturity, Adis plans to take out another with Partner MCF to replace the remaining windows and finish insulating the façade. His story demonstrates how partnering with different types of financial institutions helps the GGF maximize outreach.

The GGF Technical Assistance Facility (TAF) promotes energy efficiency (EE) by providing tailored capacity development support to the Fund's partner institutions as well as through market-enabling and public awareness-raising activities. In 2013, together with the IFC, and with the support of EBRD and the Central Bank of the Republic of Armenia, the GGF TAF developed a brochure to educate Armenian households about the benefits of energy efficiency.

PROMOTING ENERGY EFFICIENCY

Addressing the partner's needs

A total of 8,000 copies of the awareness-raising brochure were produced for distribution to the Armenian financial sector.

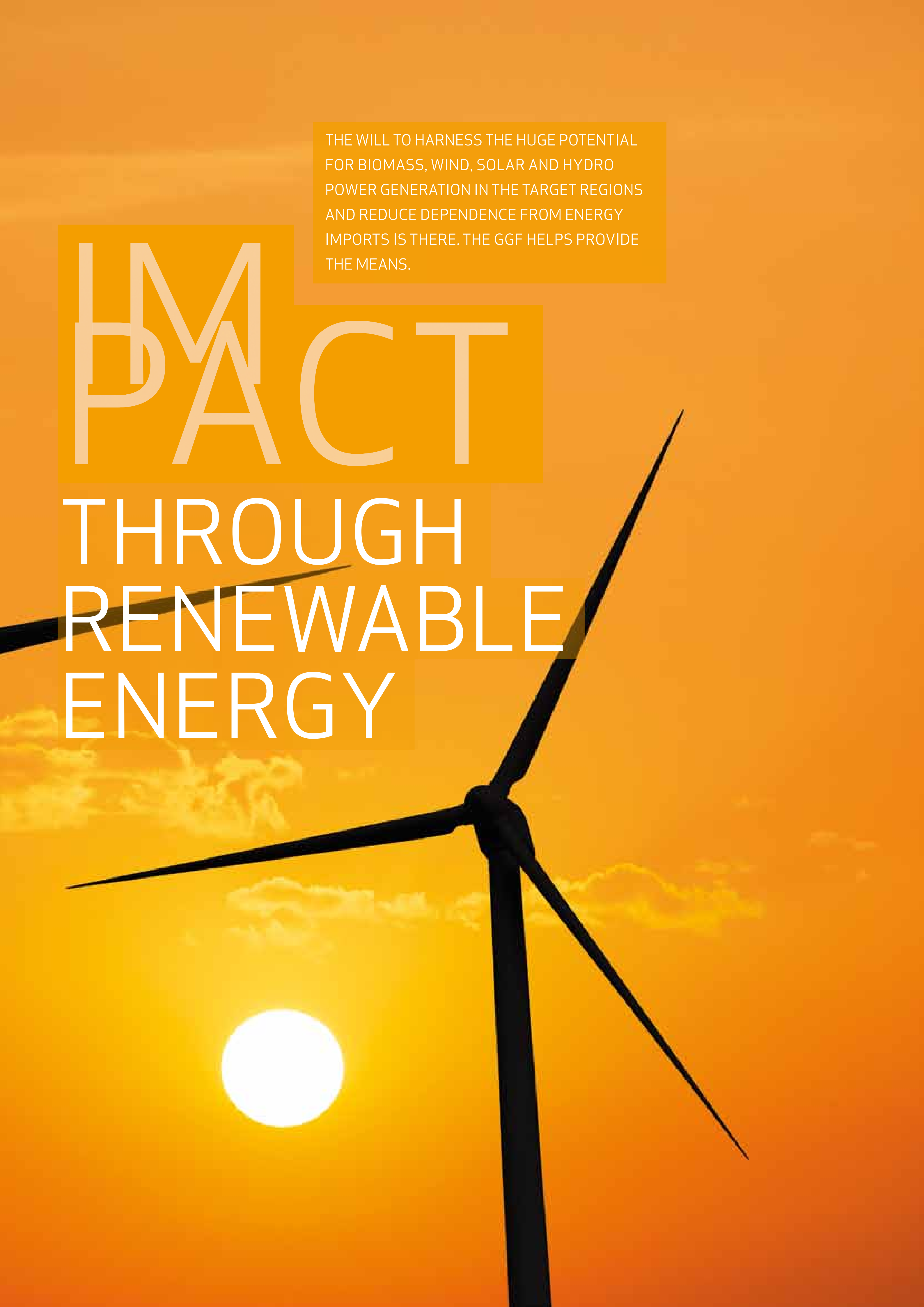
GGF partner institutions (PIs) can count on hands-on assistance in entering the EE lending market, or, if they are already engaged in EE, in further strengthening their position in this segment. TAF support is tailored to their specific needs and requirements. PIs that are new to EE lending may, for example, receive broad support in developing and implementing an EE lending strategy, marketing concepts and loan products. Existing PIs can also avail themselves of staff training and capacity building measures ranging from EE know-how to sales and customer support. The TAF also promotes the direct support of potential clients of partner institutions with specialized workshops on the benefits of certain EE investments. From the beginning, as the needs analysis is conducted, PIs are closely involved in developing and defining the technical assistance project and its scope.

The TAF is also looking at ways to increase general awareness of EE and promote the advantages and benefits of EE measures and investments to the public at large. For this reason, the GGF joined with the International Finance Corporation (IFC) Armenia in 2013 to produce the "Did you know?" awareness-raising brochure. Targeting Armenian households, the interactive brochure – which is also available online – provides information on the potential for energy savings in the home. The Central Bank of the Republic of Armenia (CBA) strongly supported the initiative by ensuring distribution of the brochure throughout the financial sector, and by hosting a successful launch event in Yerevan in December 2013 to introduce the project to the general public. Similar activities for promoting EE measures throughout the Fund's target partners are planned for the future.

Link GGF: http://www.ggf.lu/downloads/brochures
Link GGF: http://www.ggf.lu/brochure-animation/final/arm/

IMPACT THROUGH RENEWABLE ENERGY

THE WILL TO HARNESS THE HUGE POTENTIAL FOR BIOMASS, WIND, SOLAR AND HYDRO POWER GENERATION IN THE TARGET REGIONS AND REDUCE DEPENDENCE FROM ENERGY IMPORTS IS THERE. THE GGF HELPS PROVIDE THE MEANS.



IMPACT THROUGH RENEWABLE ENERGY

Suporting smaller-scale RE projects to reduce CO_2 emissions in energy production

RE INVESTMENTS FINANCED BY THE GGF

HYDRO
see page 30

WIND

SOLAR
see pp. 28 & 29

BIOMASS

2013 marks a successful year for the worldwide development of renewable energy (RE), especially in emerging economies. The GGF's commitment to mainstreaming green energy finance also includes making sure its target regions reap the benefits of shifting to more sustainable energy consumption and production patterns.

RENEWABLE ENERGY

Greening the power grid

The Green for Growth Fund, Southeast Europe (GGF) was established with the mission of fostering energy efficiency (EE) and renewable energy (RE) in Southeast Europe, including Turkey, and the European Eastern Neighbourhood Region. Over the past four years, the GGF has been steadily increasing its activities in the RE sector. In 2013, in addition to providing several partner institutions (PIs) with credit lines dedicated to on-lending for RE investments, the GGF signed its first loan agreement to directly finance an RE project.

RE investments are not without challenges for the Fund. Success depends greatly on the effective promotion of RE as a viable and sustainable route for meeting evolving power consumption requirements. In general, investor interest is high, especially in those target countries where feed-in tariff regimes, which provide long-term and dependable returns, have been implemented as an incentive. Even where such incentives do not yet exist, however, as in Georgia for instance, domestic and international investors are optimistic that national-level agreements with the European Energy Community will boost growth in the RE sector. Still, in many target countries the combination of an inadequate legislative framework, lack of technical know-how, and a shortage of long-term financing is preventing both foreign and domestic investors, local banks, and other institutions from taking the all-important last step from the development phase to actual capital investment. The GGF plays a pivotal role in addressing these market gaps.

Providing PIs with the funds for on-lending to regional developers of small-scale RE projects, e.g. rooftop solar plants, is a growing aspect of the Fund's investment activities. Such projects typically involve substantial upfront capital expenditures that can only be recovered through long-term financing. Here the GGF's credit lines give PIs the means to support worthy RE projects over the long haul, providing the stability investors require. Along with funding, the GGF, through its Technical Assistance Facility (TAF), also helps ensure that projects adhere to international standards and best practices, from development to connection to the grid.

In 2013, the GGF issued long-term credit lines to two PIs for larger EE measures and RE projects. The funding reflects the longer tenor of loans for RE financing. In addition, both PIs received RE training from the TAF for assessing investments to the highest standards.

As the GGF's first direct investment in an RE project, the Lengarica run-of-river hydropower plant in Albania marks a major milestone. Construction is already underway and initial disbursements by the Fund are expected in early 2014.

In the year under review, the GGF also introduced a new support approach – pre-bankability technical assistance (PBTA) – specifically geared towards fostering small-scale RE projects up to 30 MW. Here, the TAF's tailored support is focused on assisting local developers in ensuring their projects achieve bankability. Adding to the Fund's already established resources of a specialized energy team and regional offices with in-depth local knowledge, PBTA is another tool that will contribute to the Fund's growth and its mission of achieving further CO_2 reductions through RE.

The GGF's flexibility and willingness to adapt to market requirements is giving green energy development in the Fund's regions a major boost. Working with partner institutions on the ground, the GGF is playing a pivotal role in tapping the full potential for power generation from renewable energy (RE) sources.

CROATIAN SUCCESS STORY

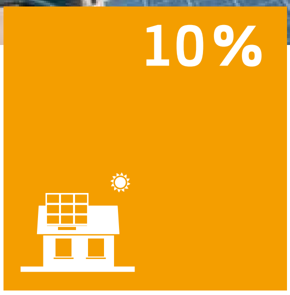
Going solar in the Adriatic

Croatia has a long history of sustainable energy production – the first major hydropower plant was built in 1962. In some years, renewable hydro energy even exceeds 50% of the total domestic energy production. Considering that further hydropower capacities are naturally limited, the country has increased efforts to attract investments in other RE technologies by implementing advantageous feed-in tariffs. Croatia has also enacted a Renewable Energy Law, in compliance with the regulatory requirements of the European Union, to create an attractive environment for local and foreign investors.

The focus today is on developing wind, biomass and solar – areas in which Croatia has a vast resource potential. By the end of 2013, wind farm capacity reached 300 MW and Croatia will soon reach its regulatory quota for this energy source. That is why investors are already looking into other sectors, such as solar. The country's coastal areas and islands benefit from some of the highest levels of insolation (i.e. incoming solar irradiation, a measure of solar energy potential) in Europe. In addition to offering dependable cash flows, this green energy generation segment benefits from a fixed feed-in tariff over 14 years. This is also one of the reasons why, besides wind farms, local banks are especially keen to finance solar energy plants.

The Green for Growth Fund, Southeast Europe (GGF) is supporting RE development in Croatia with long-term funding to local partner institutions (PIs), along with technical assistance to foster international best practices in financing. One of these PIs is Privredna banka Zagreb (PBZ), a subsidiary of the Italian financial group Intesa Sanpaolo. In 2013, PBZ utilized part of its GGF financing to fund rooftop solar systems on the island of Lošinj in the Adriatic Sea. They are producing clean, emission-free electricity for around 100 households.

The solar energy solution, developed by a client of PBZ in collaboration with a local hotel chain, was to install solar panels on leased rooftops. It is a true win-win scenario. The optimal location combined with good solar irradiation is ensuring dependable returns for PBZ's client. Making use of existing hotel rooftops allows for easy, environmentally friendly installation, since rooftop mounting systems require less infrastructure and materials. Ground-mounted systems, on the other hand, take up valuable land for the solar array. Furthermore, the Croatian islands have significantly higher irradiation levels due to the mirror effect of the sea. For the hotel chain, the venture is a win because it contributes to overall profitability by generating additional revenue – without upfront investments or operating expenditures.



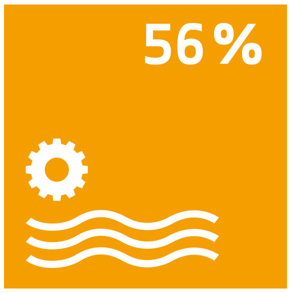
10 % of GGF funding has gone towards implementing RE in SMEs and households.

Here, unused rooftop space translates into prime real estate. When the lease expires, the hotel chain may also benefit from owning the plant directly and using sun-generated power to cover its own needs. This type of arrangement could prove especially attractive: in the summer months, for instance, the hotel's energy demand matches daytime peak power generation.

From PBZ's perspective, the reliable cash flows secured by an attractive feed-in tariff over 14 years make financing long-term projects such as these very attractive. The GGF's long-term loan ensures an appropriate matching of the bank's assets and liabilities, providing the final, necessary link for enabling the greening of a beautiful corner of the Adriatic.

The Lengarica small hydropower project in Albania has established itself as a benchmark for international best practices in renewable energy project finance and cooperation.

IMPROVING ALBANIA'S ENERGY IMPORT BALANCE



56 % of Albania's energy consumption is met by hydro-electric sources.

The Green for Growth Fund, Southeast Europe (GGF) is acting as a catalyst for change in the Albanian energy landscape. enso hydro GmbH based in Graz, Austria, with the International Finance Corporation as an equity partner, is building a small hydropower plant on the Lengarica river in compliance with international environmental and social best practices (see opposite page). Leveraging its position as a unique provider of patient capital, the GGF kept the project on track with debt financing when local banks faced liquidity and capitalization constraints. The Fund's approach to complementarity with other providers of green finance, like the Austrian Development Bank (OeEB – Oesterreichische Entwicklungsbank AG), also helped bring the project to financial closing.

Two decades after the end of the communist era, Albania's weak infrastructure and inadequate power supply continue to impede growth. At the same time, only 35 % of Albania's vast hydro energy potential has so far been tapped. Lengarica will significantly improve the country's energy import balance.

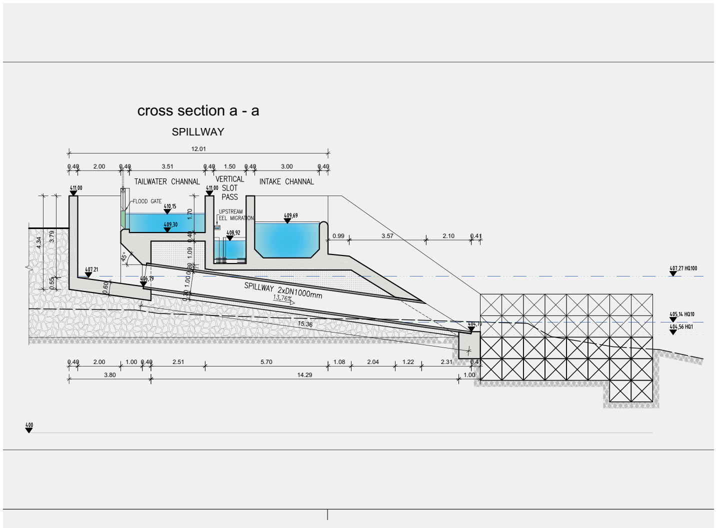
The hydropower plant in the southern county of Gjirokastër represents a total investment of EUR 23 million; the OeEB contributed EUR 5 million and the GGF EUR 9.1 million. With a net fall height of 148 meters, Lengarica will have a capacity of just over 9 MW and generate 32 GWh annually, enough to power approximately 10,000 households.

Technical assistance plays a crucial role in supporting renewable energy (RE) investments – with individually tailored support to facilitate RE project bankability as well as ensure adherence to the highest environmental and social standards.

FACILITATING BANKABILITY

Supporting non-financial institutions

The GGF requires that all involved parties play an active role in mitigating the environmental impact of RE projects.



The GGF Technical Assistance Facility (TAF) plays a key role in supporting the Fund's efforts to promote RE investments. The TAF provides targeted, tailored support, giving developers access to invaluable know-how in making RE bankable, i.e. mobilizing the financing, both domestic and foreign, required to get the project off the ground and see it through. The TAF offers a full suite of support packages for earlier-stage projects, as well as for RE projects that have already reached bankability.

Assisted by experienced international consultants, eligible developers may receive advisory assistance with the technical, legal, environmental & social, or financial structuring issues they encounter in the course of completing a project. This includes practical and hands-on capacity building support such as optimizing projects from a technical standpoint, or providing assistance in meeting international project finance standards.

The GGF TAF supported the GGF's investment in the Lengarica small hydropower plant project early on by assisting the developer in analyzing potential environmental & social impacts of the plant and by developing an environmental & social action and monitoring plan in line with GGF standards. To minimize the impact of Lengarica on potential fish migration, the developer is planning to build a bypass to enable the fish to pass around barriers by swimming and leaping up a channel with a series of relatively low steps to overcome the gradient. While not specifically required by local regulations, the fish pass was designed to international best practice standards. Just one example of the GGF's continued commitment to promoting renewable energy in a responsible, sustainable way.

IMPACT THROUGH STRENGTH

IN SETTING AMBITIOUS GOALS FOR GREEN ENERGY FINANCE IN CONCERT WITH OUR PARTNER INSTITUTIONS, WE NEVER LOSE SIGHT OF OUR RESPONSIBILITY TO PROVIDE A SECURE, STABLE AND DEPENDABLE FINANCING PLATFORM.

MONITORING AND REPORTING

Proper monitoring and reporting is a critical aspect of the management of the Green for Growth Fund, Southeast Europe (GGF), as the Fund strives to ensure the capital provided has the intended impact: achieving reductions in primary energy consumption and CO_2 emissions.

ACCURATELY ASSESSING IMPACT

Accurate, timely monitoring of each sub-loan financed with GGF funding is key to ensuring impact and supporting the Fund's transparent approach. Furthermore, the analysis of the reported figures facilitates a deeper understanding of trends within the GGF's target partners for energy efficiency (EE) and renewable energy (RE) lending. Besides supporting the GGF's business development strategy, these findings also provide insights into the Fund's existing partner institutions (PIs) to identify the obstacles they face in onward lending. These challenges can then be overcome with appropriate support from the GGF's Technical Assistance Facility (TAF).

One example of targeted technical assistance (TA) is eSave. This industry-leading online monitoring and reporting tool enables PIs to verify the eligibility of a given project, and to calculate the environmental impact achieved by the proposed investment. Complementing the monitoring approach for more complex EE/RE undertakings, energy auditors support PIs in gathering and reporting accurate energy savings information.

In 2013 the Board of Directors commissioned a thorough study to verify the robustness of the Fund's monitoring and reporting approach. Conducted jointly by the Investment Advisor and Technical Advisor, the study combined an in-depth review of loan files at PI branches with visits to PI clients to confirm that proper reporting was in place and in line with the measures that had been implemented.

The results of the verification exercise were overwhelmingly positive. They also confirmed that reported savings are accurate and that the Fund's methodology ensures with sufficient reliability that the correct information is being reported. Further measures to make monitoring and reporting more user-friendly and limit the risk of inaccurate information – e.g. through plausibility checks, software enhancements, and supplemental training approaches – will be addressed going forward.

As a tool, eSave has recently been benchmarked against international industry standards for calculating energy savings and greenhouse gas emissions. This exercise confirmed eSave's accuracy, further bolstering confidence in the tool's output and the results of the verification conducted internally on its effectiveness. Most importantly, PIs find its monitoring and reporting approach to be both user-friendly and conducive to institutionalizing green energy finance.

ENVIRONMENTAL IMPACT

The environmental impact of the Green for Growth Fund, Southeast Europe (GGF) goes far beyond the baseline goal of 20 % savings in both energy consumption and CO_2 emissions.

With active support from the GGF Technical Assistance Facility in developing innovative products and strategic approaches, the Fund's partner institutions (PI) are increasingly successful in placing energy efficiency (EE) and renewable energy (RE) loans with their clients. In 2013, the volume of sub-loans disbursed by the Fund's PIs rose significantly – since inception, the Fund has financed nearly 10,000 investments in EE and RE measures, with 40 % of the volume disbursed in 2013 alone. As shown in the table below, the most common types of measures financed are energy-efficient process-related equipment for businesses and improvements to buildings, primarily insulation and modern windows, for both households and businesses.

CO_2 REDUCTION AND ENERGY SAVINGS BY TYPE OF PARTNER INSTITUTION

As at 31 December 2013

The measures financed by the GGF are resulting in energy savings of 671,000 MWh/year, and CO_2 reductions of 176,000 tons per year. These measures achieve more than double the GGF's 20 % target for reductions in energy consumption and CO_2 emissions – a substantial impact that will yield environmental benefits and economic savings long after the loan financing the investment is repaid.

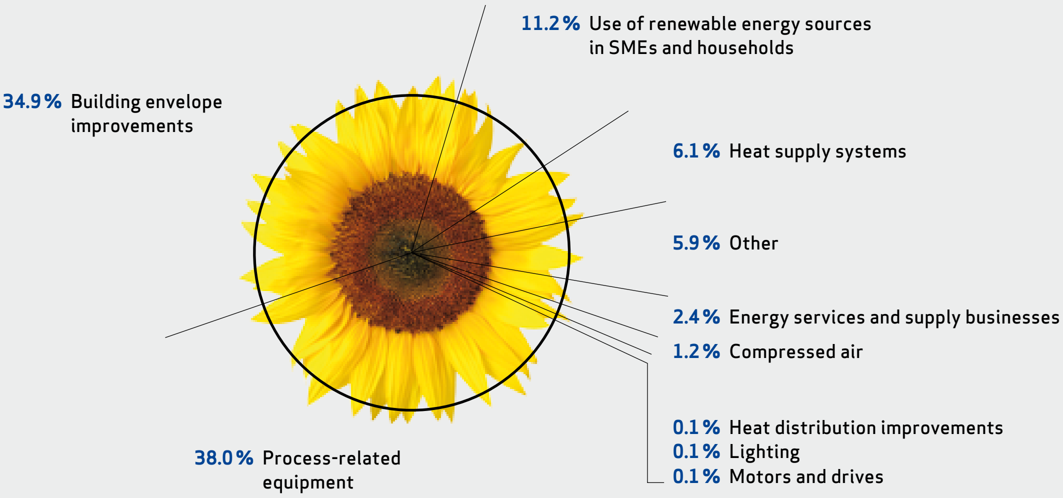
MEASURE	PI Type	Sub-loan volume (EUR, since inception)	CO_2 reduction (TCO_2/YR)	CO_2 reduction (%)	Energy savings (MWh/YR)	Energy savings (%)
Process-related equipment	FI *	47,041,443	49,816	33	185,168	36
Building envelope improvements	FI *	43,242,024	46,117	58	191,913	58
Use of renewable energy sources in SMEs and households	FI *	13,896,521	9,741	97	38,863	97
Heat supply systems	FI *	7,557,801	47,402	61	159,380	48
Other	FI *	7,307,806	22,205	24	93,588	25
Energy services and supply businesses**	FI *	3,051,493	–	0	–	0
Compressed air	FI *	1,465,460	332	23	848	24
Heat distribution improvements	FI *	182,943	447	33	1,408	32
Motors and drives	FI *	81,161	21	43	108	46
Lighting	FI *	69,854	21	50	64	50
District heating systems (DH)	FI *	2,894	0.04	80	10	50
HVAC	FI *	900	0.1	22	0.1	22
Total		**123,900,300**	**176,101**	**43**	**671,349**	**42**

* FI = financial institution

** The supply of energy efficient equipment is eligible for financing by the GGF. However, to ensure that there is no double counting of savings when this equipment is actually purchased and installed, the GGF takes the conservative approach of assigning no savings to the financing of the supplier. Savings are assessed and calculated only from the point at which the equipment is put into operation by the end-user.

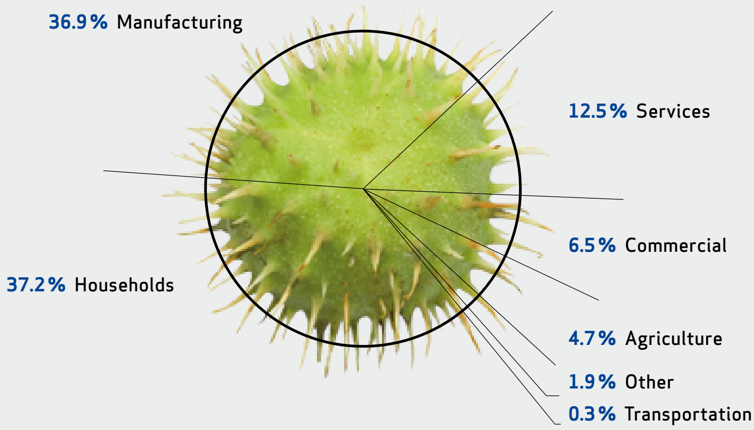
MEASURES FINANCED

Since inception in December 2009 (based on loan amount disbursed)



SECTORS FINANCED

Since inception in December 2009 (based on loan amount disbursed)



LEADING FOR IMPACT

WISE INVESTMENT CHOICES, CAREFUL PARTNER SELECTION, TRANSPARENT PROCESSES, AND ACCOUNTABILITY AT ALL LEVELS. THE GGF SETS HIGH STANDARDS FOR ITSELF AND REMAINS COMMITTED TO LEADING BY EXAMPLE.

LEADERSHIP

Board of Directors (from left to right): Hubert Cottogni, Olaf Zymelka, Michael Mörschel, Michael Neumayr, Christopher Knowles (Chairperson), Gerhard Engel, Dominique Courbin

BOARD OF DIRECTORS

Christopher Knowles, Chairperson
Hubert Cottogni
Dominique Courbin
Gerhard Engel (joined in May 2013)
Michael Mörschel
Michael Neumayr
Olaf Zymelka

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Peter Coveliers, Chairperson
Esther Gravenkötter
Michael Neumayr

TECHNICAL ASSISTANCE COMMITTEE

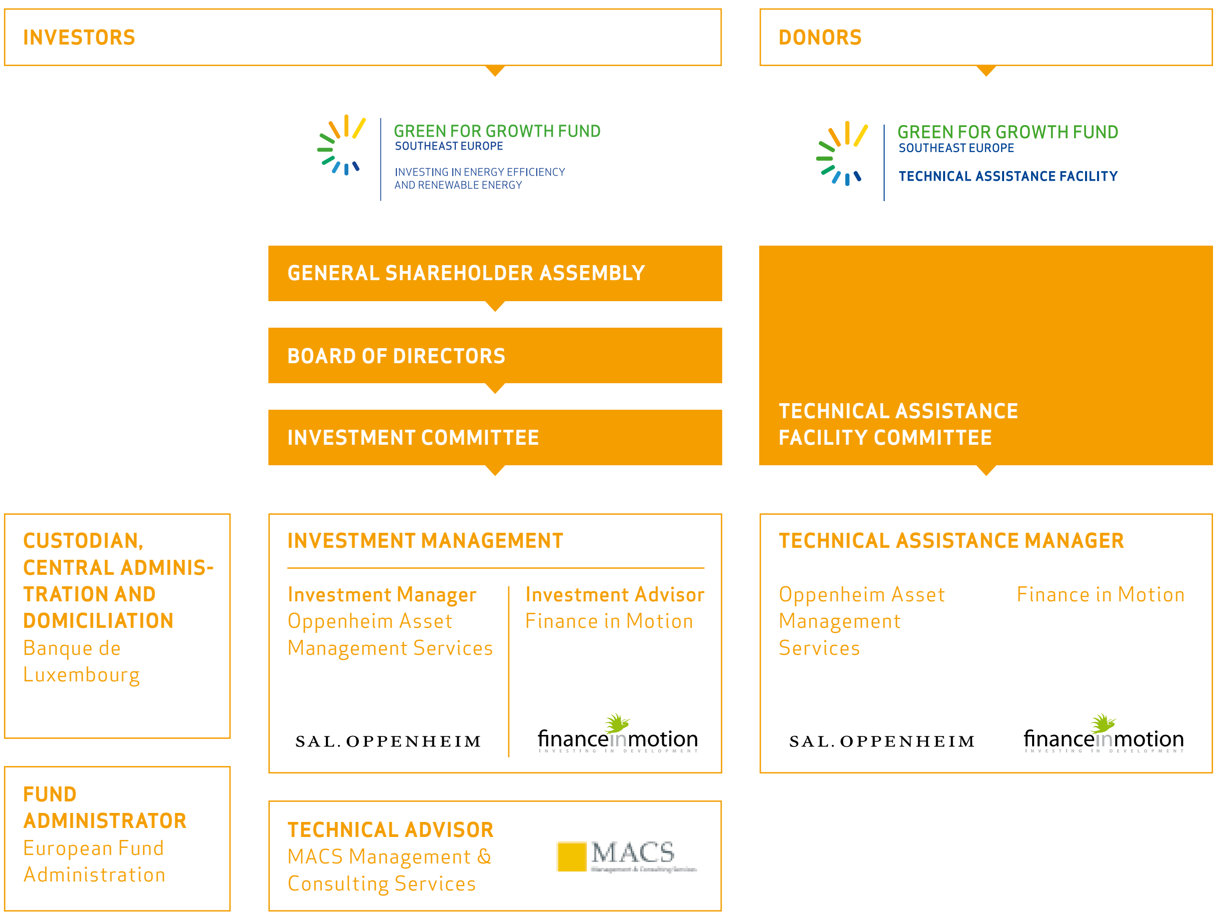
Esther Gravenkötter, Chairperson
Dirk Roos
Yannis Tsakiris

GOVERNANCE

The GGF's multi-tiered governance structure ensures strong oversight at all levels, providing the Fund with effective, prudent and transparent management to the highest international standards.

The investors and donors of the Green for Growth Fund, Southeast Europe (GGF) and the accompanying Technical Assistance Facility have implemented a layered governance structure to ensure the GGF achieves its mission of reducing energy consumption and CO_2 emissions while efficiently adhering to industry-leading practices. Within the overall framework and guidance provided by the donors and shareholders, the Board and its committees set policies and guidelines to achieve maximum impact with the Fund's resources. The professional management team, leveraging its expertise and local knowledge, strives to make the stakeholders' vision a reality.

INSTITUTIONAL STRUCTURE



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