

**LIMITED LIABILITY COMPANY  
VIDES INVESTĪCIJU FONDS  
(ENVIRONMENTAL INVESTMENT FUND)**

*2006 Annual Report prepared in accordance  
with International Financial Reporting  
Standards and Independent Auditors' Report*

# ENVIRONMENTAL INVESTMENT FUND

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# ENVIRONMENTAL INVESTMENT FUND

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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The past year has been important for the Environmental Investment Fund Ltd. (Fund) and also our clients as it was significant year on involvement in the implementation of European Regional Development Fund (ERDF) co-financed projects. The Fund has provided support to more than 40 projects included in the national program "Development of the water sector in populated areas with less than 2000 inhabitants" by providing full project cycle support ensuring project implementation according to the requirements for ERDF co-financing, as well as by issuing loans for projects implementation.

In the year 2006, the Fund signed 44 new loan agreements with a total loan from the Fund of more than 4.7 million Latvian lats. This is the largest amount of loans issues by the Fund during one year. Mostly these are ERDF co-financed projects for water sector infrastructure development in populated areas with less than 2000 inhabitants. All funding available under the loan agreement signed in the end of 2005 with the Nordic Environmental Financing Corporation (NEFCO) with total amount of 3 million euro has been fully utilized and re-invested for the second stage of investments after receiving the ERDF, state budget financing and VAT.

In cooperation with the UNDP and the Ministry of Environment the project "Environmentally sound disposal of PCBs containing equipment and waste" was launched on March 30th, 2006. The project foresees the development of a sustainable support system for enterprises in order to facilitate the replacement and disposal of PCB-containing equipment in an environmentally friendly way. It is foreseen that within the project at least 280 t of PCB-containing equipment will be disposed of. The Fund will carry out an overall project implementation coordination function, as well as develop financial loan mechanism for replacement of PCBs containing equipment. The first tender for disposal of 100 t of PHB containing capacitors was announced at the end of 2006.

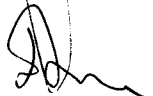
The Fund closed the year 2006 with a profit of 58,259 Latvian lats and assets exceeded 7.6 million Latvian lats. Due to a decrease of private sector projects in the Fund's project portfolio, provisions for doubtful debts have been reduced by 10,000 Latvian lats. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests to distribute the profit for the reporting year 2006 as follows:

- to transfer 27% of the Fund's net profit or 15,730 Latvian lats to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting to 42,529 Latvian lats to Retained earnings.

It is already the third year since the quality management system in accordance to the ISO 9001 standard was introduced in the Fund. In March the third supervision audit took place and no non-conformities were identified. The results of this audit indicate that the quality management system implemented at the Fund works successfully. Compliance with the established procedures ensures that the Fund is not affected by such risks as market price risk, credit risk, liquidity risk and cash flow risk (see Note 21).

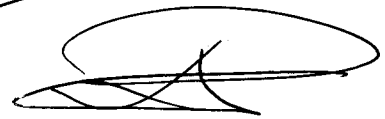
The year 2007 will be very significant for the Fund because it will be year of the Fund's 10<sup>th</sup> anniversary. Therefore it will be the year of assessment of results and achievements but even more important it will be for setting of new tasks and objectives. We are confident that with our common efforts with our clients and cooperation partners we will implement many successful projects that will substantially contribute to facilitate environmental infrastructure development.



Ilze Puriņa  
Chairperson of the Board



Askolds Kļaviņš  
Board member



Romāns Mežekis  
Board member

Rīga,  
30 January 2007

## ENVIRONMENTAL INVESTMENT FUND

### REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

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As at the date of signing of the financial statements:

#### **Representative of State capital shareholder**

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Guntis Puķītis	Representative of State capital shareholder	1 January, 2003

#### **The Board**

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Ilze Puriņa	Chairperson of the Board	18 October, 2004
Romāns Mežeckis	Board member	18 October, 2004
Askolds Kļaviņš	Board member	18 October, 2004

# ENVIRONMENTAL INVESTMENT FUND

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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1. The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.
2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 20 for the years ended 31 December 2006 and 2005. The management also confirms that applicable Financial Reporting Standards have been followed and that the financial statements have been prepared on a going concern basis.
3. The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities. They are also responsible for operating the Fund in compliance with legislation of the Republic of Latvia.

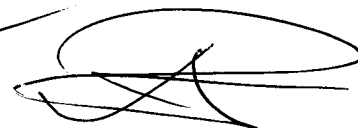
On behalf of the management,



Ilze Puriņa  
Chairperson of the Board



Askolds Kļaviņš  
Board member



Romāns Mežeckis  
Board member

Rīga,  
30 January 2007

## INDEPENDENT AUDITOR'S REPORT

To the shareholder of SIA Vides Investīciju Fonds

### Report on the Financial Statements

We have audited the 2006 financial statements of SIA Vides Investīciju Fonds (the "Company"), which are set out on pages 7 through 20 of the accompanying 2006 Annual Report and which comprise the balance sheet as at 31 December 2006, the statements of income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

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

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

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

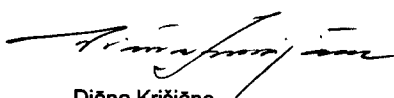
#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of SIA Vides Investīciju Fonds as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2006 (included on page 3 of the accompanying 2006 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

Ernst & Young Baltic SIA  
License No. 17



Diāna Krišjāne  
Personal ID code: 250873-12964  
Chairperson of the Board



Iveta Vimba  
Personal ID code: 210275-12309  
Latvian Sworn Auditor  
Certificate No. 153

Rīga, 29 January 2007

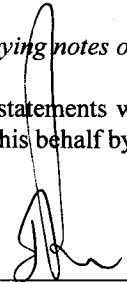
# ENVIRONMENTAL INVESTMENT FUND

## INCOME STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

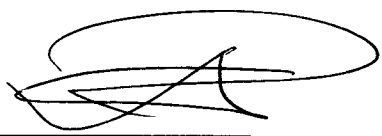
	Note	2006 LVL	2005 LVL
<i>Operating income</i>			
Interest income	3	312,951	250,360
Interest expense	4	<u>(106,488)</u>	<u>(41,091)</u>
<b>Net interest income</b>		<b>206,463</b>	<b>209,269</b>
Other operating income	5	<u>16,533</u>	<u>22,310</u>
<b>Other income, net</b>		<b>16,533</b>	<b>22,310</b>
<b>TOTAL OPERATING INCOME</b>		<b><u>222,996</u></b>	<b><u>231,579</u></b>
<i>Operating expense</i>			
Administrative expense	6	(142,409)	(147,293)
Depreciation	13	(5,917)	(7,738)
Other operating expense	7	<u>(6,003)</u>	<u>(14,164)</u>
<b>TOTAL OPERATING EXPENSE</b>		<b><u>(154,329)</u></b>	<b><u>(169,195)</u></b>
<b>GROSS PROFIT BEFORE TAXES</b>		<b><u>68,667</u></b>	<b><u>62,384</u></b>
Corporate income tax	19	(10,168)	(8,404)
Deferred corporate income tax	19	(240)	(158)
<b>PROFIT FOR THE YEAR</b>	8	<b><u>58,259</u></b>	<b><u>53,822</u></b>

*The accompanying notes on pages 11 to 20 are an integral part of the financial statements.*

The financial statements were approved by the Representative of State capital shareholder on 30 January 2007 and signed on his behalf by:

  
\_\_\_\_\_  
Ilze Puriņa  
Chairperson of the Board

  
\_\_\_\_\_  
Askolds Kļaviņš  
Board member

  
\_\_\_\_\_  
Romāns Mežeckis  
Board member

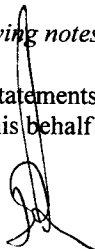
# ENVIRONMENTAL INVESTMENT FUND

## BALANCE SHEET AS OF 31 DECEMBER 2006 AND 2005


	Note	31.12.2006. LVL	31.12.2005. LVL
<b>ASSETS</b>			
<b><i>CURRENT ASSETS</i></b>			
Cash	9	277,716	25,260
Accrued interest income		71,489	52,737
Other current assets	10	8,357	19,561
Loans to customers	11	793,609	839,417
<b>TOTAL</b>		<b>1,151,171</b>	<b>936,975</b>
<b><i>NON-CURRENT ASSETS</i></b>			
Fixed assets	13	15,503	16,627
Loans to customers	11,12	6,440,690	6,213,346
<b>TOTAL</b>		<b>6,456,193</b>	<b>6,229,973</b>
<b>TOTAL ASSETS</b>		<b>7,607,364</b>	<b>7,166,948</b>
<b>LIABILITIES AND EQUITY</b>			
<b><i>CURRENT LIABILITIES</i></b>			
Phare Financing Agreement	14	19,566	33,546
NEFCO Loans	15	240,907	226,364
Deferred income	16	3,167	4,368
Taxes		598	-
Accrued liabilities		6,092	5,146
Accounts payable to suppliers and contractors	17	3,913	3,448
<b>TOTAL</b>		<b>274,243</b>	<b>272,872</b>
<b><i>NON-CURRENT LIABILITIES</i></b>			
Deferred corporate income tax	19	398	158
Phare Financing Agreement	14	37,274	66,784
NEFCO Loans	15	2,755,320	2,330,733
<b>TOTAL</b>		<b>2,792,992</b>	<b>2,397,675</b>
<b><i>SHAREHOLDER'S EQUITY</i></b>			
Share capital	18	4,427,196	4,427,196
Retained profit		112,933	69,205
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>4,540,129</b>	<b>4,496,401</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,607,364</b>	<b>7,166,948</b>
<b>OFF BALANCE SHEET ITEMS</b>			
Commitments	20		
Committed loans granted, not drawn down		80,000	80,000
		<b>80,000</b>	<b>80,000</b>

The accompanying notes on pages 11 to 20 are an integral part of the financial statements.

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Ilze Puriņa  
Chairperson of the Board

  
Askolds Kļaviņš  
Board member

  
Romāns Mežeckis  
Board member



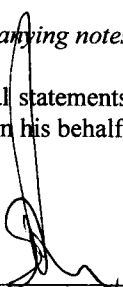
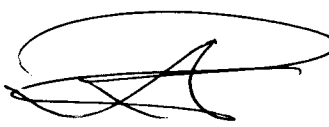
## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

	Share capital LVL	Retained surplus LVL	Retained profit LVL	Total LVL
<b>At 31 December 2004</b>	<b>4,186,698</b>	<b>240,498</b>	<b>21,073</b>	<b>4,448,269</b>
Dividends	-	-	(5,690)	(5,690)
Increase of share capital	240,498	(240,498)	-	-
Profit for the year	-	-	53,822	53,822
<b>At 31 December 2005</b>	<b>4,427,196</b>	<b>-</b>	<b>69,205</b>	<b>4,496,401</b>
Dividends	-	-	(14,531)	(14,531)
Profit for the year	-	-	58,259	58,259
<b>At 31 December 2006</b>	<b>4,427,196</b>	<b>-</b>	<b>112,933</b>	<b>4,540,129</b>

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Ilze Puriņa  
Chairperson of the Board  
\_\_\_\_\_  
Askolds Kļaviņš  
Board member  
\_\_\_\_\_  
Romāns Mežeckis  
Board member

# ENVIRONMENTAL INVESTMENT FUND

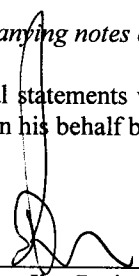
## CASH FLOW STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

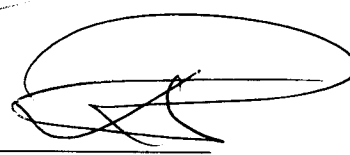
	Note	2006 LVL	2005 LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		58,259	53,822
Depreciation of fixed assets		5,917	7,738
Net loss from disposal of fixed assets		100	507
Income from grants		(1,201)	(2,310)
Interest income		(312,951)	(250,360)
Interest expense		106,488	41,091
Decrease in provisions for doubtful debts		(10,000)	(20,000)
Loans to customers increase		(171,535)	(2,221,027)
Interest received		257,042	224,584
Interest paid		(54,614)	-
Net cash flow before changes in current items			
<i>Cash flows from current items</i>			
Decrease in accrued interest income		(14,719)	(739)
Decrease/ (increase) in other current assets		11,206	(18,121)
Increase/ (decrease) in accounts payable		2,249	(6,614)
<b>Net cash flow from operating activities</b>		<b>(123,759)</b>	<b>(2,191,429)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		(4,894)	(6,859)
<b>Net cash flow from investing activities</b>		<b>(4,894)</b>	<b>(6,859)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends		(14,531)	(5,690)
Decrease in Phare Financing Agreement		(43,490)	(86,840)
Increase in NEFCO Loans		439,130	1,254,366
<b>Net cash flow from financing activities</b>		<b>381,109</b>	<b>1,161,836</b>
<b>Increase/ (decrease) in cash</b>		<b>252,456</b>	<b>(1,036,452)</b>
<b>Cash at the beginning of the year</b>		<b>25,260</b>	<b>1,061,712</b>
<b>Cash at the end of the year</b>	9	<b>277,716</b>	<b>25,260</b>

*The accompanying notes on pages 11 to 20 are an integral part of the financial statements.*

The financial statements were approved by the Representative of State capital shareholder on 30 January 2007 and signed on his behalf by:

  
 \_\_\_\_\_  
 Ilze Puriņa  
 Chairperson of the Board

  
 \_\_\_\_\_  
 Askolds Kļaviņš  
 Board member

  
 \_\_\_\_\_  
 Romāns Mežeckis  
 Board member

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### 1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environment established the Fund based on a Order of the Cabinet of Ministers of the Republic of Latvia. The Fund is a limited liability company, which is governed by its own Charter and by the legislation of the Republic of Latvia. The Fund has been established to pool domestic funding with foreign funding to finance environmentally friendly projects by lending financial resources to public and private sector projects.

The activities of the Fund are:

- the participation in projects which yield a significant environmental benefit;
- the development and design of environmental projects;
- the monitoring implementation and operation of the projects;
- the popularisation of environmental activities.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund maintains its accounting records in accordance with Latvian accounting legislation. The financial statements have been prepared from those accounting records.

#### **Basis of preparation**

The financial statements have been prepared under the historical cost convention and in accordance with the requirements of the International Financial Reporting Standards.

#### **Reporting currency**

The financial statements are presented in the national currency of Latvia, the lat (LVL).

#### **Foreign currency**

All monetary positions denominated in foreign currencies are translated into Latvian lats using the exchange rates at the balance sheet date as published by the Bank of Latvia. Gains and losses arising from this transaction are included in the income statement for the period. The principal foreign currency held by the Fund is the euro (EUR). The exchange rates as at the balance sheet date were as follows:

	31.12.2006.	31.12.2005.
1 EUR	LVL 0.702804	LVL 0.702804

#### **Loans and credits**

Loans and credits are accounted at initial value determined by adding expenses related to loan disbursement or subtracting costs of credit approval to loan or credit fair value. Afterwards loans and credits are accounted at amortized value using the effective interest rate method. Amortized value is determined taking into account loan disbursement or credit approval costs as well as any other discounts or premiums related to loans or credits. Profit or loss from amortization is disclosed in the income statement as interest income and expenses.

#### **Provisions for doubtful debts**

The management and the Board have considered risk in determining the balance of provisions and possible loan losses. Provisions for loan losses as at the balance sheet date represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provisions.

The level of the provisions is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as charges in the period in which they become known. Loans are stated net of provisions.

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Fixed assets and depreciation

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful life of the assets. The rates per annum are as follows:

Fixtures and fittings	10%
Car, computer and office equipment	20%
Miscellaneous office assets	30%–50%

Repairs and renewals are charged to the income statement as incurred. Fixed assets over LVL 50 are capitalised. Profits and losses arising on the disposal of fixed assets are reflected in the statement of income in the year of disposal.

#### Cash

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of less than six months.

#### Grants

Grants to be utilised in less than one year are transferred to income in order to match them with the related costs, which they are intended to compensate.

Fixed assets received as grants are recognised in the financial statements as deferred income. Income is recognized in the income statement over the period of the useful life of the related fixed assets in order to match the grants to the related depreciation of the fixed assets, which they are intended to compensate for.

#### Income recognition

Income is recognized proportionally the Fund judgment to gain economical benefit and at such level as it is reasonable justifiable, excluding value added tax and discounts related to sales. Interest income is recognized in the period it is earned. The Fund does not accrue interest on non-performing loans. Commissions, fees and other income/ expenses are recognised when earned/ incurred.

#### Related parties

Related parties are defined as shareholders, employees, Board members, their close relatives and companies, in which the above persons are involved in.

#### Use of estimates

In the process of preparation of the financial statements, the management has to make some judgments and assumptions, which has effect on some values and data in the financial reports. Therefore actual results may differ from those calculations.

#### Taxation

The Fund was exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations till the Fund reorganization. Starting 21 October 2004 the Fund has to pay corporate income tax and dividends for use of the state capital. The Fund is not registered as a Value Added Taxpayer.

#### Corporate income tax

Corporate income tax is calculated by applying 15% tax rate to taxable income in period.

Deferred corporate income tax, which arises from temporary differences including some items on tax declaration form and in this financial statement, is calculated using the liability method. Deferred corporate tax assets and liabilities are estimated based on tax rates expected to be in the force when short-term differences will cease to exist. Main temporary differences arise from different fixed assets amortization rates used for accounting and tax purposes and specific, for tax purposes not deductible, provisions.

#### Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be sold or a liability settled at an arm's length basis.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

#### 3. INTEREST INCOME

	2006 LVL	2005 LVL
Interest income from loans to customers	300,492	218,679
Interest income from deposits in banks	12,459	31,681
<b>Total</b>	<b>312,951</b>	<b>250,360</b>

The interest rates received on balances with banks for the years ended 31 December 2006 and 2005 ranged from 0.30% to 4.70%.

#### 4. INTEREST EXPENSE

The Fund has interest expense in accordance with the NEFCO loan facility agreements (Note 15). In accordance with the Loan agreement I, borrowers transfer the interest payments directly to NEFCO, but in accordance with the loan agreement II, the Fund pays the interest payments to NEFCO.

#### 5. OTHER OPERATING INCOME

	2006 LVL	2005 LVL
Decrease of provisions for doubtful debts	10,000	20,000
Services to UNDP	3,469	-
Income from grants of fixed assets released in reporting period	1,201	2,310
Other income	1,863	-
<b>Total</b>	<b>16,533</b>	<b>22,310</b>

#### 6. ADMINISTRATIVE EXPENSE

	2006 LVL	2005 LVL
Personal costs (excluding management):		
– salaries	52,780	56,384
– state obligatory social security payments	11,546	12,852
Management costs:		
– salaries	26,763	26,762
– state obligatory social security payments	6,447	6,447
Office rent and public utilities	19,298	16,490
Professional services	7,372	9,338
Communications	3,121	4,286
Health insurance	2,707	1,397
Business trips	2,486	1,662
Advertising and publicity	1,794	2,017
Office supplies and stationary	1,767	2,277
Provisions for vacation expense	946	(1,199)
Other administrative expense	5,382	8,580
<b>Total</b>	<b>142,409</b>	<b>147,293</b>

The average number of persons employed by the Fund excluding the Members of the Board, Representative of State capital shareholder and Responsible officer during the years ended 31 December 2006 and 2005 was 7 and 8, respectively.

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

### 7. OTHER OPERATING EXPENSE

	2006 LVL	2005 LVL
Net loss from foreign exchange operations	6,003	14,164
<b>Total</b>	<u>6,003</u>	<u>14,164</u>

### 8. PROFIT FOR THE YEAR

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 27% of net profit to the state budget.

### 9. CASH

	31.12.2006. LVL	31.12.2005. LVL
Cash on hand	45	94
Balances with banks		
- LVL current account	277,452	24,300
- EUR current account	-	87
- LVL Visa Electron and Visa Mastercard	219	779
<b>Total</b>	<u>277,716</u>	<u>25,260</u>

### 10. OTHER CURRENT ASSETS

	31.12.2006. LVL	31.12.2005. LVL
Prepaid expense	3,654	2,899
Security deposit for office rent	3,226	3,226
Tax prepayments	90	13,315
Other assets	1,387	121
<b>Total</b>	<u>8,357</u>	<u>19,561</u>

### 11. LOANS TO CUSTOMERS

	31.12.2006. LVL	31.12.2005. LVL
<i>Remaining maturity</i>		
Less than one year	793,609	839,417
Within one to five years	2,785,714	3,002,826
Within five to ten years	2,229,628	1,925,026
More than ten years	1,485,348	1,355,494
<b>Total</b>	<u>7,294,299</u>	<u>7,122,763</u>
Provisions for doubtful debts (Note 12)	(60,000)	(70,000)
<b>Total, net</b>	<u>7,234,299</u>	<u>7,052,763</u>

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

### 11. LOANS TO CUSTOMERS (CONTINUED)

	31.12.2006. LVL	31.12.2005. LVL
<i>Analysis by sector</i>		
Water and waste water treatment	6,033,872	5,550,216
Environmentally friendly heat supply	967,850	1,123,498
Insulation of buildings	134,445	154,045
Cleaner technology and other projects	113,100	232,522
Recycling and waste management	44,039	10,425
Renewable energy	993	52,057
<b>Total</b>	<b>7,294,299</b>	<b>7,122,763</b>
Provisions for doubtful debts (Note 12)	(60,000)	(70,000)
<b>Total, net</b>	<b>7,234,299</b>	<b>7,052,763</b>

<i>Customer analysis</i>		
Municipalities	5,679,633	4,844,399
Municipal companies	1,431,654	1,874,116
Private companies	183,012	404,248
<b>Total</b>	<b>7,294,299</b>	<b>7,122,763</b>
Provisions for doubtful debts (Note 12)	(60,000)	(70,000)
<b>Total, net</b>	<b>7,234,299</b>	<b>7,052,763</b>

	31.12.2006.		31.12.2005.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	6,432,426	6,432,426	6,045,926	6,045,925
EUR	1,226,335	861,873	1,532,202	1,076,838
<b>Total</b>		<b>7,294,299</b>		<b>7,122,763</b>
Provisions for doubtful debts (Note 12)		(60,000)		(70,000)
<b>Total, net</b>		<b>7,234,299</b>		<b>7,052,763</b>

	31.12.2006.		31.12.2005.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	6	15,199	4	9,537
5,000 - 10,000	11	81,771	6	48,910
10,000 – 100,000	99	3,337,943	79	2,973,966
Over 100,000	23	3,859,386	26	4,090,350
<b>Total</b>	<b>139</b>	<b>7,294,299</b>	<b>115</b>	<b>7,122,763</b>
Provisions for doubtful debts (Note 12)		(60,000)		(70,000)
<b>Total, net</b>	<b>139</b>	<b>7,234,299</b>	<b>115</b>	<b>7,052,763</b>

Loans are recognized in the balance sheet on the date of the disbursements. The interest rates on loans ranged from 2.75% to 10%. The loans have fixed and variable interest rate. Variable interest rate is determined once in five years based on the current market situation but not more than the interest rate on loans from the State budget. Loans co-financed by NEFCO have variable interest rates determined semi-annually based on the six-month LIBOR plus 1% margin.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

#### 12. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2006. LVL	31.12.2005. LVL
At beginning of year	70,000	90,000
Decrease	(10,000)	(20,000)
At end of year	<u>60,000</u>	<u>70,000</u>

#### 13. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2005	<u>46,978</u>	<u>21,290</u>	<u>68,268</u>
Additions	4,465	429	4,894
Disposals	(24,346)	-	(24,346)
At 31 December 2006	<u>27,097</u>	<u>21,719</u>	<u>48,816</u>
<i>Accumulated depreciation</i>			
At 31 December 2005	<u>37,714</u>	<u>13,927</u>	<u>51,641</u>
Charge for the year	3,641	1,075	4,716
Depreciation of grant funded fixed assets	-	1,201	1,201
Disposals	(24,245)	-	(24,245)
At 31 December 2006	<u>17,110</u>	<u>16,203</u>	<u>33,313</u>
<i>Net book value</i>			
At 31 December 2005	<u>9,264</u>	<u>7,363</u>	<u>16,627</u>
At 31 December 2006	<u>9,987</u>	<u>5,516</u>	<u>15,503</u>

#### 14. PHARE FINANCING AGREEMENT

An EU Phare Financing Agreement, number LE9704.02.03/ 0001/ MAIN, for 2 million euro was signed on 24 October 2000. The purpose of the financing is to assist the operation of an Environmental Credit Scheme set up under the Phare 1997 Financing Memorandum between the Government of the Republic of Latvia and the Commission of the European Communities for the Country Operational Programme for Latvia 1997. The funds disbursed under the Financing Agreement are recognised as long-term repayables. The unutilized funds or funds to be repaid to the State Treasury within 1 year are recognised as short-term repayables. Interest is not charged on funds disbursed under the Phare Financing Agreement. The amount transferred to the Fund for the project implementation under the Agreement is reflected on the Fund Balance Sheet as follows:

	31.12.2006. LVL	31.12.2005. LVL
<i>Non-current liabilities</i>		
Disbursed to clients	<u>37,274</u>	<u>66,784</u>
<b>Total</b>	<b>37,274</b>	<b>66,784</b>
<i>Current liabilities</i>		
Disbursed to clients, due in less than one year	<u>19,566</u>	<u>33,546</u>
<b>Total</b>	<b>19,566</b>	<b>33,546</b>
<b>Total</b>	<b><u>56,840</u></b>	<b><u>100,330</u></b>



## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

#### 15. NEFCO LOANS

A Loan Facility Agreement for 3.5 million euro was signed on 19 August 1998 (Loan agreement I) with the Nordic Environment Finance Corporation (NEFCO). The loan is to assist municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is up to 15 years and the interest rate is six-month LIBOR plus 1%, adjusted semi-annually.

A Loan Facility Agreement for 3.0 million euro was signed on 14 November 2005 (Loan agreement II) with the NEFCO. The loan is to finance the Europe Regional Development fund co-financed municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is 6 years and the interest rate is fixed 3.5% for the first three years.

	31.12.2006.		31.12.2005.	
	EUR	LVL	EUR	LVL
<i>Received loans:</i>				
- Loan agreement I	2,929,370	2,058,773	2,929,370	2,058,773
- Loan agreement II	3,000,000	2,108,412	2,090,000	1,468,860
<b>Total draw down</b>	<b>5,929,370</b>	<b>4,167,185</b>	<b>5,019,370</b>	<b>3,527,633</b>
<i>Interest due:</i>				
- Loan agreement I	14,162	9,953	12,498	8,784
- Loan agreement II	22,750	15,989	3,721	2,615
Repaid (Loan agreement I)	(1,703,035)	(1,196,900)	(1,397,168)	(981,935)
<b>Total</b>	<b>4,263,247</b>	<b>2,996,227</b>	<b>3,638,421</b>	<b>2,557,097</b>

The total balance of the loans due in less than one year as at 31 December 2006 amounts to LVL 214,965 (at 31 December 2005: LVL 214,965).

The Fund has obligation to repay the loan to NEFCO in advance in the amount equal to Europe Regional Development fund financing received by NEFCO co-financed ultimate borrowers.

#### 16. DEFERRED INCOME

<b>Balance as at 31 December 2005</b>	<b>4,368</b>
Deferred income released in reporting period	1,201
<b>Balance as at 31 December 2006</b>	<b>3,167</b>

Deferred income represents grants funding for fixed assets, which are credited to deferred income and released to the income statement over the life of the asset and matched with depreciation.

#### 17. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2006.	31.12.2005.
	LVL	LVL
Accrued liabilities	3,913	3,448
<b>Total</b>	<b>3,913</b>	<b>3,448</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

#### 18. SHARE CAPITAL

As of 31 December 2006 the Fund's fully paid share capital was LVL 4,427,196 of 4,427,196 ordinary shares. The nominal value of ordinary share is 1 lat each.

Fully paid share capital was as follows:

	31.12.2006. LVL	31.12.2005. LVL
<b>The Ministry of Environment</b>	<u>4,427,196</u>	<u>4,427,196</u>

#### 19. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

*Corporate income tax*

	2006 LVL	2005 LVL
<b>Payable corporate income tax</b>		
Corporate income tax for the year	10,168	8,404
<b>Deferred corporate income tax</b>		
Deferred corporate income tax as a result of temporary differences	240	158
<b>Actual and deferred corporate income tax for year</b>	<u>10,408</u>	<u>8,562</u>

*Deferred corporate income tax:*

	2006 LVL	2005 LVL
Difference between fixed assets value in financial and tax accounting	1,312	930
Gross deferred corporate income tax assets	(914)	(772)
<b>Deferred corporate income tax (assets)/ liabilities, net</b>	<u>398</u>	<u>158</u>

*Actual and deferred corporate income tax compared to theoretically calculated:*

	2006 LVL	2005 LVL
Profit before taxes	68,667	62,384
Theoretically calculated corporate income tax 15%	10,300	9,358
Permanent differences	108	(796)
<b>Actual and deferred corporate income tax for year</b>	<u>10,408</u>	<u>8,562</u>

#### 20. OFF BALANCE SHEET ITEMS

*Committed loans granted, not drawn down*

	31.12.2006. LVL	31.12.2005. LVL
Municipal companies	80,000	80,000
<b>Total</b>	<u>80,000</u>	<u>80,000</u>

In accordance with the standard loan agreement the maximum available period of drawdown for loans by customers is one year.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

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#### 21. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, loans granted, cash and short-term deposits. The main purpose of these financial instruments is to ensure the proper financing of the Fund daily activities. The other financial instruments of the Fund are accounts receivable and other debtors, accounts payable to suppliers and contractors and other creditors, which directly arise from the Fund's activities.

##### *Financial risk*

The main financial risks arising from the Fund's financial instruments are interest rate risk, credit risk, liquidity risk, currency risk and operating risk.

##### **Interest rate risk**

The Fund is vulnerable to interest rate risk mainly because of short-term and long term loans. The policy of the Fund ensures that interest rates for most of the loans are fixed. The interest rate range for the Fund's issued loans is disclosed in Note 11, and for received loans is disclosed in Note 15.

##### **Credit risk**

The Fund is vulnerable to credit risk relating to disbursed loans and cash and balances with banks. The policy of the Fund ensures monitoring of the credit risk by constantly supervising client's credit history and by setting credit conditions for each client individually. Besides, the Fund constantly supervises debtors' balances in order to minimize possibility of the bad debts.

##### **Liquidity risk**

The Fund controls liquidity risk by maintaining sufficient level of cash and balances with banks.

##### **Currency risk**

It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to exchange rate fluctuations. Starting 1 January 2005 the Bank of Latvia has declared fixed official lat exchange rate to euro at 0.702804. The Bank of Latvia will ensure that market rate does not differ more by 1% from the official rate. Therefore the Fund profit or loss from euro exchange rate fluctuations will not be significant, while the Bank of Latvia will maintain the above mentioned exchange rate.

##### **Operating risk**

The Fund's activities also involve other types of risks that may cause unexpected losses. The cause of such risks, for example, may be human errors or fraud, information system problems and insufficient internal control and procedures. The Fund's management supervises, and the respective specialists monitor and control the above mentioned risks.

#### 22. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities as at 31 December 2006 according to the currencies in which they are denominated is as follows:

LVL	Assets	Liabilities	Net currency exposure
EUR	871,826	(2,996,227)	(2,124,401)
USD	1,103	-	1,103
<b>Total</b>	<b>872,929</b>	<b>(2,996,227)</b>	<b>(2,123,298)</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

#### 22. FOREIGN EXCHANGE EXPOSURE (CONTINUED)

	LVL	EUR	USD	KOPÄ
<b>Assets</b>				
Accrued interest income	61,536	9,953	-	71,489
Other current assets	7,254	-	1,103	8,357
Loans to customers	6,432,426	861,873	-	7,294,299
<b>Total Assets</b>	<b>6,501,216</b>	<b>871,826</b>	<b>1,103</b>	<b>7,374,145</b>
<b>Liabilities</b>				
NEFCO Loans	-	2,996,227	-	2,996,227
<b>Total Liabilities</b>	<b>-</b>	<b>2,996,227</b>	<b>-</b>	<b>2,996,227</b>

#### 23. FAIR VALUE

The following methods and assumptions were used to estimate fair values for the financial instruments:

- the carrying value of cash and cash equivalents approximates to fair value due to the relatively short period of time between the origination of the instruments and their expected realization;
- the fair value of loans is estimated based on contractual cash flows, adjusted for prepayment assumptions and credit risk factors, discounted using the current interest rate for loans with similar characteristics;
- the carrying value of accrued interest income approximates to fair value due to the relatively short period of time between accrual and expected realization;
- for fair value calculations, the relevant market rate for the loans used at 31 December 2006 was 6% for short-term assets and liabilities.

	31.12.2006.		31.12.2005.	
	Carrying Value LVL	Fair Value LVL	Carrying Value LVL	Fair Value LVL
<b>Financial Assets</b>				
Cash	277,716	277,716	25,260	25,260
Loans to customers	7,234,299	6,758,580	7,052,763	6,735,340
<b>Total Financial Assets</b>	<b>7,512,015</b>	<b>7,036,296</b>	<b>7,078,023</b>	<b>6,760,600</b>
<b>Financial Liabilities</b>				
NEFCO Loans	2,996,227	2,930,233	2,557,097	2,431,435
Phare Financing Agreement	56,840	56,840	100,330	100,330
Accounts payable to suppliers and contractors	3,913	3,913	3,448	3,448
<b>Total Financial Liabilities</b>	<b>3,056,980</b>	<b>2,990,986</b>	<b>2,660,875</b>	<b>2,535,213</b>