

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

*Annual Report for the year ended 31 December 2010
prepared in accordance with International Financial Reporting
Standards and Independent Auditors' Report*

ENVIRONMENTAL INVESTMENT FUND

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ENVIRONMENTAL INVESTMENT FUND

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

Past year for "Environmental Investment Fund" Ltd (hereinafter - Fund) was important due to development of new activities. The Fund's development strategy for 2011-2013 was approved at the end of the last year. It foresees expanding of the Fund's activities with two new activities – supervision of implementation of projects co-financed by Climate Change Financial Instrument and management of development cooperation projects.

According to the amendments to the Law "Participation of the Republic of Latvia in the flexible mechanisms of the Kyoto Protocol" that came into force on March 3, 2010 several functions regarding projects co-financed by the Climate Change Financial Instrument implementation supervision were delegated to the Fund. An agreement on implementation of delegated functions was signed with the Ministry of Environment on June 9, 2010.

Management of development cooperation projects becoming as one of main areas of the Fund's activities will strengthen the already existing development cooperation projects carried out by the Fund. We foresee active participation of the Fund in preparation of new project applications for attracting co-financing by EU programs for their implementation ensuring the transfer of the Fund's accumulated experience in the area of environmental infrastructure project development, financing and implementation of monitoring to other countries.

In the area of project management – the project "Successful adaption of the latest technological solutions for the implementation of the environmental projects" funded by European Economic Area Financial Mechanism was successfully completed with the international seminar and home page www.videsrisinajumi.lv at the end of September 2010. The Fund's long-standing experience in the environmental assessment of projects has been summarized in the above mentioned website. We are sure that it will become an important assistance tool for preparation of environmental projects. Based on Fund's successful experience in the supervision of the implementation of co-financed projects by United Nations Development Program on August 1, 2010 the Fund took over the Global Environment Facility and United Nations Organization development program project "Demonstrating and promoting best techniques and practices for reducing health-care waste to avoid environmental releases of dioxins and mercury".

In year 2010 Fund has signed 7 new loan agreements with a total amount almost 0.86 million LVL. At the end of the year was signed the third credit line with NEFCO (Nordic Environment Finance Corporation) of 5 million Euro, which will be used for the European Regional Development Fund co-financed water management arrangement project realization within the EU structural funds assets for the period 2007-2013.

The Fund closed the year 2010 with a profit of 82 009 LVL and assets exceeding 4.9 million LVL. 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 distributing the profit for the reporting year 2010 as follows:

- to transfer 90% of the Fund's net profit or 73 808 LVL to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting of 8 201 LVL to "Retained earnings".

It is already the seventh year since the quality management system in accordance to the ISO 9001 standard was introduced in the Fund. In 8th November, 2010 the supervision audit took place and no substantial non-conformities were identified, proving that the system is running successfully. The results of this audit indicate that the quality management system implemented in 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 19).

We are confident that the Fund's cooperation with our clients that is based on the Fund's slogan – from project idea to its implementation together with the Environmental Investment Fund – will help to continue to prepare and implement new environmental infrastructure projects.

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board Member

Romāns Mežeckis
Board Member

Riga,
26 April 2011

ENVIRONMENTAL INVESTMENT FUND

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

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 *

* – reelected for another 3 year period commencing 22 September 2010

ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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 21 for the years ended 31 December 2010 and 2009. The management also confirms that applicable International 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.

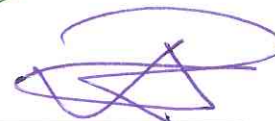
On behalf of the management,



Ilze Puriņa
Chairperson of the Board



Askolds Kļaviņš
Board member



Romāns Mežeckis
Board member

Rīga,
26 April 2011

INDEPENDENT AUDITORS' REPORT

To the shareholder of SIA Vides Investīciju Fonds

Report on the financial statements

We have audited the accompanying financial statements of SIA Vides Investīciju Fonds (the "Company"), set out on pages 7 through 21 of the accompanying 2010 Annual Report, which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 about 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

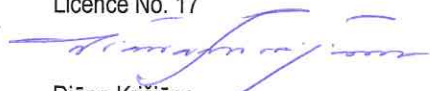
In our opinion, the financial statements give a true and fair view of the financial position of SIA Vides Investīciju Fonds as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

Furthermore, we have read the management report for the year ended 31 December 2010 (set out on page 3 of the accompanying 2010 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 2010.

SIA Ernst & Young Baltic

Licence No. 17



Diāna Krišjāne
Chairperson of the Board
Latvian Sworn Auditor
Certificate No. 124

Rīga, 26 April 2011

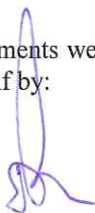
ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

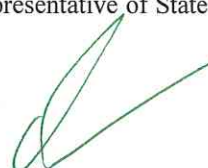
	Note	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
<i>Operating income</i>			
Interest income	3	201 005	249 839
Interest expense	4	(3 411)	(12 885)
Net interest income		197 594	236 954
Other income	5	96 817	1 862
Other income, net		96 817	1 862
TOTAL OPERATING INCOME		294 411	238 816
<i>Operating expense</i>			
Administrative expense	6	(194 196)	(144 137)
Depreciation	12	(3 838)	(5 048)
Other operating income		(2)	58
TOTAL OPERATING EXPENSE		(198 036)	(149 127)
GROSS PROFIT BEFORE TAXES		96 375	89 689
Corporate income tax	17	(14 848)	(14 464)
Deferred corporate income tax	17	482	1 006
PROFIT FOR THE YEAR	7	82 009	76 231

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 26 April 2011 and signed on his behalf by:



Ilze Puriņa
Chairperson of the Board



Askolds Kļaviņš
Board member



Romāns Mežeckis
Board member

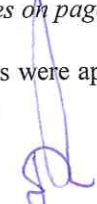
ENVIRONMENTAL INVESTMENT FUND

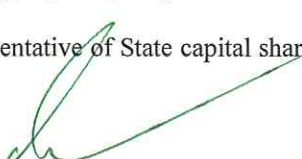
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2010 AND 2009


	Note	31.12.2010. LVL	31.12.2009. LVL
ASSETS			
CURRENT ASSETS			
Cash	8	1 087 164	663 060
Accrued interest income		46 985	52 331
Other current assets	9	11 977	10 051
Loans to customers	10	766 085	848 008
TOTAL		1 912 211	1 573 450
NON-CURRENT ASSETS			
Fixed assets	12	10 886	8 017
Deferred corporate income tax	17	1 100	618
Loans to customers	10, 11	2 997 982	3 367 994
TOTAL		3 009 968	3 376 629
TOTAL ASSETS		4 922 179	4 950 079
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Other loans	13	22 740	22 740
Loans	14	53 528	143 701
Deferred income	15	91 156	11 461
Wages		2 297	-
Taxes		1 819	-
Accrued liabilities		14 994	10 109
Accounts payable to suppliers and contractors		9 767	4 110
TOTAL		196 301	192 121
NON-CURRENT LIABILITIES			
Loans	14	53 097	106 201
TOTAL		53 097	106 201
SHAREHOLDER'S EQUITY			
Share capital	16	4 427 196	4 427 196
Retained earnings		245 585	224 561
TOTAL SHAREHOLDER'S EQUITY		4 672 781	4 651 757
TOTAL LIABILITIES AND EQUITY		4 922 179	4 950 079
OFF BALANCE SHEET ITEMS			
Rights	18		
NEFCO Loan		(3 514 020)	-
Commitments			
Committed loans granted, not drawn down		200 000	190 000

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 26 April 2011 and signed on his behalf by:


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 2010 AND 2009

	Share capital LVL	Retained earnings LVL	Total LVL
As at 31 December 2008	4 427 196	210 086	4 637 282
Dividends	-	(61 756)	(61 756)
Profit for the year	-	76 231	76 231
As at 31 December 2009	4 427 196	224 561	4 651 757
Dividends	-	(60 985)	(60 985)
Profit for the year	-	82 009	82 009
As at 31 December 2010	4 427 196	245 585	4 672 781

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 26 April 2011 and signed on his behalf by:

Ilze Puriņa
Chairperson of the Board

Asklods Kļaviņš
Board member

Romāns Mežeckis
Board member


ENVIRONMENTAL INVESTMENT FUND

**CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009**


	Note	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxes		96 375	89 689
Depreciation of fixed assets		3 838	5 048
Income from grants		-	(765)
Interest income		(201 005)	(249 839)
Interest expense		3 411	12 885
Loans to customers decrease		451 935	774 909
Interest received		202 092	232 890
Net cash flow before changes in current items		<u>556 646</u>	<u>864 817</u>
<i>Cash flows from current items</i>			
Decrease in accrued interest income		849	8 134
Increase in other current assets		(1 927)	(2 079)
Increase in accounts payable		94 396	19 781
Cash flow from operating activities		<u>649 933</u>	<u>890 653</u>
Expenses for corporate income tax		(14 860)	(19 392)
Net cash flow from operating activities		<u>635 073</u>	<u>871 259</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(6 707)	(613)
Net cash flow from investing activities		<u>(6 707)</u>	<u>(613)</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends		(60 985)	(61 756)
Decrease in Loans		(143 277)	(199 782)
Net cash flow from financing activities		<u>(204 262)</u>	<u>(261 538)</u>
Increase in cash		<u>424 104</u>	<u>609 108</u>
Cash at the beginning of year		<u>663 060</u>	<u>53 952</u>
Cash at the end of year	8	<u><u>1 087 164</u></u>	<u><u>663 060</u></u>

The accompanying notes on pages 11 to 21 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 26 April 2011 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 2010 AND 2009

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 and International Financial Reporting Standards. 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 and comply with International Financial Reporting Standards (IFRS) as adopted by EU and Interpretations issued by its International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

Adoption of new and/or changed IFRSs and IFRIC interpretations

The Fund has adopted the following new and amended IFRS and IFRIC interpretations during the year:

- Amendment to IFRS 2 *Share-based Payment*
- Amendments to IFRS 3 *Business Combinations* and IAS 27 *Consolidated and Separate Financial Statements*
- Amendment to IAS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 17 *Distributions of Non-cash Assets to Owners*
- IFRIC 18 *Transfers of Assets from Customers*
- Improvements to IFRS (issued in 2008 and 2009 and effective on 1 January 2010).

The principal effects of these changes are as follows:

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements

The amendments to IFRS 3 introduce significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

The amendments to IAS 27 require that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions do not give rise to goodwill, nor they give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary.

The changes to IFRS 3 and IAS 27 were applied prospectively, therefore, they affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The other standards and interpretations and their amendments adopted in 2010 did not impact the financial statements of the Fund, because the Fund did not have the respective financial statement items and transactions addressed by these changes.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Standards issued but not yet effective

The Fund has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

Amendments to IFRS 7 *Financial instruments: Disclosures* (effective for financial years beginning on or after 1 July 2011, once adopted by the EU)

The amendment modifies disclosure requirements for certain transfers of financial assets. The amendment is not expected to have any impact on the consolidated financial statements since the Fund does not have these kinds of transfers.

IFRS 9 *Financial Instruments* (effective for financial years beginning on or after 1 January 2013, once adopted by the EU).

IFRS 9 will eventually replace IAS 39. The IASB has issued the first two parts of the standard, establishing a new classification and measurement framework for financial assets and requirements on the accounting for financial liabilities. The Fund has not yet evaluated the impact of the implementation of this standard.

Amendments to IAS 12 *Income Taxes* (effective for financial years beginning on or after 1 January 2012, once adopted by the EU).

The amendment provides a practical solution to the problem of determining whether an entity that is measuring deferred tax related to investment property, measured using the fair value model, expects to recover the carrying amount of the investment property through use or sale by introducing a presumption that recovery of the carrying amount will normally be through sale. The Fund has not estimated yet the impact of the implementation of these changes.

Amendments to IAS 24 *Related Party Disclosures* (effective for financial years beginning on or after 1 January 2011).

The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities. The implementation of these amendments will have no impact on the financial position or performance of the Fund, however it may impact the related parties disclosures.

Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* (effective for financial years beginning on or after 1 February 2010).

The amendment changes the definition of a financial liability to exclude certain rights, options and warrants. The amendment will have no impact on the financial position or performance of the Fund, as the Fund does not have such instruments.

Improvements to IFRSs

In May 2010 IASB issued omnibus of amendments to its standards. The amendments become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The adoption of the following amendments may result in changes to accounting policies but will not have any impact on the financial position or performance of the Fund:

- IFRS 3 *Business Combinations*;
- IFRS 7 *Financial instruments: Disclosures*;
- IAS 1 *Presentation of Financial Statements*;
- IAS 27 *Consolidated and Separate Financial Statements*;
- IFRIC 13 *Customer Loyalty Programmes*.

Amendment to IFRIC 14 *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for financial years beginning on or after 1 January 2011).

The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement. This amendment will not have any impact on the consolidated financial statements because the Fund does not have defined benefit assets.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* (effective for financial years beginning on or after 1 July 2010).

The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments. Since the Fund does not have such transactions, IFRIC 19 will not have any impact on its consolidated financial statements.

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 using the transaction day exchange rate. The principal foreign currency held by the Fund is the euro (EUR). The exchange rates as at the balance sheet date were as follows:

	31.12.2010.	31.12.2009.
1 EUR	LVL 0.702804	LVL 0.702804
1 USD	LVL 0.535000	LVL 0.489000

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 collectability 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.

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%
Computers 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 and cash equivalents

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

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 according to the income method. 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. 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.

Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. INTEREST INCOME

	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
Interest income from loans to customers	186 171	212 000
Interest income from deposits in bank	<u>14 834</u>	<u>37 839</u>
Total	<u>201 005</u>	<u>249 839</u>

The interest rates received on balances with banks for the years ended 31 December 2010 and 2009 ranged from 0.60% to 30.00%.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

4. INTEREST EXPENSE

The Fund has interest expense in accordance with the NEFCO loan facility agreements (Note 14). In accordance with the Loan agreement I, borrowers transfer the interest payments directly to NEFCO.

5. OTHER INCOME

	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
EEA financing instruments	57 307	-
Climate change financing instrument	36 519	-
Services to Ministry of Environmental Protection and Regional Development	2 991	-
Services to UNDP	-	1 097
Income from grants of fixed assets released in reporting period	-	765
Total	96 817	1 862

6. ADMINISTRATIVE EXPENSE

	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
Personnel costs :		
– salaries	79 475	55 874
– state obligatory social security payments	19 094	12 854
Management costs:		
– salaries	25 726	28 009
– state obligatory social security payments	6 265	6 747
Office rent and public utilities	19 077	21 502
Business trips	8 354	1 054
Provisions for vacation expense	4 885	3 471
Audit fee	3 630	3 714
Communications	2 350	2 278
Office supplies and stationary	1 920	986
Advertising and publicity	967	75
Health insurance	-	2 489
Other administrative expense	22 453	5 084
Total	194 196	144 137

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 year ended 31 December 2010 was 8 (during the year ended 2009 was 6).

7. PROFIT FOR THE YEAR

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 90% of net profit to the state budget.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
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8. CASH

	31.12.2010. LVL	31.12.2009. LVL
Cash on hand	268	83
Balances with banks		
- LVL current account	538 911	9 447
- EUR current account	39 132	2 643
- USD current account	7 824	-
- LVL Visa Electron and Visa Mastercard	1 029	887
- short term deposit*	500 000	650 000
Total	<u>1 087 164</u>	<u>663 060</u>

* - term of deposit is 11 March 2011.

9. OTHER CURRENT ASSETS

	31.12.2010. LVL	31.12.2009. LVL
Security deposit for office rent	7 137	3 226
Tax prepayments	4 240	4 845
Prepaid expense	356	1 817
Other assets	244	163
Total	<u>11 977</u>	<u>10 051</u>

10. LOANS TO CUSTOMERS

	31.12.2010. LVL	31.12.2009. LVL
<i>Remaining maturity</i>		
Less than one year	766 085	848 008
Within one to five years	1 529 986	1 750 311
Within five to ten years	1 099 380	1 277 542
More than ten years	398 616	370 141
Total	<u>3 794 067</u>	<u>4 246 002</u>
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	<u>3 764 067</u>	<u>4 216 002</u>

Analysis by sector

Water and waste water treatment	2 993 479	3 320 371
Environmentally friendly heat supply	709 988	798 908
Insulation of buildings	56 700	75 645
Cleaner technology and other projects	33 900	46 200
Recycling and waste management	-	4 878
Total	<u>3 794 067</u>	<u>4 246 002</u>
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	<u>3 764 067</u>	<u>4 216 002</u>

Customer analysis

Municipalities	2 599 965	3 192 966
Municipal companies	1 160 202	1 004 196
Private companies	33 900	48 840
Total	<u>3 794 067</u>	<u>4 246 002</u>
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	<u>3 764 067</u>	<u>4 216 002</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

10. LOANS TO CUSTOMERS (cont'd)

	31.12.2010.		31.12.2009.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	3 687 866	3 687 866	3 997 372	3 997 372
EUR	151 110	106 201	353 768	248 630
Total		3 794 067		4 246 002
Provisions for doubtful debts (Note 11)		(30 000)		(30 000)
Total, net		3 764 067		4 216 002

	31.12.2010.		31.12.2009.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	13	37 709	14	47 506
5,000 - 10,000	17	121 078	19	144 514
10,000 – 100,000	92	2 965 379	98	3 310 923
Over 100,000	4	669 901	5	743 059
Total	126	3 794 067	136	4 246 002
Provisions for doubtful debts (Note 11)		(30 000)		(30 000)
Total, net	126	3 764 067	136	4 216 002

Loans are recognized in the balance sheet on the date of the disbursements. The interest rates on loans ranged from 3.75% to 8%. 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 EUR LIBOR plus 1% margin.

11. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2010.	31.12.2009.
	LVL	LVL
At the beginning of the year	30 000	45 000
Decrease	-	(15 000)
At the end of the year	30 000	30 000

ENVIRONMENTAL INVESTMENT FUND

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12. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2009	<u>26 508</u>	<u>18 995</u>	<u>45 503</u>
Additions	6 707	-	6 707
Disposal	(2 544)	(1 288)	(3 832)
At 31 December 2010	<u>30 671</u>	<u>17 707</u>	<u>48 378</u>
<i>Accumulated depreciation</i>			
At 31 December 2009	<u>19 312</u>	<u>18 174</u>	<u>37 486</u>
Charge for the year	3 642	196	3 838
Disposal	(2 544)	(1 288)	(3 832)
At 31 December 2010	<u>20 410</u>	<u>17 082</u>	<u>37 492</u>
<i>Net book value</i>			
At 31 December 2009	<u>7 196</u>	<u>821</u>	<u>8 017</u>
At 31 December 2010	<u>10 261</u>	<u>625</u>	<u>10 886</u>

13. OTHER LOANS

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. 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:

14. 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 EUR LIBOR plus 1%, adjusted semi-annually.

	31.12.2010.		31.12.2009.	
	EUR	LVL	EUR	LVL
<i>Received loans:</i>				
- Loan agreement I	<u>2 929 370</u>	<u>2 058 773</u>	<u>2 929 370</u>	<u>2 058 773</u>
Total draw down	<u>2 929 370</u>	<u>2 058 773</u>	<u>2 929 370</u>	<u>2 058 773</u>
<i>Interest due:</i>				
- Loan agreement I	603	424	1 810	1 272
Repaid (Loan agreement I)	<u>(2 778 260)</u>	<u>(1 952 572)</u>	<u>(2 575)</u>	<u>(1 810 143)</u>
Total	<u>151 713</u>	<u>106 625</u>	<u>355 578</u>	<u>249 902</u>

The total balance of the loans due in less than one year as at 31 December 2010 amounts to LVL 53 104 (at 31 December 2009: LVL 142 429) and interest due LVL 424 (at 31 December 2009: LVL 1 272). The total balance of the loans due over one year as at 31 December 2010 amounts to LVL 53 097 (at 31 December 2009: LVL 106 201)

A Loan Facility Agreement for 5.0 million euro was signed on 21 December 2010 (Loan agreement III) 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 7 years and the interest rate is three-month EUR LIBOR plus 1.5%, adjusted quarterly or every three years.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

15. DEFERRED INCOME

	31.12.2010. LVL	31.12.2009. LVL
Climate change financing instrument	83 481	-
UNDP financing	7 675	-
EEA financing instruments	-	11 461
Total	91 156	11 461

There are no any unfulfilled conditions and other contingencies attaching to those financing grants.

Climate change financing instrument financing (CCFI)

According to the Amendments to the Law "Participation of the Republic of Latvia in the flexible mechanisms of the Kyoto Protocol" that come into force on 3rd March 2010 a number of functions regarding monitoring of implementation of projects co-financed by Climate change financing instrument were delegated to the Fund. On 9th June 2010 was signed an agreement between the Fund and the Ministry of Environmental Protection and Regional Development (MEPRD) on implementation of the selective delegation functions of Climate change financing instrument.

	01.03.2010. – 31.12.2010. LVL
Personnel costs:	
– salaries	24 989
– state obligatory social security payments	6 020
Legal services	2 167
Office rent and public utilities	1 944
Business trips	432
Office supplies and stationary	370
Communications	223
Depreciation	211
Other administrative expense	163
Total	36 519
State budget assignments	36 519

EEA financing instruments

In 2009 deferred income comprises the financing granted by the EEA financial instruments and the Republic of Latvia to the sub-project named "Successful introduction of advanced technological solutions implementation of environmental projects".

16. SHARE CAPITAL

As of 31 December 2010 and 2009 the Fund's fully paid share capital was LVL 4 427 196 consisting of 4 427 196 ordinary shares. The nominal value of ordinary share is 1 lat each. As of 31 December 2010 earnings per share is 0.0185 LVL (2009: 0.0172).

Fully paid share capital was as follows:

	31.12.2010. LVL	31.12.2009. LVL
The Ministry of Environmental Protection and Regional Development	4 427 196	4 427 196

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

17. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

Corporate income tax

	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
Payable corporate income tax		
Corporate income tax for the year	14 848	14 464
Deferred corporate income tax		
Deferred corporate income tax as a result of temporary differences	(482)	(1 006)
Actual and deferred corporate income tax for period	<u>14 366</u>	<u>13 458</u>

Deferred corporate income tax:

	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
Difference between fixed assets value in financial and tax accounting	1 149	898
Gross deferred corporate income tax assets	(2 249)	(1 516)
Deferred corporate income tax (assets), net	<u>(1 100)</u>	<u>(618)</u>

Actual and deferred corporate income tax compared to theoretically calculated:

	01.01.2010. – 31.12.2010. LVL	01.01.2009. – 31.12.2009. LVL
Profit before taxes	96 375	89 689
Theoretically calculated corporate income tax 15%	14 456	13 453
Permanent differences	(90)	5
Actual and deferred corporate income tax for period	<u>14 366</u>	<u>13 458</u>

18. OFF BALANCE SHEET ITEMS

	31.12.2010. LVL	31.12.2009. LVL
<i>Committed loans granted, not disbursed</i>		
Municipal companies	200 000	190 000
<i>Granted credit line, not drawn down</i>		
Loan agreement III (NEFCO)	(3 514 020)	-

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

19. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, 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.

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

19. FINANCIAL RISK MANAGEMENT (cont'd)

Interest rate risk

The Fund is not exposed to interest rate risk. Under NEFCO Loan Agreement I, the interest on the loan is paid by the Fund's clients, who were granted loans from that financing. The Fund's policy is to ensure that the majority of the loans issued by the Fund bear a fixed interest rate. The interest rate on the loans issued by the Fund is disclosed in Note 10, and the interest rate on the loans received by the Fund is disclosed in Note 14.

Credit risk

The Fund is vulnerable to credit risk relating to disbursed loans and cash and its equivalents. 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 its equivalents.

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.

Operational 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.

Fair values

The carrying amounts of all financial assets and liabilities approximate to their fair value.

20. FOREIGN EXCHANGE EXPOSURE

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

	31.12.2010.	31.12.2009.
Monetary assets, EUR	207 393	359 339
Monetary liabilities, EUR	(151 713)	(355 578)
Balance sheet position EUR, net	55 680	3 761
Balance sheet position LVL, net	39 132	2 643

21. RELATED PARTY DISCLOSURES

The Company has entered into transactions with companies with state shareholding. The major transactions are with VAS Latvenergo, SIA Lattelecom, SIA Latvijas Mobilais Telefons. All transactions are related to the core activities of the respective parties.

22. SUBSEQUENT EVENTS

As of the last day of the reporting year until the date of signing these financial statements, there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

NOTES TO THE UNAUDITED FINANCIAL STATEMENT

UNDP financing

The overall objective of the Global Environment Facility and the United Nations Development Program project "Demonstrating and promoting best techniques and practices for reducing health-care waste to avoid environmental releases of dioxins and mercury" is to demonstrate and promote the best available technologies and practices of health care waste management in order to reduce emission of persistent organic pollutants and mercury into the environment. The Project will demonstrate the effectiveness of non-combustion health-care waste treatment technologies and waste management practices in eight strategically selected countries - Argentina, India, Latvia, Lebanon, Philippines, Senegal, Tanzania and Vietnam – thereby showing the different health-care waste management methods.

Project implementation period is from 2008 till the end of year 2011. The total granted budget by the Global Environment Facility for the realization of the project components in Latvian is 600 000 USD.

In year 2010 was closed UNO Latvia office and it was necessary to create a new national agency for project implementation. Starting the 1st August 2010 the Fund took over implementation of the Global Environment Facility and United Nations Development Program project "Demonstrating and promoting best techniques and practices for reducing health-care waste to avoid environmental releases of dioxins and mercury".

The Fund performs the following functions:

- realizes the overall implementation of the project in accordance with the recommendations of the Global Project Team,
- performs the administrative tasks and supervision of the project.

	01.08.2010. – 31.12.2010. USD
Personnel costs	33 560
Business trips	3 305
Office rent and public utilities	2 990
Seminar organizing costs	1 634
Communications	614
Office supplies and stationary	115
Other administrative expense	3 156
Total	45 375

The average number of persons employed in project during the year ended 31 December 2010 was 3.

The project costs are not disclosed in income statement, because in accordance with signed agreement the Fund provides only project implementation supervisory functions and is not direct or indirect beneficiary.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE UNAUDITED FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2010 AND 2009

NOTES TO THE UNAUDITED FINANCIAL STATEMENT (cont'd)

Climate change financing instrument financing (CCFI)

The Fund provides the realization of following main tasks:

- participates in the seminars organized by the MEPRD for project applicants by providing information regarding the implementation of projects,
- develops guidelines for project implementation and monitoring for the CCFI funding recipients,
- organizes seminars for the CCFI funding recipients about project implementation, preparation of the reports, monitoring and realization of publicity activities,
- prepares project agreements based on the MEPRD decision of project application approval,
- provides recommendations to the MEPRD about amendment in project;
- performs risk assessments of project, prepares an annual plan for the inspections at projects implementation sites, as well as carry out inspections,
- examines and approves reports submitted by the CCFI funding recipients,
- examines payment requests, as well as gives resolution on eligibility of expenses included in payment request in conformity with the laws and regulation requirements, and terms of project agreement,
- publishes information about projects in the Fund website,
- accumulates information on projects,
- monitors information and publicity activities in project, including at the project implementation site,
- provides consultations to the CCFI funding recipients about fulfilling project agreement conditions.