LIMITED LIABILITY COMPANY VIDES INVESTĪCIJU FONDS (ENVIRONMENTAL INVESTMENT FUND)

Annual Report for the year ended 31 December 2011
prepared in accordance with International Financial Reporting
Standards and Independent Auditors' Report

Riga, 2012

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REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

Past year for "Environmental Investment Fund" Ltd (hereinafter - Fund) was important due to development of new activities – supervision of implementation of projects co-financed by Climate Change Financial Instrument and management of cross-border cooperation projects.

Total volume of administrated resources under Climate Change Financial Instrument implementation supervision in 2011 exceeded 20 million LVL, including almost 1400 projects within 11 tenders. Due to so big number of projects supervised substantially increased also number of employees for fulfillment of this function in the Fund. In order to ensure much quicker and more efficient use of resources available, special attention was paid to supervision process optimization and providing of consultancy services to our clients. At the end of the year survey of client satisfactory was carried out. It showed that 27% of our clients assessed consultation provided by the Fund as very god and 49% – as good. Supervision of implementation of projects co-financed by Climate Change Financial Instrument will be the main Fund's activity also in 2012.

2001 was the first year when the Fund was actively involved in development of cross-border cooperation projects. At the end of the year the first contract for implementation of the project co-financed by EU program *"Intelligent Energy for Europe" – Efficient Energy Building Roadmap for Latvia* (Build Up skills) was signed. Project foresees facilitation of achievement of sustainable energy policy goals in Latvia improving education of construction sector. At the beginning of 2012 information on approval of two more projects was received.

In the field of program management at the end of 2011 implementation of 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" was completed.

In year 2011 Fund has signed 15 new loan agreements with a total amount almost 1.79 million LVL.

The Fund closed the year 2011 with a profit of 34 340 LVL and assets exceeding 4.7 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 2011 as follows:

- to transfer 90% of the Fund's net profit or 30 906 LVL to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting of 3 434 LVL to "Retained earnings".

It is already the eights year since the quality management system in accordance to the ISO 9001 standard was introduced in the Fund. On 17th May, 2011 the certification audit according to ISO 9001:2008 standard requirements has been finished successfully – with new scopes of Fund's activities – CCFI implementation supervision, Awareness raising, Program and development cooperation project management, Financing. On 24th November, 2011the 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 year 2012 will be significant for the Fund with new projects and will help to widen Fund's activities and also to transfer Fund's experience to other countries.

Ilze Puriņa	Askolds Kļaviņš
Chairperson of the Board	Board Member

Riga,
20 April 2012

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

As at the date of signing of the financial statements:

Representative of State capital shareholder

Name Surname	*Position*	*Date of appointment*
Aleksandrs Antonovs	Representative of State capital shareholder	10 April, 2012

The Board

Name, Surname	*Position*	*Date of appointment*
Ilze Puriņa	Chairperson of the Board	18 October, 2004 *
Askolds Kļaviņš	Board member	18 October, 2004 *

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

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 22 for the years ended 31 December 2011 and 2010. 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	Askolds Kļaviņš
Chairperson of the Board	Board member

Rīga,
20 April 2012

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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 22 of the accompanying 2011 Annual Report, which comprise the statement of financial position as at 31 December 2011, 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 2011, 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 2011 (set out on page 3 of the accompanying 2011 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 2011.

SIA Ernst & Young Baltic
Licence No. 17

Iveta Vimba
Member of the Board
Latvian Sworn Auditor
Certificate No. 153

Riga,
24 April 2012

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
Operating income			
Interest income	3	162 795	201 005
Interest expense	4	(1 934)	(3 411)
Net interest income		**160 861**	**197 594**
Other income	5	208 443	96 817
Other income, net		**208 443**	**96 817**
TOTAL OPERATING INCOME		**369 304**	**294 411**
Operating expense			
Administrative expense	6	(321 449)	(194 196)
Depreciation	12	(7 058)	(3 838)
Other operating income		-	(2)
TOTAL OPERATING EXPENSE		**(328 507)**	**(198 036)**
GROSS PROFIT BEFORE TAXES		**40 797**	**96 375**
Corporate income tax	17	(5 538)	(14 848)
Deferred corporate income tax	17	(919)	482
PROFIT FOR THE YEAR	7	**34 340**	**82 009**

The accompanying notes on pages 11 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 20 April 2012 and signed by:

Ilze Puriņa	Askolds Kļaviņš
Chairperson of the Board	Board member

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2011 AND 2010

	Note	31.12.2011. LVL	31.12.2010. LVL
ASSETS			
CURRENT ASSETS			
Cash	8	571 829	1 087 164
Accrued interest income		38 820	46 985
Other current assets	9	22 926	11 977
Loans to customers	10	793 509	766 085
TOTAL		**1 427 084**	**1 912 211**
NON-CURRENT ASSETS			
Fixed assets	12	33 313	10 886
Deferred corporate income tax	17	181	1 100
Loans to customers	10, 11	3 312 496	2 997 982
TOTAL		**3 345 990**	**3 009 968**
TOTAL ASSETS		**4 773 074**	**4 922 179**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Other loans	13	22 740	22 740
Loans	14	53 463	53 528
Deferred income	15	36 258	91 156
Wages		-	2 297
Taxes		-	1 819
Accrued liabilities		22 986	14 994
Accounts payable to suppliers and contractors		4 314	9 767
TOTAL		**139 761**	**196 301**
NON-CURRENT LIABILITIES			
Loans	14	-	53 097
TOTAL		**-**	**53 097**
SHAREHOLDER'S EQUITY			
Share capital	16	4 427 196	4 427 196
Retained earnings		206 117	245 585
TOTAL SHAREHOLDER'S EQUITY		**4 633 313**	**4 672 781**
TOTAL LIABILITIES AND EQUITY		**4 773 074**	**4 922 179**
OFF BALANCE SHEET ITEMS	18		
Rights			
NEFCO Loan		(3 514 020)	(3 514 020)
Commitments			
Committed loans granted, not drawn down		303 071	200 000

The accompanying notes on pages 11 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 20 April 2012 and signed by:

Ilze Puriņa Chairperson of the Board	Askolds Kļaviņš Board member

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Share capital LVL	Retained earnings LVL	Total LVL
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**
Dividends	-	(73 808)	(73 808)
Profit for the year	-	34 340	34 340
As at 31 December 2011	**4 427 196**	**206 117**	**4 633 313**

The accompanying notes on pages 11 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 20 April 2012 and signed by:

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2011 AND 2010

	Note	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxes		40 797	96 375
Depreciation of fixed assets		7 058	3 838
Interest income		(162 795)	(201 005)
Interest expense		1 934	3 411
Loans to customers (increase)/decrease		(341 938)	451 935
Interest received		168 968	202 092
Net cash flow before changes in current items		(285 976)	556 646
Cash flows from current items			
Decrease in accrued interest income		57	849
Increase in other current assets		(2 421)	(1 433)
(Decrease)/increase in accounts payable		(55 109)	93 871
Cash flow from operating activities		(343 449)	649 933
Expenses for corporate income tax		(15 432)	(14 860)
Net cash flow from operating activities		**(358 881)**	**635 073**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(29 485)	(6 707)
Net cash flow from investing activities		**(29 485)**	**(6 707)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends		(73 808)	(60 985)
Decrease in Loans		(53 161)	(143 277)
Net cash flow from financing activities		**(126 969)**	**(204 262)**
(Deacrease)/increase in cash		**(515 335)**	**424 104**
Cash at the beginning of year		**1 087 164**	**663 060**
Cash at the end of year	8	**571 829**	**1 087 164**

The accompanying notes on pages 11 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 20 April 2012 and signed by:

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

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 as of 1 January 2011:

- IFRIC 14 Prepayments of a Minimum Funding Requirement (Amended)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IAS 24 Related Party Disclosures (Amended)
- IAS 32 Classification on Rights Issues (Amended)
- Improvements to IFRSs (May 2010)

The principal effects of these changes are as follows:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The amendment is applied retrospectively. The effect of this amendment affects disclosure of transactions with the government.

The other standards and interpretations and their amendments adopted in 2011 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.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.
The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- *IAS 1 Presentation of Financial Statements*: The amendment clarifies that an entity may present an analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Fund present necessary information in the notes of unaudited financial statement.

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

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 3 Business Combinations
- IFRS 7 Financial Instruments - Disclosures
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Reporting
- IFRIC 13 Customer Loyalty Programmes

Standards issued but not yet effective

IAS 1 Financial Statement Presentation (Amended) – Presentation of Items of Other Comprehensive Income
The amendment is effective for annual periods beginning on or after 1 July 2012. The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Funds's financial position or performance. This amendment has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of this amendment on the financial position or performance of the Fund

IAS 12 Income Taxes (Amended) – Recovery of Underlying Assets
The amendment is effective for annual periods beginning on or after 1 January 2012. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. This amendment has not yet been endorsed by the EU. The Fund has not yet evaluated the impact of the implementation of this standard.

IAS 19 Employee Benefits (Amended)
The amendment is effective for annual periods beginning on or after 1 January 2013. The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. Early application is permitted. This amendment has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of this amendment on the financial position or performance of the Fund.

IAS 27 Separate Financial Statements (Revised)
The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Fund does not present separate financial statements, therefore no impact on the financial position or performance of the Fund.

IAS 28 Investments in Associates and Joint Ventures (Revised)
The Standard is effective for annual periods beginning on or after 1 January 2013. As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. Earlier application is permitted. This amendment has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of this amendment on the financial position or performance of the Fund.

IAS 32 Financial Instruments: Presentation (Amended) - Offsetting Financial Assets and Financial Liabilities
The amendment is effective for annual periods beginning on or after 1 January 2014.This amendment clarifies the meaning of "currently has a legally enforceable right to set-off" and also clarifies the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments to IAS 32 are to be retrospectively applied. Earlier application is permitted. However, if an entity chooses to early adopt, it must disclose that fact and also make the disclosures required by the IFRS 7 Offsetting Financial Assets and Financial Liabilities amendments. This amendment has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the amendment on the financial position or performance of the Fund.

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

IFRS 7 Financial Instruments: Disclosures (Amended) - Enhanced Derecognition Disclosure Requirements
The amendment is effective for annual periods beginning on or after 1 July 2011. The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment has only disclosure effects. The *amendment is not expected to have any impact on the Fund's financial statements.*

IFRS 7 Financial Instruments: Disclosures (Amended) - Offsetting Financial Assets and Financial Liabilities
The amendment is effective for annual periods beginning on or after 1 January 2013.The amendment introduces common disclosure requirements. These disclosures would provide users with information that is useful in evaluating the effect or potential effect of netting arrangements on an entity's financial position. The amendments to IFRS 7 are to be retrospectively applied. This amendment has not yet been endorsed by the EU. The *amendment is not expected to have any impact on the Fund's financial statements.*

IFRS 9 Financial Instruments - Classification and Measurement
The new standard is effective for annual periods beginning on or after 1 January 2015. IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. Phase 1 of IFRS 9 will have a significant impact on (i) the classification and measurement of financial assets and (ii) a change in reporting for those entities that have designated financial liabilities using the FVO. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the first half of 2012. Early application is permitted. This standard has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new standard on the financial position or performance of the Fund.

IFRS 10 Consolidated Financial Statements
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.This standard has not yet been endorsed by the EU. This standard will have no impact on the financial position or performance of the Fund.

IFRS 11 Joint Arrangements
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new standard on the financial position or performance of the Fund.

IFRS 12 Disclosures of Involvement with Other Entities
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new standard on the financial position or performance of the Fund.

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

IFRS 13 Fair Value Measurement
The new standard is effective for annual periods beginning on or after 1 January 2013. IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard should be applied prospectively and early adoption is permitted. This standard has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new standard on the financial position or performance of the Fund.

IFRIC Interpretation 20 Stripping Costs in the Production Phase of a Surface Mine
The interpretation is effective for annual periods beginning on or after 1 January 2013.This interpretation only applies to stripping costs incurred in surface mining activity during the production phase of the mine ('production stripping costs'). Costs incurred in undertaking stripping activities are considered to create two possible benefits a) the production of inventory in the current period and/or b) improved access to ore to be mined in a future period (striping activity asset). Where cost cannot be specifically allocated between the inventory produced during the period and the stripping activity asset, IFRIC 20 requires an entity to use an allocation basis that is based on a relevant production measure. Early application is permitted. IFRIC 20 has not yet been endorsed by the EU. The Fund is in the process of assessing the impact of the new interpretation on the financial position or performance of the Fund.

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:

	31.12.2011.	**31.12.2010.**
1 EUR	LVL 0.702804	LVL 0.702804
1 USD	LVL 0.544000	LVL 0.535000

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.

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

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.

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

	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
Interest income from loans to customers	162 272	186 171
Interest income from deposits in bank	523	14 834
Total	**162 795**	**201 005**

The interest rates for deposit from banks for the years ended 31 December 2011 and 2010 where in ranged from 0.20% to 2.23%.

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

	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
EEA financing instruments	-	57 307
Climate change financing instrument	208 443	36 519
Income from grants of fixed assets released in reporting period	-	2 991
Total	**208 443**	**96 817**

6. ADMINISTRATIVE EXPENSE

	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
Personnel costs :		
– salaries	156 933	79 475
– state obligatory social security payments	37 799	19 094
Management costs:		
– salaries	26 837	25 726
– state obligatory social security payments	6 459	6 265
Office rent and public utilities	30 911	19 077
Business trips	10 275	8 354
Provisions for vacation expense	7 992	4 885
Office supplies and stationary	6 823	1 920
Communications	5 991	2 350
Audit fee	3 678	3 630
Advertising and publicity	481	967
Other administrative expense	27 270	22 453
Total	**321 449**	**194 196**

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 2011 was 21 (at year ended 2010 was 9).

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.

8. CASH

	31.12.2011. LVL	31.12.2010. LVL
Cash on hand	17	268
Balances with banks		
- LVL current account	528 814	538 911
- EUR current account	42 336	39 132
- USD current account	-	7 824
- LVL Visa Electron and Visa Mastercard	662	1 029
- short term deposit	-	500 000
Total	**571 829**	**1 087 164**

9. OTHER CURRENT ASSETS

	31.12.2011. LVL	31.12.2010. LVL
Security deposit for office rent	3 911	7 137
Tax prepayments	14 776	4 240
Prepaid expense	2 553	356
Other assets	1 686	244
Total	**22 926**	**11 977**

10. LOANS TO CUSTOMERS

	31.12.2011. LVL	31.12.2010. LVL
Remaining maturity		
Less than one year	793 509	766 085
Within one to five years	1 442 430	1 529 986
Within five to ten years	1 149 260	1 099 380
More than ten years	750 806	398 616
Total	**4 136 005**	**3 794 067**
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	**4 106 005**	**3 764 067**
Analysis by sector		
Water and waste water treatment	3 452 254	2 993 479
Environmentally friendly heat supply	642 651	709 988
Insulation of buildings	41 100	56 700
Cleaner technology and other projects	-	33 900
Total	**4 136 005**	**3 794 067**
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	**4 106 005**	**3 764 067**

10. LOANS TO CUSTOMERS (cont'd)

	31.12.2011. LVL	31.12.2010. LVL
Customer analysis		
Municipalities	2 621 398	2 599 965
Municipal companies	1 514 607	1 160 202
Private companies	-	33 900
Total	**4 136 005**	**3 794 067**
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	**4 106 005**	**3 764 067**

	31.12.2011.		31.12.2010.	
	Currency	**LVL**	**Currency**	**LVL**
Currency analysis				
LVL	4 082 908	4 082 908	3 687 866	3 687 866
EUR	75 550	53 097	151 110	106 201
Total		**4 136 005**		**3 794 067**
Provisions for doubtful debts (Note 11)		(30 000)		(30 000)
Total, net		**4 106 005**		**3 764 067**

	31.12.2011.		31.12.2010.	
	Number	**LVL**	**Number**	**LVL**
Loan size analysis (LVL)				
Up to 5,000	17	46 221	13	37 709
5,000 - 10,000	20	158 479	17	121 078
10,000 – 100,000	80	2 350 865	92	2 965 379
Over 100,000	9	1 580 440	4	669 901
Total	**126**	**4 136 005**	**126**	**3 794 067**
Provisions for doubtful debts (Note 11)		(30 000)		(30 000)
Total, net	**126**	**4 106 005**	**126**	**3 764 067**

Loans are recognized in the balance sheet on the date of the disbursements. The interest rates on loans ranged from 1.25% to 5.75%. 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

	31.12.2011. LVL	31.12.2010. LVL
At the beginning of the year	**30 000**	**30 000**
Decrease	-	-
At the end of the year	**30 000**	**30 000**

12. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
Historical cost			
At 31 December 2010	**30 671**	**17 707**	**48 378**
Additions	22 353	7 132	29 485
Disposal	(8 625)	-	(8 625)
At 31 December 2011	**44 399**	**24 839**	**69 238**
Accumulated depreciation			
At 31 December 2010	**20 410**	**17 082**	**37 492**
Charge for the year	6 432	626	7 058
Disposal	(8 625)	-	(8 625)
At 31 December 2011	**18 217**	**17 708**	**35 925**
Net book value			
At 31 December 2010	**10 261**	**625**	**10 886**
At 31 December 2011	**26 182**	**7 131**	**33 313**

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.

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.

	31.12.2011.		31.12.2010.	
	EUR	LVL	EUR	LVL
Received loans:				
- Loan agreement I	2 929 370	2 058 773	2 929 370	2 058 773
Total draw down	**2 929 370**	**2 058 773**	**2 929 370**	**2 058 773**
Interest due:				
- Loan agreement I	521	366	603	424
Repaid (Loan agreement I)	(2 853 820)	(2 005 676)	(2 778	(1 952 572)
Total	**76 071**	**53 463**	**151 713**	**106 625**

The total balance of the loans due in less than one year as at 31 December 2011 amounts to LVL 53 097 (at 31 December 2010: LVL 53 104) and interest due LVL 366 (at 31 December 2010: LVL 424). The total balance of the loans due over one year as at 31 December 2011 amounts to LVL 0 (at 31 December 2010: LVL 53 097)

A Loan Facility Agreement for 5.0 million euro was signed on 21December 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. See also Note 18.

15. DEFERRED INCOME

	31.12.2011. LVL	31.12.2010. LVL
Climate change financing instrument	36 258	83 481
UNDP financing (page 22)	-	7 675
Total	**36 258**	**91 156**

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 came 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. Additional unaudited information on the project is disclosed on page 23.

16. SHARE CAPITAL

As of 31 December 2011 and 2010 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 2011 earnings per share is 0.0185 LVL (2009: 0.0172).

Fully paid share capital was as follows:

	31.12.2011. LVL	31.12.2010. LVL
The Ministry of Environmental Protection and Regional Development	**4 427 196**	**4 427 196**

17. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

Corporate income tax

	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
Payable corporate income tax		
Corporate income tax for the year	5 538	14 848
Deferred corporate income tax		
Deferred corporate income tax as a result of temporary differences	919	(482)
Actual and deferred corporate income tax for period	**6 457**	**14 366**

Deferred corporate income tax:

	01.01.2011. – 31.12.2011. LVL	01.01.2010. – 31.12.2010. LVL
Difference between fixed assets value in financial and tax accounting	3 267	1 149
Gross deferred corporate income tax assets	(3 448)	(2 249)
Deferred corporate income tax (assets), net	**(181)**	**(1 100)**

17. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX (cont'd)

Actual and deferred corporate income tax compared to theoretically calculated:

	01.01.2011. – 31.12.2011. LVL	**01.01.2010. – 31.12.2010. LVL**
Profit before taxes	40 797	96 375
Theoretically calculated corporate income tax 15%	6 120	14 456
Permanent differences	337	(90)
Actual and deferred corporate income tax for period	**6 457**	**14 366**

18. OFF BALANCE SHEET ITEMS

	31.12.2011. LVL	**31.12.2010. LVL**
Committed loans granted, not disbursed		
Municipal companies	303 071	200 000
Granted credit line, not drawn down		
Loan agreement III (NEFCO)	(3 514 020)	(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.

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.

19. FINANCIAL RISK MANAGEMENT (cont'd)

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:

	31.12.2011.	**31.12.2010.**
Monetary assets, EUR	136 310	207 393
Monetary liabilities, EUR	(76 072)	(151 713)
Balance sheet position EUR, net	**60 238**	**55 680**
Balance sheet position LVL, net	**42 336**	**39 132**

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.

NOTES OF THE UNAUDIT 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.

	01.01.2011. – 31.12.2011. USD	**01.08.2010. – 31.12.2010. USD**
Personnel costs:		
– salaries	68 833	27 045
– state obligatory social security payments	16 581	6 515
Business trips	17 415	3 305
Office rent and public utilities	8 369	2 990
Seminar organizing costs	7 952	1 634
Communications	1 884	614
Office supplies and stationary	412	115
Other administrative expense	21 787	3 156
Total	**143 233**	**45 374**

The average number of persons employed in project during the year ended 31 December 2011 was 3 (during the year ended 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.

NOTES OF THE UNAUDIT 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.

	01.01.2011. – 31.12.2011. LVL	**01.03.2010. – 31.12.2010. LVL**
Personnel costs:		
– salaries	132 978	24 989
– state obligatory social security payments	32 034	6 020
Office rent and public utilities	15 248	1 944
Business trips	4 913	432
Office supplies and stationary	3 447	370
Communications	3 306	223
Depreciation	1 950	211
Legal services	439	2 167
Other administrative expense	14 128	163
Total	**208 443**	**36 519**
State budget assignations	**208 443**	**36 519**
Disclosed in income statement	**-**	**-**