

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

*Annual Report for the year ended 31 December 2013  
prepared in accordance with International Financial  
Reporting Standards as adopted by EU  
and Independent Auditors' Report*

*Riga, 2014*

*\* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, the original language version of financial statements takes precedence over this translation.*

# ENVIRONMENTAL INVESTMENT FUND

## TABLE OF CONTENTS

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	<b>Page</b>
<b>ANCILLARY INFORMATION</b>	<b>3</b>
<b>MANAGEMENT REPORT</b>	<b>4</b>
<b>REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD</b>	<b>5</b>
<b>STATEMENT OF MANAGEMENT'S RESPONSIBILITY</b>	<b>6</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	<b>7</b>
<b>FINANCIAL STATEMENTS:</b>	
<b>STATEMENT OF COMPREHENSIVE INCOME</b>	<b>8</b>
<b>STATEMENT OF FINANCIAL POSITION</b>	<b>9</b>
<b>STATEMENT OF CHANGES IN EQUITY</b>	<b>10</b>
<b>CASH FLOW STATEMENT</b>	<b>11</b>
<b>NOTES TO THE FINANCIAL STATEMENTS</b>	<b>12–23</b>
<b>UNAUDITED FINANCIAL INFORMATION</b>	<b>24</b>

## ENVIRONMENTAL INVESTMENT FUND

### ANCILLARY INFORMATION

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Title	Vides investīciju fonds (Environmental Investment Fund)
Legal status	Limited liability company
Registration number, place and date	40003339615, Rīga, 28 April 1997
Legal and postal address	Ģertrūdes street 10/12, Rīga LV-1010, Latvia
Board Member of the company	Aigars Lisovskis
Shareholder	Ministry of Environmental Protection and Regional Development – 100%
Period of reporting	1 January 2013 – 31 December 2013
Prior period of reporting	1 January 2012 – 31 December 2012
Independent auditors and their address	Limited liability company Deloitte Audits Latvia Licence No. 43 Grēdu iela 4a Rīga, LV-1019 Latvia  Inguna Staša Republic of Latvia Sworn Auditor Certificate No. 145

## ENVIRONMENTAL INVESTMENT FUND

### MANAGEMENT REPORT

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The past year for the Vides investīciju fonds SIA (hereinafter – Fund or Environmental Investment Fund) was important with development of two main fields of 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 the Climate Change Finance Instrument implementation supervision in 2013 reached almost 21 million LVL, including ~ 900 projects within 16 tenders. Supervision of implementation of projects co-financed by the Climate Change Finance Instrument will be the main Fund's activity also in 2014. In 2013 the Fund took over from the Ministry of Environmental Protection and Regional Development the evaluation of project applications submitted in the Climate Change Finance Instrument and also in 2014 Fund will provide also evaluation of project applications submitted.

The Fund has accumulated extensive experience and capacity on environmental projects implementation supervision and post-implementation monitoring as well as on development of financing mechanisms for environmental projects implementation. The Fund is involved in implementation of 8 cross-border cooperation projects. Topics covered by these projects are related to promotion of energy efficiency and use of renewable energy resources, as well commercial mussel farming, processing and end-use in the Baltic Sea Region.

In year 2013 Fund has signed 12 new loan agreements with a total amount of ~ 1.6 million LVL.

The Fund closed the year 2013 with a profit of 7 698 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 2013 as follows:

- to transfer 90% of the Fund's net profit or 6 928 LVL to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting of 770 LVL to "Retained earnings".

It is already the tenth year since the quality management system in accordance to the ISO 9001 standard was introduced in the Fund. On 6th December, 2013 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 materially affected by such risks as market price risk, credit risk, liquidity risk and cash flow risk (see Note 19).

We are confident that year 2014 will be significant for the Fund and our clients with new opportunities for implementation of environmental projects.



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Aigars Līsovskis  
Board Member

Rīga,  
21 March 2014

## ENVIRONMENTAL INVESTMENT FUND

### REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

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As at the date of signing of the financial statements:

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

<i>Name Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Dace Grūberte	Representative of State capital shareholder	29 August, 2012

#### **The Board**

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Aigars Lisovskis	Board member	27 August, 2012

Resignations between 1 January 2013 and the date of signing the financial statements:

#### **The Executive Committee and Board**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Ilze Puriņa	Chairperson of the Board	18 October, 2004 *	30 April, 2013
Askolds Kļaviņš	Board member	18 October, 2004 *	22 September, 2013
Ronalds Neimanis	Board member	23 September, 2013	9 January, 2014

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

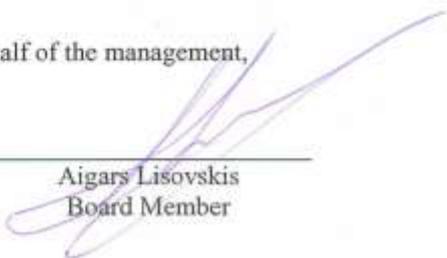
## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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1. The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.
2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 8 to 23 for the years ended 31 December 2013 and 2012. The management also confirms that applicable International Financial Reporting Standards as adopted by EU 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,



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Aigars Lisoovskis  
Board Member

Rīga,  
21 March 2014

## INDEPENDENT AUDITORS' REPORT

To the Shareholder of SIA „Vides investīciju fonds”

Tālrunis: (+371) 6707 4100  
Fakss: (+371) 6707 4103  
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### Report on the Financial Statements

We have audited the accompanying financial statements of SIA Vides investīciju fonds set out on pages 8 to 23 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2013 and the statements of comprehensive income, changes in equity and 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 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 2013, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Deloitte Audits Latvia SIA  
Licence No. 43



Roberts Stūģis  
Member of the Board

Rīga, Latvia  
21 March 2014



Inguna Staša  
Certified auditor of Latvia  
Certificate No. 145

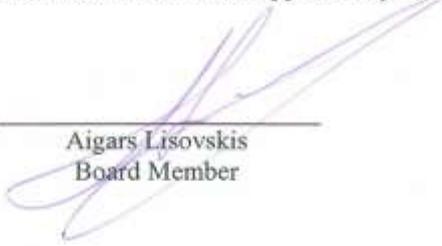
ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEARS 2013 AND 2012

	Note	01.01.2013. – 31.12.2013. LVL	01.01.2012. – 31.12.2012. LVL
<i>Operating income</i>			
Interest income	3	110 484	145 032
Interest expense	4	-	(642)
<b>Net interest income</b>		<b>110 484</b>	<b>144 390</b>
Other income	5	380 827	333 349
<b>Other income, net</b>		<b>380 827</b>	<b>333 349</b>
<b>TOTAL OPERATING INCOME</b>		<b>491 311</b>	<b>477 739</b>
<i>Operating expense</i>			
Administrative expense	6	(472 724)	(462 423)
Depreciation	13	(9 487)	(10 099)
<b>TOTAL OPERATING EXPENSE</b>		<b>(482 211)</b>	<b>(472 522)</b>
<b>GROSS PROFIT BEFORE TAXES</b>		<b>9 100</b>	<b>5 217</b>
Corporate income tax	17	(2 379)	(2 262)
Deferred corporate income tax	17	977	115
<b>PROFIT FOR THE YEAR</b>	7	<b>7 698</b>	<b>3 070</b>
<b>Other items of comprehensive income</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>7 698</b>	<b>3 070</b>

The accompanying notes on pages 12 to 23 are an integral part of the financial statements.

The financial statements were approved by the Board on 21 March 2014 and signed by:

  
Aigars Līsoviskis  
Board Member

ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2013 AND 2012

	Note	31.12.2013. LVL	31.12.2012. LVL * reclassified
<b>ASSETS</b>			
<i>CURRENT ASSETS</i>			
Cash and cash equivalents	8	646 668	927 069
Corporate income tax receivable		17 209	19 588
Other current assets	9	6 815	386 548
Loans to customers	10	738 004	636 078
Accrued income	11	32 408	4 827
<b>TOTAL</b>		<b>1 441 104</b>	<b>1 974 110</b>
<i>NON-CURRENT ASSETS</i>			
Fixed assets	13	19 543	28 056
Deferred corporate income tax asset	17	1 273	296
Loans to customers	10	3 325 244	2 761 090
<b>TOTAL</b>		<b>3 346 060</b>	<b>2 789 442</b>
<b>TOTAL ASSETS</b>		<b>4 787 164</b>	<b>4 763 552</b>
<b>LIABILITIES AND EQUITY</b>			
<i>CURRENT LIABILITIES</i>			
Other loans	14	22 740	22 740
Deferred income	15	124 512	108 874
Accrued liabilities		24 142	23 066
Accounts payable to suppliers and contractors		5 358	3 395
<b>TOTAL</b>		<b>176 752</b>	<b>158 075</b>
<i>SHAREHOLDER'S EQUITY</i>			
Share capital	16	4 427 196	4 427 196
Retained earnings		183 216	178 281
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>4 610 412</b>	<b>4 605 477</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4 787 164</b>	<b>4 763 552</b>
<b>OFF BALANCE SHEET ITEMS</b>			
Commitments	18		
Committed loans granted, not drawn down		82 790	370 000

\*See Note 22.

The accompanying notes on pages 12 to 23 are an integral part of the financial statements.

The financial statements were approved by the Board on 21 March 2014 and signed by:

  
Aigars Lisovskis  
Board Member

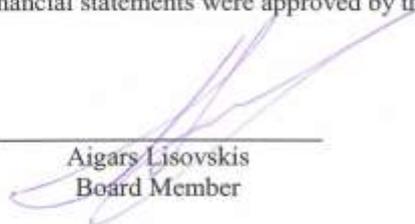
## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2013 AND 2012

	Share capital LVL	Retained earnings LVL	Total LVL
As at 31 December 2011	4 427 196	206 117	4 633 313
Dividends	-	(30 906)	(30 906)
Profit for the year	-	3 070	3 070
As at 31 December 2012	4 427 196	178 281	4 605 477
Dividends	-	(2 763)	(2 763)
Profit for the year	-	7 698	7 698
As at 31 December 2013	4 427 196	183 216	4 610 412

*The accompanying notes on pages 12 to 23 are an integral part of the financial statements.*

The financial statements were approved by the Board on 21 March 2014 and signed by:

  
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Aigars Lisovskis  
Board Member

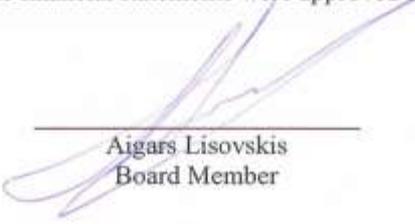
ENVIRONMENTAL INVESTMENT FUND

CASH FLOW STATEMENT  
FOR THE YEARS 2013 AND 2012

	Note	01.01.2013. – 31.12.2013. LVL	01.01.2012. – 31.12.2012. LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year before taxes		9 100	5 217
Depreciation of fixed assets	13	9 487	10 099
Interest income	3	(110 484)	(145 032)
Interest expense		-	642
Loans to customers (increase)/decrease		(671 166)	741 125
Interest received		114 190	150 555
Net cash flow before changes in working capital		(648 873)	762 606
<i>Changes in working capital</i>			
Decrease in accrued interest income		1 380	366
Decrease/(increase) in other current assets		382 113	(383 526)
(Decrease)/increase in accounts payable		(11 284)	72 721
Cash flow from operating activities		(276 664)	452 167
Corporate income tax payments		-	(7 716)
<b>Net cash flow (used in)/from operating activities</b>		<b>(276 664)</b>	<b>444 451</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchases of fixed assets	13	(974)	(4 842)
<b>Net cash flow used in investing activities</b>		<b>(974)</b>	<b>(4 842)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Dividends		(2 763)	(30 906)
Decrease in Loans		-	(53 463)
<b>Net cash flow used in financing activities</b>		<b>(2 763)</b>	<b>(84 369)</b>
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(280 401)</b>	<b>355 240</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>927 069</b>	<b>571 829</b>
<b>Cash and cash equivalents at the end of year</b>	8	<b>646 668</b>	<b>927 069</b>

*The accompanying notes on pages 12 to 23 are an integral part of the financial statements.*

The financial statements were approved by the Board on 21 March 2014 and signed by:

  
Aigars Lisovskis  
Board Member

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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### 1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environment established the Fund based on an 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 amounts shown in these financial statements are derived from the accounting records, maintained in accordance with Latvian Accounting Regulations, appropriately reclassified for recognition, measurement and presentation in accordance with the IFRS as adopted by the EU. The financial statements are prepared under the historical cost convention.

#### **Basis of preparation**

##### *Standards and Interpretations effective in the current period*

The accounting policies adopted are consistent with those of the previous year except that the Fund adopted those new/revised standards and interpretations becoming mandatory for financial years beginning on or after 1 January 2013:

- **IFRS 13 "Fair Value Measurement"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS" – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 1 "First-time Adoption of IFRS" – Government Loans**, adopted by the EU on 4 March 2013 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** - Offsetting Financial Assets and Financial Liabilities, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 1 "Presentation of financial statements"** – Presentation of Items of Other Comprehensive Income, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 July 2012),
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to the Accounting for Post-employment Benefits, adopted by the EU on 5 June 2012 (effective for annual periods beginning on or after 1 January 2013),
- **Amendments to various standards "Improvements to IFRSs (cycle 2009-2011)"** resulting from the annual improvement project of IFRS (IFRS 1, IAS 1, IAS 16, IAS 32, IAS 34) primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 27 March 2013 (amendments are to be applied for annual periods beginning on or after 1 January 2013),

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2013).

The adoption of these amendments to the existing standards has not led to any changes in the Fund's accounting policies.

#### *Standards and Interpretations issued by IASB and adopted by the EU but not yet effective*

At the date of authorisation of these financial statements the following standards, amendments to the existing standards and interpretations issued by IASB and adopted by the EU were in issue but not yet effective:

- **IFRS 10 "Consolidated Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 11 "Joint Arrangements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IFRS 12 "Disclosures of Interests in Other Entities"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 27 (revised in 2011) "Separate Financial Statements"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"**, adopted by the EU on 11 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosures of Interests in Other Entities" – Transition Guidance**, adopted by the EU on 4 April 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosures of Interests in Other Entities" and IAS 27 (revised in 2011) "Separate Financial Statements" – Investment Entities**, adopted by the EU on 20 November 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 32 "Financial instruments: presentation" – Offsetting Financial Assets and Financial Liabilities**, adopted by the EU on 13 December 2012 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 36 "Impairment of assets" - Recoverable Amount Disclosures for Non-Financial Assets**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014),
- **Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Novation of Derivatives and Continuation of Hedge Accounting**, adopted by the EU on 19 December 2013 (effective for annual periods beginning on or after 1 January 2014).

The Fund has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Company anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Company in the period of initial application.

#### **Reporting currency**

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

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

#### 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:

	31.12.2013.	31.12.2012.
1 EUR	LVL 0.702804	LVL 0.702804

#### Loans and credits

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

#### Provisions for doubtful debts

The management and the Board has 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 amount of the allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

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 statement of comprehensive income 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.

Cash flow is prepared in accordance with indirect method.

#### Grants

Grants to be utilized 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 statement of comprehensive income 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.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

##### **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. CCFI income, income from co-financing for development cooperation projects, commissions, fees and other income/ expenses are recognized when earned/ incurred. Project sponsor perform control over project expenses.

##### **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.

The following are the critical judgments and key estimates concerning the future, and other key sources of estimation uncertainty which exist at the reporting date of the financial statements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities during the next reporting period:

##### **Useful lives of property, plant and equipment**

Useful lives of property, plant and equipment are assessed at each balance sheet date and changed, if necessary, to reflect the Fund's management current view on their remaining useful lives in the light of changes in technology, the remaining prospective economic utilisation of the assets and their physical condition.

##### **Carrying amounts of issued loans**

The Fund's management evaluates the carrying amounts of issued loans and evaluates their recoverability, making an allowance for doubtful loans, if necessary. The Fund's management has evaluated the issued loans and considers that it is not necessary to make an additional significant allowance as of 31 December 2013.

##### **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 asset is 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 is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

##### **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.

##### **Vacation reserve**

Accruals for vacation reserve are determined by multiplying average compensation provided to employ for the last 6 month with number of unused vacation days. Social security tax for calculated benefit is accrued additionally.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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#### 3. INTEREST INCOME

	<b>01.01.2013. – 31.12.2013. LVL</b>	<b>01.01.2012. – 31.12.2012. LVL</b>
Interest income from loans to customers	109 847	140 157
Interest income from deposits in bank	637	4 875
<b>Total</b>	<b><u>110 484</u></b>	<b><u>145 032</u></b>

The interest rates for deposits in banks for the years ended 31 December 2013 and 2012 where ranged from 0.20% to 2.00%. Interest rates for loans disbursed are disclosed in Note 10.

#### 4. INTEREST EXPENSE

The Fund incurred interest expense in accordance with the NEFCO loan facility agreement. 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 was obtained to assist municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan was up to 15 years and the interest rate was six-month EUR LIBOR plus 1%, adjusted semi-annually. As of 31.12.2012 the loan was fully repaid.

#### 5. OTHER INCOME

	<b>01.01.2013. – 31.12.2013. LVL</b>	<b>01.01.2012. – 31.12.2012. LVL</b>
Compensation for CCFI implementation monitoring function	294 958	323 202
Co-financing for development cooperation projects	86 706	7 899
Net gain from foreign exchange operations	(838)	(719)
Other income	1	2 967
<b>Total</b>	<b><u>380 827</u></b>	<b><u>333 349</u></b>

#### 6. ADMINISTRATIVE EXPENSE

	<b>01.01.2013. – 31.12.2013. LVL</b>	<b>01.01.2012. – 31.12.2012. LVL</b>
Personnel costs:		
– salaries	255 212	267 627
– state obligatory social security payments	61 440	64 576
Board costs:		
– salaries	26 875	22 142
– state obligatory social security payments	6 474	5 230
Office rent and public utilities	30 947	31 077
Business trips	21 265	26 896
Office supplies and stationary	7 108	6 496
Communications	5 204	5 881
Audit fee	4 356	4 385
Provisions for vacation expense	1 076	80
Other administrative expense	52 767	28 033
<b>Total</b>	<b><u>472 724</u></b>	<b><u>462 423</u></b>

The average number of persons employed by the Fund excluding the Members of the Board and Representative of State capital shareholder during the year ended 31 December 2013 was 31 (at year ended 2012: 33).

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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#### 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 as dividends.

#### 8. CASH AND CASH EQUIVALENTS

	31.12.2013. LVL	31.12.2012. LVL
Balances with banks		
- LVL current account	553 649	886 518
- EUR current account	92 919	39 989
- LVL Visa Electron	79	534
Cash on hand	21	28
<b>Total</b>	<b>646 668</b>	<b>927 069</b>

#### 9. OTHER CURRENT ASSETS

	31.12.2013. LVL	31.12.2012. LVL *reclassified
Security deposit for office rent	3 911	3 911
Prepaid expense	2 350	2 533
Tax prepayments	489	1 435
Deposit in lats**	-	378 400
Other assets	65	269
<b>Total</b>	<b>6 815</b>	<b>386 548</b>

\* See Note 22.

\*\* The initial term of deposit as of 31.12.2012 was six month with maturity 26 March, 2013 and interest rate of 0.73%.

#### 10. LOANS TO CUSTOMERS

	31.12.2013. LVL	31.12.2012. LVL *reclassified
<i>Remaining maturity</i>		
Accrued interest income	27 203	32 289
Less than one year	710 801	603 789
Within one to five years	1 468 291	1 404 170
Within five to ten years	1 142 602	946 023
More than ten years	744 351	440 897
<b>Total</b>	<b>4 093 248</b>	<b>3 427 168</b>
Provisions for doubtful debts (Note 12)	(30 000)	(30 000)
<b>Total, net</b>	<b>4 063 248</b>	<b>3 397 168</b>
<i>Analysis by sector</i>		
Water and waste water treatment	3 392 976	2 619 413
Environmentally friendly heat supply	578 769	675 966
Insulation of buildings	24 300	29 500
Cleaner technology and other projects	70 000	70 000
Accrued interest income	27 203	32 289
<b>Total</b>	<b>4 093 248</b>	<b>3 427 168</b>
Provisions for doubtful debts (Note 12)	(30 000)	(30 000)
<b>Total, net</b>	<b>4 063 248</b>	<b>3 397 168</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

#### 10. LOANS TO CUSTOMERS (CONT'D)

	31.12.2013. LVL	31.12.2012. LVL <i>*reclassified</i>
<i>Customer analysis</i>		
Municipalities	1 661 840	2 091 795
Municipal companies	2 334 205	1 233 084
Private companies	70 000	70 000
Accrued interest income	27 203	32 289
<b>Total</b>	<b>4 093 248</b>	<b>3 427 168</b>
Provisions for doubtful debts (Note 12)	(30 000)	(30 000)
<b>Total, net</b>	<b>4 063 248</b>	<b>3 397 168</b>

	31.12.2013.		31.12.2012.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	4 093 248	4 093 248	3 427 168	3 427 168
<b>Total</b>		<b>4 093 248</b>		<b>3 427 168</b>
Provisions for doubtful debts (Note 12)		(30 000)		(30 000)
<b>Total, net</b>		<b>4 063 248</b>		<b>3 397 168</b>

	31.12.2013.		31.12.2012.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	12	33 143	17	33 542
5,000 - 10,000	27	196 938	25	184 324
10,000 – 100,000	59	1 996 084	67	2 016 180
Over 100,000	12	1 839 880	7	1 160 833
<b>Total</b>	<b>110</b>	<b>4 066 045</b>	<b>116</b>	<b>3 394 879</b>
Provisions for doubtful debts (Note 12)		(30 000)		(30 000)
<b>Total, net</b>	<b>110</b>	<b>4 036 045</b>	<b>116</b>	<b>3 364 879</b>

\* See Note 22.

As of 31 December 2013 and 2012 there were no overdue payments. Information on collateral types is disclosed in note 19.

The interest rates on loans ranged from 0.45% to 7.50%. The loans have fixed and variable interest rate. For loans with variable interest rate, interest rate for next year is set by the Board of the Fund at the last day of previous period based on actual interest rate posted on State Treasury home page [www.kase.gov.lv](http://www.kase.gov.lv) calculated as actual interest rate for the particular period on State Treasury issued loans in national currency decreased by 0.1%.

#### 11. ACCRUED INCOME

	31.12.2013. LVL	31.12.2012. LVL <i>* reclassified</i>
Accrued income on co-financing for development cooperation projects	32 408	4 827
<b>Total</b>	<b>32 408</b>	<b>4 827</b>

\* See Note 22.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

#### 12. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2013. LVL	31.12.2012. LVL
At the beginning of the year	30 000	30 000
Change	-	-
At the end of the year	<u>30 000</u>	<u>30 000</u>

#### 13. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2011	<u>44 399</u>	<u>24 839</u>	<u>69 238</u>
Additions	2 042	2 800	4 842
Disposal	(2 916)	(255)	(3 171)
At 31 December 2012	<u>43 525</u>	<u>27 384</u>	<u>70 909</u>
Additions	-	974	974
Disposal	(4 587)	(2 141)	(6 728)
At 31 December 2013	<u>38 938</u>	<u>26 217</u>	<u>65 155</u>
<i>Accumulated depreciation</i>			
At 31 December 2011	<u>18 217</u>	<u>17 708</u>	<u>35 925</u>
Charge for the year	9 010	1 089	10 099
Disposal	(2 916)	(255)	(3 171)
At 31 December 2012	<u>24 311</u>	<u>18 542</u>	<u>42 853</u>
Charge for the year	8 346	1 141	9 487
Disposal	(4 588)	(2 140)	(6 728)
At 31 December 2013	<u>28 069</u>	<u>17 543</u>	<u>45 612</u>
<i>Net book value</i>			
At 31 December 2012	<u>19 214</u>	<u>8 842</u>	<u>28 056</u>
At 31 December 2013	<u>10 869</u>	<u>8 674</u>	<u>19 543</u>

As of 31 December 2013 the fixed assets with historical cost of LVL 25 289 (at 31 December 2012: LVL 27 384) are fully depreciated but still used in the Fund daily operations.

#### 14. 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. Amount transferred to Fund for realization of project based on agreement and reflected in the statement of financial position amounts to LVL 22 740.

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

### 15. DEFERRED INCOME

	31.12.2013. LVL	31.12.2012. LVL * reclassified
Financing of Climate change financing instrument	48 299	76 378
Co-financing for development cooperation projects	76 213	32 496
<b>Total</b>	<b><u>124 512</u></b>	<b><u>108 874</u></b>

\* See Note 22.

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 3 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 9<sup>th</sup> 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 2013 and 2012 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 LVL 1 each. As of 31 December 2013 earnings per share is 0.0017 LVL (2012: 0.00069). Share capital of the Fund is fully paid. Sole shareholder of the Fund is Ministry of Environmental Protection and Regional Development.

### 17. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

#### Corporate income tax

	01.01.2013. – 31.12.2013. LVL	01.01.2012. – 31.12.2012. LVL
<b>Payable corporate income tax</b>		
Corporate income tax for the year	2 379	2 262
<b>Deferred corporate income tax</b>		
Deferred corporate income tax as a result of temporary differences	(977)	(115)
<b>Actual and deferred corporate income tax for period</b>	<b><u>1 402</u></b>	<b><u>2 147</u></b>

#### Deferred corporate income tax:

	31.12.2013. LVL	31.12.2012. LVL
Difference between fixed assets value in financial and tax accounting	2 348	3 164
Temporary differences on provisions for vacation	(3 621)	(3 460)
<b>Deferred corporate income tax (asset), net</b>	<b><u>(1 273)</u></b>	<b><u>(296)</u></b>

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

	01.01.2013. – 31.12.2013. LVL	01.01.2012. – 31.12.2012. LVL
Profit before taxes	9 100	5 217
Theoretically calculated corporate income tax 15%	1 365	783
Permanent differences	37	1 364
<b>Actual and deferred corporate income tax for period</b>	<b><u>1 402</u></b>	<b><u>2 147</u></b>
<b>Effective tax rate</b>	<b><u>15.4%</u></b>	<b><u>41.2%</u></b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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#### 18. OFF BALANCE SHEET ITEMS

	31.12.2013. LVL	31.12.2012. LVL
<i>Committed loans granted, not disbursed</i>		
Municipal companies*	82 790	370 000

\* 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, cash and short-term deposits. 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, market price risk, liquidity risk, interest rate risk and currency risk.

##### Interest rate risk

The Fund is exposed to an interest rate risk. 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 4.

##### Credit risk

The Fund is vulnerable to credit risk relating to disbursed loans and cash and its equivalents. The policy of the Fund controls the credit risk by constantly monitoring each client individually to minimize the possibility of the bad debts.

The Fund's employees review each loan application and reports for decisions are submitted to the Board. Loans are secured by pledge of real estate, by third party guarantee or municipal guarantees. The Fund disburses loans in accordance with the terms of the loan agreement against invoices and signed contracts. All procurements financed by the Fund must follow principles of the Law On Procurement for State or Local Government Needs. Borrowers shall submit annually financial statements. The Fund's employees make regular site visits.

The maximum exposure to credit risk for financial instruments:

	2013		2012	
	Gross LVL	Net LVL	Gross LVL	Net LVL
<b>Neither past due nor impaired</b>				
Cash and cash equivalents	646 668	646 668	927 069	927 069
Deposit in lats	-	-	378 400	378 400
Loans to customers	<u>4 063 248</u>	<u>4 063 248</u>	<u>3 397 168</u>	<u>3 397 168</u>
<b>Total</b>	<u><b>4 709 916</b></u>	<u><b>4 709 916</b></u>	<u><b>4 702 637</b></u>	<u><b>4 702 637</b></u>

##### Market price risk

It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to market price fluctuations. Funds not yet disbursed to customers are held in bank deposits if possible.

##### Liquidity risk

The Fund controls liquidity risk by maintaining sufficient level of cash and its equivalents and controlling disbursement/ prepayment of loans. All financial liabilities are short term, all financial assets are short term except for loans issued (Note 10).

##### 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. Since the major part of transactions are made in LVL and EUR currencies, foreign currency risk is not significant, since the euro exchange rate against the lats is fixed and as of 01.01.2014 euro is the official currency of Latvian Republic.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012

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#### 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:

	31.12.2013.	31.12.2012.
Monetary assets, EUR	127 870	60 670
Monetary liabilities, EUR	(48 229)	(29 985)
<b>Statement of financial position EUR, net</b>	<b>79 641</b>	<b>30 685</b>
<b>Statement of financial position LVL, net</b>	<b>55 972</b>	<b>21 566</b>

#### 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. INFORMATION ON RECLASSIFICATION

To specify the information reflected in the previous year and conform to current year presentation, certain amounts in previous year's financial statement have been reclassified. Details of reclassified items shown in the table:

	Before reclassification LVL	Reclassification LVL	After reclassification LVL
<b>Statement of financial position:</b>			
Deferred income	104 047	4 827	108 874
Accrued income	-	(4 827)	(4 827)
Accrued interest income	32 289	(32 289)	-
Loans to customers	603 789	32 289	636 078
Corporate income tax receivable	-	19 588	19 588
Other current assets	406 136	(19 588)	386 548

#### 23. SUBSEQUENT EVENTS

On 1 January 2014, Latvia joined the Eurozone and the Latvian Lat was replaced by the Euro. Since that date, the Fund has converted its accounting to the Euro. The conversion to the Euro was done using the official exchange rate set by the Bank of Latvia – 1 Euro/0.702804 Latvian Lat. The Fund's financial statements for subsequent financial periods will be presented in the Euro.

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

## **ENVIRONMENTAL INVESTMENT FUND**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2013 AND 2012**

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#### **24. GOING CONCERN**

The management of the Fund is certain that supervision of implementation of projects co-financed by the Climate Change Finance Instrument will be the main Fund's activity also in 2014 while also continuing to work on supervision and post implementation monitoring as well as financing of environmental projects. Based on information available to management the shareholder of the Fund is considering a possibility to start reorganizing operations of the Fund including transfer of functions to other state institutions and terminating activities of the Fund in 2014 or further years.

These financial statements have been prepared in accordance with going concern principle and contain no adjustments that might be necessary shall the going concern principle be not applicable.

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## ENVIRONMENTAL INVESTMENT FUND

### UNAUDITED FINANCIAL INFORMATION FOR THE YEARS 2013 AND 2012

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#### UNAUDITED FINANCIAL INFORMATION

##### 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.

	<b>01.01.2013. – 31.12.2013. LVL</b>	<b>01.01.2012. – 31.12.2012. LVL</b>
Personnel costs:		
– salaries	192 058	216 916
– state obligatory social security payments	46 226	52 255
Office rent and public utilities	18 969	27 195
Business trips	5 344	8 875
Depreciation	3 572	3 859
Communications	2 470	3 045
Office supplies and stationary	2 032	2 542
Other administrative expense	24 610	8 515
<b>Total</b>	<b>295 281</b>	<b>323 202</b>
<b>State budget assignments</b>	<b>294 958</b>	<b>323 202</b>
<b>Disclosed in income statement</b>	<b>(323)</b>	<b>-</b>