

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

*Annual Report for the year 2014
prepared in accordance with International Financial
Reporting Standards as adopted by EU
and Independent Auditors' Report*

Riga, 2015

** 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

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ENVIRONMENTAL INVESTMENT FUND

ANCILLARY INFORMATION

Title	Vides investīciju fonds (Environmental Investment Fund)
Legal status	Limited liability company
Registration number, place and date	40003339615, Riga, 28 April 1997
Legal and postal address	Gertrudes street 12-2, Riga, LV-1010, Latvia
Board Members of the company	Egils Zariņš Rolands Neimanis
Shareholder	Ministry of Environmental Protection and Regional Development – 100%
Period of reporting	1 January 2014 – 31 December 2014
Prior period of reporting	1 January 2013 – 31 December 2013
Independent auditors and their address	Limited liability company Deloitte Audits Latvia Licence No. 43 Gredu iela 4a Riga, LV-1019 Latvia Inguna Staša Republic of Latvia Sworn Auditor Certificate No. 145

ENVIRONMENTAL INVESTMENT FUND

MANAGEMENT REPORT

The past year for the Vides investīciju fonds (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 (hereinafter – CCFI) and management of cross-border cooperation projects.

Total volume of administrated resources under the Climate Change Finance Instrument implementation supervision in 2014 reached almost 33 million euro 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 the first half of 2015. It is planned that with July 2015 the Fund will only continue to monitor CCFI projects, as the implementation will be finalized by then. In 2015 the Fund plans to start supervision of implementation of projects co-financed by the Emission Allowances Finance Instrument.

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.

In year 2014 Fund has signed 8 new loan agreements with a total amount of ~ 1.1 million euro.


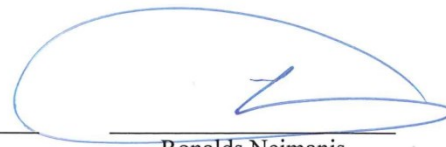
The Fund closed the year 2014 with a profit of 10 906 euro and assets exceeding 6.8 million euro. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests distributing the profit for the reporting year 2014 as follows:

- to transfer 90% of the Fund's net profit or 9 815 euro to the state budget pursuant to the Law On Management of The Public person shares and companies,
- to transfer the difference amounting of 1 091 euro 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 27 November, 2014 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 18).

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

	
Egils Zariņš Board member	Ronalds Neimanis Board member

Rīga,
13 April 2015

ENVIRONMENTAL INVESTMENT FUND

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

As at the date of signing of the financial statements:

Representative of State capital shareholder

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Sandis Cakuls	Representative of State capital shareholder	7 May, 2014

The Board

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Egils Zariņš	Board member	1 March, 2015
Ronalds Neimanis	Board member	1 March, 2015

Resignations between 1 January 2014 and the date of signing the financial statements:

Representative of State capital shareholder

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Irina Ivanščenko	Representative of State capital shareholder	13 March, 2014	7 May, 2014
Dace Grūberte	Representative of State capital shareholder	29 August, 2012	13 March, 2014

The Board

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Raimonds Aleksejenko	Chairperson of the Board	14 July, 2014	23 March, 2015
Ronalds Neimanis	Chairperson of the Board	23 September, 2013	9 January, 2014
Aigars Lisovskis	Board member	27 Augusts, 2012	18 July, 2014
Andra Feldmane	Board member	2 December, 2014	4 January, 2015

ENVIRONMENTAL INVESTMENT FUND


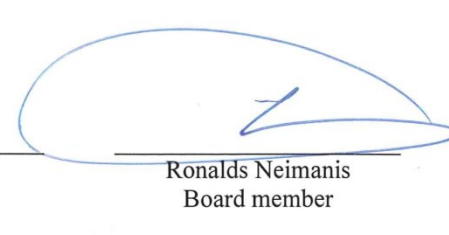
STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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.

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 22 for the years ended 31 December 2014 and 2013. 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.

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,

	
Egils Zariņš Board member	Ronalds Neimanis Board member

Riga,
13 April 2015

Translation from Latvian

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 set out on pages 8 to 22 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2014 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 2014, 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.

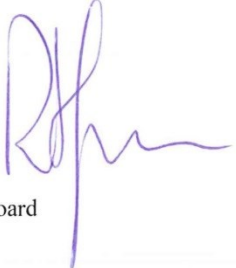
Report on Other Legal and Regulatory Requirements

We have read the management report for 2014 set out on page 4 of the accompanying annual report for 2014 and did not identify material inconsistencies between the financial information contained in the management report and that contained in the financial statements for 2014.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stūģis
Member of the Board

Rīga, Latvia
13 April 2015



Inguna Staša
Certified auditor of Latvia
Certificate No. 145



ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2014 AND 2013

	Note	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
<i>Operating income</i>			
Interest income	3	131 896	157 205
Interest expense		-	-
Net interest income		131 896	157 205
Other income	4	548 488	541 868
Other income, net		548 488	541 868
TOTAL OPERATING INCOME		680 384	699 073
<i>Operating expense</i>			
Administrative expense	5	(657 373)	(672 626)
Depreciation	12	(10 207)	(13 499)
TOTAL OPERATING EXPENSE		(667 580)	(686 125)
GROSS PROFIT BEFORE TAXES		12 804	12 948
Corporate income tax	16	(3 317)	(3 385)
Deferred corporate income tax	16	1 419	1 390
PROFIT FOR THE YEAR	6	10 906	10 953
Other items of comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		10 906	10 953

The accompanying notes on pages 12 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 13 April 2015 and signed by:

	
Egils Zariņš Board member	Ronalds Neimanis Board member



ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2014 AND 2013

	Note	31.12.2014. euro	31.12.2013. euro
ASSETS			
<i>CURRENT ASSETS</i>			
Cash and cash equivalents	7	1 259 181	920 126
Corporate income tax receivable		55	24 486
Other current assets	8	9 616	9 697
Loans to customers	9	839 872	1 050 085
Accrued income	10	19 823	46 113
TOTAL		2 128 547	2 050 507
<i>NON-CURRENT ASSETS</i>			
Fixed assets	12	18 780	27 807
Deferred corporate income tax asset	16	3 230	1 811
Loans to customers	9	4 681 066	4 731 396
TOTAL		4 703 076	4 761 014
TOTAL ASSETS		6 831 623	6 811 521
LIABILITIES AND EQUITY			
<i>CURRENT LIABILITIES</i>			
Other loans	13	32 356	32 356
Deferred income	14	194 580	177 165
Accrued liabilities		36 427	34 351
Accounts payable to suppliers and contractors		7 187	7 624
TOTAL		270 550	251 496
<i>SHAREHOLDER'S EQUITY</i>			
Share capital	15	6 299 332	6 299 332
Retained earnings		261 741	260 693
TOTAL SHAREHOLDER'S EQUITY		6 561 073	6 560 025
TOTAL LIABILITIES AND EQUITY		6 831 623	6 811 521
OFF BALANCE SHEET ITEMS	17		
Commitments			
Committed loans granted, not drawn down		186 190	117 800

The accompanying notes on pages 12 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 13 April 2015 and signed by:

	
Egils Zariņš Board member	Ronalds Neimanis Board member


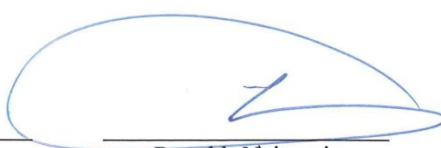
ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2014 AND 2013

	Share capital euro	Retained earnings euro	Total euro
As at 31 December 2012	6 299 332	253 671	6 553 003
Dividends	-	(3 931)	(3 931)
Profit for the year	-	10 953	10 953
As at 31 December 2013	6 299 332	260 693	6 560 025
Dividends	-	(9 858)	(9 858)
Profit for the year	-	10 906	10 906
As at 31 December 2014	6 299 332	261 741	6 561 073

The accompanying notes on pages 12 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 13 April 2015 and signed by:

	
Egils Zariņš Board member	Ronalds Neimanis Board member


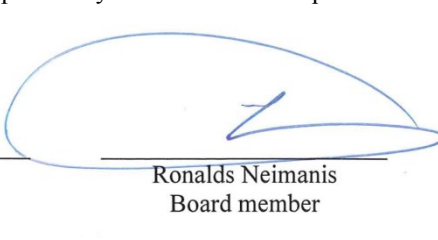
ENVIRONMENTAL INVESTMENT FUND

CASH FLOW STATEMENT FOR THE YEARS 2014 AND 2013

	Note	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxes		12 804	12 948
Depreciation of fixed assets	12	10 207	13 499
Interest income	3	(131 896)	(157 205)
Loans to customers decrease/(increase)		252 629	(954 983)
Interest received		139 810	162 478
Net cash flow before changes in working capital		283 554	(923 263)
<i>Changes in working capital</i>			
Decrease in accrued interest income		7 914	1 964
Decrease in other current assets		17 030	543 698
Increase/(decrease) in accounts payable		20 482	(16 056)
Cash flow from operating activities		328 980	(393 657)
Corporate income tax payments		21 114	-
Net cash flow from / (used in) operating activities		350 094	(393 657)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of fixed assets	12	(1 181)	(1 386)
Net cash flow used in investing activities		(1 181)	(1 386)
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends		(9 858)	(3 931)
Net cash flow used in financing activities		(9 858)	(3 931)
Increase/(decrease) in cash and cash equivalents		339 055	(398 974)
Cash and cash equivalents at the beginning of year		920 126	1 319 100
Cash and cash equivalents at the end of year	7	1 259 181	920 126

The accompanying notes on pages 12 to 22 are an integral part of the financial statements.

The financial statements were approved by the Board on 13 April 2015 and signed by:

	
Egils Zariņš Board member	Ronalds Neimanis Board member

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

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 using the abovementioned accounting records.

Basis of preparation

Standards and Interpretations effective in the current period

These financial statements have been prepared in accordance with and comply with International Financial Reporting Standards as adopted by EU (IFRS) and Interpretations issued by its International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

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 2014:

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS 2014 AND 2013

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

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:

- **Amendments to various standards Improvements to IFRSs (cycle 2010-2012)** resulting from the annual improvement project of IFRS (IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 February 2015).
- **Amendments to various standards Improvements to IFRSs (cycle 2011-2013)** resulting from the annual improvement project of IFRS (IFRS 1, IFRS 3, IFRS 13 and IAS 40) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2015).
- **Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions** (effective for annual periods beginning on or after 1 February 2015).
- **IFRIC 21 Levies** (effective for annual periods beginning on or after 17 June 2014).
- **IFRS 9 Financial Instruments** (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU) is the IASB's replacement of IAS 39 Financial Instruments: Recognition and Measurement.
- **IFRS 14 Regulatory Deferral Accounts** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **IFRS 15 Revenue from Contracts with Customers** (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU).
- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 28 Investments in Associates and Joint Ventures – Investment Entities: Applying the Consolidation Exception** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to IFRS 11 Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture – Agriculture: Bearer Plants** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements** (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).
- **Amendments to various standards Improvements to IFRSs (cycle 2012-2014)** resulting from the annual improvement project of IFRS (IFRS 5, IFRS 7, IAS 19 and IAS 34) primarily with a view to removing inconsistencies and clarifying wording (amendments are to be applied for annual periods beginning on or after 1 January 2016; not yet adopted by the EU).

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 euro (EUR).

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

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

Foreign currency

The accompanying financial statements are presented in the currency of the European Union, the Euro (hereinafter – EUR or euro), which is the Company's functional and presentation currency. Until 1 January 2014, when Latvia joined the Eurozone and the Latvian Lat was replaced by the EUR, the Company carried out its accounting records and prepared its financial statements in the Latvian Lat. Since that date, the Company's accounting records have been carried out in the EUR. The conversion to the EUR was done using the official exchange rate set by the Bank of Latvia – 1 EUR/0.702804 Latvian Lat.

Until 1 January 2014, all transactions denominated in foreign currencies were translated into the Latvian Lat at the Bank of Latvia official rate of exchange prevailing on the transaction day. Starting from 1 January 2014, all transactions denominated in foreign currencies are translated into the EUR at the European Central Bank rate of exchange prevailing on the transaction day. At the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the European Central Bank rate of exchange prevailing on 31 December.

The exchange rates established by the European Central Bank are as follows:

	31.12.2013.
1 euro	LVL 0.702804

Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies into the EUR are recognised in the statement of comprehensive income.

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 71 euro 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.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

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

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. Grants are recognized in income based on received approvals for related expenses. 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.

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 2014.

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.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

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

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.

3. INTEREST INCOME

	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
Interest income from loans to customers	131 896	156 298
Interest income from deposits in bank	-	907
Total	131 896	157 205

The interest rates for deposits in banks for the years ended 31 December 2014 and 2013 where ranged from 0% to 0.73%. Interest rates for loans disbursed are disclosed in Note 9.

4. OTHER INCOME

	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
Compensation for CCFI implementation monitoring function	508 371	419 687
Co-financing for development cooperation projects	40 117	123 372
Foreign currency exchange operations, net	-	(1 192)
Other income	-	1
Total	548 488	541 868

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

5. ADMINISTRATIVE EXPENSE

	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
Personnel costs:		
– salaries	371 803	363 134
– state obligatory social security payments	88 424	87 421
Board costs:		
– salaries	22 715	38 240
– state obligatory social security payments	4 472	9 212
Office rent and public utilities	43 676	44 034
Business trips	21 293	30 257
Office supplies and stationary	10 358	10 114
Communications	7 087	7 405
Audit fee	6 198	6 198
Provisions for vacation expense	2 076	1 531
Other administrative expense	79 271	75 080
Total	657 373	672 626

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 2014 was 30 (at year ended 31.12.2013: 31).

6. PROFIT FOR THE YEAR

Pursuant to the Law On Management of The Public person shares and companies the Fund transfers 90% of net profit to the state budget as dividends.

7. CASH AND CASH EQUIVALENTS

	31.12.2014. euro	31.12.2013. euro
Balances with banks		
- EUR current account	1 259 063	132 212
- credit card	117	112
- LVL current account	-	787 772
Cash on hand	1	30
Total	1 259 181	920 126

8. OTHER CURRENT ASSETS

	31.12.2014. euro	31.12.2013. euro
Security deposit for office rent	5 565	5 565
Prepaid expense	3 343	3 344
Tax prepayments	616	696
Other assets	92	92
Total	9 616	9 697

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

9. LOANS TO CUSTOMERS

	31.12.2014. euro	31.12.2013. euro
<i>Remaining maturity</i>		
Accrued interest income	30 792	38 706
Less than one year	809 080	1 011 379
Within one to five years	2 039 932	2 089 190
Within five to ten years	1 616 801	1 625 776
More than ten years	1 067 019	1 059 116
Total	5 563 624	5 824 167
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
Total, net	5 520 938	5 781 481

<i>Analysis by sector</i>		
Water and waste water treatment	4 251 798	4 827 770
Environmentally friendly heat supply	1 253 857	823 514
Insulation of buildings	27 177	34 576
Cleaner technology and other projects	-	99 601
Accrued interest income	30 792	38 706
Total	5 563 624	5 824 167
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
Total, net	5 520 938	5 781 481

<i>Customer analysis</i>		
Municipalities	1 678 481	2 364 585
Municipal companies	3 854 351	3 321 275
Non-government organizations	-	99 601
Accrued interest income	30 792	38 706
Total	5 563 624	5 824 167
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
Total, net	5 520 938	5 781 481

	31.12.2014. Currency	euro	31.12.2013. Currency	euro
<i>Currency analysis</i>				
Euro	5 532 832	5 532 832	5 785 461	5 785 461
Total		5 532 832		5 785 461
Provisions for doubtful debts (Note 11)		(42 686)		(42 686)
Total, net		5 490 146		5 742 775

	31.12.2014. Number	euro	31.12.2013. Number	euro
<i>Loan size analysis (euro)</i>				
Up to 10 000	23	151 649	24	148 690
10 000 – 50 000	40	916 579	52	1 179 556
50 000 – 250 000	32	3 691 149	31	3 525 825
Over 250 000	2	773 455	3	931 390
Total	97	5 532 832	110	5 785 461
Provisions for doubtful debts (Note 11)		(42 686)		(42 686)
Total, net	97	5 490 146	110	5 742 775

As of 31 December 2014 and 2013 there were no overdue payments. Information on collateral types is disclosed in note 18.

The interest rates on loans ranged from 0.218% to 5.000%. 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 calculated as actual interest rate for the particular period on State Treasury issued loans in national currency decreased by 0.1%.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

10. ACCRUED INCOME

	31.12.2014. euro	31.12.2013. euro
Accrued income on co-financing for development cooperation projects	19 823	46 113
Total	19 823	46 113

11. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2014. euro	31.12.2013. euro
At the beginning of the year	42 686	42 686
Change	-	-
At the end of the year	42 686	42 686

12. FIXED ASSETS

	Computer and office equipment euro	Fixtures and fittings euro	Total euro
<i>Historical cost</i>			
At 31 December 2012	61 930	38 964	100 894
Additions	-	1386	1386
Disposal	(6 527)	(3 046)	(9 573)
At 31 December 2013	55 403	37 304	92 707
Additions	117	1 063	1 180
Disposal	(1 934)	-	(1 934)
At 31 December 2014	53 586	38 367	91 953
<i>Accumulated depreciation</i>			
At 31 December 2012	34 591	26 383	60 974
Charge for the year	11 875	1 624	13 499
Disposal	(6 528)	(3 045)	(9 573)
At 31 December 2013	39 938	24 962	64 900
Charge for the year	8 476	1 731	10 207
Disposal	(1 934)	-	(1 934)
At 31 December 2014	46 480	26 693	73 173
<i>Net book value</i>			
At 31 December 2013	15 465	12 342	27 807
At 31 December 2014	7 106	11 674	18 780

As of 31 December 2014 the fixed assets with historical cost of 48 679 euro (at 31 December 2013: 35 983 euro) are fully depreciated but still used in the Fund daily operations.

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. Amount transferred to Fund for realization of project based on agreement and reflected in the statement of financial position amounts to 32 356 euro.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

14. DEFERRED INCOME

	31.12.2014. euro	31.12.2013. euro
Co-financing for development cooperation projects	143 379	108 441
Financing of Climate change financing instrument	51 201	68 724
Total	194 580	177 165

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 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.

15. SHARE CAPITAL

As of 31 December 2014 and 2013 the Fund's fully paid share capital was LVL 4 427 196 (6 299 332 EUR) consisting of 4 427 196 ordinary shares. The nominal value of ordinary share is LVL 1 each. As of 31 December 2014 earnings per share is 0.0025 EUR (2013: 0.0025 EUR). Share capital of the Fund is fully paid. Sole shareholder of the Fund is Ministry of Environmental Protection and Regional Development.

16. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

Corporate income tax

	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
Payable corporate income tax		
Corporate income tax for the year	3 317	3 385
Deferred corporate income tax		
Deferred corporate income tax as a result of temporary differences	(1 419)	(1 390)
Actual and deferred corporate income tax for period	1 898	1 995

Deferred corporate income tax:

	31.12.2014. euro	31.12.2013. euro
Difference between fixed assets value in financial and tax accounting	2 234	3 341
Temporary differences on provisions for vacation	(5 464)	(5 152)
Deferred corporate income tax (asset), net	(3 230)	(1 811)

Actual and deferred corporate income tax compared to theoretically calculated:

	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
Profit before taxes	12 804	12 948
Theoretically calculated corporate income tax 15%	1 921	1 942
Permanent differences	(23)	53
Actual and deferred corporate income tax for period	1 898	1 995
Effective tax rate	14.8%	15.4%

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2014 AND 2013

17. OFF BALANCE SHEET ITEMS

	31.12.2014. euro	31.12.2013. euro
<i>Committed loans granted, not disbursed</i>		
Municipal companies*	186 190	117 800
* In accordance with the standard loan agreement the maximum available period of drawdown for loans is one year		

18. 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 interest rate on the loans issued by the Fund is disclosed in Note 9.

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 Public Procurement. The Fund's employees make regular site visits.

The maximum exposure to credit risk for financial instruments:

	2014		2013	
	Gross euro	Net euro	Gross euro	Net euro
Neither past due nor impaired				
Cash and cash equivalents	1 259 181	1 259 181	920 126	920 126
Loans to customers	5 520 938	5 520 938	5 781 481	5 781 481
Total	6 780 119	6 780 119	6 701 607	6 701 607

Guarantees/collateral on the loans

	31.12.2014. euro	31.12.2013. euro
Municipal guarantee (borrowers are municipal companies)	3 652 584	3 098 443
Municipal budget (borrowers are municipalities)	1 745 380	2 435 150
Commercial pledge (borrowers are municipal companies)	134 868	152 267
Mortgage (borrowers are non-government organizations)	-	99 601
Total	5 532 832	5 785 461

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS 2014 AND 2013**

18. FINANCIAL RISK MANAGEMENT

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 euro, foreign currency risk is not significant.

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.

19. RELATED PARTY DISCLOSURES

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

20. 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.

21. 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 2015 while also continuing to work on supervision and post implementation monitoring as well as financing of environmental projects. The management plans to develop operational strategy for further five years, planning to continue with supporting of implementation of environmental projects.

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.

ENVIRONMENTAL INVESTMENT FUND

UNAUDITED FINANCIAL INFORMATION FOR THE YEARS 2014 AND 2013

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 project applicants about project proposal preparation and 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,
- together with MEPRD organizes project tenders for the CCFI funding,
- performs secretarial functions for the project proposal evaluation, providing consultative and technical support to evaluation committee,
- develops guidelines for project applicants, evaluation guidelines and evaluation committee regulations for the CCFI tenders, prepares answers to project applicant questions about the CCFI tender rules,
- prepares recommendations in the form of decision for the MEPRD about approval of the projects and CCFI financing or rejection of the project.

	01.01.2014. – 31.12.2014. euro	01.01.2013. – 31.12.2013. euro
Personnel costs:		
– salaries	325 248	273 274
– state obligatory social security payments	76 556	65 774
Office rent and public utilities	31 240	26 990
Business trips	9 675	7 604
Depreciation	5 093	5 083
Office supplies and stationary	3 483	3 514
Communications	3 371	2 891
Other administrative expense	53 705	35 017
Total	508 371	420 147
State budget assignments	508 371	419 687
Disclosed in income statement	-	(460)