

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

*Annual Report for the year 2015  
prepared in accordance with International Financial  
Reporting Standards as adopted by EU  
and Independent Auditors' Report*

*Riga, 2016*

*\* 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

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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 2015 – 31 December 2015
Prior period of reporting	1 January 2014 – 31 December 2014
Independent auditors and their address	Limited liability company Deloitte Audits Latvia Licence No. 43 Gredu iela 4a Riga, LV-1019 Latvia  Kitija Ķepīte Sworn Auditor Certificate No. 182

# ENVIRONMENTAL INVESTMENT FUND

## MANAGEMENT REPORT

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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 2015 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 2016. Starting July 2015 the Fund will only continue to monitor CCFI projects, as the implementation has been finalized by then. In 2016 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 2015 Fund has signed 1 new loan agreement with a total amount of ~ 0.4 million euro.

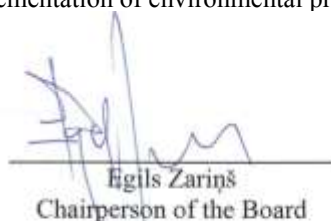
The Fund closed the year 2015 with a profit of 888 euro and assets exceeding 6.7 million euro. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests distributing the profit for the reporting year 2015 as follows:

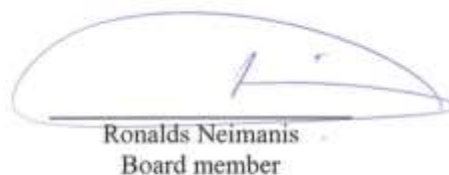
- to transfer 90% of the Fund's net profit or 799 euro to the state budget pursuant to the Law On Management of The Public person shares and companies,
- to transfer the difference amounting of 89 euro to "Retained earnings".

It is already the twelfth year since the quality management system in accordance to the ISO 9001:2015 standard was introduced in the Fund. On 26 January, 2016 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 2016 will be significant for the Fund and our clients with new opportunities for implementation of environmental projects.



Ēgils Zariņš  
Chairperson of the Board



Ronalds Neimanis  
Board member

Riga,  
27 April 2016

## 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>
Rinalds Muciņš	Representative of State capital shareholder	7 March, 2016

#### **The Board**

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

Resignations between 1 January 2015 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>
Sandis Cakuls	Representative of State capital shareholder	7 May, 2014	7 March, 2016

#### **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

## ENVIRONMENTAL INVESTMENT FUND

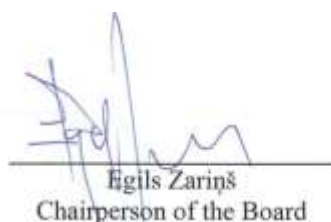
### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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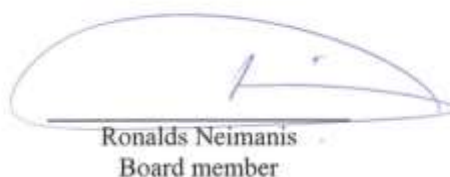
The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.

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 2015 and 2014. 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.



Egils Zariņš  
Chairperson of the Board



Ronalds Neimanis  
Board member

Riga,  
27 April 2016

## 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 2015 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 2015, 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  
27 April 2016

  
Kitija Ķepīte  
Certified auditor of Latvia  
Certificate No. 182


# ENVIRONMENTAL INVESTMENT FUND

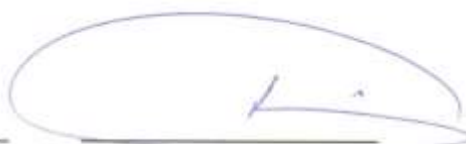
## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARS 2015 AND 2014

	Note	01.01.2015. – 31.12.2015. euro	01.01.2014. – 31.12.2014. euro
<i>Operating income</i>			
Interest income	3	112 065	131 896
Interest expense		-	-
<b>Net interest income</b>		<b>112 065</b>	<b>131 896</b>
Other income	4	422 183	548 488
<b>Other income, net</b>		<b>422 183</b>	<b>548 488</b>
<b>TOTAL OPERATING INCOME</b>		<b>534 248</b>	<b>680 384</b>
<i>Operating expense</i>			
Administrative expense	5	(522 483)	(657 373)
Depreciation	12	(7 868)	(10 207)
<b>TOTAL OPERATING EXPENSE</b>		<b>(530 351)</b>	<b>(667 580)</b>
<b>GROSS PROFIT BEFORE TAXES</b>		<b>3 897</b>	<b>12 804</b>
Corporate income tax	16	-	(3 317)
Deferred corporate income tax	16	(3 009)	1 419
<b>PROFIT FOR THE YEAR</b>	6	<b>888</b>	<b>10 906</b>
<b>Other items of comprehensive income</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>888</b>	<b>10 906</b>

*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 27 April 2016 and signed by:

  
Egils Zariņš  
Chairperson of the Board

  
Ronalds Neimanis  
Board member




# ENVIRONMENTAL INVESTMENT FUND


## STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015 AND 2014

	Note	31.12.2015. euro	31.12.2014. euro
<b>ASSETS</b>			
<b><i>CURRENT ASSETS</i></b>			
Cash and cash equivalents	7	1 571 118	1 259 181
Corporate income tax receivable		3 379	55
Other current assets	8	9 041	9 616
Loans to customers	9	761 687	839 872
Accrued income	10	22 500	19 823
<b>TOTAL</b>		<b>2 367 725</b>	<b>2 128 547</b>
<b><i>NON-CURRENT ASSETS</i></b>			
Fixed assets	12	14 858	18 780
Deferred corporate income tax asset	16	221	3 230
Loans to customers	9	4 335 999	4 681 066
<b>TOTAL</b>		<b>4 351 078</b>	<b>4 703 076</b>
<b>TOTAL ASSETS</b>		<b>6 718 803</b>	<b>6 831 623</b>
<b>LIABILITIES AND EQUITY</b>			
<b><i>CURRENT LIABILITIES</i></b>			
Other loans	13	32 356	32 356
Deferred income	14	110 400	194 580
Accrued liabilities		12 447	36 427
Taxes and social security payments		1 128	-
Accounts payable to suppliers and contractors		10 326	7 187
<b>TOTAL</b>		<b>166 657</b>	<b>270 550</b>
<b><i>SHAREHOLDER'S EQUITY</i></b>			
Share capital	15	6 299 332	6 299 332
Retained earnings		252 814	261 741
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>6 552 146</b>	<b>6 561 073</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>6 718 803</b>	<b>6 831 623</b>
<b>OFF BALANCE SHEET ITEMS</b>			
Commitments			
Committed loans granted, not drawn down	17	-	186 190

*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 27 April 2016 and signed by:

  
Egils Zariņš  
Chairperson of the Board

  
Ronalds Neimanis  
Board member


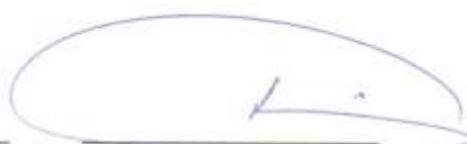
## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF CHANGES IN EQUITY FOR THE YEARS 2015 AND 2014

	Share capital euro	Retained earnings euro	Total euro
<b>As at 31 December 2013</b>	<b>6 299 332</b>	<b>260 693</b>	<b>6 560 025</b>
Dividends	-	(9 858)	(9 858)
Profit for the year	-	10 906	10 906
<b>As at 31 December 2014</b>	<b>6 299 332</b>	<b>261 741</b>	<b>6 561 073</b>
Dividends	-	(9 815)	(9 815)
Profit for the year	-	888	888
<b>As at 31 December 2015</b>	<b>6 299 332</b>	<b>252 814</b>	<b>6 552 146</b>

*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 27 April 2016 and signed by:

  
\_\_\_\_\_  
Egils Zariņš  
Chairperson of the Board  
\_\_\_\_\_  
Ronalds Neimanis  
Board member


# ENVIRONMENTAL INVESTMENT FUND


## CASH FLOW STATEMENT FOR THE YEARS 2015 AND 2014

	Note	01.01.2015. – 31.12.2015. euro	01.01.2014. – 31.12.2014. euro
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year before taxes		3 897	12 804
Depreciation of fixed assets	12	7 868	10 207
Interest income	3	(112 065)	(131 896)
Loans to customers decrease		418 514	252 629
Interest received		116 803	139 810
Net cash flow before changes in working capital		435 017	283 554
<i>Changes in working capital</i>			
Decrease in accrued interest income		4 738	7 914
(Increase)/decrease in other current assets		(6 840)	17 030
(Decrease)/increase in accounts payable		(103 893)	20 482
Cash flow from operating activities		329 022	328 980
Corporate income tax payments		(3 324)	21 114
<b>Net cash flow from operating activities</b>		<b>325 698</b>	<b>350 094</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>			
Purchases of fixed assets	12	(3 946)	(1 180)
<b>Net cash flow used in investing activities</b>		<b>(3 946)</b>	<b>(1 180)</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>			
Dividends		(9 815)	(9 858)
<b>Net cash flow used in financing activities</b>		<b>(9 815)</b>	<b>(9 858)</b>
<b>Increase in cash and cash equivalents</b>		<b>311 937</b>	<b>339 055</b>
<b>Cash and cash equivalents at the beginning of year</b>		<b>1 259 181</b>	<b>920 126</b>
<b>Cash and cash equivalents at the end of year</b>	7	<b>1 571 118</b>	<b>1 259 181</b>

*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 27 April 2016 and signed by:

  
Egils Zariņš  
Chairperson of the Board

  
Ronalds Neimanis  
Board member

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2015 AND 2014

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

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 2015:

- Amendments to various standards Improvements to IFRSs (cycle 2011-2013) resulting from the annual improvement project of IFRS (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). The amendments did not have material impact on Fund's financial statements.
- IFRIC 21 Levies (effective for annual periods beginning on or after 17 June 2014). The interpretation did not have material impact on Fund's financial statements.

A number of new standards, amendments to standards and interpretations adopted by the EU, which are not yet effective for the year ended 31 December 2015, have not been applied in preparing these financial statements:

- 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). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- Amendments to IAS 19 Employee Benefits – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 February 2015). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- 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). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- 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). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- 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; approved as of 02.12.2015). The Fund does not expect the amendments to have material impact on Fund's financial statements.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS 2015 AND 2014**

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

- 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). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- Amendments to IAS 1 Presentation of Financial Statements – Disclosure Initiative (effective for annual periods beginning on or after 1 January 2016). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (effective for annual periods beginning on or after 1 January 2016). The Fund does not expect the amendments to have material impact on Fund's financial statements.

A number of new standards, amendments to standards and interpretations not yet adopted by the EU as at 31 December 2015, have not been applied in preparing these financial statements:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018; not yet adopted by the EU). The Fund does not consider that the issued standard would have material impact on Fund's financial statements.
- IFRS 14 Regulatory Deferral Accounts (effective for annual periods beginning on or after 1 January 2016; not yet adopted by the EU). The issued standard will have no impact on Fund's financial statements.
- IFRS 15 Revenue from Contracts with Customers (effective for annual periods beginning on or after 1 January 2017; not yet adopted by the EU). The Fund does not consider that the issued standard would have material impact on Fund's financial statements.
- IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019). The Fund does not consider that the issued standard would have material impact on Fund's financial statements.
- 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). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- 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). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- Amendments to IAS 7 Statement of Cash Flows - Disclosure Initiative (effective for annual periods beginning on or after 1 January 2017). The Fund does not expect the amendments to have material impact on Fund's financial statements.
- Amendments to IAS 12 Income Taxes - Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017). The Fund does not expect the amendments to have material impact on Fund's financial statements.

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 2015 AND 2014

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#### 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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS 2015 AND 2014

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**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 2015.

**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 2015 AND 2014

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#### 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

	<b>01.01.2015. – 31.12.2015. euro</b>	<b>01.01.2014. – 31.12.2014. euro</b>
Interest income from loans to customers	112 065	131 896
<b>Total</b>	<b>112 065</b>	<b>131 896</b>

The interest rates for deposits in banks for the years ended 31 December 2015 and 2014 were 0%. Interest rates for loans disbursed are disclosed in Note 9.

#### 4. OTHER INCOME

	<b>01.01.2015. – 31.12.2015. euro</b>	<b>01.01.2014. – 31.12.2014. euro</b>
Compensation for CCFI implementation monitoring function	297 318	508 371
Co-financing for development cooperation projects	124 081	40 117
Other income	784	-
<b>Total</b>	<b>422 183</b>	<b>548 488</b>



## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2015 AND 2014

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#### 5. ADMINISTRATIVE EXPENSE

	01.01.2015. – 31.12.2015. euro	01.01.2014. – 31.12.2014. euro
Personnel costs:		
– salaries	314 878	371 803
– state obligatory social security payments	74 748	88 424
Board costs:		
– salaries	42 375	22 715
– state obligatory social security payments	9 448	4 472
Office rent and public utilities	43 224	43 676
Business trips	18 736	21 293
Office supplies and stationary	6 735	10 358
Audit fee	5 324	6 198
Communications	5 193	7 087
Provisions for vacation expense	(23 980)	2 076
Other administrative expense	25 802	79 271
<b>Total</b>	<b>522 483</b>	<b>657 373</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 2015 was 22 (at year ended 31.12.2014: 30).

#### 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

	31.12.2015. euro	31.12.2014. euro
Balances with banks		
- EUR current account	1 570 941	1 259 063
- credit card	143	117
Cash on hand	34	1
<b>Total</b>	<b>1 571 118</b>	<b>1 259 181</b>

#### 8. OTHER CURRENT ASSETS

	31.12.2015. euro	31.12.2014. euro
Security deposit for office rent	5 565	5 565
Prepaid expense	3 163	3 343
Tax prepayments	5	616
Other assets	308	92
<b>Total</b>	<b>9 041</b>	<b>9 616</b>

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2015 AND 2014

### 9. LOANS TO CUSTOMERS

	31.12.2015. euro	31.12.2014. euro
<i>Remaining maturity</i>		
Accrued interest income	26 054	30 792
Less than one year	735 633	809 080
Within one to five years	1 878 428	2 039 932
Within five to ten years	1 291 730	1 616 801
More than ten years	1 208 527	1 067 019
<b>Total</b>	<b>5 140 372</b>	<b>5 563 624</b>
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
<b>Total, net</b>	<b>5 097 686</b>	<b>5 520 938</b>

<i>Analysis by sector</i>		
Water and waste water treatment	4 023 528	4 251 798
Environmentally friendly heat supply	1 071 012	1 253 857
Insulation of buildings	19 778	27 177
Accrued interest income	26 054	30 792
<b>Total</b>	<b>5 140 372</b>	<b>5 563 624</b>
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
<b>Total, net</b>	<b>5 097 686</b>	<b>5 520 938</b>

<i>Customer analysis</i>		
Municipalities	1 223 602	1 678 481
Municipal companies	3 890 716	3 854 351
Accrued interest income	26 054	30 792
<b>Total</b>	<b>5 140 372</b>	<b>5 563 624</b>
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
<b>Total, net</b>	<b>5 097 686</b>	<b>5 520 938</b>

	31.12.2015. Currency euro	31.12.2014. Currency euro
<i>Currency analysis</i>		
Euro	5 114 318	5 532 832
<b>Total</b>	<b>5 114 318</b>	<b>5 532 832</b>
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
<b>Total, net</b>	<b>5 071 632</b>	<b>5 490 146</b>

	31.12.2015. Number euro	31.12.2014. Number euro
<i>Loan size analysis (euro)</i>		
Up to 10 000	24 123 253	23 151 649
10 000 – 50 000	30 627 768	40 916 579
50 000 – 250 000	29 3 297 693	32 3 691 149
Over 250 000	3 1 065 604	2 773 455
<b>Total</b>	<b>86 5 114 318</b>	<b>97 5 532 832</b>
Provisions for doubtful debts (Note 11)	(42 686)	(42 686)
<b>Total, net</b>	<b>86 5 071 632</b>	<b>97 5 490 146</b>

As of 31 December 2015 and 2014 there were no overdue payments. Information on collateral types is disclosed in note 18.

The interest rates on loans ranged from 0.216% 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](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%.

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2015 AND 2014

### 10. ACCRUED INCOME

	31.12.2015. euro	31.12.2014. euro
Accrued income on co-financing for development cooperation projects	22 500	19 823
<b>Total</b>	<b>22 500</b>	<b>19 823</b>

### 11. PROVISIONS FOR DOUBTFUL DEBTS

	01.01.2015. – 31.12.2015. euro	01.01.2014. – 31.12.2014. euro
At the beginning of the year	42 686	42 686
Change	-	-
<b>At the end of the year</b>	<b>42 686</b>	<b>42 686</b>

### 12. FIXED ASSETS

	Computer and office equipment euro	Fixtures and fittings euro	Total euro
<i>Historical cost</i>			
<b>At 31 December 2013</b>	<b>55 403</b>	<b>37 304</b>	<b>92 707</b>
Additions	117	1 063	1 180
Disposal	(1 934)	-	(1 934)
<b>At 31 December 2014</b>	<b>53 586</b>	<b>38 367</b>	<b>91 953</b>
Additions	3 408	538	3 946
<b>At 31 December 2015</b>	<b>56 994</b>	<b>38 905</b>	<b>95 899</b>
<i>Accumulated depreciation</i>			
<b>At 31 December 2013</b>	<b>39 938</b>	<b>24 962</b>	<b>64 900</b>
Charge for the year	8 476	1 731	10 207
Disposal	(1 934)	-	(1 934)
<b>At 31 December 2014</b>	<b>46 480</b>	<b>26 693</b>	<b>73 173</b>
Charge for the year	6 093	1 775	7 868
<b>At 31 December 2015</b>	<b>52 573</b>	<b>28 468</b>	<b>81 041</b>
<i>Net book value</i>			
<b>At 31 December 2014</b>	<b>7 106</b>	<b>11 674</b>	<b>18 780</b>
<b>At 31 December 2015</b>	<b>4 421</b>	<b>10 437</b>	<b>14 858</b>

As of 31 December 2015 the fixed assets with historical cost of 54 957 euro (at 31 December 2014: 48 679 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 2015 AND 2014

#### 14. DEFERRED INCOME

	31.12.2015. euro	31.12.2014. euro
Co-financing for development cooperation projects	110 400	143 379
Financing of Climate change financing instrument	-	51 201
<b>Total</b>	<b>110 400</b>	<b>194 580</b>

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 2015 and 2014 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 2015 earnings per share is 0.0002 EUR (2014: 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

	01.01.2015. – 31.12.2015. euro	01.01.2014. – 31.12.2014. euro
<b>Payable corporate income tax</b>		
Corporate income tax for the year	-	3 317
<b>Deferred corporate income tax</b>		
Deferred corporate income tax as a result of temporary differences	3 009	(1 419)
<b>Actual and deferred corporate income tax for period</b>	<b>3 009</b>	<b>1 898</b>

##### Deferred corporate income tax:

	31.12.2015. euro	31.12.2014. euro
Difference between fixed assets value in financial and tax accounting	1 646	2 234
Temporary differences on provisions for vacation	(1 867)	(5 464)
Accrued corporate income tax losses	(16 383)	-
Unrecognized deferred corporate income tax asset	16 383	-
<b>Deferred corporate income tax (asset), net</b>	<b>(221)</b>	<b>(3 230)</b>

All tax losses have incurred in 2015. The Fund has chosen to stay prudent and not to recognize deferred tax asset from tax losses as the Fund does not have sufficient conviction that in the future the Fund will have sufficient taxable profit use the accrued tax losses.

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2015 AND 2014

### 16. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX (CONT'D)

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

	01.01.2015. – 31.12.2015. euro	01.01.2014. – 31.12.2014. euro
Profit before taxes	3 897	12 804
Theoretically calculated corporate income tax 15%	585	1 921
Permanent differences	(33)	(23)
Unrecognized deferred corporate income tax asset	2 457	-
<b>Actual and deferred corporate income tax for period</b>	<b>3 009</b>	<b>1 898</b>
<b>Effective tax rate</b>	<b>77.2%</b>	<b>14.8%</b>

### 17. OFF BALANCE SHEET ITEMS

	31.12.2015. euro	31.12.2014. euro
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*Committed loans granted, not disbursed*

Municipal companies\* - 186 190

\* 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:

	31.12.2015.		31.12.2014.	
	Gross euro	Net euro	Gross euro	Net euro
<b>Neither past due nor impaired</b>				
Cash and cash equivalents	1 571 118	1 571 118	1 259 181	1 259 181
Loans to customers	5 097 686	5 097 686	5 520 938	5 520 938
<b>Total</b>	<b>6 668 804</b>	<b>6 668 804</b>	<b>6 780 119</b>	<b>6 780 119</b>

#### Received warranties / guarantee's

	31.12.2015. euro	31.12.2014. euro
Municipality guarantee (borrowers are municipal companies)	3 773 247	3 652 584
Municipality budget (borrowers are municipalities)	1 223 602	1 745 380
Commercial pledge (borrowers are municipal companies)	117 469	134 868
<b>Total</b>	<b>5 114 318</b>	<b>5 532 832</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS 2015 AND 2014

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#### 18. FINANCIAL RISK MANAGEMENT (CONT'D)

##### Guarantees/collateral on the loans

	31.12.2015. euro	31.12.2014. euro
Municipal guarantee (borrowers are municipal companies)	3 773 247	3 652 584
Municipal budget (borrowers are municipalities)	1 223 602	1 745 380
Commercial pledge (borrowers are municipal companies)	117 469	134 868
<b>Total</b>	<b>5 114 318</b>	<b>5 532 832</b>

##### 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.

##### 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

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 year 2016. Starting July 2015 the Fund only continue to monitor CCFI projects, as the implementation has been finalized by then. In 2016 the Fund plans to start supervision of implementation of projects co-financed by the Emission Allowances Finance Instrument. The management has developed 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.

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## ENVIRONMENTAL INVESTMENT FUND

### UNAUDITED FINANCIAL INFORMATION FOR THE YEARS 2015 AND 2014

#### 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.

	<b>01.01.2015. – 31.12.2015. euro</b>	<b>01.01.2014. – 31.12.2014. euro</b>
Personnel costs:		
– salaries	208 125	325 248
– state obligatory social security payments	49 016	76 556
Office rent and public utilities	18 519	31 240
Business trips	7 542	9 675
Depreciation	2 760	5 093
Communications	2 248	3 371
Office supplies and stationary	1 627	3 483
Other administrative expense	7 481	53 705
<b>Total</b>	<b>297 318</b>	<b>508 371</b>
<b>State budget assignments</b>	<b>297 318</b>	<b>508 371</b>
<b>Disclosed in income statement</b>	<b>-</b>	<b>-</b>