LIMITED LIABILITY COMPANY VIDES INVESTĪCIJU FONDS (ENVIRONMENTAL INVESTMENT FUND)

Annual Report for the year ended 31 December 2009 prepared in accordance with International Financial Reporting Standards and Independent Auditors' Report

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REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

In the year 2009 the Environmental Investment Fund Ltd. (the Fund) focused its activities on assessment of the first EU structural funds co-financed projects implementation cycle experience assessment as well as on optimization of its internal processes, in order to be able to provide high quality support for our clients in order to facilitate attraction of the EU structural funds co-financing, as well as co-financing from other financial instruments for the implementation of projects. In the last year the first projects for the new EU structural fund financing period 2007-2013 were approved as well as implementation conditions for the new financial instrument – climate change financial instrument – were approved.

Implementation of the project "Environmentally sound disposal of PCB containing equipment and waste" that lasted for 3 years was completed on 31 March 2009. Project was implemented in cooperation with the United Nations Development Programme and the Ministry of Environment. The project implementation can be evaluated as highly successful. A considerably greater volume of PCB containing equipment – 595t – has been disposed of within the project than it was planned initially (280t). To a great extent, this is due to the high interest of enterprises – in total 111 enterprises participated in the project.

The agreement on implementation of the European Economic Area financial mechanism co-financed project "Implementations of the latest technological solutions for successful realization of environmental projects" was signed by the Fund on 22 May 2009. The aim of the project is creation of a unique interactive information system which will combine academic and practical solutions to ensure the most efficient implementation of environmental projects.

In 2009, the Fund continued activities in the field of development cooperation in order to share its experience in the field of environmental infrastructure project development, financing and implementation supervision. It is anticipated that the Fund will continue activities in this field in the future.

The Fund closed the year 2009 with a profit of LVL 76 231 – that it one of the highest profit figures of the Fund’s operations and assets exceeding LVL 4.9 million. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

According to the amendments in the Law on Latvia’s participation in the flexible mechanism of the Kyoto protocol that are effective since March 3rd, 2010 several functions that are related to the projects that are co-financed from the climate change financial mechanism implementation supervision have been delegated to the Fund. Implementing above mentioned functions the Fund will be under functional supervision of the Ministry of Environment.

The Board suggests distributing the profit for the reporting year 2009 as follows:

- to transfer 80% of the Fund’s net profit, or LVL 60 985, to the state budget pursuant to the Law on State and Municipal Capital Companies,
- to transfer the difference amounting to LVL 15 246 to retained earnings.

It is already the fifth year since the quality management system in accordance with the ISO 9001 standard was introduced. In February 2008, a supervision audit took place and no substantial non-conformities were identified. Quality management system re-certification audit according to the ISO 9001:2008 standards took place on 23 November 2010. The results of this audit indicate that the quality management system implemented in the Fund works successfully. Compliance with the established procedures ensures that the Fund is not affected by such risks as market price risk, credit risk, liquidity risk, and cash flow risk (see Note 21).

We are confident that the Fund’s new activities and also improved capacity to provide good quality consultations to our clients on project preparation, implementation and available financing sources will give to our clients new possibilities to implement new and efficient environmental protection projects.

Ilze Puriņa	Askolds Kļaviņš	Romāns Mežeckis
Chairperson of the Board	Board Member	Board Member

Riga,
23 April 2010

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

As at the date of signing of the financial statements:

Representative of State capital shareholder

Name Surname	*Position*	*Date of appointment*
Guntis Puķītis	Representative of State capital shareholder	1 January, 2003

The Board

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

* – reelected for another 3 year period commencing 3 October 2007

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 23 for the years ended 31 December 2009 and 2008. The management also confirms that applicable International Financial Reporting Standards have been followed and that the financial statements have been prepared on a going concern basis.

3. The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities. They are also responsible for operating the Fund in compliance with legislation of the Republic of Latvia.

On behalf of the management,

Ilze Puriņa	Askolds Kļaviņš	Romāns Mežeckis
Chairperson of the Board	Board member	Board member

Rīga,
23 April 2010

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INDEPENDENT AUDITOR'S REPORT

To the shareholder of SIA Vides Investīciju Fonds

Report on the Financial Statements

We have audited the 2009 financial statements of SIA Vides Investīciju Fonds (the "Company"), which are set out on pages 7 through 23 of the accompanying 2009 Annual Report and which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's 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 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 2009, 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 EU.

Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2009 (included on page 3 of the accompanying 2009 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2009.

Ernst & Young Baltic SIA
License No. 17

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

Riga, 23 April 2010

INCOME STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

	Note	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Operating income			
Interest income	3	249 839	256 477
Interest expense	4	(12 885)	(48 381)
Net interest income		**236 954**	**208 096**
Other operating income	5	1 862	20 056
Other income, net		**1 862**	**20 056**
TOTAL OPERATING INCOME		**238 816**	**228 152**
Operating expense			
Administrative expense	6	(144 137)	(142 930)
Depreciation	13	(5 048)	(5 389)
Other operating income	7	58	11 093
TOTAL OPERATING EXPENSE		**(149 127)**	**(137 226)**
GROSS PROFIT BEFORE TAXES		**89 689**	**90 926**
Corporate income tax	19	(14 464)	(13 963)
Deferred corporate income tax	19	1 006	232
PROFIT FOR THE YEAR	8	**76 231**	**77 195**

The accompanying notes on pages 11 to 23 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 23 April 2010 and signed on his behalf by:

Ilze Puriņa	Askolds Kļaviņš	Romāns Mežeckis
Chairperson of the Board	Board member	Board member

BALANCE SHEET
AS AT 31 DECEMBER 2009 AND 2008

	Note	31.12.2009. LVL	31.12.2008. LVL
ASSETS			
CURRENT ASSETS			
Cash	9	663 060	53 952
Accrued interest income		52 331	56 401
Other current assets	10	10 051	7 972
Loans to customers	11	848 008	979 301
TOTAL		**1 573 450**	**1 097 626**
NON-CURRENT ASSETS			
Fixed assets	13	8 017	12 452
Deferred corporate income tax	19	618	-
Loans to customers	11,12	3 367 994	4 011 611
TOTAL		**3 376 629**	**4 024 063**
TOTAL ASSETS		**4 950 079**	**5 121 689**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Phare Financing Agreement	14	22 740	14 534
NEFCO Loans	15	143 701	201 054
Deferred income	16	11 461	765
Taxes		-	690
Accrued liabilities		10 109	6 638
Accounts payable to suppliers and contractors	17	4 110	3 502
TOTAL		**192 121**	**227 183**
NON-CURRENT LIABILITIES			
Deferred corporate income tax	19	-	388
Phare Financing Agreement	14	-	8 206
NEFCO Loans	15	106 201	248 630
TOTAL		**106 201**	**257 224**
SHAREHOLDER'S EQUITY			
Share capital	18	4 427 196	4 427 196
Retained earnings		224 561	210 086
TOTAL SHAREHOLDER'S EQUITY		**4 651 757**	**4 637 282**
TOTAL LIABILITIES AND EQUITY		**4 950 079**	**5 121 689**
OFF BALANCE SHEET ITEMS	20		
Commitments			
Committed loans granted, not drawn down		190 000	-
		190 000	**-**

The accompanying notes on pages 11 to 23 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 23 April 2010 and signed on his behalf by:

Ilze Puriņa	Askolds Kļaviņš	Romāns Mežeckis
Chairperson of the Board	Board member	Board member

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

	Share capital LVL	Retained earnings LVL	Total LVL
As at 31 December 2007	**4 427 196**	**146 090**	**4 573 286**
Dividends	-	(13 199)	(13 199)
Profit for the year	-	77 195	77 195
As at 31 December 2008	**4 427 196**	**210 086**	**4 637 282**
Dividends	-	(61 756)	(61 756)
Profit for the year	-	76 231	76 231
As at 31 December 2009	**4 427 196**	**224 561**	**4 651 757**

The accompanying notes on pages 11 to 23 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 23 April 2010 and signed on his behalf by:

Ilze Puriņa	Askolds Kļaviņš	Romāns Mežeckis
Chairperson of the Board	Board member	Board member

CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2009 AND 2008

	Note	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year		76 231	77 195
Depreciation of fixed assets		5 048	5 389
Income from grants		(765)	(1 201)
Interest income		(249 839)	(256 477)
Interest expense		12 885	48 380
Decrease in provisions for doubtful debts		-	(15 000)
Loans to customers decrease		774 909	1 586 013
Interest received		232 890	240 562
Interest paid		-	(32 399)
Net cash flow before changes in current items		851 359	1 652 462
Cash flows from current items			
Decrease in accrued interest income		8 134	18 588
(Iincrease)/ decrease in other current assets		(2 079)	1 083
Increase in accounts payable		13 845	810
Net cash flow from operating activities		**871 259**	**1 672 943**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(613)	(1 822)
Net cash flow from investing activities		**(613)**	**(1 822)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends		(61 756)	(13 199)
Decrease in Phare Financing Agreement		-	(14 534)
Decrease in NEFCO Loans		(199 782)	(2 324 082)
Net cash flow from financing activities		**(261 538)**	**(2 351 815)**
Net effect of exchange rate changes on cash		-	7 158
Increase/ (decrease) in cash		**609 108**	**(673 536)**
Cash at the beginning of year		**53 952**	**727 488**
Cash at the end of year	9	**663 060**	**53 952**

The accompanying notes on pages 11 to 23 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 23 April 2010 and signed on his behalf by:

Ilze Puriņa	Askolds Kļaviņš	Romāns Mežeckis
Chairperson of the Board	Board member	Board member

1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environment established the Fund based on a Order of the Cabinet of Ministers of the Republic of Latvia. The Fund is a limited liability company, which is governed by its own Charter and by the legislation of the Republic of Latvia. The Fund has been established to pool domestic funding with foreign funding to finance environmentally friendly projects by lending financial resources to public and private sector projects.

The activities of the Fund are:

- the participation in projects which yield a significant environmental benefit;
- the development and design of environmental projects;
- the monitoring implementation and operation of the projects;
- the popularisation of environmental activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund maintains its accounting records in accordance with Latvian accounting legislation and International Financial Reporting Standards. The financial statements have been prepared from those accounting records.

Basis of preparation

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

Changes in accounting policies

The following IFRS and IFRIC as adopted in the EU are amended and enter into force starting from 1 January 2009:

IFRS 2 Share-based Payment: Vesting Conditions and Cancellations effective 1 January 2009
IFRS 2 Share-based Payment: Group Cash-settled Share-based Payment Transactions effective 1 January 2010 (early adopted)
IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended) effective 1 July 2009 (early adopted) including consequential amendments to IFRS 7, IAS 21, IAS 28, IAS 31 and IAS 39
IFRS 7 Financial Instruments: Disclosures effective 1 January 2009
IFRS 8 Operating Segments effective 1 January 2009
IAS 1 Presentation of Financial Statements effective 1 January 2009
IAS 23 Borrowing Costs (Revised) effective 1 January 2009
IAS 32 Financial Instruments: Presentation and IAS 1 Puttable Financial Instruments and Obligations Arising on Liquidation effective 1 January 2009
IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items effective 1 July 2009 (early adopted)
IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement effective for periods ending on or after 30 June 2009
IFRIC 13 Customer Loyalty Programmes effective 1 July 2009
IFRIC 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
IFRIC 18 Transfers of Assets from Customers effective 1 July 2009 (early adopted)
Improvements to IFRSs (May 2008)

These amendments produce no significant impact on the financial position and performance of the Fund.

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

Changes in accounting policies (cont'd)

IFRS and IFRIC that have been issued but are not yet effective

The Standards and Interpretations which have been issued as at the date of these financial statements but will be effective for annual periods beginning on or after 1 January 2010 and which have not been applied by the Fund retrospectively:

Amendment to IFRS 2 Share-based Payment (effective for financial years beginning on or after 1 January 2010, once adopted by the EU). The amendment clarifies the scope and the accounting for group cash-settled share-based payment transactions.

Amendments to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements (effective for financial years beginning on or after 1 July 2009). Revised IFRS 3 (IFRS 3R) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures.

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2013, once adopted by the EU). IFRS 9 will eventually replace IAS 39. The IASB has issued the first part of the standard, establishing a new classification and measurement framework for financial assets.

Amendments to IAS 24 Related Party Disclosures (effective for financial years beginning on or after 1 January 2011, once adopted by the EU). The amendments simplify the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition. They also provide a partial exemption from the disclosure requirements for government-related entities.

Amendment to IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (effective for financial years beginning on or after 1 February 2010). The amendment changes the definition of a financial liability to exclude certain rights, options and warrants.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

The Fund expects that the adoption of the pronouncements listed above will have no significant impact on the Fund's financial statements.

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

Improvements to IFRSs

In May 2008 and April 2009 IASB issued omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The second omnibus, issued in April 2009, is still to be adopted by the EU. The adoption of the following amendments (all not adopted by the EU yet) may result in changes to accounting policies but will not have any impact on the financial position or performance of the Fund:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in IFRS 5. The disclosure requirements of other IFRSs only apply if specifically required for such non-current assets or discontinued operations.

IFRS 8 Operating Segments. Clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.

IAS 7 Statement of Cash Flows. Explicitly states that only expenditure that results in recognising an asset can be classified as a cash flow from investing activities.

IAS 36 Impairment of Assets. The amendment clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in IFRS 8 before aggregation for reporting purposes.

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

IFRS 2 Share-based Payment;
IAS 1 Presentation of Financial Statements;
IAS 17 Leases;
IAS 38 Intangible Assets;
IAS 39 Financial Instruments: Recognition and Measurement;
IFRIC 9 Reassessment of Embedded Derivatives;
IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

IFRIC 12 Service Concession Arrangements (effective for financial years beginning on or after 29 March 2009). This interpretation applies to service concession operators and explains how to account for the obligations undertaken and rights received in service concession arrangements.

Amendment to IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (effective for financial years beginning on or after 1 January 2011, once adopted by the EU). The amendment modifies the accounting for prepayments of future contributions when there is a minimum funding requirement.

IFRIC 17 Distributions of Non-cash Assets to Owners (effective for financial years beginning on or after 31 October 2009). The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18 Transfers of Assets from Customers (effective for financial years beginning on or after 31 October 2009).The Interpretation provides guidance on accounting for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (effective for financial years beginning on or after 1 April 2010, once adopted by the EU). The interpretation provides guidance on accounting for extinguishing financial liabilities with equity instruments.

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

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

Foreign currency
All monetary positions denominated in foreign currencies are translated into Latvian lats using the exchange rates at the balance sheet date as published by the Bank of Latvia. Gains and losses arising from this transaction are included in the income statement for the period. The principal foreign currency held by the Fund is the euro (EUR). The exchange rates as at the balance sheet date were as follows:

	31.12.2009.	**31.12.2008.**
1 EUR	LVL 0.702804	LVL 0.702804

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

Provisions for doubtful debts
The management and the Board have considered risk in determining the balance of provisions and possible loan losses. Provisions for loan losses as at the balance sheet date represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provisions.

The level of the provisions is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as charges in the period in which they become known. Loans are stated net of provisions.

Fixed assets and depreciation
Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful life of the assets. The rates per annum are as follows:

Fixtures and fittings	10%
Computers and office equipment	20%
Miscellaneous office assets	30%–50%

Repairs and renewals are charged to the income statement as incurred. Fixed assets over LVL 50 are capitalised. Profits and losses arising on the disposal of fixed assets are reflected in the statement of income in the year of disposal.

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

Grants
Grants to be utilised in less than one year are transferred to income in order to match them with the related costs, which they are intended to compensate.

Fixed assets received as grants are recognised in the financial statements as deferred income. Income is recognized in the income statement over the period of the useful life of the related fixed assets in order to match the grants to the related depreciation of the fixed assets, which they are intended to compensate for.

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

Income recognition
Income is recognized proportionally the Fund judgment to gain economical benefit and at such level as it is reasonable justifiable. Interest income is recognized in the period it is earned. The Fund does not accrue interest on non-performing loans. Commissions, fees and other income/ expenses are recognised when earned/ incurred.

Related parties
Related parties are defined as shareholders, employees, Board members, their close relatives and companies, in which the above persons are involved in.

Use of estimates
In the process of preparation of the financial statements, the management has to make some judgments and assumptions, which has effect on some values and data in the financial reports. Therefore actual results may differ from those calculations.

Taxation
The Fund was exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations till the Fund reorganization. Starting 21 October 2004 the Fund has to pay corporate income tax and dividends for use of the state capital. The Fund is not registered as a Value Added Taxpayer.

Corporate income tax
Corporate income tax is calculated by applying 15% tax rate to taxable income in period.

Deferred corporate income tax, which arises from temporary differences including some items on tax declaration form and in this financial statement, is calculated using the liability method. Deferred corporate tax assets and liabilities are estimated based on tax rates expected to be in the force when short-term differences will cease to exist. Main temporary differences arise from different fixed assets amortization rates used for accounting and tax purposes and specific, for tax purposes not deductible, provisions.

Fair value of financial assets and liabilities
Fair value represents the amount at which an asset could be sold or a liability settled at an arm's length basis.

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

3. INTEREST INCOME

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Interest income from loans to customers	212 000	247 268
Interest income from deposits in bank	37 839	9 209
Total	**249 839**	**256 477**

The interest rates received on balances with banks for the years ended 31 December 2009 and 2008 ranged from 0.30% to 30.00%.

4. INTEREST EXPENSE

The Fund has interest expense in accordance with the NEFCO loan facility agreements (Note 15). In accordance with the Loan agreement I, borrowers transfer the interest payments directly to NEFCO.

5. OTHER OPERATING INCOME

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Services to UNDP	1 097	3 855
Income from grants of fixed assets released in reporting period	765	1 201
Decrease of provisions for doubtful debts	-	15 000
Total	**1 862**	**20 056**

6. ADMINISTRATIVE EXPENSE

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Personnel costs (excluding management):		
– salaries	55 874	42 161
– state obligatory social security payments	12 854	8 193
Management costs:		
– salaries	28 009	40 442
– state obligatory social security payments	6 747	9 847
Office rent and public utilities	21 502	20 440
Audit fee	3 714	6 608
Provisions for vacation expense	3 471	1 161
Health insurance	2 489	2 777
Communications	2 278	2 573
Business trips	1 054	2 413
Office supplies and stationary	986	1 353
Advertising and publicity	75	1 517
Other administrative expense	5 084	3 445
Total	**144 137**	**142 930**

The average number of persons employed by the Fund excluding the Members of the Board, Representative of State capital shareholder and Responsible officer during the year ended 31 December 2009 was 6 (during the year ended 2008 was 7).

7. OTHER OPERATING INCOME

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Net gain from foreign exchange operations	58	11 093
Total	**58**	**11 093**

8. PROFIT FOR THE YEAR

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 80% of net profit to the state budget.

9. CASH

	31.12.2009. LVL	31.12.2008. LVL
Cash on hand	83	138
Balances with banks		
- LVL current account	9 447	2 430
- EUR current account	2 643	-
- LVL Visa Electron and Visa Mastercard	887	1 384
- short term deposit	650 000	50 000
Total	**663 060**	**53 952**

10. OTHER CURRENT ASSETS

	31.12.2009. LVL	31.12.2008. LVL
Tax prepayments	4 845	8
Security deposit for office rent	3 226	3 226
Prepaid expense	1 817	3 480
Other assets	163	1 258
Total	**10 051**	**7 972**

11. LOANS TO CUSTOMERS

	31.12.2009. LVL	31.12.2008. LVL
Remaining maturity		
Less than one year	848 008	979 301
Within one to five years	1 750 311	2 056 544
Within five to ten years	1 277 542	1 548 332
More than ten years	370 141	436 735
Total	**4 246 002**	**5 020 912**
Provisions for doubtful debts (Note 12)	(30 000)	(30 000)
Total, net	**4 216 002**	**4 990 912**
Analysis by sector		
Water and waste water treatment	3 320 371	3 931 076
Environmentally friendly heat supply	798 908	918 485
Insulation of buildings	75 645	95 245
Cleaner technology and other projects	46 200	58 500
Recycling and waste management	4 878	17 606
Total	**4 246 002**	**5 020 912**
Provisions for doubtful debts (Note 12)	(30 000)	(30 000)
Total, net	**4 216 002**	**4 990 912**
Customer analysis		
Municipalities	3 192 966	3 723 053
Municipal companies	1 004 196	1 226 179
Private companies	48 840	71 680
Total	**4 246 002**	**5 020 912**
Provisions for doubtful debts (Note 12)	(30 000)	(30 000)
Total, net	**4 216 002**	**4 990 912**

11. LOANS TO CUSTOMERS (cont'd)

	31.12.2009.		31.12.2008.	
	Currency	**LVL**	**Currenc y**	**LVL**
Currency analysis				
LVL	3 997 372	3 997 372	4 578 415	4 578 415
EUR	353 768	248 630	629 616	442 497
Total		**4 246 002**		**5 020 912**
Provisions for doubtful debts (Note 12)		(30 000)		(30 000)
Total, net		**4 216 002**		**4 990 912**

	31.12.2009.		31.12.2008.	
	Number	**LVL**	**Number**	**LVL**
Loan size analysis (LVL)				
Up to 5,000	14	47 506	11	27 631
5,000 - 10,000	19	144 514	19	143 769
10,000 – 100,000	98	3 310 923	106	3 478 714
Over 100,000	5	743 059	10	1 370 798
Total	**136**	**4 246 002**	**146**	**5 020 912**
Provisions for doubtful debts (Note 12)		(30 000)		(30 000)
Total, net	**136**	**4 216 002**	**146**	**4 990 912**

Loans are recognized in the balance sheet on the date of the disbursements. The interest rates on loans ranged from 2.75% to 10%. The loans have fixed and variable interest rate. Variable interest rate is determined once in five years based on the current market situation but not more than the interest rate on loans from the State budget. Loans co-financed by NEFCO have variable interest rates determined semi-annually based on the six-month EUR LIBOR plus 1% margin.

12. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2009. LVL	31.12.2008. LVL
At the beginning of the year	**30 000**	**45 000**
Decrease	-	(15 000)
At the end of the year	**30 000**	**30 000**

13. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
Historical cost			
At 31 December 2008	**28 057**	**18 995**	**47 052**
Additions	613	-	613
Disposal	(2 162)	-	(2 162)
At 31 December 2009	**26 508**	**18 995**	**45 503**
Accumulated depreciation			
At 31 December 2008	**17 510**	**17 090**	**34 600**
Charge for the year	3 964	319	4 283
Disposal	(2 162)	-	(2 162)
Depreciation of grant funded fixed assets	-	765	765
At 31 December 2009	**19 312**	**18 174**	**37 486**
Net book value			
At 31 December 2008	**10 547**	**1 905**	**12 452**
At 31 December 2009	**7 196**	**821**	**8 017**

14. PHARE FINANCING AGREEMENT

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. The funds disbursed under the Financing Agreement are recognised as long-term repayables. The unutilized funds or funds to be repaid to the State Treasury within 1 year are recognised as short-term repayables. Interest is not charged on funds disbursed under the Phare Financing Agreement. The amount transferred to the Fund for the project implementation under the Agreement is reflected on the Fund Balance Sheet as follows:

	31.12.2009. LVL	31.12.2008. LVL
Non-current liabilities		
Disbursed to clients	-	8 206
Total	**-**	**8 206**
Current liabilities		
Disbursed to clients, due in less than one year	22 740	14 534
Total	**22 740**	**14 534**
Total	**22 740**	**22 740**

15. NEFCO LOANS

A Loan Facility Agreement for 3.5 million euro was signed on 19 August 1998 (Loan agreement I) with the Nordic Environment Finance Corporation (NEFCO). The loan is to assist municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is up to 15 years and the interest rate is six-month EUR LIBOR plus 1%, adjusted semi-annually.

	31.12.2009.		31.12.2008.	
	EUR	**LVL**	**EUR**	**LVL**
Received loans:				
- Loan agreement I	2 929 370	2 058 773	2 929 370	2 058 773
Total draw down	**2 929 370**	**2 058 773**	**2 929 370**	**2 058 773**
Interest due:				
- Loan agreement I	1 810	1 272	10 227	7 187
Repaid (Loan agreement I)	(2 575 602)	(1 810 143)	(2 299 754)	(1 616
Total	**355 578**	**249 902**	**639 843**	**449 684**

The total balance of the loans due in less than one year as at 31 December 2009 amounts to LVL 142 429 (at 31 December 2008: LVL 194 571) and interest due LVL 1 272 (at 31 December 2008: LVL 7 187).

16. DEFERRED INCOME

Balance as at 31 December 2008	**765**
Deferred income released in the reporting period	(765)
Increase	11 461
Balance as at 31 December 2009	**11 461**

Deferred income represents grants funding for fixed assets, which are credited to deferred income and released to the income statement over the life of the asset and matched with depreciation.

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

17. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2009.	31.12.2008.
	LVL	**LVL**
Accrued liabilities	4 110	3 502
Total	**4 110**	**3 502**

18. SHARE CAPITAL

As of 31 December 2009 the Fund's fully paid share capital was LVL 4 427 196 consisting of 4 427 196 ordinary shares. The nominal value of ordinary share is 1 lat each.

Fully paid share capital was as follows:

	31.12.2009. LVL	31.12.2008. LVL
The Ministry of Environment	**4 427 196**	**4 427 196**

19. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

Corporate income tax

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Payable corporate income tax		
Corporate income tax for the year	14 464	13 963
Deferred corporate income tax		
Deferred corporate income tax as a result of temporary differences	(1 006)	(232)
Actual and deferred corporate income tax for period	**13 458**	**13 731**

Deferred corporate income tax:

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Difference between fixed assets value in financial and tax accounting	898	1 384
Gross deferred corporate income tax assets	(1 516)	(996)
Deferred corporate income tax liabilities, net	**(618)**	**388**

Actual and deferred corporate income tax compared to theoretically calculated:

	01.01.2009. – 31.12.2009. LVL	01.01.2008. – 31.12.2008. LVL
Profit before taxes	89 689	90 926
Theoretically calculated corporate income tax 15%	13 453	13 639
Permanent differences	5	92
Actual and deferred corporate income tax for period	**13 458**	**13 731**

20. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	31.12.2009. LVL	31.12.2008. LVL
Municipal companies	190 000	-
Total	**190 000**	**-**

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

21. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, loans granted, cash and short-term deposits. The main purpose of these financial instruments is to ensure the proper financing of the Fund daily activities. The other financial instruments of the Fund are accounts receivable and other debtors, accounts payable to suppliers and contractors and other creditors, which directly arise from the Fund's activities.

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

Interest rate risk
The Fund is not exposed to interest rate risk. Under NEFCO Loan Agreement I, the interest on the loan is paid by the Fund's clients, who were granted loans from that financing. The Fund's policy is to ensure that the majority of the loans issued by the Fund bear a fixed interest rate. The interest rate on the loans issued by the Fund is disclosed in Note 11, and the interest rate on the loans received by the Fund is disclosed in Note 15.

Credit risk
The Fund is vulnerable to credit risk relating to disbursed loans and cash and balances with banks. The policy of the Fund ensures monitoring of the credit risk by constantly supervising client's credit history and by setting credit conditions for each client individually. Besides, the Fund constantly supervises debtors' balances in order to minimize possibility of the bad debts.

Liquidity risk
The Fund controls liquidity risk by maintaining sufficient level of cash and balances with banks.

Currency risk
It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to exchange rate fluctuations. Starting 1 January 2005 the Bank of Latvia has declared fixed official lat exchange rate to euro at 0.702804. The Bank of Latvia will ensure that market rate does not differ more by 1% from the official rate. Therefore the Fund profit or loss from euro exchange rate fluctuations will not be significant, while the Bank of Latvia will maintain the above mentioned exchange rate.

Operational risk
The Fund's activities also involve other types of risks that may cause unexpected losses. The cause of such risks, for example, may be human errors or fraud, information system problems and insufficient internal control and procedures. The Fund's management supervises, and the respective specialists monitor and control the above mentioned risks.

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

22. FOREIGN EXCHANGE EXPOSURE

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

	31.12.2009.	**31.12.2008.**
Monetary assets, EUR	359 339	644 433
Monetary liabilities, EUR	(355 578)	(639 843)
Balance sheet position EUR, net	**3 761**	**4 590**
Balance sheet position LVL, net	**2 643**	**3 226**

23. RELATED PARTY DISCLOSURES

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

24. 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