LIMITED LIABILITY COMPANY
VIDES INVESTĪCIJU FONDS
(ENVIRONMENTAL INVESTMENT FUND)

Annual Report for the year ended 31 December 2012
prepared in accordance with International Financial Reporting
Standards and Independent Auditors' Report

Riga, 2013

** 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.*

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ANCILLARY INFORMATION

Title	Vides investīciju fonds (Environmental Investment Fund)
Legal status	Limited liability company
Registration number, place and date	40003339615, Rīga, 28 April 1997
Legal and postal address	Ģertrūdes street 10/12, Rīga LV-1010, Latvia
Chairperson of the Board of the company	Ilze Puriņa
Shareholder	Ministry of Environmental Protection and Regional Development – 100%
Period of reporting	1 January 2012 – 31 December 2012
Prior period of reporting	1 January 2011 – 31 December 2011
Independent auditors and their address	Limited liability company Deloitte Audits Latvia Licence No. 43 Grēdu iela 4a Rīga, LV-1019 Latvia Inguna Staša Republic of Latvia Sworn Auditor Certificate No. 145

MANAGEMENT REPORT

The past year for the "Environmental Investment Fund" Ltd (hereinafter - Fund) was important with development of two main fields of activities – supervision of implementation of projects co-financed by Climate Change Financial Instrument (CCFI) and management of cross-border cooperation projects.

Total volume of administrated resources under the Climate Change Finance Instrument implementation supervision in 2012 reached almost 25 million LVL, including ~ 1200 projects within 16 tenders. Supervision of implementation of projects co-financed by the Climate Change Finance Instrument will be the main Fund's activity also in 2013. It is foreseen that in 2013 Fund will provide also evaluation of project applications submitted.

The Fund has accumulated extensive experience and capacity on environmental projects implementation supervision and post-implementation monitoring as well as on development of financing mechanisms for environmental projects implementation. Therefore activities related to cross-border cooperation projects is the latest direction of Fund's operations. The Fund is involved in implementation of 5 cross-border cooperation projects. Topics covered by these projects are related to promotion of energy efficiency and use of renewable energy resources, as well commercial mussel farming, processing and end-use in the Baltic Sea Region.

In 2012 Fund started development of the conditions for cooperation scheme and pre-financing in order to promote implementation of cross-border cooperation projects, providing pre-financing through loan financing. The first such kind of loan agreement was signed in May.

In year 2012 Fund has signed 7 new loan agreements with a total amount of ~ 1 million LVL.

The Fund closed the year 2012 with a profit of 3 070 LVL and assets exceeding 4.8 million LVL. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests distributing the profit for the reporting year 2012 as follows:
- to transfer 90% of the Fund's net profit or 2 763 LVL to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting to 307 LVL to "Retained earnings".

It is already the ninth year since the quality management system in accordance to the ISO 9001 standard was introduced in the Fund. On 9th November, 2012 the supervision audit took place and no substantial non-conformities were identified, proving that the system is running 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 20).

We are confident that year 2013 will be significant for the Fund and our clients with new opportunities for implementation of environmental projects.

Ilze Puriņa	Askolds Kļaviņš	Aigars Lisovskis
Chairperson of the Board	Board Member	Board Member

Riga,
15 March 2013

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*
Dace Grūberte	Representative of State capital shareholder	29 August, 2012

The Board

Name, Surname	*Position*	*Date of appointment*
Ilze Puriņa	Chairperson of the Board	18 October, 2004 *
Askolds Kļaviņš	Board member	18 October, 2004 *
Aigars Lisovskis	Board member	27 August, 2012

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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

2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 8 to 23 for the years ended 31 December 2012 and 2011. 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	Aigars Lisovskis
Chairperson of the Board	Board Member	Board Member

Rīga,
15 March 2013

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders 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 23 of the accompanying annual report, which comprise the statement of financial position as of 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. Financial statements for the reporting year ended 31 December 2011 were audited by another auditor. Audit report for the year ended 31 December 2011 was not modified.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by 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 2012, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by European Union.

Report on Other Legal and Regulatory Requirements

We have read the management report for 2012 set out on page 4 of the accompanying annual report for 2012 and have not identified any material inconsistencies between the financial information contained in the management report and the financial statements for 2012.

Deloitte Audits Latvia SIA
Licence No. 43

Roberts Stuģis
Member of the Board

Riga, Latvia
15 March 2013

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	Note	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Operating income			
Interest income	3	145 032	162 795
Interest expense	4	(642)	(1 934)
Net interest income		**144 390**	**160 861**
Other income	5	333 349	208 443
Other income, net		**333 349**	**208 443**
TOTAL OPERATING INCOME		**477 739**	**369 304**
Operating expense			
Administrative expense	6	(462 423)	(321 449)
Depreciation	12	(10 099)	(7 058)
TOTAL OPERATING EXPENSE		**(472 522)**	**(328 507)**
GROSS PROFIT BEFORE TAXES		**5 217**	**40 797**
Corporate income tax	17	(2 262)	(5 538)
Deferred corporate income tax	17	115	(919)
PROFIT FOR THE YEAR	7	**3 070**	**34 340**

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

The financial statements were approved by the Board on 15 March 2013 and signed by:

Ilze Puriņa Chairperson of the Board	Askolds Kļaviņš Board Member	Aigars Lisovskis Board Member

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012 AND 2011

	Note	31.12.2012. LVL	31.12.2011. LVL
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	927 069	571 829
Accrued interest income		32 289	38 820
Other current assets	9	406 136	22 926
Loans to customers	10	603 789	793 509
TOTAL		**1 969 283**	**1 427 084**
NON-CURRENT ASSETS			
Fixed assets	12	28 056	33 313
Deferred corporate income tax asset	17	296	181
Loans to customers	10	2 761 090	3 312 496
TOTAL		**2 789 442**	**3 345 990**
TOTAL ASSETS		**4 758 725**	**4 773 074**
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Other loans	13	22 740	22 740
Loans	14	-	53 463
Deferred income	15	104 047	36 258
Accrued liabilities		23 066	22 986
Accounts payable to suppliers and contractors		3 395	4 314
TOTAL		**153 248**	**139 761**
SHAREHOLDER'S EQUITY			
Share capital	16	4 427 196	4 427 196
Retained earnings		178 281	206 117
TOTAL SHAREHOLDER'S EQUITY		**4 605 477**	**4 633 313**
TOTAL LIABILITIES AND EQUITY		**4 758 725**	**4 773 074**
OFF BALANCE SHEET ITEMS	18		
Commitments			
Committed loans granted, not drawn down		370 000	303 071

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

The financial statements were approved by the Board on 15 March 2013 and signed by:

Ilze Puriņa Chairperson of the Board	Askolds Kļaviņš Board Member	Aigars Lisovskis Board Member

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	Share capital LVL	Retained earnings LVL	Total LVL
As at 31 December 2010	**4 427 196**	**245 585**	**4 672 781**
Dividends	-	(73 808)	(73 808)
Profit for the year	-	34 340	34 340
As at 31 December 2011	**4 427 196**	**206 117**	**4 633 313**
Dividends	-	(30 906)	(30 906)
Profit for the year	-	3 070	3 070
As at 31 December 2012	**4 427 196**	**178 281**	**4 605 477**

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

The financial statements were approved by the Board on 15 March 2013 and signed by:

Ilze Puriņa Chairperson of the Board	Askolds Kļaviņš Board Member	Aigars Lisovskis Board Member

CASH FLOW STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2012 AND 2011

	Note	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before taxes		5 217	40 797
Depreciation of fixed assets		10 099	7 058
Interest income		(145 032)	(162 795)
Interest expense		642	1 934
Loans to customers decrease / (increase)		741 125	(341 938)
Interest received		150 555	168 968
Net cash flow before changes in working capital		762 606	(285 976)
Changes in working capital			
Decrease in accrued interest income		366	57
Increase in other current assets		(383 526)	(2 421)
Increase/(decrease) in accounts payable		72 721	(55 109)
Cash flow from operating activities		452 167	(343 449)
Expenses for corporate income tax payments		(7 716)	(15 432)
Net cash flow from / (used in) operating activities		**444 451**	**(358 881)**
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchases of fixed assets		(4 842)	(29 485)
Net cash flow used in investing activities		**(4 842)**	**(29 485)**
CASH FLOWS USED IN FINANCING ACTIVITIES			
Dividends		(30 906)	(73 808)
Decrease in Loans		(53 463)	(53 161)
Net cash flow used in financing activities		**(84 369)**	**(126 969)**
Increase/(decrease) in cash and cash equivalents		**355 240**	**(515 335)**
Cash and cash equivalents at the beginning of year		**571 829**	**1 087 164**
Cash and cash equivalents at the end of year	8	**927 069**	**571 829**

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

The financial statements were approved by the Board on 15 March 2013 and signed by:

Ilze Puriņa Chairperson of the Board	Askolds Kļaviņš Board Member	Aigars Lisovskis 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 amounts shown in these financial statements are derived from the accounting records, maintained in accordance with Latvian Accounting Regulations, appropriately reclassified for recognition, measurement and presentation in accordance with the IFRS as adopted by the EU. The financial statements are prepared under the historical cost convention.

Basis of preparation

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

The accounting policies adopted are consistent with those of the previous year except that the Fund adopted those new/revised standards and interpretations becoming mandatory for financial years beginning on or after 1 January 2012:

- Amendments to IFRS 7 *Financial instruments: Disclosures – Transfers of Financial assets* (effective for annual periods beginning on or after 1 July 2011). The amendments require additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognized, but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The amendments have no material effect on Fund's financial statements.

A number of new standards, amendments to standards and interpretations, which are not yet effective for the year ended 31 December 2012, have not been applied in preparing these financial statements:

- IFRS 13 *Fair Value Measureme*nt (effective for annual periods beginning on or after 1 January 2013, with earlier application permitted). IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. The Fund currently is assessing the implications of the standard and the impact on its financial statements.

- Amendment to IAS 12 *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (effective for annual periods beginning on or after 1 January 2013). The amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The Fund does not expect the amendments to have material impact on financial statements.

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

- The amendments to IAS 1 *Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012). The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The Fund does not expect the amendments to have material impact on financial statements.

- The amendments to IAS 19 *Employee Benefits* (effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions). The amendments change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognized immediately through other comprehensive income in order for the net pension asset or liability recognized in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. The Fund does not expect the amendments to have material impact on financial statements.

- The amendments to IFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013 and require retrospective application in order to have full comparability). Information disclosure requirements related to the impact of offsetting financial assets and financial liabilities on financial position. New information disclosure requirements determines entities to present gross amounts, for which the offsetting rights apply, the amounts in accordance with applicable accounting standards and related net effect. The Fund does not expect the amendments to have material impact on financial statements.

- The amendments to IAS 32 *Financial instruments: presentation - Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014 and require retrospective application). Amendments explain requirements in relation to offsetting of financial instruments. The Fund does not expect the amendments to have material impact on financial statements.

- IFRS 9 *Financial Instruments* Part 1: Classification and Measurement, issued in November 2009 with amendments issued in October 2010, as well as further issued amendments of IFRS 9 and IFRS 7 in December 2011 (effective for annual periods beginning on or after 1 January 2015; not yet adopted by the EU). IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Amendments made in December 2011 to IFRS 9 and IFRS 7 *Mandatory Effective Date and Transition Disclosures* determines that the effective date of IFRS 9 is annual periods beginning on or after 1 January 2015, and modifies the relief from restating comparative periods and the associated disclosures in IFRS 7.

  Key features are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortized cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

  - An instrument is subsequently measured at amortized cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (implying that it has only "basic loan" features). All other debt instruments are to be measured at fair value through profit or loss.

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

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealized and realized fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

The Fund is considering the implications of the standard, the impact on the Fund and the timing of its adoption by the Fund.

- Amendments to IFRS 1 *First-time Adoption of IFRS - Government Loans* (effective for annual periods beginning on or after 1 January 2013; not yet adopted by the EU). This amendment addresses how a first-time adopter would account for a government loan with a below-market rate of interest when transitioning to IFRSs. It also adds an exception to the retrospective application of IFRS, which provides the same relief to first-time adopters granted to existing preparers of IFRS financial statements when the requirement was incorporated into IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* in 2008. The amendments will not impact the financial statements.

- Amendments to IFRS 9 *Financial Instruments* and IFRS 7 *Financial Instruments: Disclosures – Mandatory Effective Date and Transition Disclosures* (not yet adopted by the EU). Amendments defer the mandatory effective date from 1 January 2013 to 1 January 2015. The amendments also provide relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. This relief was originally only available to companies that chose to apply IFRS 9 prior to 2012. Instead, additional transition disclosures will be required to help investors understand the effect that the initial application of IFRS 9 has on the classification and measurement of financial instruments. The Fund does not expect the amendments to have material impact on financial statements.

- Amendments to various standards "*Improvements to IFRSs (2012)* resulting from the annual improvement project of IFRS published on 17 May 2012 (IFRS 1, IAS 1, IAS 16, IAS 32, 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 2013; not yet adopted by the EU). The revisions clarify the required accounting recognition in cases where free interpretation used to be permitted. The most important changes include new or revised requirements regarding: (i) Repeated application of IFRS 1, (ii) Borrowing costs under IFRS 1, (iii) Clarification of the requirements for comparative information, (iv) classification of servicing equipment, (v) tax effect of distribution to holders of equity instruments, (vi) Interim financial reporting and segment information for total assets and liabilities. The Fund does not expect the amendments to have material impact on financial statements.

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 using the transaction day exchange rate. The principal foreign currency held by the Fund is the euro (EUR). The exchange rates as at the balance sheet date were as follows:

	31.12.2012.	**31.12.2011.**
1 EUR	LVL 0.702804	LVL 0.702804

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

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

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

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

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

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

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

Cash flow is prepared in accordance with indirect method.

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. 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.

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

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

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

Fair value of financial assets and liabilities
Fair value 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.

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

3. INTEREST INCOME

	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Interest income from loans to customers	140 157	162 272
Interest income from deposits in bank	4 875	523
Total	**145 032**	**162 795**

The interest rates for deposits in banks for the years ended 31 December 2012 and 2011 where in ranged from 0.20% to 2.00%. Interest rates for loans disbursed are disclosed in Note 10.

4. INTEREST EXPENSE

The Fund has interest expense in accordance with the NEFCO loan facility agreements (Note 14).

5. OTHER INCOME

	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Compensation for CCFI implementation monitoring function	323 202	208 443
Co-financing for development cooperation projects	7 899	-
Net gain from foreign exchange operations	(719)	-
Other income	2 967	-
Total	**333 349**	**208 443**

6. ADMINISTRATIVE EXPENSE

	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Personnel costs:		
– salaries	267 627	156 933
– state obligatory social security payments	64 576	37 799
Board costs:		
– salaries	22 142	26 837
– state obligatory social security payments	5 230	6 459
Office rent and public utilities	31 077	30 911
Business trips	26 896	10 275
Office supplies and stationary	6 496	6 823
Communications	5 881	5 991
Audit fee	4 385	3 678
Provisions for vacation expense	80	7 992
Advertising and publicity	-	481
Other administrative expense	28 033	27 270
Total	**462 423**	**321 449**

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 2012 was 33 (at year ended 2011 was 22).

7. PROFIT FOR THE YEAR

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 90% of net profit to the state budget.

8. CASH

	31.12.2012. LVL	31.12.2011. LVL
Cash on hand	28	17
Balances with banks		
- LVL current account	886 518	528 814
- EUR current account	39 989	42 336
- LVL Visa Electron	534	662
Total	**927 069**	**571 829**

9. OTHER CURRENT ASSETS

	31.12.2012. LVL	31.12.2011. LVL
Deposit in lats	378 400	-
Tax prepayments	21 023	14 776
Security deposit for office rent	3 911	3 911
Prepaid expense	2 533	2 553
Other assets	269	1 686
Total	**406 136**	**22 926**

The initial term of deposit is six month with maturity 26 March, 2013 and interest rate is 0.73%.

10. LOANS TO CUSTOMERS

	31.12.2012. LVL	31.12.2011. LVL
Remaining maturity		
Less than one year	603 789	793 509
Within one to five years	1 404 170	1 442 430
Within five to ten years	946 023	1 149 260
More than ten years	440 897	750 806
Total	**3 394 879**	**4 136 005**
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	**3 364 879**	**4 106 005**
Analysis by sector		
Water and waste water treatment	2 619 413	3 452 254
Environmentally friendly heat supply	675 966	642 651
Insulation of buildings	29 500	41 100
Cleaner technology and other projects	70 000	-
Total	**3 394 879**	**4 136 005**
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	**3 364 879**	**4 106 005**

10. LOANS TO CUSTOMERS (CONT'D)

	31.12.2012. LVL	31.12.2011. LVL
Customer analysis		
Municipalities	2 091 795	2 621 398
Municipal companies	1 233 084	1 514 607
Private companies	70 000	-
Total	**3 394 879**	**4 136 005**
Provisions for doubtful debts (Note 11)	(30 000)	(30 000)
Total, net	**3 364 879**	**4 106 005**

	31.12.2012. Currency	31.12.2012. LVL	31.12.2011. Currency	31.12.2011. LVL
Currency analysis				
LVL	3 394 879	3 394 879	4 082 908	4 082 908
EUR	-	-	75 550	53 097
Total		**3 394 879**		**4 136 005**
Provisions for doubtful debts (Note 11)		(30 000)		(30 000)
Total, net		**3 364 879**		**4 106 005**

	31.12.2012. Number	31.12.2012. LVL	31.12.2011. Number	31.12.2011. LVL
Loan size analysis (LVL)				
Up to 5,000	17	33 542	17	46 221
5,000 - 10,000	25	184 324	20	158 479
10,000 – 100,000	67	2 016 180	80	2 350 865
Over 100,000	7	1 160 833	9	1 580 440
Total	**116**	**3 394 879**	**126**	**4 136 005**
Provisions for doubtful debts (Note 11)		(30 000)		(30 000)
Total, net	**116**	**3 364 879**	**126**	**4 106 005**

As of 31 December 2012 and 2011 there were no overdue payments. Information on collateral types is disclosed in note 19.

The interest rates on loans ranged from 0.618% to 7.50%. 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.

11. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2012. LVL	31.12.2011. LVL
At the beginning of the year	**30 000**	**30 000**
Decrease	-	-
At the end of the year	**30 000**	**30 000**

12. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
Historical cost			
At 31 December 2011	**44 399**	**24 839**	**69 238**
Additions	2 042	2 800	4 842
Disposal	(2 916)	(255)	(3 171)
At 31 December 2012	**43 525**	**27 384**	**70 909**
Accumulated depreciation			
At 31 December 2011	**18 217**	**17 708**	**35 925**
Charge for the year	9 010	1 089	10 099
Disposal	(2 916)	(255)	(3 171)
At 31 December 2012	**24 311**	**18 542**	**42 853**
Net book value			
At 31 December 2011	**26 182**	**7 131**	**33 313**
At 31 December 2012	**19 214**	**8 842**	**28 056**

As of 31 December 2012 the fixed assets with historical cost LVL 27 384 (at 31 December 2011: LVL 24 859) 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 LVL 22,740.

14. LOANS

A Loan Facility Agreement for 3.5 million euro was signed on 19 August 1998 (Loan agreement I) with the Nordic Environment Finance Corporation (NEFCO). The loan is to assist municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is up to 15 years and the interest rate is six-month EUR LIBOR plus 1%, adjusted semi-annually. The interest rates on loan ranged from 2.02014% to 2.70125%.

	31.12.2012.		31.12.2011.	
	EUR	LVL	EUR	LVL
Received loans:				
- Loan agreement I	2 929 370	2 058 773	2 929 370	2 058 773
Total draw down	**2 929 370**	**2 058 773**	**2 929 370**	**2 058 773**
Interest due:				
- Loan agreement I	-	-	521	366
Repaid (Loan agreement I)	(2 929 370)	(2 058 773)	(2 853 820)	(2 005 676)
Total	**-**	**-**	**76 071**	**53 463**

The total balance of the loans due in less than one year as at 31 December 2012 amounts to LVL 0 (at 31 December 2011: LVL 53 097) and interest due LVL 0 (at 31 December 2011: LVL 366).

15. DEFERRED INCOME

	31.12.2012. LVL	31.12.2011. LVL
Financing of Climate change financing instrument	76 378	36 258
Co-financing for development cooperation projects	27 669	-
Total	**104 047**	**36 258**

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 9th June 2010 was signed an agreement between the Fund and the Ministry of Environmental Protection and Regional Development (MEPRD) on implementation of the selective delegation functions of Climate change financing instrument. Additional unaudited information on the project is disclosed on page 23.

16. SHARE CAPITAL

As of 31 December 2012 and 2011 the Fund’s fully paid share capital was LVL 4 427 196 consisting of 4 427 196 ordinary shares. The nominal value of ordinary share is LVL 1 each. As of 31 December 2012 earnings per share is 0.0009 LVL (2011: 0.0078). Share capital of the Fund is fully paid. Sole shareholder of the Fund is Ministry of Environmental Protection and Regional Development.

17. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

Corporate income tax

	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Payable corporate income tax		
Corporate income tax for the year	2 262	5 538
Deferred corporate income tax		
Deferred corporate income tax as a result of temporary differences	(115)	919
Actual and deferred corporate income tax for period	**2 147**	**6 457**

Deferred corporate income tax:

	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Difference between fixed assets value in financial and tax accounting	3 164	3 267
Gross deferred corporate income tax assets	(3 460)	(3 448)
Deferred corporate income tax (asset), net	**(296)**	**(181)**

Actual and deferred corporate income tax compared to theoretically calculated:

	01.01.2012. – 31.12.2012. LVL	01.01.2011. – 31.12.2011. LVL
Profit before taxes	5 217	40 797
Theoretically calculated corporate income tax 15%	783	6 120
Permanent differences	1 364	337
Actual and deferred corporate income tax for period	**2 147**	**6 457**

18. OFF BALANCE SHEET ITEMS

	31.12.2012. LVL	31.12.2011. LVL
Committed loans granted, not disbursed		
Municipal companies*	370 000	303 071
Granted credit line, not drawn down		
Loan agreement III (NEFCO)	-	(3 514 020)

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

19. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, cash and short-term deposits. The 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 not exposed to a significant interest rate risk. Under NEFCO Loan Agreement I, the interest on the loan is paid by the Fund's clients, who were granted loans from that financing. The Fund's policy is to ensure that the majority of the loans issued by the Fund bear a fixed interest rate. The interest rate on the loans issued by the Fund is disclosed in Note 10, and the interest rate on the loans received by the Fund is disclosed in Note 14.

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

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

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.

Liquidity risk
The Fund controls liquidity risk by maintaining sufficient level of cash and its equivalents and controlling disbursement 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. Starting 1 January 2005 the Bank of Latvia has declared fixed official lat exchange rate to euro at 0.702804. The Bank of Latvia will ensure that market rate does not differ more by 1% from the official rate. Therefore the Fund profit or loss from euro exchange rate fluctuations will not be significant, while the Bank of Latvia will maintain the above mentioned exchange rate.

19. FINANCIAL RISK MANAGEMENT (CONT'D)

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

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

20. FOREIGN EXCHANGE EXPOSURE

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

	31.12.2012.	**31.12.2011.**
Monetary assets, EUR	60 670	136 310
Monetary liabilities, EUR	(29 985)	(76 072)
Balance sheet position EUR, net	**30 685**	**60 238**
Balance sheet position LVL, net	**21 566**	**42 336**

21. RELATED PARTY DISCLOSURES

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

22. SUBSEQUENT EVENTS

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

NOTES OF THE UNAUDIT FINANCIAL STATEMENT

Climate change financing instrument financing (CCFI)
The Fund provides the realization of following main tasks:

- participates in the seminars organized by the MEPRD for project applicants by providing information regarding the implementation of projects,
- develops guidelines for project implementation and monitoring for the CCFI funding recipients,
- organizes seminars for the CCFI funding recipients about project implementation, preparation of the reports, monitoring and realization of publicity activities,
- prepares project agreements based on the MEPRD decision of project application approval,
- provides recommendations to the MEPRD about amendment in project;
- performs risk assessments of project, prepares an annual plan for the inspections at projects implementation sites, as well as carry out inspections,
- examines and approves reports submitted by the CCFI funding recipients,
- examines payment requests, as well as gives resolution on eligibility of expenses included in payment request in conformity with the laws and regulation requirements, and terms of project agreement,
- publishes information about projects in the Fund website,
- accumulates information on projects,
- monitors information and publicity activities in project, including at the project implementation site,,
- provides consultations to the CCFI funding recipients about fulfilling project agreement conditions.

	01.01.2012. – 31.12.2012. LVL	**01.01.2011. – 31.12.2011. LVL**
Personnel costs:		
– salaries	216 916	132 978
– state obligatory social security payments	52 255	32 034
Office rent and public utilities	27 195	15 248
Business trips	8 875	4 913
Depreciation	3 859	1 950
Communications	3 045	3 306
Office supplies and stationary	2 542	3 447
Legal services	-	439
Other administrative expense	8 515	14 128
Total	**323 202**	**208 443**
State budget assignations	**323 202**	**208 443**
Disclosed in income statement	**-**	**-**