

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

*2007 Annual Report prepared in accordance  
with International Financial Reporting  
Standards and Independent Auditors' Report*

# **ENVIRONMENTAL INVESTMENT FUND**

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## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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The year 2007 was the 10<sup>th</sup> anniversary year for the Fund. Therefore in May, together with our clients and cooperation partners, we reflected on the accomplishments during these past ten years. A lot has been achieved – the Fund had cooperation with more than 150 municipalities and 20 private companies, covering all regions of Latvia, more than 200 loan agreements with total amount of 21 million Latvian lats (LVL) have been concluded. However it would not have been possible without responsiveness of our clients and willingness to improve the surrounding environment and to improve the quality of life for the residents.

In the year 2007, the Fund concluded 26 new loan agreements with a total loan amount from the Fund of more than 2.8 million LVL. Mostly these are projects, co-financed by the European Regional Development Fund (ERDF), for the development of water sector infrastructure in the populated areas with less than 2000 inhabitants – the second and third phases of investments. All the funding available under the loan agreement signed in the end of 2005 with the Nordic Environmental Financing Corporation (NEFCO), with total amount of 3 million euro, has been fully utilized and re-invested for the third – the final stage of investments.

In cooperation with the United Nations Development Programme (UNDP) and the Ministry of Environment, the project "Environmentally sound disposal of PCB containing equipment and waste" was launched on March 30<sup>th</sup>, 2006. The Fund provides an overall project implementation coordination function. In the end of the year 2007 the first 100t of PCB containing equipment have been disposed. The results of the tenders for disposal of PCB containing equipment have been so successful, that there is a possibility to dispose of even more PCB containing equipment than originally planned. In the result of a broad informative campaign and discussions with enterprises, more than 40 enterprises have agreed to deliver 320t of PCB containing equipment for the disposal within the project. Therefore almost 5 times more enterprises have been involved in the project and considerably greater volume of PCB containing equipment is going to be disposed within the project than initially planned. In year 2008 the disposal of the 320t of equipment is envisaged, as well as the work with the enterprises will be continued in order to evaluate the possibilities to carry out another phase of collection and disposal of PCB containing equipment.

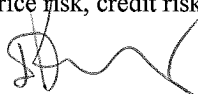
Providing consultations and necessary support to the municipalities which are planning to implement environmental projects has become an important field of activities for the Fund. Most of the projects with the Fund's support that were implemented with the ERDF co-financing are completed and have received the co-financing of the ERDF and the state. By providing support in the whole cycle of project implementation, the Fund has accumulated experience in order to ensure that projects are implanted in accordance with the requirements for ERDF co-financing. Year 2008 will be a year of new opportunities for municipalities to attract EU structural funds' resources for the implementation of environmental projects. The Fund will provide all necessary support for the project development – preparing informative materials, organizing seminars and providing consultations for the project developers. In the Fund's development strategy for the years 2008 – 2010, the support to the project developers in order to increase the quality of project has been highlighted as one of the most significant activities for the coming years.

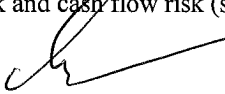
The Fund closed the year 2007 with a profit of 48,887 LVL and assets exceeding 7.4 million LVL. The Fund does not foresee any substantial changes in its operations and intends to maintain its operation at the level of previous years.

The Board suggests to distribute the profit for the reporting year 2007 as follows:

- to transfer 27% of the Fund's net profit or 13,199 LVL to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting to 35,688 LVL to Retained earnings.

It is already the fourth year since the quality management system in accordance to the ISO 9001 standard was introduced in the Fund. In February 2007 the supervision audit took place and no substantial non-conformities were identified. 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).

  
Ilze Puriņa  
Chairperson of the Board

  
Askolds Kļaviņš  
Board member

  
Romāns Mežeckis  
Board member

Riga,  
25 January 2008

## ENVIRONMENTAL INVESTMENT FUND

### REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

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As at the date of signing of the financial statements:

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

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
Guntis Puķītis	Representative of State capital shareholder	1 January, 2003

#### **The Board**

<i>Name, Surname</i>	<i>Position</i>	<i>Date of appointment</i>
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

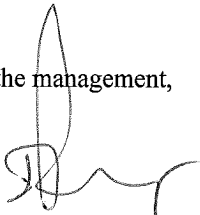
## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY

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1. The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.
2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 20 for the years ended 31 December 2007 and 2006. The management also confirms that applicable 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,



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Ilze Puriņa  
Chairperson of the Board



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Askolds Kļaviņš  
Board member



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Romāns Mežeckis  
Board member

Rīga,  
25 January 2008

## INDEPENDENT AUDITOR'S REPORT

To the shareholder of SIA Vides Investīciju Fonds

### Report on the Financial Statements

We have audited the 2007 financial statements of SIA Vides Investīciju Fonds (the "Company"), which are set out on pages 7 through 20 of the accompanying 2007 Annual Report and which comprise the balance sheet as at 31 December 2007, the statements of income, changes in equity and 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. 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 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Report on Compliance of the Management Report

Furthermore, we have read the Management Report for the year ended 31 December 2007 (included on page 3 of the accompanying 2007 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 2007.

Ernst & Young Baltic SIA  
License No. 17



Iveta Vimba  
Personal ID code: 210275-12309  
Member of the Board  
Latvian Sworn Auditor  
Certificate No. 153

Rīga, 25 January 2008

# ENVIRONMENTAL INVESTMENT FUND

## INCOME STATEMENT

FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

	Note	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
<i>Operating income</i>			
Interest income	3	337,395	312,951
Interest expense	4	<u>(113,984)</u>	<u>(106,488)</u>
<b>Net interest income</b>		<b>223,411</b>	<b>206,463</b>
Other operating income	5	<u>20,380</u>	<u>16,533</u>
<b>Other income, net</b>		<b>20,380</b>	<b>16,533</b>
<b>TOTAL OPERATING INCOME</b>		<b><u>243,791</u></b>	<b><u>222,996</u></b>
<i>Operating expense</i>			
Administrative expense	6	(178,928)	(142,409)
Depreciation	13	(6,231)	(5,917)
Other operating (expense)/ income	7	<u>128</u>	<u>(6,003)</u>
<b>TOTAL OPERATING EXPENSE</b>		<b><u>(185,031)</u></b>	<b><u>(154,329)</u></b>
<b>GROSS PROFIT BEFORE TAXES</b>		<b><u>58,760</u></b>	<b><u>68,667</u></b>
Corporate income tax	19	(9,651)	(10,168)
Deferred corporate income tax	19	<u>(222)</u>	<u>(240)</u>
<b>PROFIT FOR THE PERIOD</b>	8	<b><u>48,887</u></b>	<b><u>58,259</u></b>

*The accompanying notes on pages 11 to 20 are an integral part of the financial statements.*

The financial statements were approved by the Representative of State capital shareholder on 25 January 2008 and signed on his behalf by:



Ilze Puriņa  
Chairperson of the Board



Askolds Kļaviņš  
Board member



Romāns Mežeckis  
Board member

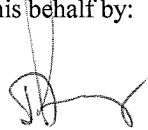
# ENVIRONMENTAL INVESTMENT FUND

## BALANCE SHEET AS OF 31 DECEMBER 2007 AND 2006

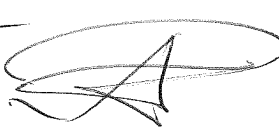
	Note	31.12.2007. LVL	31.12.2006. LVL
<b>ASSETS</b>			
<b><i>CURRENT ASSETS</i></b>			
Cash	9	727,488	277,716
Accrued interest income		75,055	71,489
Other current assets	10	9,055	8,357
Loans to customers	11	954,658	793,609
<b>TOTAL</b>		<b>1,766,256</b>	<b>1,151,171</b>
<b><i>NON-CURRENT ASSETS</i></b>			
Fixed assets	13	16,019	15,503
Loans to customers	11,12	5,621,801	6,440,690
<b>TOTAL</b>		<b>5,637,820</b>	<b>6,456,193</b>
<b>TOTAL ASSETS</b>		<b>7,404,076</b>	<b>7,607,364</b>
<b>LIABILITIES AND EQUITY</b>			
<b><i>CURRENT LIABILITIES</i></b>			
Phare Financing Agreement	14	14,534	19,566
NEFCO Loans	15	230,234	240,907
Deferred income	16	1,966	3,167
Taxes		223	598
Accrued liabilities		5,477	6,092
Accounts payable to suppliers and contractors	17	4,088	3,913
<b>TOTAL</b>		<b>256,522</b>	<b>274,243</b>
<b><i>NON-CURRENT LIABILITIES</i></b>			
Deferred corporate income tax	19	620	398
Phare Financing Agreement	14	22,740	37,274
NEFCO Loans	15	2,550,908	2,755,320
<b>TOTAL</b>		<b>2,574,268</b>	<b>2,792,992</b>
<b><i>SHAREHOLDER'S EQUITY</i></b>			
Share capital	18	4,427,196	4,427,196
Retained profit		146,090	112,933
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>4,573,286</b>	<b>4,540,129</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>7,404,076</b>	<b>7,607,364</b>
<b>OFF BALANCE SHEET ITEMS</b>			
Commitments	20		
Committed loans granted, not drawn down		-	80,000
		-	<b>80,000</b>

The accompanying notes on pages 11 to 20 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 25 January 2008 and signed on his behalf by:

  
 \_\_\_\_\_  
 Ilze Puriņa  
 Chairperson of the Board

  
 \_\_\_\_\_  
 Askolds Kļaviņš  
 Board member

  
 \_\_\_\_\_  
 Romāns Mežeckis  
 Board member



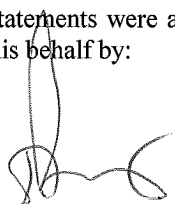
## ENVIRONMENTAL INVESTMENT FUND

### STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006


	Share capital LVL	Retained surplus LVL	Total LVL
<b>At 31 December 2005</b>	<b>4,186,698</b>	<b>69,205</b>	<b>4,496,401</b>
Dividends	-	(14,531)	(14,531)
Profit for the year	-	58,259	58,259
<b>At 31 December 2006</b>	<b>4,427,196</b>	<b>112,933</b>	<b>4,540,129</b>
Dividends	-	(15,730)	(15,730)
Profit for the year	-	48,887	48,887
<b>At 31 December 2007</b>	<b>4,427,196</b>	<b>146,090</b>	<b>4,573,286</b>

*The accompanying notes on pages 11 to 20 are an integral part of the financial statements.*

The financial statements were approved by the Representative of State capital shareholder on 25 January 2008 and signed on his behalf by:



Ilze Puriņa  
Chairperson of the Board



Askolds Kļaviņš  
Board member



Romāns Mežeckis  
Board member

# ENVIRONMENTAL INVESTMENT FUND

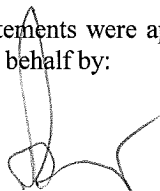
## CASH FLOW STATEMENT


### FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

	Note	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit for the year		48,887	58,259
Depreciation of fixed assets		6,231	5,917
Loss from fixed assets disposal		88	100
Income from grants		(1,201)	(1,201)
Interest income		(337,395)	(312,951)
Interest expense		113,984	106,488
Decrease in provisions for doubtful debts		(15,000)	(10,000)
Loans to customers decrease/ (increase)		672,840	(171,535)
Interest received		294,404	257,042
Interest paid		(74,544)	(54,614)
Net cash flow before changes in current items		708,294	(122,495)
<i>Cash flows from current items</i>			
Increase in accrued interest income		(14)	(14,719)
(Increase)/ decrease in other current assets		(699)	11,206
Increase/ (decrease) in accounts payable		(593)	2,249
Net cash flow from operating activities		706,988	(123,759)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets		(6,835)	(4,894)
Net cash flow from investing activities		(6,835)	(4,894)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends		(15,730)	(14,531)
Decrease in Phare Financing Agreement		(19,566)	(43,490)
(Decrease)/ increase in NEFCO Loans		(215,085)	439,130
Net cash flow from financing activities		(250,381)	381,109
Increase in cash		449,772	252,456
Cash at the beginning of year		277,716	25,260
Cash at the end of year	9	727,488	277,716

The accompanying notes on pages 11 to 20 are an integral part of the financial statements.

The financial statements were approved by the Representative of State capital shareholder on 25 January 2008 and signed on his behalf by:

  
\_\_\_\_\_  
Ilze Puriņa  
Chairperson of the Board

  
\_\_\_\_\_  
Askolds Kļaviņš  
Board member

  
\_\_\_\_\_  
Romāns Mežeckis  
Board member

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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### 1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environment established the Fund based on 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. 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 as adopted by EU (IFRS) and Interpretations issued by its International Financial Reporting Interpretations Committee (IFRIC) as endorsed by the European Union.

In 2007 the Fund adopted the following IFRS and IFRIC Interpretations: IFRS 7 Financial Instruments: Disclosures (effective for annual periods beginning on or after 1 January 2007), Amendments to IAS 1 revised ("Capital Disclosures") (effective for annual periods beginning on or after 1 January 2007), IFRIC 7 Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies" (effective for annual periods beginning on or after 1 March 2006), IFRIC 8 Scope of IFRS 2 (effective for annual periods beginning on or after 1 May 2006), IFRIC 9 Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006), IFRIC 10 Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006).

The adoption of new standards and interpretations had no significant impact on the financial position or results of the Fund.

The following interpretations to existing standards and new standards are not yet effective and relevant for the Fund operations: IAS 23 Borrowing costs and IFRS 8 Operating Segments (effective for annual financial statements for periods beginning on or after 1 January 2009), IFRIC 11 IFRS 2 – Group and Treasury Share Transactions (effective once adopted by EU, but not earlier than for annual periods beginning on or after 1 March 2007), IFRIC 12 Concession Agreements (effective for annual financial statements for periods beginning on or after 1 January 2008), IFRIC 13 Customer Loyalty Programmes (effective for annual financial statements for periods beginning on or after 1 July 2008), IFRIC 14 The Limit on a Defined Benefit Asset, minimum Funding requirements and their Interaction (effective for annual financial statements for periods beginning on or after 1 January 2008).

#### **Reporting currency**

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

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 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:

	31.12.2007.	31.12.2006.
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

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.

#### Income recognition

Income is recognized proportionally the Fund judgment to gain economical benefit and at such level as it is reasonable justifiable, excluding value added tax and discounts related to sales. 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.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### 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

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
Interest income from loans to customers	292,579	300,492
Interest income from deposits in banks	44,816	12,459
<b>Total</b>	<b>337,395</b>	<b>312,951</b>

The interest rates received on balances with banks for the years ended 31 December 2007 and 2006 ranged from 0.30% to 8.30%.

#### 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, but in accordance with the loan agreement II, the Fund pays the interest payments to NEFCO.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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#### 5. OTHER OPERATING INCOME

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
Decrease of provisions for doubtful debts	15,000	10,000
Services to UNDP	4,179	3,469
Income from grants of fixed assets released in reporting period	1,201	1,201
Other income	-	1,863
<b>Total</b>	<b>20,380</b>	<b>16,533</b>

#### 6. ADMINISTRATIVE EXPENSE

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
Personal costs (excluding management):		
– salaries	57,080	52,780
– state obligatory social security payments	12,268	11,546
Management costs:		
– salaries	40,269	26,763
– state obligatory social security payments	9,828	6,447
Office rent and public utilities	19,634	19,298
Advertising and publicity	17,664	1,794
Professional services	8,030	7,372
Health insurance	3,892	2,707
Communications	2,459	3,121
Business trips	2,238	2,486
Office supplies and stationary	1,579	1,767
Provisions for vacation expense/ (Decrease) in provisions for vacation	(615)	946
Other administrative expense	4,602	5,382
<b>Total</b>	<b>178,928</b>	<b>142,409</b>

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 years ended 31 December 2007 and 2006 was 7.

#### 7. OTHER OPERATING EXPENSE/ (INCOME)

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
Net loss/ (gain) from foreign exchange operations	(128)	6,003
<b>Total</b>	<b>(128)</b>	<b>6,003</b>

#### 8. PROFIT FOR THE YEAR

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 27% of net profit to the state budget.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

#### 9. CASH

	31.12.2007. LVL	31.12.2006. LVL
Cash on hand	17	45
Balances with banks		
- LVL current account	21,810	277,452
- LVL Visa Electron and Visa Mastercard	661	219
- short term deposit	705,000	-
<b>Total</b>	<b>727,488</b>	<b>277,716</b>

#### 10. OTHER CURRENT ASSETS

	31.12.2007. LVL	31.12.2006. LVL
Security deposit for office rent	3,226	3,226
Prepaid expense	3,089	3,654
Tax prepayments	2,150	90
Other assets	590	1,387
<b>Total</b>	<b>9,055</b>	<b>8,357</b>

#### 11. LOANS TO CUSTOMERS

	31.12.2007. LVL	31.12.2006. LVL
<i>Remaining maturity</i>		
Less than one year	954,658	793,609
Within one to five years	2,479,369	2,785,714
Within five to ten years	2,020,525	2,229,628
More than ten years	1,166,907	1,485,348
<b>Total</b>	<b>6,621,459</b>	<b>7,294,299</b>
Provisions for doubtful debts (Note 12)	(45,000)	(60,000)
<b>Total, net</b>	<b>6,576,459</b>	<b>7,234,299</b>
<i>Analysis by sector</i>		
Water and waste water treatment	5,191,197	6,033,872
Environmentally friendly heat supply	1,067,081	967,850
Recycling and waste management	177,536	44,039
Insulation of buildings	114,845	134,445
Cleaner technology and other projects	70,800	114,093
<b>Total</b>	<b>6,621,459</b>	<b>7,294,299</b>
Provisions for doubtful debts (Note 12)	(45,000)	(60,000)
<b>Total, net</b>	<b>6,576,459</b>	<b>7,234,299</b>
<i>Customer analysis</i>		
Municipalities	4,952,463	5,679,633
Municipal companies	1,563,923	1,431,654
Private companies	105,073	183,012
<b>Total</b>	<b>6,621,459</b>	<b>7,294,299</b>
Provisions for doubtful debts (Note 12)	(45,000)	(60,000)
<b>Total, net</b>	<b>6,576,459</b>	<b>7,234,299</b>

**ENVIRONMENTAL INVESTMENT FUND**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006**

**11 LOANS TO CUSTOMERS (CONTINUED)**

	31.12.2007.		31.12.2006.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	5,974,551	5,974,551	6,432,426	6,432,426
EUR	920,468	646,908	1,226,335	861,873
<b>Total</b>		<b>6,621,459</b>		<b>7,294,299</b>
Provisions for doubtful debts (Note 12)		(45,000)		(60,000)
<b>Total, net</b>		<b>6,576,459</b>		<b>7,234,299</b>

	31.12.2007.		31.12.2006.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	7	20,789	6	15,199
5,000 - 10,000	15	106,710	11	81,771
10,000 – 100,000	100	3,509,634	99	3,337,943
Over 100,000	18	2,984,326	23	3,859,386
<b>Total</b>	<b>140</b>	<b>6,621,459</b>	<b>139</b>	<b>7,294,299</b>
Provisions for doubtful debts (Note 12)		(45,000)		(60,000)
<b>Total, net</b>	<b>140</b>	<b>6,576,459</b>	<b>139</b>	<b>7,234,299</b>

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**

	31.12.2007.	31.12.2006.
	LVL	LVL
<b>At beginning of period</b>	<b>60,000</b>	<b>70,000</b>
Decrease	(15,000)	(10,000)
<b>At end of period</b>	<b>45,000</b>	<b>60,000</b>



## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

#### 13. FIXED ASSETS

	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2006	<u>27,097</u>	<u>21,719</u>	<u>48,816</u>
Decrease	(7,497)	(2,924)	(10,421)
Additions	6,635	200	6,835
At 31 December 2007	<u>26,235</u>	<u>18,995</u>	<u>45,230</u>
<i>Accumulated depreciation</i>			
At 31 December 2006	<u>17,110</u>	<u>16,203</u>	<u>33,313</u>
Charge for the year	3,993	1,037	5,030
Decrease	(7,409)	(2,924)	(10,333)
Depreciation of grant funded fixed assets	-	1,201	1,201
At 31 December 2007	<u>13,694</u>	<u>15,517</u>	<u>29,211</u>
<i>Net book value</i>			
At 31 December 2006	<u>9,987</u>	<u>5,516</u>	<u>15,503</u>
At 31 December 2007	<u>12,541</u>	<u>3,478</u>	<u>16,019</u>

#### 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:

	31.12.2007. LVL	31.12.2006. LVL
<i>Non-current liabilities</i>		
Disbursed to clients	<u>22,740</u>	<u>37,274</u>
<b>Total</b>	<u>22,740</u>	<u>37,274</u>
<i>Current liabilities</i>		
Disbursed to clients, due in less than one year	<u>14,534</u>	<u>19,566</u>
<b>Total</b>	<u>14,534</u>	<u>19,566</u>
<b>Total</b>	<u>37,274</u>	<u>56,840</u>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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#### 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.

A Loan Facility Agreement for 3.0 million euro was signed on 14 November 2005 (Loan agreement II) with the NEFCO. The loan is to finance the Europe Regional Development fund co-financed municipal water projects under the Latvian Small Municipalities' Water and Waste Water Programme. The term of the loan is 6 years and the interest rate is fixed 3.5% for the first three years.

	31.12.2007.		31.12.2006.	
	EUR	LVL	EUR	LVL
<i>Received loans:</i>				
- Loan agreement I	2,929,370	2,058,773	2,929,370	2,058,773
- Loan agreement II	3,000,000	2,108,412	3,000,000	2,108,412
<b>Total draw down</b>	<b>5,929,370</b>	<b>4,167,185</b>	<b>5,929,370</b>	<b>4,167,185</b>
<i>Interest due:</i>				
- Loan agreement I	13,700	9,628	14,162	9,953
- Loan agreement II	23,042	16,194	22,750	15,989
Repaid (Loan agreement I)	(2,008,902)	(1,411,865)	(1,703,035)	(1,196,900)
<b>Total</b>	<b>3,957,210</b>	<b>2,781,142</b>	<b>4,263,247</b>	<b>2,996,227</b>

The total balance of the loans due in less than one year as at 31 December 2007 amounts to LVL 204,412 (at 31 December 2006: LVL 214,965).

The Fund has obligation to repay the loan to NEFCO in advance in the amount equal to Europe Regional Development fund financing received by NEFCO co-financed ultimate borrowers.

#### 16. DEFERRED INCOME

<b>Balance as at 31 December 2006</b>	<b>3,167</b>
Deferred income released in reporting period	1,201
<b>Balance as at 31 December 2007</b>	<b>1,966</b>

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.

#### 17. ACCOUNTS PAYABLE TO SUPPLIERS AND CONTRACTORS

	31.12.2007.	31.12.2006.
	LVL	LVL
Accrued liabilities	4,088	3,913
<b>Total</b>	<b>4,088</b>	<b>3,913</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

#### 18. SHARE CAPITAL

As of 31 December 2007 the Fund's fully paid share capital was LVL 4,427,196 of 4,427,196 ordinary shares. The nominal value of ordinary share is 1 lat each.

Fully paid share capital was as follows:

	31.12.2007. LVL	31.12.2006. LVL
<b>The Ministry of Environment</b>	<b>4,427,196</b>	<b>4,427,196</b>

#### 19. CORPORATE INCOME TAX AND DEFERRED CORPORATE INCOME TAX

*Corporate income tax*

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
<b>Payable corporate income tax</b>		
Corporate income tax for the year	9,651	10,168
<b>Deferred corporate income tax</b>		
Deferred corporate income tax as a result of temporary differences	222	240
<b>Actual and deferred corporate income tax for period</b>	<b>9,873</b>	<b>10,408</b>

*Deferred corporate income tax:*

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
Difference between fixed assets value in financial and tax accounting	1,442	1,312
Gross deferred corporate income tax assets	(822)	(914)
<b>Deferred corporate income tax (assets)/ liabilities, net</b>	<b>620</b>	<b>398</b>

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

	01.01.2007. – 31.12.2007. LVL	01.01.2006. – 31.12.2006. LVL
Profit before taxes	58,760	68,667
Theoretically calculated corporate income tax 15%	8,814	10,300
Permanent differences	1,059	108
<b>Actual and deferred corporate income tax for period</b>	<b>9,873</b>	<b>10,408</b>

#### 20. OFF BALANCE SHEET ITEMS

*Committed loans granted, not drawn down*

	31.12.2007. LVL	31.12.2006. LVL
Municipal companies	-	80,000
<b>Total</b>	<b>-</b>	<b>80,000</b>

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

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

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#### 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. Under NEFCO Loan Agreement II, the interest rate is fixed until 14 November 2008 and the Fund expects to repay the loan in full by that date. The Fund's policy is to ensure that the majority of the loans issued by the Fund bear a fixed interest rate. The average interest rate payable on the loans issued by the Fund is disclosed in Note 11, and the average interest rate payable 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.

##### Operating 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:

	31.12.2007.	31.12.2006.
Monetary assets, EUR	934,167	1,240,497
Monetary liabilities, EUR	(3,957,209)	(4,263,247)
<b>Balance sheet position EUR, net</b>	<b>(3,023,042)</b>	<b>(3,022,750)</b>
<b>Balance sheet position lats, net</b>	<b>(2,124,606)</b>	<b>(2,124,401)</b>

#### 23. EVENTS AFTER BALANCE SHEET DATE

In January 2008 the Fund made partial repayment in the amount of EUR 1.1 million under NEFCO Loan Agreement II ahead of the schedule (Note 15).