

VIDES INVESTĪCIJU FONDS
(ENVIRONMENTAL INVESTMENT FUND)

*Independent Auditors' Report and Financial
Statements for the year ended
31 December 2000*

ENVIRONMENTAL INVESTMENT FUND

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ENVIRONMENTAL INVESTMENT FUND

REPORT OF DIRECTOR

The year 2000 saw a continuation of improved performance by the Environmental Investment Fund (hereinafter - "the Fund"). This has been the trend in recent years and demonstrates the Fund's progress towards sustainable and balanced development.

The Financial Statements of the Fund reveal an increase in assets of 27% over 1999, amounting to 5.1 million lats at the end of 2000, as well as an increase in net interest income by 25 thousand lats. Interest income grew by 25% while we were able to reduce administrative expenses by 13%.

The total loan portfolio of the Fund has reached the level of 4.8 million lats an increase of 70% compared with 1999. Although the loan portfolio has increased, this has not compromised its quality. Observing the principle of prudent loan assessment, the Management of the Fund increased provisions for doubtful debts by 60 thousand lats. Cumulative provisions now represent 3.13% of the outstanding loan portfolio.

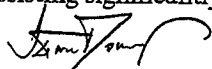
The Fund appreciates the co-operation with our long-term partners from the Nordic Environment Finance Corporation (NEFCO). Four new loan agreements totalling LVL 1,446,901 were signed in 2000 with NEFCO co-financing of LVL 949,901. The Fund's relationship with NEFCO has resulted in loan approvals to date totalling 2.6 million lats.

The Fund also continues to receive financial assistance from the Danish Environmental Protection Agency (DEPA). DEPA supports the program, implemented by the Danish consulting company *Carl Bro*, dealing with promotion of cleaner production in the Latvian industry. The purpose of the program is to introduce cleaner and more environmentally friendly technologies in production processes and within the scope of this program we intend to continue our co-operation with several industrial enterprises. The first projects under this program have been implemented already.

Keeping pace with time, the Fund uses the benefits offered by modern technologies as much as possible. In 2000, we commenced the process of substituting our information system with a new software system, which will allow us to store information more securely as well as to use more efficiently information available for decision-making. Updating of the clients' database has been completed and from 2001 the Fund will be using the Concorde XAL accounting system as the database for storage of financial information.

Our main task during the coming months is to increase the financial assets of the Fund both from domestic sources and also by attracting financing from foreign countries. The operational capacity of the Fund allows funding of more projects compared to currently available financing. We have good reason to believe that we will be able to finance many new projects in the near future since there are negotiations taking place with several potential co-operation partners concerning additional financing.

I would like to express my gratitude to all parties whose co-operation assisted in the achievements of last year. It is my firm belief that with improved co-operation from those who have expressed doubts about the Fund's viability in the past we will continue towards our goal of developing into a financial institution assisting significantly in the improvement of Latvia's environment.



Jānis Doniņš
Director and Chairman of Executive Committee

Rīga,
15 February 2001

ENVIRONMENTAL INVESTMENT FUND

STATE REPRESENTATIVE AND EXECUTIVE COMMITTEE

As at the date of signing of the financial statements:

The Director

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Jānis Doniņš	Director	1 July, 1999

The State Representative

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Aivita Zavadska	State Representative	23 August, 1999

The Executive Committee

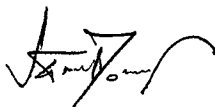
<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Jānis Doniņš	Chairman of the Executive Committee	1 November, 1999
Zigurds Cirulis	Member of the Executive Committee	1 November, 1999
Askolds Kļaviņš	Member of the Executive Committee	1 November, 1999
Andrejs Laškovs	Member of the Executive Committee	1 November, 1999
Ieva Saleniece	Member of the Executive Committee	1 November, 1999
Jurijs Strods	Member of the Executive Committee	1 November, 1999
Zigfrīds Brūvers	Member of the Executive Committee	14 February, 2000

ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

1. Management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial year, that present fairly the state of affairs of the Fund as at the end of the financial year and the results of its operations and cash flows for that year.
2. Management confirms that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements on pages 7 to 19 for the for the year ended 31 December 2000 and 1999. Management also confirms that applicable international accounting standards have been followed and that the financial statements have been prepared on a going concern basis.
3. 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 management,



Jānis Doniņš
Director

Riga
15 February 2001



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INDEPENDENT AUDITORS' REPORT

To the shareholders of the Environmental Investment Fund

We have audited the accompanying balance sheet of the Environmental Investment Fund ("the Fund") as at 31 December 2000 and the related statements of revenues and expenses, shareholders' equity and cash flows for the year then ended as set out pages 7 to 19. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on the financial statements based on our audit. The financial statements as of and for the year ended 31 December 1999 were audited by another independent audit firm whose report dated 9 February 2000 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, of the financial position of the Fund as at 31 December 2000, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

KPMG

KPMG Latvia SIA
Riga, Latvia
15 February 2001

This report is an English translation of the original Latvian. In the event of discrepancies between the two reports, the Latvian version prevails.



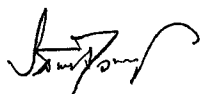
ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF REVENUES AND EXPENSES FOR
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	Note	2000 LVL	1999 LVL
<i>Operating income</i>			
Interest income	4	264,131	210,554
Interest expense	5	<u>(36,215)</u>	<u>(7,237)</u>
Net interest income		227,916	203,317
Fee and commission income	6	20,473	20,597
Fee and commission expense		-	(5,739)
Net gains on trading investments		-	7,410
Other operating income	7	<u>15,267</u>	<u>14,716</u>
Other income		35,740	36,984
Provisions for doubtful debts	16	<u>(60,000)</u>	<u>(60,000)</u>
TOTAL OPERATING INCOME		<u>203,656</u>	<u>180,301</u>
<i>Operating expenses</i>			
Administrative expenses	8	(147,543)	(169,428)
Depreciation	15	(9,521)	(4,037)
Other operating expenses	9	<u>(3,116)</u>	<u>(715)</u>
TOTAL OPERATING EXPENSES		<u>(160,180)</u>	<u>(174,180)</u>
SURPLUS FOR THE YEAR	10	<u>43,476</u>	<u>6,121</u>

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 7 to 19 were approved by the State Representative on 15 February 2001 and signed on her behalf by:



Jānis Doniņš
Director

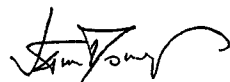
ENVIRONMENTAL INVESTMENT FUND

BALANCE SHEETS
AS OF 31 DECEMBER 2000 AND 1999

	Note	2000.12.31 LVL	1999.12.31 LVL
ASSETS			
Cash and balances with banks	11	1,232,527	1,850,557
Accrued interest income		63,434	43,187
Other current assets	12	11,459	1,492
Loans to customers	14	3,708,886	2,080,996
Fixed assets	15	61,198	19,172
Leasehold improvements	13	27,566	34,932
TOTAL ASSETS		5,105,070	4,030,336
LIABILITIES			
Phare Financing Agreement	17	589,868	600,704
NEFCO Loan	18	1,028,468	178,007
Deferred income	19	39,116	353
Provisions		6,770	-
Accounts payable and accrued expenses	20	7,383	6,283
TOTAL LIABILITIES		1,671,605	785,347
SHAREHOLDER'S EQUITY			
Share capital	21	2,000	2,000
Grants	22	3,429,607	3,284,607
Retained surplus/Accumulated deficit		1,858	(41,618)
TOTAL SHAREHOLDER'S EQUITY		3,433,465	3,244,989
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		5,105,070	4,030,336
OFF BALANCE SHEET ITEMS			
Commitments			
Committed loans granted, not drawn down	23	1,062,757	676,920
		1,062,757	676,920

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Jānis Doniņš
Director

ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF SHAREHOLDER'S EQUITY FOR
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	Note	Share capital LVL	Grants LVL	Retained surplus LVL	Total LVL
At 31 December 1998		2,000	3,134,607	(47,739)	3,088,868
Grants received					
<i>Environmental Protection Fund</i>		-	150,000	-	150,000
Surplus for the year		-	-	6,121	6,121
At 31 December 1999		2,000	3,284,607	(41,618)	3,244,989
Grants received					
<i>Environmental Protection Fund</i>	22	-	145,000	-	145,000
Surplus for the year		-	-	43,476	43,476
At 31 December 2000		2,000	3,429,607	1,858	3,433,465

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 7 to 19 were approved by the State Representative on 15 February 2001 and signed on her behalf by:



Jānis Doniņš
Director

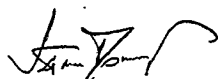
ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF CASH FLOWS
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

	Note	2000 LVL	1999 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		43,476	6,121
Adjustments to reconcile surplus for the year to net cash from operating activities:			
Depreciation		9,521	4,037
Net loss from disposal of fixed assets		-	694
Income from grant		(4,105)	(265)
Provision for doubtful debts		60,000	60,000
Changes in operating assets and liabilities:			
Loans to customers increase		(1,655,084)	(1,740,649)
Leasehold improvements decrease		7,366	4,325
Accrued interest increase		(20,247)	(22,446)
Other current assets (increase)/decrease		(9,967)	12,764
Government bonds decrease		-	287,730
Provisions increase		6,770	-
Accounts payable and accruals increase/(decrease)		1,100	(4,136)
Net cash outflow from operating activities		(1,561,170)	(1,391,825)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(8,679)	(7,338)
Net cash outflow from investing activities		(8,679)	(7,338)
CASH FLOWS FROM FINANCING ACTIVITIES			
Grants received		145,000	150,000
Phare Financing Agreement		-	640,038
Proceeds from NEFCO Loan		835,302	183,303
Net cash inflow from financing activities		980,302	973,341
Effect of exchange rate changes on cash		(28,483)	(44,546)
Net (decrease)/ increase in cash and cash equivalents		(618,030)	(470,368)
Cash and cash equivalents at beginning of year		1,850,557	2,320,925
Cash and cash equivalents at end of year	11	1,232,527	1,850,557

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 7 to 19 were approved by the State Representative on 15 February 2001 and signed on her behalf by:



Jānis Doniņš
Director

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS THE YEARS ENDED 31 DECEMBER 2000 AND 1999

1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environmental Protection and Regional Development (MEPRD) established the Fund based on a resolution of the Cabinet of Ministers of the Republic of Latvia. The Fund is a limited liability non-profit organisation, which is governed by its own Charter and by the legislation of the Republic of Latvia. The Fund has been established to pool domestic earmarked resources (e.g. natural resources tax accumulated and managed by the Environmental Protection Fund as a donator agency) with foreign bilateral and multilateral funding to support investments in public and private environmental projects in accordance with the guidelines of the National Environmental Protection Policy and the National Environmental Action Program.

2. RISK MANAGEMENT

The main risks associated with the Fund's activities are financial and basic activity risk, which arise as a result of the Fund's activities. The Fund has developed a policy for the management of these risks which includes risk identification, determination of liability, risk monitoring, risk control and reporting. The Fund has also worked out the respective procedures for risk management.

Credit risk

The credit risk management and control is stated in the Fund's developed credit policy. The credit risk includes a risk that the Fund's debtors are not paying their debts on timely basis or in complete amount. The Fund's management is monitoring this risk and the Fund's specialists constantly supervise the procedures and limits related to the credit risk.

Financial risk

The financial risk includes also the liquidity risk, interest rate risk, and exchange rate risk. The main task of the Fund is to comply with certain limits and procedures in daily activities.

Currency risk

It is the policy of the Fund to ensure a minimal risk when it engages in transactions that could be subject to exchange rate fluctuations.

Other types of activity risks

The Fund activities may identify also other types of risks that may cause unexpected losses. The cause of such risks, for example, may be human made errors or fraud, information system disturbances, insufficient internal control and procedures. The Fund's management supervises and the respective specialists monitor the above risks and control. The Fund maintains the necessary resources for going concern.

3. 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 the requirements of International Accounting Standards ("IAS").

Reporting currency

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS THE YEARS ENDED 31 DECEMBER 2000 AND 1999

Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Latvian Lats (LVL) using the rates of exchange ruling at the balance sheet date as published by the Bank of Latvia. The principal foreign currency held by the Fund is Euro. The exchange rates as at the balance sheet date were as follows:

	2000.12.31	1999.12.31
1 USD	LVL 0.613000	LVL 0.583000
1 EUR	LVL 0.570042	LVL 0.587516

Provisions for doubtful debts

The management and Board of Directors 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 provision.

The level of the provision 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 in 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 on the straight-line method over the estimated useful life of the assets. The rates per annum are as follows:

Miscellaneous office assets	30%-50%
Car, computer and office equipment	20%
Fixtures & fittings	10%

Reserves

In accordance with Article 4 of the Republic of Latvia Act on Non-profit Organisations, the reserves are not distributable to shareholders.

Grants

Cash monetary grants are credited to reserves and the Fund has an unconditional right to use the funds. 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 statement of revenues and expenses over the period of the useful life of the related fixed assets in order to match the related depreciation of the fixed assets, which they are intended to compensate.

Interest, fees and commissions

Interest income is recognised when earned. Interest expense is recognised when incurred. The Fund does not accrue interest on non-performing loans. Commissions, fees and other income/expense are recognised when earned/incurred.

Financial investments

Trading securities are marketable securities that are acquired with the intention of reselling them in the short term. Trading securities are stated at lower of cost or market value. Market value is based on published values or estimated realisable value.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS THE YEARS ENDED 31 DECEMBER 2000 AND 1999

Taxation

The Fund is exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations. Accordingly, the financial statements do not contain any charges or balances for corporate taxes or deferred taxation.

Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be sold or a liability settled on an arm's length basis.

Reclassifications

Balances for 2000 have been classified differently from the prior year, due to changes in legislation and management judgement. There is no net impact on net income from this change in classification. Prior year balances have been reclassified, where appropriate, to conform with current year presentation.

4. INTEREST INCOME

	2000	1999
	LVL	LVL
Loans to customers	211,647	99,996
Balances with banks	48,500	90,999
Fixed income securities	3,984	19,559
	<u>264,131</u>	<u>210,554</u>

The interest rates received on balances with banks for the years ended 31 December 2000 and 1999 ranged from 1.25% to 8%.

5. INTEREST EXPENSE

	2000	1999
	LVL	LVL
NEFCO Loan (Note 18)	36,215	7,237
	<u>36,215</u>	<u>7,237</u>

In accordance with the NEFCO agreement, borrowers transfer the interest payments directly to NEFCO.

6. FEE AND COMMISSION INCOME

Represents 1% front-end fee charged to borrowers on the date of signing loan agreement for the Fund loans and 0.75% front-end fee charged to borrowers on the date of the first disbursement of the loans co-financed by the NEFCO under NEFCO Loan Facility Agreement.

7. OTHER OPERATING INCOME

	2000	1999
	LVL	LVL
Funding by other organisations for staff expenses	11,075	12,979
Release from deferred income	4,105	265
Other income	87	1,472
	<u>15,267</u>	<u>14,716</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

8. ADMINISTRATIVE EXPENSES

	2000 LVL	1999 LVL
Staff costs		
- wages and salaries to management and staff	73,196	83,026
- remuneration to the Members of the Executive Committee, Board of Directors and State Representative	14,817	11,331
- social security costs	21,182	26,876
Office renovation expenses	8,103	7,838
Office rent and public utilities	5,777	5,720
Communications	4,997	3,818
Legal services	4,395	9,560
Business trips	3,629	3,956
Office supplies and stationary	2,529	3,585
Advertising and publicity	2,410	4,535
Other administrative expenses	6,508	9,183
	<u>147,543</u>	<u>169,428</u>

The average number of persons employed by the Fund during the years ended 31 December 2000 and 1999 was 19 and 15, respectively.

9. OTHER OPERATING EXPENSES

	2000 LVL	1999 LVL
Gains from foreign exchange operations	151,569	14,057
Loss from foreign exchange operations	(151,652)	(13,998)
Other expenses	(3,033)	(774)
	<u>(3,116)</u>	<u>(715)</u>

10. SURPLUS FOR THE YEAR

The surplus earned by the Fund is retained in order to provide a reserve for future liabilities and contingencies.

11. CASH AND CASH EQUIVALENTS

Cash and balances with banks include cash on hand, bank balances and treasury bills with maturities of three months or less.

	2000.12.31 LVL	1999.12.31 LVL
Cash on hand	89	9
Balances with banks		
- LVL due within 1 month	687,236	1,088,100
- LVL due from 1 month to 3 months	-	200,000
- USD due within 1 month	1,151	139
- EUR due within 1 month	544,051	562,309
Cash and cash equivalents	<u>1,232,527</u>	<u>1,850,557</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

12. OTHER CURRENT ASSETS

	2000.12.31	1999.12.31
	LVL	LVL
Prepaid social security costs	3,045	-
Other prepayments	6,373	295
Other assets	2,041	1,197
	<u>11,459</u>	<u>1,492</u>

13. LEASEHOLD IMPROVEMENTS

	2000.12.31	1999.12.31
	LVL	LVL
Leasehold improvement	<u>27,566</u>	<u>34,932</u>

The Fund has signed a long-term office rental agreement ending 1 June 2005. Office renovation expenses are amortised on a monthly basis over the life of the agreement.

14. LOANS TO CUSTOMERS

	2000.12.31	1999.12.31
	LVL	LVL
<i>Remaining maturity</i>		
Due less than one year	515,313	286,932
Within one to five years	2,261,403	1,317,232
Within five to ten years	989,857	536,832
More than ten years	62,313	-
Total	<u>3,828,886</u>	<u>2,140,996</u>
Provisions for doubtful debts (Note 16)	(120,000)	(60,000)
Total, net	<u>3,708,886</u>	<u>2,080,996</u>
<i>Analysis by sector</i>		
Water and waste water treatment	1,497,678	203,084
Furnace and district heating	969,578	643,964
Recycling	675,124	746,824
Windmill	463,172	407,097
Small hydro power stations	192,558	135,029
Cleaner technology and other projects	30,776	4,998
Total	<u>3,828,886</u>	<u>2,140,996</u>
Provisions for doubtful debts (Note 16)	(120,000)	(60,000)
Total, net	<u>3,708,886</u>	<u>2,080,996</u>
<i>Customer analysis</i>		
Private companies	1,562,081	1,397,953
State and municipal companies	1,278,133	146,628
Municipalities	986,047	591,690
Other	2,625	4,725
Total	<u>3,828,886</u>	<u>2,140,996</u>
Provisions for doubtful debts (Note 16)	(120,000)	(60,000)
Total, net	<u>3,708,886</u>	<u>2,080,996</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

<i>Currency analysis</i>	2000.12.31		1999.12.31	
	Currency	LVL	Currency	LVL
LVL	3,226,691	3,226,691	2,139,292	2,139,292
EUR	1,056,405	602,195	2,901	1,704
		<u>3,828,886</u>		<u>2,140,996</u>

<i>Loan size analysis (LVL)</i>	2000.12.31		1999.12.31	
	No.	LVL	No.	LVL
1,000 - 5,000	6	15,061	5	17,007
5,000 - 10,000	1	8,000	1	5,687
10,000 - 100,000	18	667,693	10	382,313
Over 100,000	15	3,138,132	8	1,735,989
Total	<u>40</u>	<u>3,828,886</u>	<u>24</u>	<u>2,140,996</u>
Provisions for doubtful debts (Note 16)		(120,000)		(60,000)
Total, net	<u>40</u>	<u>3,708,886</u>	<u>24</u>	<u>2,080,996</u>

Loans are recognized in the balance sheet on the date of the disbursements. The interest rates on loans ranged from 5% to 10%. All loans of the Fund except loans co-financed by NEFCO have an interest rate fixed until maturity. Loans co-financed by NEFCO have variable interest rates determined semi-annually based on LIBOR plus 1% margin.

15. FIXED ASSETS

	2000.12.31			1999.12.31		
	Computer, car and office equipment LVL	Fixtures and fittings LVL	Total LVL	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>						
At beginning of the year	14,940	11,716	26,656	11,904	8,155	20,059
Additions	8,435	244	8,679	3,777	3,561	7,338
Grant funded assets	32,112	10,756	42,868	-	-	-
Disposals	-	-	-	(741)	-	(741)
At end of the year	<u>55,487</u>	<u>22,716</u>	<u>78,203</u>	<u>14,940</u>	<u>11,716</u>	<u>26,656</u>
<i>Accumulated depreciation</i>						
At beginning of the year	5,556	1,928	7,484	2,611	883	3,494
Charge for the year	4,102	1,314	5,416	2,727	1,045	3,772
Disposals	-	-	-	(47)	-	(47)
Depreciation of grant funded fixed assets	3,723	382	4,105	265	-	265
At end of the year	<u>13,381</u>	<u>3,624</u>	<u>17,005</u>	<u>5,556</u>	<u>1,928</u>	<u>7,484</u>
<i>Net book value</i>						
At beginning of the year	9,384	9,788	19,172	9,293	7,272	16,565
At end of the year	<u>42,106</u>	<u>19,092</u>	<u>61,198</u>	<u>9,384</u>	<u>9,788</u>	<u>19,172</u>

The assets stated above are held for the Fund's own use.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

16. PROVISIONS FOR DOUBTFUL DEBTS

	2000.12.31	1999.12.31
	LVL	LVL
At beginning of year	60,000	-
Charge in Statement of Revenues and Expenses	60,000	60,000
At end of year	<u>120,000</u>	<u>60,000</u>

17. PHARE FINANCING AGREEMENT

A 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 Fund in the operation of an Environmental Credit Scheme (ECS) 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 within 1 year, are recognised as short term repayables. Funds received under the Phare Financing Agreement are non-interest bearing.

As at 31 December 2000, a total of 1,000,000 Euro had been drawn down under the agreement and is reflected in the Balance Sheet as follows:

	2000.12.31	1999.12.31
	LVL	LVL
<i>Long term liabilities</i>		
Disbursed to clients	<u>330,976</u>	<u>169,765</u>
	330,976	169,765
<i>Short term liabilities</i>		
Disbursed to clients, due in before one year	105,400	41,000
Repaid by customers	25,765	-
Unutilised	<u>127,727</u>	<u>389,939</u>
	258,892	430,939
	<u>589,868</u>	<u>600,704</u>

18. NEFCO LOAN

A Loan Facility Agreement for 3.5 million Euro was signed on 19 August 1998 with Nordic Environment Finance Corporation (NEFCO). The loan is to assist the Fund in supporting Municipal Water Projects under the Latvian Small Municipalities' Water and Waste water Programme. The term of the loan is 15 years and interest rate is LIBOR plus 1% payable semi annually. In accordance with the Loan Facility Agreement a front-end fee of 0.25% was paid.

	2000.12.31		1999.12.31	
	EUR	LVL	EUR	LVL
Disbursed to ultimate borrowers	1,068,757	609,236	2,901	1,704
Unutilised	<u>723,722</u>	<u>412,552</u>	<u>292,099</u>	<u>171,613</u>
Total draw down	1,792,479	1,021,788	295,000	173,317
Commitment charge	5,543	3,160	4,910	2,884
Interest due	24,069	13,720	3,074	1,806
Repaid	<u>(17,894)</u>	<u>(10,200)</u>	<u>-</u>	<u>-</u>
	<u>1,804,197</u>	<u>1,028,468</u>	<u>302,984</u>	<u>178,007</u>

The total balance of loans due within 1 year as at 31 December 2000 amounts to LVL 40,382.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2000 AND 1999

19. DEFERRED INCOME

Deferred income as at 1 January 1999	618
Release from deferred income	(265)
Balance as at 31 December 1999	<u>353</u>
Increase of deferred income	42 868
Release from deferred income	(4 105)
Balance as at 31 December 2000	<u>39 116</u>

Represent grant funding for fixed assets. Assets received under grants are credited to deferred income and released to the statement of revenue and expenses over the life of the asset and matched with depreciation.

20. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	2000.12.31	1999.12.31
	LVL	LVL
Accrued expenses	3,588	5,132
Tax payable	23	23
Other accounts payable	3,772	1,128
	<u>7,383</u>	<u>6,283</u>

21. SHARE CAPITAL

Fully paid share capital was as follows:

	2000.12.31	1999.12.31
	LVL	LVL
2,000 Ordinary shares of LVL 1 each	<u>2,000</u>	<u>2,000</u>

22. GRANTS

Under agreements with donor agencies, the Fund receives grants to support investments in public and private environmental projects in accordance with the guidelines of the National Environmental Protection Policy and the National Environmental Action Program.

23. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	2000.12.31	1999.12.31
	LVL	LVL
State and municipal companies	1,291,860	888,850
Municipalities	259,583	1,720
Private companies	159,389	355,065
	<u>1,710,832</u>	<u>1,245,635</u>
NEFCO loan	(648,075)	(568,715)
	<u>1,062,757</u>	<u>676,920</u>

In accordance with the standard signed loan agreements the maximum available period of drawdown for loans by customers is one year.

The Fund has the right to drawdown the outstanding NEFCO loan facility by 31 December 2001.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS THE YEARS ENDED 31 DECEMBER 2000 AND 1999

24. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders, employees, members of the Executive Committee, their close relatives and companies in which the above-mentioned persons have a controlling interest. As at 31 December 2000 the Fund had not entered into any material transactions with related parties.

25. FOREIGN EXCHANGE EXPOSURE

LVL	Assets	Liabilities	Net currency exposure	% of regulatory capital
USD	1,151	-	(1,151)	-
EUR	1,159,966	1,159,966	-	-
	<u>1,161,117</u>	<u>1,159,966</u>	<u>(1,151)</u>	

The analysis of monetary assets and liabilities as at 31 December 2000 according to the currencies in which they are denominated is as follows:

	LVL	USD	EUR	TOTAL
ASSETS				
Cash and cash equivalents	687,364	1,151	544,051	1,232,566
Accrued interest income	49,674	-	13,720	63,394
Loans to customers	3,226,691	-	602,195	3,828,886
	<u>3,963,729</u>	<u>1,151</u>	<u>1,159,966</u>	<u>5,124,846</u>
LIABILITIES				
Accounts payable and accrued expenses	3,646	-	3,772	7,418
Phare Financing Agreement	462,141	-	127,727	589,868
NEFCO Loan	-	-	1,028,468	1,028,468
	<u>465,787</u>	<u>-</u>	<u>1,159,967</u>	<u>1,625,754</u>

26. FAIR VALUE

The following methods and assumptions were used to estimate fair values for the financial instruments. The carrying value of cash and cash equivalents approximates fair value due to the relatively short period of time between the origination of the instruments and their expected realisation.

The fair value of loans is estimated based on contractual cash flows, adjusted for prepayment assumptions and credit risk factors, discounted using the current interest rate for loans with similar characteristics.

The carrying value of accrued interest income approximates fair value due to the relatively short period of time between accrual and expected realisation.

For the fair value calculations, relevant market rate for the loans used at 31 December 2000 was 9% and 6% for short term assets and liabilities, respectively.

	2000.12.31		1999.12.31	
	Carrying Value LVL	Fair Value LVL	Carrying Value LVL	Fair Value LVL
Financial Assets				
Cash and balances with banks	1,232,527	1,232,527	1,850,557	1,850,557
Loans to customers	3,708,886	3,547,615	2,080,996	1,802,639
Leasehold improvements	27,566	26,031	34,932	25,858
Total Financial Assets	<u>4,968,979</u>	<u>4,806,173</u>	<u>3,966,485</u>	<u>3,679,054</u>
Financial Liabilities				
NEFCO Loan	1,028,468	321,690	178,007	155,961
Phare Financing Agreement	589,868	589,868	600,704	600,704
Accounts payable and accruals	7,383	7,383	6,283	6,283
Total Financial Liabilities	<u>1,625,719</u>	<u>918,941</u>	<u>784,994</u>	<u>762,948</u>