

VIDES INVESTIČIJU FONDS
(ENVIRONMENTAL INVESTMENT FUND)

*Independent Auditors' Report and Financial
Statements for the year ended 31 December
2001 prepared in accordance with
International Accounting Standards*

ENVIRONMENTAL INVESTMENT FUND

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ENVIRONMENTAL INVESTMENT FUND

DIRECTOR'S REPORT

In spite of the fact that 2001 did not abound with many significant events for the Environmental Investment Fund ("The Fund"), the year cannot be considered to have been unsuccessful. During the last five years, the Fund has continuously developed and much has been accomplished to ensure that the Fund will play an important role in the financing of future environmental projects.

The year was significant from the standpoint of having completed and fully repaid the Fund's first two financed projects. This once more demonstrates that the Fund is not only capable of issuing loans for environmentally friendly projects but that it is also able to successfully supervise the projects from both a financial and environmental point of view.

The total amount of issued loans has already reached 4.7 million lats. During the year, this total has increased by 1.1 million lats. The management of the Fund continues to observe the principle of prudence in relation to its policy of loan assessment for impairment. Therefore, in 2001, the provision for doubtful loans was increased by 120 thousand lats. The total amount of provisions for doubtful loans has increased to 240 thousand lats or 4.9% of the total portfolio of issued loans.

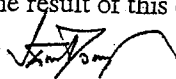
The total amount of assets has increased by 15% and totalled 5.87 million lats at the end of the year. Net interest income increased by 41 thousand lats or 18% during the year. At the same time, total operating expenses less provisions for doubtful debts remained unchanged.

We are also pleased to note that the Fund continued its successful relationships throughout the year. During 2001, 330 thousand lats were transferred to the Fund by the Environmental Protection Fund. The management of the Fund is convinced that these successful partnerships will continue.

A long term partnership has been established with the Latvian Pollution Prevention Centre and the Nordic Environment Finance Corporation for the purpose of financing and identifying projects related to clean technologies. Within this framework, the Fund will supervise implementation of clean technology projects in Latvia.

In the future, the Fund will continue to use its resources in order to increase both the number and scope of the projects funded. This will require the effort of all employees and related parties in order to identify, evaluate and finance these potential projects. The history of the Fund demonstrates that it is capable of achieving higher targets.

Once more, I would like to thank all those involved for our successful partnerships in the current year. The result of this cooperation leads us to believe that we can expect similar success in the coming year.


Jānis Doniņš
Director and Chairman of the Executive Committee

Rīga,
16 January 2002

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 Cīrulis	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

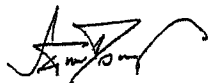
On 27 August 2001 was signed new contract with Aivitu Zavadsku as State Representative valid to 26 August 2002.

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 judgments and estimates have been made in the preparation of the financial statements on pages 7 to 20 for the for the year ended 31 December 2001 and 2000. 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
16 January 2002

Deloitte & Touche
Biskapa gāte 2
Rīga, LV-1050
Latvia

Tel: (371) 781 4160
Fax: (371) 722 3007
www.deloitteCE.com

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& Touche**

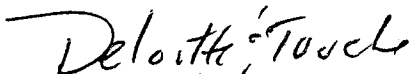
INDEPENDENT AUDITORS' REPORT

To the shareholder of non-profit State organisation limited liability company
"Environmental Investment Fund":

We have audited the accompanying balance sheet of non-profit State organisation limited liability company "Environmental Investment Fund" ("the Fund") as of 31 December 2001, and the related statement of revenues and expenses, cash flows and shareholders' equity for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Fund for the year ended 31 December 2000 were audited by another auditor whose report dated 15 February 2001 expressed an unqualified opinion on these financial 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 the 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, the financial position of the Fund as of 31 December 2001, and the results of its operations, cash flows, and changes in equity for the year then ended in accordance with International Accounting Standards.



Deloitte & Touche
Rīga, Latvia
16 January 2002

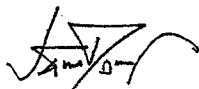
ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000

	Note	2001 LVL	2000 LVL
<i>Operating income</i>			
Interest income	4	363,429	264,131
Interest expense	5	(88,194)	(30,432)
Net interest income		<u>275,235</u>	<u>233,699</u>
Fee and commission income	6	14,255	20,473
Fee and commission expense		(5,349)	(5,783)
Other operating income	7	9,412	15,267
Other income, net		<u>18,318</u>	<u>29,957</u>
TOTAL OPERATING INCOME		<u>293,553</u>	<u>263,656</u>
<i>Operating expenses</i>			
Administrative expenses	8	(140,234)	(147,543)
Provisions for doubtful debts	15	(120,000)	(60,000)
Depreciation	16	(15,637)	(9,521)
Other operating expenses	9	(3,330)	(3,116)
TOTAL OPERATING EXPENSES		<u>(279,201)</u>	<u>(220,180)</u>
SURPLUS FOR THE YEAR	10	<u>14,352</u>	<u>43,476</u>

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

The financial statements on pages 7 to 20 were approved by the State Representative on 16 January 2002 and signed on her behalf by:



Jānis Doniņš
Director

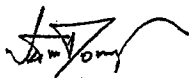
ENVIRONMENTAL INVESTMENT FUND

BALANCE SHEETS
AS OF 31 DECEMBER 2001 AND 2000

	Note	2001.12.31 LVL	2000.12.31 LVL
ASSETS			
Cash and balances with banks	11	1,015,770	1,232,527
Accrued interest income		81,135	63,434
Other current assets	12	5,396	11,459
Leasehold improvements	13	19,173	27,566
Loans to customers	14	4,697,928	3,708,886
Fixed assets	16	52,386	61,198
TOTAL ASSETS		5,871,788	5,105,070
LIABILITIES			
Phare Financing Agreement	17	454,715	589,868
NEFCO Loan	18	1,593,078	1,028,468
Deferred income	19	30,133	39,116
Provisions		5,330	6,770
Accounts payable and accrued expenses	20	10,715	7,383
TOTAL LIABILITIES		2,093,971	1,671,605
SHAREHOLDER'S EQUITY			
Share capital	21	2,000	2,000
Appropriations	24	3,759,607	3,429,607
Retained surplus		16,210	1,858
TOTAL SHAREHOLDER'S EQUITY		3,777,817	3,433,465
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		5,871,788	5,105,070
OFF BALANCE SHEET ITEMS			
Commitments			
Committed loans granted, not drawn down	22	207,804	964,757
		207,804	964,757

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Jānis Doniņš
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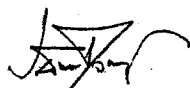
ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2001 AND 2000

	Share capital LVL	Appropriations LVL	Retained surplus LVL	Total LVL
At 31 December 1999	2,000	3,284,607	(41,618)	3,244,989
Appropriations received				
<i>Environmental Protection Fund</i>	-	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
Appropriations received				
<i>Environmental Protection Fund</i>	-	330,000	-	330,000
Surplus for the year	-	-	14,352	14,352
At 31 December 2001	2,000	3,759,607	16,210	3,777,817

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

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Jānis Doniņš
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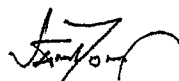
ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF CASH FLOWS
THE YEARS ENDED 31 DECEMBER 2001 AND 2000

	Note	2001 LVL	2000 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		14,352	43,476
Adjustments to reconcile surplus for the year to net cash from operating activities:			
Depreciation		15,637	9,521
Depreciation of leasehold improvements		8,393	7,366
Net loss from disposal of fixed assets		1,566	-
Income from grant		(8,983)	(4,105)
Provision for doubtful debts		120,000	60,000
Provisions (decrease)/increase		(1,440)	6,770
Changes in operating assets and liabilities:			
Loans to customers increase		(1,123,969)	(1,655,084)
Accrued interest increase		(17,701)	(20,247)
Other current assets decrease/(increase)		6,063	(9,967)
Accounts payable and accruals increase		3,332	1,100
Net cash outflow from operating activities		(982,750)	(1,561,170)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(8,686)	(8,679)
Proceeds from sale of fixed assets		295	-
Net cash outflow from investing activities		(8,391)	(8,679)
CASH FLOWS FROM FINANCING ACTIVITIES			
Appropriations received		330,000	145,000
Phare Financing Agreement		(134,944)	-
Proceeds from NEFCO Loan		598,878	835,302
Net cash inflow from financing activities		793,934	980,302
Effect of exchange rate changes on cash		(19,550)	(28,483)
Net decrease in cash and cash equivalents		(216,757)	(618,030)
Cash and balances with banks at beginning of year		1,232,527	1,850,557
Cash and balances with banks at end of year	11	<u>1,015,770</u>	<u>1,232,527</u>

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

The financial statements on pages 7 to 20 were approved by the State Representative on 16 January 2002 and signed on her behalf by:



Jānis Doniņš
Director

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS THE YEARS ENDED 31 DECEMBER 2001 AND 2000

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 donor 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. Credit risk includes the risk that the Fund's debtors will not pay their debts on a timely basis or in full amount. The Fund's management is monitoring this risk and the Fund's specialists constantly supervise the procedures and limits related to credit risk.

Financial risk

Financial risk includes 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's activities also involve 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 and insufficient internal control and procedures. The Fund's management supervises and the respective specialists monitor and control the above risks.

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 2001 AND 2000

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:

	2001.12.31	2000.12.31
1 EUR	LVL 0.560856	LVL 0.570042
1 USD	LVL 0.638000	LVL 0.613000

Provisions for doubtful debts

The management and the Executive Committee 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 and 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 and appropriations

Cash monetary appropriations are credited to reserves.

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 2001 AND 2000

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 2001 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 the current year presentation.

4. INTEREST INCOME

	2001	2000
	LVL	LVL
Loans to customers	321,481	211,647
Balances with banks	40,092	48,500
Fixed income securities	1,856	3,984
Total	363,429	264,131

The interest rates received on balances with banks for the years ended 31 December 2001 and 2000 ranged from 1.25% to 8%.

5. INTEREST EXPENSE

	2001	2000
	LVL	LVL
NEFCO Loan (Note 18)	85,626	30,432
Phare Financing Agreement	2,568	-
Total	88,194	30,432

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 loans co-financed by NEFCO under the NEFCO Loan Facility Agreement.

7. OTHER OPERATING INCOME

	2001	2000
	LVL	LVL
Funding by other organisations for staff expenses	-	11,075
Release from deferred income	8,902	4,105
Other income	510	87
Total	9,412	15,267

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2001 AND 2000

8. ADMINISTRATIVE EXPENSES

	2001 LVL	2000 LVL
Staff costs		
- wages and salaries to management and staff	61,357	73,196
- remuneration to the Members of the Executive Committee and State Representative	15,072	14,817
- social security costs	21,093	21,182
Legal services	9,069	4,395
Office renovation expenses	8,393	8,103
Office rent and public utilities	5,895	5,777
Communications	4,451	4,997
Business trips	2,426	3,629
Advertising and publicity	1,071	2,410
Other administrative expenses	11,407	9,037
Total	<u>140,234</u>	<u>147,543</u>

The average number of persons employed by the Fund during the years ended 31 December 2001 and 2000 was 18 and 19, respectively.

9. OTHER OPERATING EXPENSES

	2001 LVL	2000 LVL
Net gain (loss) from foreign exchange operations	156	(83)
Other expenses	(3,486)	(3,033)
Total	<u>(3,330)</u>	<u>(3,116)</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 BALANCES WITH BANKS

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

	2001.12.31 LVL	2000.12.31 LVL
Cash on hand	34	89
Balances with banks		
- LVL due within 1 month	605,733	687,236
- LVL due from 1 month to 3 months	310,000	-
- EUR due within 1 month	98,977	544,051
- USD due within 1 month	1,026	1,151
Cash and balances with banks	<u>1,015,770</u>	<u>1,232,527</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2001 AND 2000

12. OTHER CURRENT ASSETS

	2001.12.31	2000.12.31
	LVL	LVL
Other prepayments	5,385	9,418
Other assets	11	2,041
Total	<u>5,396</u>	<u>11,459</u>

13. LEASEHOLD IMPROVEMENTS

	2001.12.31	2000.12.31
		LVL
<i>Historical cost</i>		
At the beginning of year	44,107	43,370
Additions	-	737
At the end of year	<u>44,107</u>	<u>44,107</u>
<i>Accumulated depreciation</i>		
At the beginning of year	16,541	8,438
Charge	8,393	8,103
At the end of year	<u>24,934</u>	<u>16,541</u>
<i>Net book value</i>		
At the beginning of year	<u>27,566</u>	<u>34,932</u>
At the end of year	<u>19,173</u>	<u>27,566</u>

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

14. LOANS TO CUSTOMERS

	2001.12.31	2000.12.31
	LVL	LVL
<i>Remaining maturity</i>		
Due less than one year	665,441	504,351
Within one to five years	3,137,903	2,272,365
Within five to ten years	1,133,934	989,857
More than ten years	650	62,313
Total	<u>4,937,928</u>	<u>3,828,886</u>
Provisions for doubtful debts (Note 15)	(240,000)	(120,000)
Total, net	<u>4,697,928</u>	<u>3,708,886</u>
<i>Analysis by sector</i>		
Water and waste water treatment	2,598,742	1,497,678
Furnace and district heating	866,236	969,578
Recycling	638,424	675,124
Windmill	382,171	463,172
Cleaner technology and other projects	230,000	30,776
Small hydro power stations	222,355	192,558
Total	<u>4,937,928</u>	<u>3,828,886</u>
Provisions for doubtful debts (Note 15)	(240,000)	(120,000)
Total, net	<u>4,697,928</u>	<u>3,708,886</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2001 AND 2000

<i>Customer analysis</i>		
State and municipal companies	2,298,923	1,278,133
Private companies	1,726,241	1,562,081
Municipalities	912,764	986,047
Other	-	2,625
Total	4,937,928	3,828,886
Provisions for doubtful debts (Note 15)	(240,000)	(120,000)
Total, net	4,697,928	3,708,886

	2001.12.31		2000.12.31	
<i>Currency analysis</i>	Currency	LVL	Currency	LVL
LVL	3,455,428	3,455,428	3,226,691	3,226,691
EUR	2,643,281	1,482,500	1,056,405	602,195
Total		4,937,928		3,828,886

	2001.12.31		2000.12.31	
<i>Loan size analysis (LVL)</i>	No.	LVL	No.	LVL
1,000 - 5,000	5	13,155	6	15,061
5,000 - 10,000	4	25,453	1	8,000
10,000 - 100,000	17	610,950	18	667,693
Over 100,000	17	4,288,370	15	3,138,132
Total	43	4,937,928	40	3,828,886
Provisions for doubtful debts (Note 15)		(240,000)		(120,000)
Total, net	43	4,697,928	40	3,708,886

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. PROVISIONS FOR DOUBTFUL DEBTS

	2001.12.31	2000.12.31
	LVL	LVL
At beginning of year	120,000	60,000
Charge in Statement of Revenues and Expenses	120,000	60,000
At end of year	240,000	120,000

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
THE YEARS ENDED 31 DECEMBER 2001 AND 2000

16. FIXED ASSETS

	Computer, car and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 1999	14,940	11,716	26,656
Additions	8,435	244	8,679
Grant funded assets	32,112	10,756	42,868
At 31 December 2000	<u>55,487</u>	<u>22,716</u>	<u>78,203</u>
Additions	8,686	-	8,686
Disposals	(6,210)	-	(6,210)
At 31 December 2001	<u>57,963</u>	<u>22,716</u>	<u>80,679</u>
<i>Accumulated depreciation</i>			
At 31 December 1999	5,556	1,928	7,484
Charge for the year	4,102	1,314	5,416
Depreciation of grant funded fixed assets	3,723	382	4,105
At 31 December 2000	<u>13,381</u>	<u>3,624</u>	<u>17,005</u>
Charge for the year	5,411	1,324	6,735
Disposals	(4,349)	-	(4,349)
Depreciation of grant funded fixed assets	7,701	1,201	8,902
At 31 December 2001	<u>22,144</u>	<u>6,149</u>	<u>28,293</u>
<i>Net book value</i>			
At 31 December 2000	<u>42,106</u>	<u>19,092</u>	<u>61,198</u>
At 31 December 2001	<u>35,819</u>	<u>16,567</u>	<u>52,386</u>

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

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 repayable to State Treasury within 1 year, are recognised as short-term repayables. Interest is charged for the funds repaid by clients to the Fund.

	2001.12.31 LVL	2000.12.31 LVL
<i>Long term liabilities</i>		
Disbursed to clients	358,010	341,938
Total	<u>358,010</u>	<u>341,938</u>
<i>Short term liabilities</i>		
Disbursed to clients, due in before one year	93,767	94,438
Repaid by clients	2,938	25,765
Unutilised	-	127,727
Total	<u>96,705</u>	<u>247,930</u>
Total	<u>454,715</u>	<u>589,868</u>

The total balance of funds repaid to State Treasury as at 31 December 2001 amounts to LVL 137,512, that is LVL 114,622 repaid by clients, LVL 2,568 accrued interest (Note 5) and LVL 20,322 unutilized funds.

ENVIRONMENTAL INVESTMENT FUND

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18. NEFCO LOAN

A Loan Facility Agreement for 3.5 million euros 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 up to 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.

	2001.12.31		2000.12.31	
	EUR	LVL	EUR	LVL
Disbursed to ultimate borrowers	2,764,501	1,550,487	1,068,757	609,236
Unutilised	164,869	92,467	723,722	412,552
Total draw down	2,929,370	1,642,954	1,792,479	1,021,788
Commitment charge	515	289	5,543	3,160
Interest due	32,292	18,111	24,069	13,720
Repaid	(121,735)	(68,276)	(17,894)	(10,200)
Total	2,840,442	1,593,078	1,804,197	1,028,468

The total balance of loans due within 1 year as at 31 December 2001 amounts to LVL 160,870.

19. DEFERRED INCOME

Balance as at 31 December 1999	353
Increase of deferred income	42,868
Release from deferred income	(4,105)
Balance as at 31 December 2000	39,116
Decrease of deferred income	(81)
Release from deferred income	(8,902)
Balance as at 31 December 2001	30,133

Deferred income represents 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

	2001.12.31	2000.12.31
	LVL	LVL
Accrued expenses	4,206	3,588
Other accounts payable	6,509	3,795
Total	10,715	7,383

21. SHARE CAPITAL

Fully paid share capital of 2,000 ordinary shares of LVL 1 each as at 31 December 2001. Republic of Latvia owns 100% shares of the Fund.

ENVIRONMENTAL INVESTMENT FUND

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22. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	2001.12.31	2000.12.31
	LVL	LVL
State and municipal companies	276,228	1,187,632
Private companies	120,413	387,466
Municipalities	39,600	37,734
Total	<u>436,241</u>	<u>1,612,832</u>
NEFCO loan	(228,437)	(648,075)
Total, net	<u>207,804</u>	<u>964,757</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 2002.

23. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities as at 31 December 2001 according to the currencies in which they are denominated is as follows:

LVL	Assets	Liabilities	Net currency exposure	% of regulatory capital
EUR	1,599,588	1,599,588	-	-
USD	5,611	-	(5,611)	-
Total	<u>1,605,199</u>	<u>1,599,588</u>	<u>(5,611)</u>	-

	LVL	USD	EUR	TOTAL
Assets				
Cash and balances with banks	915,767	1,026	98,977	1,015,770
Accrued interest income	63,024	-	18,111	81,135
Other current assets	811	4,585	-	5,396
Loans to customers	3,455,428	-	1,482,500	4,937,928
Total Assets	<u>4,435,030</u>	<u>5,611</u>	<u>1,599,588</u>	<u>6,040,229</u>
Liabilities				
Accounts payable and accrued expenses	4,206	-	6,509	10,715
NEFCO Loan	-	-	1,593,079	1,593,079
Total Liabilities	<u>4,206</u>	<u>-</u>	<u>1,599,588</u>	<u>1,603,794</u>

24. APPROPRIATIONS

Under agreements with donor agencies, the Fund receives appropriations to support investments in public and private environmental projects.

During the year ended 31 December 2001 the Fund received appropriation of LVL 180,000 to expand the Funds water and wastewater loan program and supplementary appropriation of LVL 150,000. The Board of Directors of Environmental Protection Fund (Latvia) approved appropriations on 20 June 2001.

On 6 December 2000 the Board of Directors of Environmental Protection Fund approved appropriation of LVL 145,000 for the year ended 31 December 2000.

ENVIRONMENTAL INVESTMENT FUND

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25. 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 2001 the Fund had not entered into any material transactions with related parties.

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 2001 was 9% and 6% for short term assets and liabilities, respectively.

	2001.12.31		2000.12.31	
	Carrying Value LVL	Fair Value LVL	Carrying Value LVL	Fair Value LVL
Financial Assets				
Cash and balances with banks	1,015,770	1,015,770	1,232,527	1,232,527
Loans to customers	4,697,928	4,556,520	3,708,886	3,547,615
Leasehold improvements	19,173	17,416	27,566	26,031
Total Financial Assets	5,732,871	5,589,706	4,968,979	4,806,173
Financial Liabilities				
NEFCO Loan	1,593,078	1,393,971	1,028,468	922,754
Phare Financing Agreement	454,715	454,715	589,868	589,868
Accounts payable and accrued expenses	10,715	10,715	7,383	7,383
Total Financial Liabilities	2,058,508	1,859,401	1,625,719	1,520,005
