

***SIA VIDES INVESTĪCIJU FONDS
(ENVIRONMENTAL INVESTMENT FUND)***

*Annual report in accordance with
International Financial Reporting Standards
for the years ended 31 December 2005 and
2004 and Independent Auditor's Report*

ENVIRONMENTAL INVESTMENT FUND

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ENVIRONMENTAL INVESTMENT FUND

MANAGEMENT REPORT

The past year has been rich with many events and challenges for us, as well as for our clients. Mostly these challenges were related to the opportunity to attract financing from the European Regional Development Fund (ERDF) for the implementation of environmental infrastructure projects.

In the year 2005 the Environmental Investment Fund Ltd. (Fund) has signed 50 new loan agreements with a total loan from the Fund of almost 4 million Latvian lats (LVL). This is the highest number of loan agreements signed by the Fund during one year and is almost one third of all loan agreements signed by the Fund. Mostly these are ERDF co-financed projects for water sector infrastructure development in populated areas with number of inhabitants below 2000. These projects present a good opportunity for municipalities to develop infrastructure that creates precondition for the further development of entrepreneurial activity, but is also a great challenge -- especially for small municipalities. Therefore the Fund has taken an active role to provide all necessary support for project development and to supervise implementation. In cooperation with the Ministry of Environment and the Central Financing and Contracting Agency several supporting materials have been prepared and regular seminars to clarify questions raised on project implementation and requirements have also been organized. In order to provide necessary pre-financing for the implementation of the ERDF co-financed projects, a loan agreement on a credit line of 3 million euro for the Fund was signed with Nordic Environmental Financing Corporation (NEFCO) in November 2005. This is the second loan agreement that the Fund has signed with the NEFCO.

Due to a substantial decrease of interest rates in the financial market, the Fund has changed its interest rate determination mechanism for loans providing flexibility in fixing the loan for a 5 year period thus creating an opportunity to offer loans on more favorable conditions. At the end of the first half of 2005 the reduction of interest rates for the Fund's and NEFCO co-financed water sector development projects was approved.

The Fund closed the year 2005 with a profit of LVL 53,822. In the first half of the year, an increase of the Fund's share capital by LVL 240,498 – which corresponds to a surplus of income over expenses for the period from 1st September until 20th October 2004 when the Fund operated as a non-profit organization was registered. Now the Fund's share capital is LVL 4,427,196. Due to a decrease of private sector projects in the Fund's project portfolio, provisions for doubtful debts have been reduced by LVL 20,000. 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 2005 as follows:

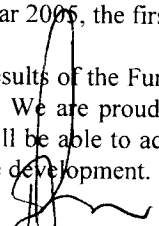
- to transfer 27% of the Fund's net profit or LVL 14,532 to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting to LVL 39,290 to Retained earnings.

It is already the second year when the quality management system in accordance to the ISO 9001 standard has been introduced in the Fund. In June the second supervision audit took place and no non-conformities were identified. The results of this audit indicate that the quality management system implemented at the Fund works successfully. Compliance with the established procedures ensures that the Fund is not materially exposed to such risks as market price risk, credit risk, liquidity risk and cash flow risk (see Note 23).

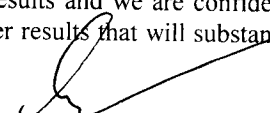
All are welcome to visit the Fund's new web page that provides current information on new opportunities to attract financing for the implementation of environmental infrastructure projects.

In the next year we will put all our efforts in providing the support needed to successfully implement of ERDF co-financed projects and to fulfill all necessary pre-conditions to receive ERDF financing. We are glad that in the end of the year 2005, the first co-financed project by the Fund received ERDF financing.

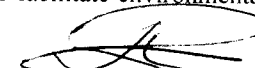
Successful results of the Fund's operations in the last year were only possible due to our cooperation with clients and partners. We are proud of last year's results and we are confident that in the year 2006 with our common efforts we will be able to achieve even better results that will substantially contribute to facilitate environmental infrastructure development.



Ilze Puriņa
Chairperson of the Board



Askolds Kļaviņš
Board member



Romāns Mežeckis
Board member

Rīga,
9 February 2006

ENVIRONMENTAL INVESTMENT FUND

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

As at the date of signing of the financial statements:

Representative of State capital shareholder

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

The Board

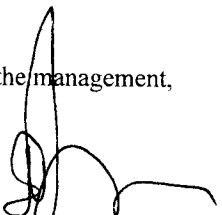
<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Ilze Puriņa	Chairperson of the Board	18 October, 2004
Romāns Mežeckis	Board member	18 October, 2004
Askolds Kļaviņš	Board member	18 October, 2004


ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

1. The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.
2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 21 for the years ended 31 December 2005 and 2004. 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,



Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

Rīga,
9 February 2006

AUDITORS' REPORT

To the shareholder of SIA Vides Investīciju Fonds

We have audited the accompanying financial statements of SIA Vides Investīciju Fonds (hereinafter – the Company) for the year ended 31 December 2005, set out on pages 7 through 21, which comprise the balance sheet, the statements of income, cash flows and changes in equity and the related notes. These financial statements are the responsibility of the Company's management. 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 issued by the International Federation of Accountants. 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 give a true and fair view of the financial position of SIA Vides Investīciju Fonds as at 31 December 2005, and of the results of its operations and its cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Furthermore, we have read the Management Report [included on page 3 of the accompanying 2005 Annual Report] for the year ended 31 December 2005 and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2005.

Ernst & Young Baltic SIA
License No. 17



Diāna Krišjāne
Chairman of the Board
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate Nr. 124

Rīga,
9 February 2006

ENVIRONMENTAL INVESTMENT FUND

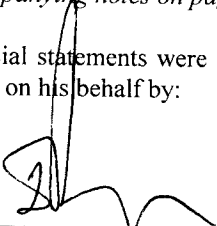
STATEMENTS OF PROFIT OR LOSS/ REVENUES AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Note	2005 LVL	2004 LVL
<i>Operating income</i>			
Interest income	4	250,360	294,438
Interest expense	5	(41,091)	(41,326)
Net interest income		209,269	253,112
Other operating income	6	22,310	365,691
Other income, net		22,310	365,691
TOTAL OPERATING INCOME		231,579	618,803
<i>Operating expenses</i>			
Administrative expenses	7	(147,293)	(123,883)
Depreciation	14	(7,738)	(11,841)
Other operating expenses	8	(14,164)	-
TOTAL OPERATING EXPENSES		(169,195)	(135,724)
GROSS PROFIT/ SURPLUS FOR THE YEAR BEFORE TAXES		62,384	483,079
Corporate income tax	21	(8,404)	(3,484)
Deferred corporate income tax	21	(158)	-
PROFIT/ SURPLUS FOR THE YEAR	9	53,822	479,595 *

* – see Note 2.

The accompanying notes on pages 11 to 21 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 9 February 2006 and signed on his behalf by:


Ilze Purīņa
Chairperson of the Board


Askolds Kļaviņš
Board member


Romāns Mežeckis
Board member

ENVIRONMENTAL INVESTMENT FUND

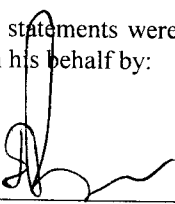
BALANCE SHEETS AS OF 31 DECEMBER 2005 AND 2004

	Note	31.12.2005. LVL	31.12.2004. LVL
ASSETS			
Cash and balances with banks	10	25,260	1,061,712
Accrued interest income		52,737	67,312
Other current assets	11	19,561	1,441
Loans to customers	12, 13	7,052,763	4,812,096
Fixed assets	14	16,627	18,013
TOTAL ASSETS		7,166,948	5,960,574
LIABILITIES			
Phare Financing Agreement	15	100,330	187,170
NEFCO Loans	16	2,557,097	1,303,091
Deferred income	17	4,368	6,678
Taxes	21	-	3,484
Provisions		5,304	6,345
Accounts payable and accrued expenses	18	3,448	5,537
TOTAL LIABILITIES		2,670,547	1,512,305
SHAREHOLDER'S EQUITY			
Share capital	19	4,427,196	4,186,698
Retained surplus		-	240,498
Retained profit		69,205	21,073 *
TOTAL SHAREHOLDER'S EQUITY		4,496,401	4,448,269
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		7,166,948	5,960,574
OFF BALANCE SHEET ITEMS			
Commitments	22		
Committed loans granted, not drawn down		80,000	142,754
		80,000	142,754

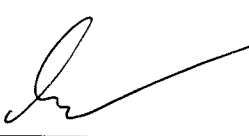
* – see Note 2.

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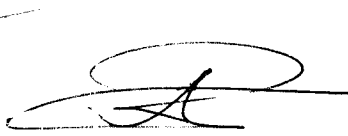
The financial statements were approved by the Representative of State capital shareholder on 9 February 2006 and signed on his behalf by:



 Ilze Puriņa
 Chairperson of the Board



 Askolds Kļaviņš
 Board member



 Romāns Mežekis
 Board member

ENVIRONMENTAL INVESTMENT FUND

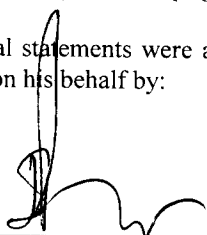
STATEMENTS OF SHAREHOLDER'S EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

	Share capital LVL	Appropriations LVL	Retained surplus LVL	Retained profit LVL	Total LVL
At 31 December 2003	2,000	3,909,607	57,067	-	3,968,674
Reorganization	3,909,607	(3,909,607)	-	-	-
Surplus for the year	218,024	-	183,431	-	458,522
Profit for the year	-	-	-	21,073	21,073
At 31 December 2004	4,186,698	-	240,498	21,073	4,448,269
Dividends	-	-	-	(5,690)	(5,690)
Increase of share capital*	240,498	-	(240,498)	-	-
Profit for the year	-	-	-	53,822	53,822
At 31 December 2005	4,427,196	-	-	69,205	4,496,401


* – see Note 19.

The accompanying notes on pages 11 to 21 are an integral part of these financial statements.


The financial statements were approved by the Representative of State capital shareholder on 9 February 2006 and signed on his behalf by:



Ilze Puriņa
Chairperson of the Board



Askolds Kļaviņš
Board member



Romāns Mežeckis
Board member

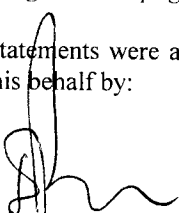
ENVIRONMENTAL INVESTMENT FUND

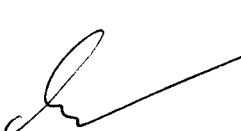
STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

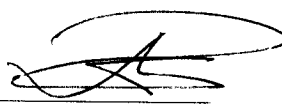
	Note	2005 LVL	2004 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ Surplus for the year		53,822	483,079
Adjustments to reconcile profit for the year to net cash from operating activities:			
Depreciation		7,738	11,841
Depreciation of leasehold improvements		-	3,337
Net loss from disposal of fixed assets		507	541
Income from grant		(2,310)	(5,703)
Interest income		(250,360)	(294,437)
Interest expense		41,091	41,326
Provision for doubtful debts		(20,000)	(360,000)
Provisions increase		(1,041)	2,601
Changes in operating assets and liabilities:			
Loans to customers (increase)/decrease		(2,221,027)	80,791
Interest received		224,584	255,567
Accrued interest (increase)/decrease		(739)	1,178
Other current assets increase		(18,121)	(219)
Accounts payable and accruals (decrease)/increase		(5,573)	2,035
Net cash (outflow)/inflow from operating activities		(2,191,429)	221,937
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(6,859)	(372)
Net cash outflow from investing activities		(6,859)	(372)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends		(5,690)	-
Proceeds from Phare Financing Agreement		(86,840)	(97,754)
Proceeds from NEFCO Loans		1,254,366	(205,137)
Net cash increase/(outflow) from financing activities		1,161,836	(302,891)
Net effect of exchange rate changes on cash		-	-
Net decrease in cash and cash equivalents		(1,036,452)	(81,326)
Cash and balances with banks at beginning of year		1,061,712	1,143,038
Cash and balances with banks at end of year	10	25,260	1,061,712

The accompanying notes on pages 11 to 21 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 9 February 2006 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 STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environmental 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.

2. REORGANIZATION OF THE FUND

To comply with the Law on Procedures for the Coming into Force of The Commercial Law, on 8 September 2004 the Cabinet of Ministers adopted Order No. 610 On Reorganization of Non-profit Organisation State Limited Liability Company *Environmental Investment Fund* into Limited Liability Company *Environmental Investment Fund*, the sole shareholder of which is the Ministry of Environment.

Pursuant to the Cabinet of Ministers Order the share capital of the Fund was increased by transferring to the share capital the reserves in amount of LVL 3,909,607 accumulated by the Fund as a non-profit organization and according to the Law on Procedures for the Coming into Force of The Commercial Law, Section 25.4, Paragraph one, by transferring to the share capital accumulated the excess of income over expenses in amount of LVL 275,091, which consists of the retained previous years' excess of income over expenses transferred to the reserves in amount of LVL 57,067 and the excess of income over expenses for the period from 1 January 2004 to 31 August 2004 amounting to LVL 218,024. As a result the profit / excess income over expenses for year 2004 was different in balance sheet and statements of profit or loss/ revenues and expenses. See also Note 19.

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 the International Financial Reporting Standards.

Reporting currency

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

Foreign currency translation

All monetary assets and liabilities 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. The principal foreign currency held by the Fund is the euro (EUR). The exchange rates as at the balance sheet date were as follows:

	31.12.2005.	31.12.2004.
1 EUR	LVL 0.702804	LVL 0.703000

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 true value.

Afterwards loans and credits are accounted at amortized value using method of the actual interest rate. Amortized value is determined taking in 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 profit or loss 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 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%

Cash and cash equivalents.

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

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

Related parties transactions

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of calculations

In the process of preparation of the financial statements, the management has made 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 applicable income in period.

Deferred corporate income tax, which arises from short term deviations including some items on tax declaration form and in this financial statement, is calculated using liability method. Deferred corporate tax liabilities are estimated based on tax rates expected to be in the force when short term deviations will cease to exist. Main short term deviations 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.

4. INTEREST INCOME

	2005 LVL	2004 LVL
Loans to customers	218,679	261,524
Balances with banks	31,681	32,914
Total	250,360	294,438

The interest rates received on balances with banks for the years ended 31 December 2005 and 2004 ranged from 0.30% to 4.00%.

5. INTEREST EXPENSE

The Fund has interest expense in accordance with the NEFCO loan facility agreements (Note 16). 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.

6. OTHER OPERATING INCOME

	2005 LVL	2004 LVL
Decrease of provisions for doubtful debts	20,000	360,000
Release from deferred income	2,310	5,691
Total	22,310	365,691

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

7. ADMINISTRATIVE EXPENSES

	2005 LVL	2004 LVL
Personal costs:		
– salaries	56,384	44,611
– social security costs	12,852	10,713
Management costs:		
– salaries	26,762	25,509
– social security costs	6,447	6,145
Office rent and public utilities	16,490	8,818
Legal services	9,338	9,199
Communications	4,286	4,135
Office supplies and stationary	2,277	1,791
Advertising and publicity	2,017	823
Business trips	1,662	1,214
Health insurance	1,397	923
Office renovation expenses	-	3,337
Provisions for vacation expenses	(1,199)	2,601
Other administrative expenses	8,580	4,064
Total	147,293	123,883

The average number of persons employed by the Fund excluding the Members of the Board, Representative of State capital shareholder and Responsible officer during the year ended 31 December 2005 and 2004 was 8 and 7, respectively.

8. OTHER OPERATING EXPENSES

	2005 LVL	2004 LVL
Net loss from foreign exchange operations	14,164	-
Total	14,164	-

9. PROFIT

Pursuant to the Law On State and Municipal Capital Companies the Fund transfers 27% of net profit to the state budget. The remaining profit is retained by the Fund in order to provide a reserve for future liabilities and contingencies.

10. CASH AND BALANCES WITH BANKS

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

	31.12.2005. LVL	31.12.2004. LVL
Cash on hand	94	4
Balances with banks		
- LVL current account	24,300	160,924
- EUR current account	87	-
- LVL Visa Electron and Visa Mastercard	779	784
- LVL short terms deposits	-	900,000
Total	25,260	1,061,712

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

11. OTHER CURRENT ASSETS

	31.12.2005. LVL	31.12.2004. LVL
Overpaid taxes	13,315	93
Security deposit for office rent	3,226	-
Other prepayments	2,909	1,246
Other assets	111	102
Total	<u>19,561</u>	<u>1,441</u>

12. LOANS TO CUSTOMERS

	31.12.2005. LVL	31.12.2004. LVL
<i>Remaining maturity</i>		
Less than one year	839,417	904,921
Within one to five years	3,002,826	2,822,321
Within five to ten years	1,925,026	932,263
More than ten years	1,355,494	242,591
Total	<u>7,122,763</u>	<u>4,902,096</u>
Provisions for doubtful debts (Note 13)	(70,000)	(90,000)
Total, net	<u>7,052,763</u>	<u>4,812,096</u>

Analysis by sector

Water and waste water treatment	5,550,216	2,670,189
Environmentally friendly heat supply	1,123,498	1,079,106
Cleaner technology and other projects	232,522	285,100
Insulation of buildings	154,045	173,645
Renewable energy	52,057	232,632
Recycling	10,425	461,424
Total	<u>7,122,763</u>	<u>4,902,096</u>
Provisions for doubtful debts (Note 13)	(70,000)	(90,000)
Total, net	<u>7,052,763</u>	<u>4,812,096</u>

Customer analysis

Municipalities	4,844,399	1,784,101
Municipal companies	1,874,116	1,970,986
Private companies	404,248	1,147,009
Total	<u>7,122,763</u>	<u>4,902,096</u>
Provisions for doubtful debts (Note 13)	(70,000)	(90,000)
Total, net	<u>7,052,763</u>	<u>4,812,096</u>

	31.12.2005.		31.12.2004.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	6,045,926	6,045,925	3,609,574	3,609,574
EUR	1,532,202	1,076,838	1,838,580	1,292,522
Total		<u>7,122,763</u>		<u>4,902,096</u>
Provisions for doubtful debts (Note 13)		(70,000)		(450,000)
Total, net		<u>7,052,763</u>		<u>4,812,096</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

12. LOANS TO CUSTOMERS (CONTINUED)

	31.12.2005.		31.12.2004.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	4	9,537	7	11,768
5,000 - 10,000	6	48,910	5	39,225
10,000 – 100,000	79	2,973,966	48	1,610,808
Over 100,000	26	4,090,350	16	3,240,295
Total	115	7,122,763	76	4,902,096
Provisions for doubtful debts (Note 13)		(70,000)		(90,000)
Total, net	115	7,052,763	76	4,812,096

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

13. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2005. LVL	31.12.2004. LVL
At beginning of year	90,000	450,000
Decrease	(20,000)	(360,000)
At end of year	70,000	90,000

14. FIXED ASSETS

	Computer, car and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2004	43,784	22,431	66,215
Additions	6,760	99	6,859
Disposals	(3,566)	(1,240)	(4,806)
At 31 December 2005	46,978	21,290	68,268
<i>Accumulated depreciation</i>			
At 31 December 2004	35,845	12,357	48,202
Charge for the year	4,327	1,101	5,428
Depreciation of grant funded fixed assets	1,108	1,202	2,310
Disposals	(3,566)	(733)	(4,299)
At 31 December 2005	37,714	13,927	51,641
<i>Net book value</i>			
At 31 December 2004	7,939	10,074	18,013
At 31 December 2005	9,264	7,363	16,627

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

15. 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. The amount transferred to the Fund for the project implementation under the agreement is reflected on the Fund Balance Sheet as follows:

	31.12.2005.	31.12.2004.
	LVL	LVL
<i>Long term liabilities</i>		
Disbursed to clients	66,784	99,416
Total	66,784	99,416
<i>Short term liabilities</i>		
Disbursed to clients, due in less than one year	33,546	87,754
Total	33,546	87,754
Total	100,330	187,170

16. 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 months 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 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.

	31.12.2004.		30.06.2004.	
	EUR	LVL	EUR	LVL
Disbursed to ultimate borrowers:				
- loan agreement I	2,929,370	2,058,773	2,929,370	2,059,347
- loan agreement II	2,090,000	1,468,860	-	-
Total draw down	5,019,370	3,527,633	2,929,370	2,059,347
Interest due:				
- loan agreement I	12,498	8,784	15,035	10,570
- loan agreement II	3,721	2,615	-	-
Repaid (Loan agreement I)	(1,397,168)	(981,935)	(1,090,790)	(766,826)
Total	3,638,421	2,557,097	1,853,615	1,303,091

The total balance of loans due in less than one year as at 31 December 2005 amounts to LVL 214,965 (at 31 December 2004: LVL 213,438).

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

17. DEFERRED INCOME

Balance as at 31 December 2004	6,678
Recognised deferred income	2,310
Balance as at 31 December 2005	4,368

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.

18. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31.12.2005.	31.12.2004.
	LVL	LVL
Accrued liabilities	3,448	5,537
Total	3,448	5,537

19. SHARE CAPITAL

As of 31 December 2005 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. The Fund share capital was increased in order to fulfill "Law on Procedures for the Coming into Force of The Commercial Law" requirements (Note 2) and was increased by excess of income over expenses credited to organizations reserves amounting LVL 240,498 for period from 1 September 2004 till 20 October 2004.

Fully paid share capital was as follows:

	31.12.2005.	31.12.2004.
	LVL	LVL
The Ministry of Environment	4,427,196	4,186,698

20. APPROPRIATIONS

The Fund received appropriations from Latvian Environmental Protection Fund to support investments in public and private environmental projects.

21. CORPORATE INCOME TAX

Corporate income tax

	2005	2004 *
	LVL	LVL
Payable corporate income tax		
Corporate income tax for the year	8,404	3,484
Deferred corporate income tax		
Deferred corporate income tax as a result of short term deviations	158	-
Disclosed in profit or loss statement:	8,562	3,484

* – the Fund was exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations till the Fund reorganization (see also Note 3 part *Taxation*).

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

21. CORPORATE INCOME TAX (CONTINUED)

Deferred corporate income tax:

	2005 LVL	2004 LVL
Assets of deferred corporate income tax	-	-
Deviation between fixed assets value in financial and tax accounting	930	1,427
Gross deferred corporate income tax assets	(772)	(1,427)
Deferred corporate income tax assets/liabilities, net	<u>158</u>	<u>-</u>

Actual corporate income tax compared to theoretically calculated:

	2005 LVL	2004 LVL
Profit before taxes	62,384	24,557
Theoretically calculated corporate income tax 15%	9,358	3,684
Permanent deviations	121	14
Short term deviations between fixed assets value in financial and tax accounting	(917)	(214)
Actual corporate income tax for year	<u>8,562</u>	<u>3,484</u>

22. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	31.12.2005. LVL	31.12.2004. LVL
Municipalities	-	126,754
Municipal companies	80,000	16,000
Total	<u>80,000</u>	<u>142,754</u>

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

23. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, 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 for example accounts receivable and other debtors, accounts payable to suppliers and contractors and other creditors, which directly arise from the Fund's activities.

Interest rate risk

The Fund is vulnerable to interest rate risk mainly because of short term and long term loans. The policy of the Fund ensures that interest rates for most of the loans are fixed. The average interest rate for the Fund's loans is disclosed in Note 12.

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.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

23. FINANCIAL RISK MANAGEMENT (CONTINUED)

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.

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 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.

24. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities as at 31 December 2005 according to the currencies in which they are denominated is as follows:

LVL	Assets	Liabilities	Net currency exposure
EUR	1,085,622	2,557,097	1,471,475
Total	1,085,622	2,557,097	1,471,574

	LVL	EUR	TOTAL
Assets			
Accrued interest income	43,953	8,784	52,737
Loans to customers	6,045,925	1,076,838	7,122,763
Total Assets	6,089,878	1,085,622	7,175,500
Liabilities			
NEFCO Loans	-	2,557,097	2,557,097
Total Liabilities	-	2,557,097	2,557,097

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

25. 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 to 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 to fair value due to the relatively short period of time between accrual and expected realisation.

For fair value calculations, the relevant market rate for the loans used at 31 December 2005 was 6% for short-term assets and liabilities.

	31.12.2005.		31.12.2004.	
	Carrying Value LVL	Fair Value LVL	Carrying Value LVL	Fair Value LVL
Financial Assets				
Cash and balances with banks	25,260	25,260	1,061,712	1,061,712
Loans to customers	7,052,763	6,735,340	4,812,096	4,785,332
Total Financial Assets	7,078,023	6,760,600	5,873,808	5,847,044
Financial Liabilities				
NEFCO Loans	2,557,097	2,431,435	1,303,091	1,217,791
Phare Financing Agreement	100,330	100,330	187,170	187,170
Accounts payable and accrued expenses	3,448	3,448	5,537	5,537
Total Financial Liabilities	2,660,875	2,535,213	1,495,798	1,410,498
