

**LATVIAN ENVIRONMENTAL INVESTMENT FUND
FINANCIAL STATEMENTS FOR 8 MONTHS PERIOD
ENDED 31 DECEMBER 1997**

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REPORT OF THE MANAGING DIRECTOR

Riga

9 April 1998

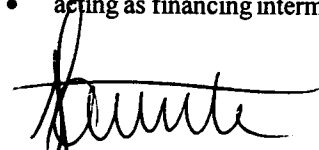
During the Year 1997, Latvian Environmental Investment Fund cooperated with consultants from Liepāja in developing handbook on international procurements in Latvian, published a newsletter and started work screening and appraising potential municipal and private sector projects. Latvian Environmental Investment Fund has developed relations with following institutions:

- Norwegian – Latvian Enterprise Development Fund,
- Baltic – American enterprise fund,
- European Bank of Reconstruction and Development,
- European Investment Bank.

Latvian Environmental Investment Fund participated in workgroup which prepared amendments to allow municipalities to borrow funds not only from State Treasury but also from the Latvian Environmental Investment Fund. The Fund established the Environmental Round Table to provide a regular forum for organisations involved in improving the environmental infrastructure.

Next projects the Latvian Environmental Investment Fund is working on are:

- 2 million ECU investment grant project with EU Phare,
- 1 million ECU technical assistance project from EU Phare to strengthen institutional capacity,
- 4 million ECU bid for an investment grant through the EU Catch-up Facility,
- acting as financing intermediary for NEFCO supported 3.5 million ECU municipal projects.



Indra Sāmīte
Managing Director

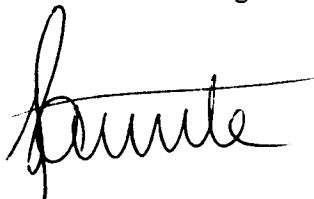
STATEMENT OF MANAGEMENT RESPONSIBILITIES

Riga

9 April 1998

1. The management is responsible for preparing 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 reasonable and prudent judgements and estimates have been made in the preparation of the financial statements on pages 1 to 9 for the year ended 31 December 1997. The 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. 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,



Indra Sāmīte
Managing Director

Price Waterhouse**AUDITOR'S REPORT****To the Shareholder of the Latvian Environmental Investment Fund**

We have audited the accompanying balance sheet of the Latvian Environmental Investment Fund (the Fund) as at 31 December 1997, and the related statements of income and cash flows for the 8 months period 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.

Basis of opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the financial position of the Fund as at 31 December 1997 and of the results of its operations and its cash flows for the 8 months period then ended in accordance with International Accounting Standards.

Price Waterhouse SIA
Riga, 6 April 1998

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ENDED 31 DECEMBER 1997**

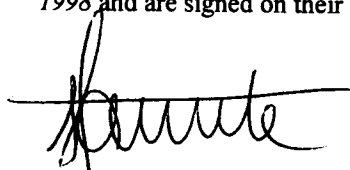
INCOME STATEMENT

(all amounts in lats)


	Notes	1997
Interest income	3	3,125
<u>Interest expense</u>		<u>-</u>
Net interest income		3,125
Net foreign exchange loss	4	(1)
Administrative expenses	5	(60,881)
Depreciation of tangible fixed assets	9	(435)
Other operating income	6	6,780
Other operating expense (incl. property tax)	7	(20)
Operating loss		(51,432)
Taxation		-
Net loss for the year		(51,432)
Current year retained earnings		(51,432)

Notes on pages 4 to 9 are an integral part of these financial statements.

These financial statements on pages 1 to 9 have been approved by the Board of Directors on 9th of April, 1998 and are signed on their behalf by:



Indra Sāmīte
Managing Director



Gints Kārklīšs
Finance Director

LATVIAN ENVIRONMENTAL INVESTMENT FUND
FINANCIAL STATEMENTS FOR 8 MONTHS PERIOD
ENDED 31 DECEMBER 1997

BALANCE SHEET

(all amounts in lats)

Assets

	Notes	1997
Cash and bank	8	1,482,780
Tangible fixed assets	9	15,178
Other assets	10	150
Total assets		1,498,108

Liabilities and Equity

Liabilities

Accounts payable	11	831
Other liabilities	12	3,431
Total liabilities		4,262

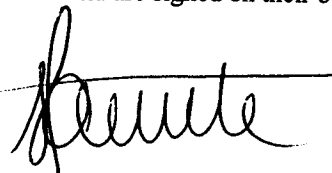
Equity

Share capital	13	2,000
Donations reserve	13	1,543,278
Retained loss	13	(51,432)
Total equity		1,493,846

Total liabilities and equity **1,498,108**

Notes on pages 4 to 9 are an integral part of these financial statements.

These financial statements on pages 1 to 9 have been approved by the Board of Directors on 9th of April, 1998 and are signed on their behalf by:



Indra Sāmīte
Managing Director



Gints Kārklīņš
Finance Director

**LATVIAN ENVIRONMENTAL INVESTMENT FUND
FINANCIAL STATEMENTS FOR 8 MONTHS PERIOD
ENDED 31 DECEMBER 1997**

CASH FLOW STATEMENT

(all amounts in lats)

	Notes	1997
Cash flows arising from operations:		
Operating loss for the period		(51,432)
Depreciation of tangible fixed assets	9	435
Increase in other assets	10	(150)
Increase in accrued expense	12	3,411
Increase in accounts payable	11	831
Increase in other liabilities	12	20
Decrease in cash from operations		(46,885)
Cash flows from investing activities:		
Purchase of tangible fixed assets	9	(15,613)
Decrease in cash arising from investment activities		(15,613)
Cash flows arising from financing activities:		
Payment in share capital	13	2,000
Donations received	13	1,543,278
Increase in cash arising from financing activities		1,545,278
Increase in cash and cash equivalents		1,482,780
Movement in cash and cash equivalents		
At start of year		-
At end of year	8	1,482,780

Notes on 4 to 9 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 INCORPORATION AND ACTIVITIES

The Latvian Environmental Investment Fund (the Fund) was registered on 28 April 1997. It was established by resolution of the Cabinet of Ministers of the Republic of Latvia. The shares are controlled by the Ministry of Environmental Protection and Regional Development of the Republic of Latvia. The Fund is a limited liability non-profit entity, 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 grantor 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 ACCOUNTING POLICIES

The Fund maintains its accounting records in accordance with Latvian accounting legislation. These financial statements have been prepared from those accounting records.

(1) Basis of preparation

The accompanying financial statements are presented in the national currency of Latvia, the Lat (LVL) and cover the period from 28 April 1997 to 31 December 1997. These financial statements have been prepared under the historical cost convention in accordance with the requirements of International Accounting Standards ("IAS"). As this is the first period of the Fund's operations no comparatives for the preceding period are presented in these financial statements.

(2) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies are translated into Latvian Lats (LVL) using the period end rates of exchange published by the Bank of Latvia. Gains and losses arising from this translation are included in the statement of income for the period. The principal foreign currency held by the Fund is US dollar. Its applicable rate as at the year-end was as follows:

1 USD = LVL 0.590

Transactions denominated in foreign currency are recorded at the rate ruling on the date of the transaction. Exchange differences arising from the settlement of transactions denominated in foreign currency are included in the results of operations at the time of settlement using the exchange rate ruling at that date.

(3) Income and expense recognition

All significant income and expense categories are recognised on an accruals basis.

NOTES TO THE FINANCIAL STATEMENTS

2 ACCOUNTING POLICIES (continued)

(4) Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost less accumulated depreciation. Depreciation is calculated on a straight line basis using the following rates:

Fixtures & Fittings	10% p.a.
EDP and office equipment	20% p.a.

Repairs and renewals are charged directly to the income statement when the expenditure is incurred.

(5) Reserve accounting

According to the Act On Non-profit entities, the revenue reserves are not distributable.

(6) Government grants

Government grants are recognised in the financial statements on the basis of equity method, i.e. they are credited to reserves. Grants to be expensed in less than one year are written down to other operating income in course of their consumption in order to match them with the related costs which it is intended to compensate.

(7) Taxation

The Fund is exempt from the corporate income tax due to provisions set forth in the Act On Non-profit associations. Accordingly there are no expenses or balances for corporate taxes or deferred taxation.

(8) 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. In the opinion of management, the fair value of financial assets and liabilities in all material respects approximate their book value of these assets and liabilities.

(9) Cash flow

The cash flow statement has been prepared using the indirect method. Cash and cash equivalents consist of cash in hand and bank balances irrespective of their maturities.

(10) Related parties

Related parties are defined as shareholders, employees, members of the supervisory council and management board, their close relatives and companies in which above mentioned persons have a controlling interest.

LATVIAN ENVIRONMENTAL INVESTMENT FUND
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NOTES TO THE FINANCIAL STATEMENTS

(all amounts in lats) 1997

3 INTEREST INCOME

From funds placed with banks (current accounts)	719
From cash deposits with banks	2,406
	<hr/> 3,125

4 NET FOREIGN EXCHANGE LOSS

Loss on foreign currency revaluation	(1)
	<hr/> (1)

5 ADMINISTRATIVE EXPENSES

Staff costs	
- wages and salaries	38,181
- social security costs	10,768
Communications	1,223
Professional services	2,907
Repairs	601
Representation	1,103
Transport	900
Other administrative expenses	5,198
	<hr/> 60,881

There were 8 staff members in average employed by the Fund during the year.

6 OTHER OPERATING INCOME

Write offs of government grants	6,757
Other grants income	23
	<hr/> 6,780

7 OTHER OPERATING EXPENSE

Property tax	20
	<hr/> 20

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NOTES TO THE FINANCIAL STATEMENTS

(all amounts in lats)

1997

8 CASH AND BANK

Cash on hand	90
Cash at Bank	
- LVL current accounts	1,175,106
- USD current accounts	178
- LVL term deposits	307,406
	1,482,780

9 TANGIBLE FIXED ASSETS

	<u>EDP & Office Equipment</u>	<u>Fixtures & Fittings</u>	<u>Total</u>
<u>Cost</u>			
At 28 April 1997	-	-	-
Additions	7,458	8,155	15,613
At 31 December 1997	7,458	8,155	15,613
<u>Depreciation</u>			
At 28 April 1997	-	-	-
Charge for the period	367	68	435
At 31 December 1997	367	68	435
Net Book Value at 31 December 1997	7,091	8,087	15,178

10 OTHER ASSETS

Loans to personnel	6
Deferred expense	60
Prepayments	84
	150

A loan to a company employee has been granted at 3% interest rate. Maturity of the loan is 12 months.

11 ACCOUNTS PAYABLE

Accounts payable to suppliers	831
	831

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NOTES TO THE FINANCIAL STATEMENTS

(all amounts in lats) 1997

12 OTHER LIABILITIES

Accrued expenses	3,411
Property tax payable	20
	3,431

13 EQUITY

(a) authorised, issued and fully paid-in share capital

	Number	1997 LVL
Ordinary shares of LVL 1	2,000	2,000

(b) movements in equity

	Share capital	Donations reserve	Retained earnings	Total
Balance as at 28 April 1997	-	-	-	-
Share capital paid-in	2,000	-	-	2,000
Donations received:				
- from Environmental Protection Fund (28% Natural Tax)	-	1,540,000	-	1,540,000
- from Environmental Protection Fund (Project Liepaja)	-	10,203	-	10,203
Donations amortized:	-	(6,925)	-	(6,925)
Profit/loss for the year	-	-	(51,432)	(51,432)
Balance as at 31 December 1997	2,000	1,543,278	(51,432)	1,493,846

14 CONTINGENT LIABILITIES

Legal claims. Latvian Environmental Investment Fund was not involved in any legal proceedings having significant effect on financial statements as at 31 December 1997.

**LATVIAN ENVIRONMENTAL INVESTMENT FUND
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NOTES TO THE FINANCIAL STATEMENTS

15 FINANCIAL INSTRUMENTS

Funds obtained via donations not yet invested are held as deposits in the bank. All deposits are with maturity up to 1 month. As funding bears no interest, the Fund is not exposed to interest rate risk. Average interest rates on deposits at bank comprised 4%.

16 CREDIT RISK MANAGEMENT

Cash at Bank

As all bank balances are held in large Latvian commercial bank with residual maturity less than 1 month, the Fund's management believes that these receivables are secure.

Price Waterhouse**AUDITOR'S REPORT****To the Shareholder of the Latvian Environmental Investment Fund**

We have audited the accompanying financial statements of the Latvian Environmental Investment Fund for 1997. These financial statements include the balance sheet as at 31 December 1997, related profit and loss account and cash flow statement for the 8 months period then ended, note disclosures and the management's report. 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.

Basis of opinion

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. The representatives of the company have provided all information and explanations required by us. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements audited by us give a true and fair view of the financial position of Latvian Environmental Investment Fund as at 31 December 1997, and the results of its operations and cash flows for the 8 months period then ended. These financial statements have been prepared in accordance with the law On the Annual Accounts of Companies of the Republic of Latvia and generally accepted accounting standards of the Republic of Latvia.

Price Waterhouse SIA
Price Waterhouse SIA

Riga, 6 April 1998