

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

*Independent auditors' report and  
International Financial Statements for the years ended  
31 December 1999 and 1998*

# ENVIRONMENTAL INVESTMENT FUND

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## ENVIRONMENTAL INVESTMENT FUND

### REPORT OF DIRECTOR

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I am pleased to report that Environmental Investment Fund ("the Fund") has successfully continued its development during 1999. The financial statements for the year confirm the improved performance against 1998. Total assets grew by 30% to LVL 4 million. Surplus of income over expenses before provisions for doubtful debts increased from LVL 3,700 to LVL 66,100.

Despite receiving a comparatively small additional funding from the Latvian Government, the Fund has increased its loan portfolio, including commitments, by LVL 2.6 million or 4 times in comparison with the position at the end of 1998. Our total loan portfolio now stands at more than LVL 3.3 million. Although no loans are considered as bad debts, management believe that it is prudent to make provisions of LVL 60,000 or 2.8% of disbursed loans.

During the last year interest income almost doubled to LVL 211,000 compared with 1998. This was due mainly to a significant increase in loans to customers. Administrative expenses increased by 41% to LVL 169,000 in the same period. The principal reasons for the administrative expense increase were additional costs associated with the higher level of activity, increase in staff costs and rental and other costs arising from the relocation to new offices in January 1999.

A significant event for the Fund in 1999 was the signing of an agreement with the EU Phare Contracting Authority (Ministry of Finance) relating to the management and operations of an Environmental Credit Scheme under which a grant of 2 million euro is being provided as co-financing for environmentally beneficial projects in both the private and public sectors. The first tranche of this facility, 1 million euro or LVL 600,704 has already been drawn-down. In addition to the provision of funds, Phare is providing technical assistance through an eighteen-month programme, which started in January 1999. The programme is being carried out by a team of consultants from ICC Bank (Ireland) and includes advice on credit and environmental project appraisal as well as on operational issues.

The Fund's co-operation with the Nordic Environment Finance Corporation (NEFCO) continued and 3 loans totalling LVL 885,000, which will be co-financed by NEFCO to the extent of LVL 569,000, were signed during the year. These loans relate to water supply and waste water treatment projects.

The Fund also received technical assistance from the Danish Environmental Protection Agency (DEPA) in relation to the promotion of cleaner technologies. Through this programme we plan to identify and work with a number of manufacturing companies with the objective of encouraging them to adopt plans to introduce these technologies. We can then assist the companies through our loan schemes to meet the equipment costs associated with adopting these technologies.

Our aim is through management and staff working together, to increase the volume of the Fund's activities as well as improve the effectiveness and quality of our work. In year 2000 we plan to implement a new IT system, which will allow us to maintain information in a more secure manner as well as to facilitate better use of the information available for decision making. Much effort and time will be directed to improvement of policies and procedures in order to minimise the Fund's potential exposure to bad debts. We will also seek to increase financing for the Fund from local and foreign sources.

I believe that the Fund will continue its growth in 2000 and that we will succeed in fulfilling our goals. Our role has not diminished, as the environmental development needs of Latvia remain significant. While much effort and commitment will be required from all connected with the Fund, I am convinced that we will be able to achieve our targets.

Finally, I would like to thank the employees of the Fund for their efforts and achievements in 1999. I am grateful for the co-operation of the State Representative and my fellow members of the Executive Committee. Thanks also to our clients, financiers and consultants. Without the support of all it would not have been possible to achieve these encouraging results.

Jānis Doniņš  
Director and Chairman of Executive Committee

Rīga  
14 March 2000

## ENVIRONMENTAL INVESTMENT FUND

### STATE REPRESENTATIVE AND EXECUTIVE COMMITTEE

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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 Laškova	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

Appointments and resignations between 1 January 1999 and date of signing of Financial Statements:

#### **The State Representative**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Velga Slaidiņa	State Representative	3 May, 1999	23 August, 1999
Zigfrīds Brūvers	State Representative	10 April, 1997	3 May, 1999

#### **The Director**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Indra Sāmīte	Director	29 October, 1999	10 January, 2000
Gints Kārklīņš	Acting Director	4 May, 1999	30 June, 1999
Indra Sāmīte	Director	10 April, 1997	3 May, 1999

#### **The Board of Directors**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Zigurds Cīrulis	Chairman	3 June, 1999	12 October, 1999
Valdis Avotiņš	Member	3 June, 1999	12 October, 1999
Ģirts Bērziņš	Member	3 June, 1999	12 October, 1999
Inese Kalniņa	Member	3 June, 1999	12 October, 1999
Juris Reisons	Member	3 June, 1999	12 October, 1999
Ģirts Strazdiņš	Member	14 June, 1999	12 October, 1999
Jurijs Strods	Member	3 June, 1999	1 July, 1999
Askolds Kļaviņš	Chairman	19 February, 1998	1 June, 1999
Juris Kokins	Member	19 February, 1998	1 June, 1999
Ieva Saleniece	Member	19 February, 1998	1 June, 1999
Indra Sāmīte	Member	19 February, 1998	1 June, 1999

#### **The Executive Committee**

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Indra Sāmīte	Chairman	19 February, 1998	3 May, 1999
Gints Kārklīņš	Member	19 February, 1998	3 May, 1999
Oskars Spurdziņš	Member	19 February, 1998	3 May, 1999

## **ENVIRONMENTAL INVESTMENT FUND**

### **STATEMENT OF MANAGEMENT'S RESPONSIBILITY**

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1. The management is responsible for preparing 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. 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 7 to 20 for the years ended 31 December 1999 and 1998. 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,

Jānis Doniņš  
Director

Riga  
14 March 2000

## INDEPENDENT AUDITORS' REPORT

To the shareholder of the Environmental Investment Fund:

We have audited the accompanying balance sheets of the Environmental Investment Fund ("the Fund") as of 31 December 1999 and 1998, and the related statements of revenues and expenses and statements of cash flows and shareholder's equity for the years 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 audits.

We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform audits 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 audits provide 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 1999 and 1998, and the results of its operations and its cash flows for the years then ended in accordance with International Accounting Standards.

Deloitte & Touche  
Riga, Latvia  
9 February 2000

## ENVIRONMENTAL INVESTMENT FUND

### BALANCE SHEETS AS OF 31 DECEMBER 1999 AND 1998

	Note	31 December 1999 LVL	31 December 1998 LVL
<b>ASSETS</b>			
Cash and balances with banks	23	1,850,557	2,222,825
Treasury bills	3	-	98,100
Government bonds		-	287,730
Loans to customers, net	4	2,080,996	400,431
Deferred expenses, net	6	34,932	39,257
Fixed assets, net	7	19,172	16,565
Accrued interest income		43,187	20,741
Other current assets	8	1,492	14,256
<b>TOTAL ASSETS</b>		<b>4,030,336</b>	<b>3,099,905</b>
<b>LIABILITIES</b>			
Phare Financing Agreement	9	389,939	-
NEFCO Loan Facility Agreement	10	178,007	-
Accounts payable and accrued expenses	11	6,283	10,419
<b>TOTAL LIABILITIES</b>		<b>574,229</b>	<b>10,419</b>
<b>SHAREHOLDER'S EQUITY</b>			
Share capital	12	2,000	2,000
Grants	13	3,495,725	3,135,225
Accumulated deficit		(41,618)	(47,739)
<b>TOTAL SHAREHOLDER'S EQUITY</b>		<b>3,456,107</b>	<b>3,089,486</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>		<b>4,030,336</b>	<b>3,099,905</b>
<b>OFF BALANCE SHEET ITEMS</b>			
Commitments			
Committed loans granted, not drawn down	14	1,245,635	370,561
		<b>1,245,635</b>	<b>370,561</b>

*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 and the Executive Committee on 14 March 2000 and signed on their behalf by:

Jānis Doniņš  
Director

## ENVIRONMENTAL INVESTMENT FUND

### STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

	Note	1999 LVL	1998 LVL
<i>Operating income</i>			
Interest income	15	210,554	110,872
Interest expense	16	(7,237)	-
<b>Net interest income</b>		<b>203,317</b>	<b>110,872</b>
Fee and commission income	17	20,597	5,162
Fee and commission expense		(5,739)	-
Net gains on trading investments		7,410	8,666
Other operating income	18	28,508	2,040
<b>Other income</b>		<b>50,776</b>	<b>15,868</b>
Provisions for doubtful debts	5	(60,000)	-
<b>TOTAL OPERATING INCOME</b>		<b>194,093</b>	<b>126,740</b>
<i>Operating expenses</i>			
Administrative expenses	19	(169,428)	(120,014)
Depreciation	7	(3,772)	(2,665)
Other operating expenses	20	(14,772)	(368)
<b>TOTAL OPERATING EXPENSES</b>		<b>(187,972)</b>	<b>(123,047)</b>
<b>SURPLUS FOR THE YEAR</b>	21	<b>6,121</b>	<b>3,693</b>

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Jānis Doniņš  
Director



## ENVIRONMENTAL INVESTMENT FUND

### STATEMENTS OF SHAREHOLDER'S EQUITY FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

	Share capital LVL	Grants LVL	Accumulated deficit LVL	Total LVL
<b>At 31 December 1997</b>	<b>2,000</b>	<b>1,543,278</b>	<b>(51,432)</b>	<b>1,493,846</b>
Grants received				
<i>Environmental Protection Fund</i>	-	1,588,263	-	1,588,263
<i>Other grants</i>	-	5,347	-	5,347
Grants written-off	-	(1,663)	-	(1,663)
Surplus for the year	-	-	3,693	3,693
<b>At 31 December 1998</b>	<b>2,000</b>	<b>3,135,225</b>	<b>(47,739)</b>	<b>3,089,486</b>
Grants received				
<i>Environmental Protection Fund</i>	-	150,000	-	150,000
<i>Phare Financing Agreement</i>	-	210,765	-	210,765
Grants depreciation	-	(265)	-	(265)
Surplus for the year	-	-	6,121	6,121
<b>At 31 December 1999</b>	<b>2,000</b>	<b>3,495,725</b>	<b>(41,618)</b>	<b>3,456,107</b>

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Jānis Doniņš  
Director

## ENVIRONMENTAL INVESTMENT FUND

### STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

	Note	1999 LVL	1998 LVL
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Surplus for the year		6,121	3,693
Adjustments to reconcile surplus for the year to net cash provided by operating activities:			
Depreciation of fixed assets		3,772	2,665
Net loss from disposal of fixed assets		694	1,366
Provision for doubtful debts increase		60,000	-
Grants written off		-	(1,197)
Changes in operating assets and liabilities:			
Deferred expenses (increase)/decrease		4,325	(39,257)
Accrued interest (increase)/decrease		(22,446)	(20,741)
Other current assets (increase)/decrease		12,764	(14,106)
Government bonds (increase)/decrease		287,730	(287,730)
Accounts payable and accruals increase/(decrease)		(4,136)	6,157
Loans to customers (increase)/decrease		(1,740,565)	(400,431)
<b>Net cash outflow from operating activities</b>		<b>(1,391,741)</b>	<b>(749,581)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(7,338)	(4,800)
<b>Net cash outflow from investing activities</b>		<b>(7,338)</b>	<b>(4,800)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Grants received		360,765	1,592,526
Phare Financing Agreement		389,939	-
NEFCO Loan Facility Agreement		178,007	-
<b>Net cash inflow from financing activities</b>		<b>928,711</b>	<b>1,592,526</b>
<b>Net (decrease)/ increase in cash and cash equivalents</b>		<b>(470,368)</b>	<b>838,145</b>
Cash and cash equivalents at beginning of year		<b>2,320,925</b>	<b>1,482,780</b>
Cash and cash equivalents at end of year	23	<b>1,850,557</b>	<b>2,320,925</b>

*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 and the Executive Committee on 14 March 2000 and signed on their behalf by:

Jānis Doniņš  
Director

# ENVIRONMENTAL INVESTMENT FUND

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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### 1. GENERAL INFORMATION

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

### 2. 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).

#### **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 currencies held by the Fund are euro and the US dollar. The exchange rates as at the balance sheet date were as follows:

	31 December 1999	31 December 1998
1 USD	LVL 0.583000	LVL 0.56900
1 EUR	LVL 0.587516	LVL 0.66900

#### **Provisions for doubtful debts**

As at 31 December 1999 and 1998, loans represent the unpaid principal balance of loans less provisions for loan losses. 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 are established in accordance with IAS and represent the estimated amounts of possible losses on credits identified as high risk as at the balance sheet date.

The level of provisions is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates.

#### **Fixed assets and depreciation**

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method at rates, which will write off each asset over its estimated useful life. The rates per annum, which are used, are as follows:

Computer and office equipment	20%
Fixtures & fittings	10%

#### **Reserves**

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

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### Grants

Grants are recognised in the financial statements on the basis of the equity method of accounting. Grants are credited to reserves when received. 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.

#### 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.

#### Investments

Investments are comprised of trading securities and investment securities. 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. Investment securities are acquired for yield or capital gain purposes with the intention of holding them to maturity. Investment debt securities are stated at amortised cost.

#### 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.

#### Cash flows

The statement of cash flows has been prepared using the indirect method.

#### Reclassifications

Certain amounts in the previous year financial statements have been reclassified for the purpose of compliance with the reporting format of the current year.

### 3. TREASURY BILLS

These are short-term treasury bills issued by the Government of Latvia with maturity from 1 to 6 months with discount rates from 5.3% to 7.5% during the years ended 31 December 1999 and 1998.

### 4. LOANS TO CUSTOMERS, NET

	<b>31 December 1999 LVL</b>	<b>31 December 1998 LVL</b>
<i>Remaining maturity</i>		
Due before five years	178,048	6,300
Due after five years	1,956,824	394,131
Due after ten years	6,124	-
<b>Total</b>	<b>2,140,996</b>	<b>400,431</b>
Provisions for doubtful debts (Note 5)	(60,000)	-
<b>Total, net</b>	<b>2,080,996</b>	<b>400,431</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

#### *Analysis by sectors*

Recycling	746,824	-
Furnace and district heating	643,964	317,119
Windmill	407,097	-
Water and waste water treatment	203,084	-
Small hydro power stations	135,029	77,012
Insulation	4,998	6,300
<b>Total</b>	<b>2,140,996</b>	<b>400,431</b>
Provisions for doubtful debts (Note 5)	(60,000)	-
<b>Total, net</b>	<b>2,080,996</b>	<b>400,431</b>

#### *Customer analysis*

Private companies	1,397,953	77,012
Municipalities	591,690	225,593
State and municipal companies	146,628	91,526
Other	4,725	6,300
<b>Total</b>	<b>2,140,996</b>	<b>400,431</b>
Provisions for doubtful debts (Note 5)	(60,000)	-
<b>Total, net</b>	<b>2,080,996</b>	<b>400,431</b>

	31 December 1999		31 December 1998	
	No.	LVL	No.	LVL
<i>Loan size analysis (LVL)</i>				
1,000 - 5,000	5	17,007	1	4,837
5,000 - 10,000	1	5,687	1	6,300
10,000 – 100,000	10	382,313	5	233,324
Over 100,000	8	1,735,989	1	155,970
<b>Total</b>	<b>24</b>	<b>2,140,996</b>	<b>8</b>	<b>400,431</b>
Provisions for doubtful debts (Note 5)		(60,000)		-
<b>Total, net</b>	<b>24</b>	<b>2,080,996</b>	<b>8</b>	<b>400,431</b>

The interest rates on loans were 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.

#### 5. PROVISIONS FOR DOUBTFUL DEBTS

	31 December 1999 LVL	31 December 1998 LVL
At beginning of year	-	-
Charge in Statement of Revenues and Expenses	60,000	-
At end of year	60,000	-

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

#### 6. DEFERRED EXPENSES, NET

	31 December 1999 LVL	31 December 1998 LVL
Leasehold improvement	34,932	39,257
<b>Total</b>	<b>34,932</b>	<b>39,257</b>

The Fund has signed a long-term office rental agreement ending 1 June 2005. Office renovation expenses are amortised on a monthly basis by 65% of the rent payable over the life of the agreement.

#### 7. FIXED ASSETS, NET

	31 December 1999			31 December 1998		
	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL	Computer and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>						
At beginning of the year	11,904	8,155	20,059	7,458	8,155	15,613
Additions	3,777	3,561	7,338	4,800	-	4,800
Grant funded assets	-	-	-	1,084	-	1,084
Disposals	(741)	-	(741)	(1,438)	-	(1,438)
At end of the year	<b>14,940</b>	<b>11,716</b>	<b>26,656</b>	<b>11,904</b>	<b>8,155</b>	<b>20,059</b>
<i>Accumulated depreciation</i>						
At beginning of the year	2,611	883	3,494	367	68	435
Charge for the year	2,727	1,045	3,772	1,850	815	2,665
Disposals	(47)	-	(47)	(72)	-	(72)
Depreciation of grant funded fixed assets	265	-	265	466	-	466
At end of the year	<b>5,556</b>	<b>1,928</b>	<b>7,484</b>	<b>2,611</b>	<b>883</b>	<b>3,494</b>
<i>Net book value</i>						
At beginning of the year	<b>9,293</b>	<b>7,272</b>	<b>16,565</b>	<b>7,091</b>	<b>8,087</b>	<b>15,178</b>
At end of the year	<b>9,384</b>	<b>9,788</b>	<b>19,172</b>	<b>9,293</b>	<b>7,272</b>	<b>16,565</b>

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

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### 8. OTHER CURRENT ASSETS

	<b>31 December 1999 LVL</b>	<b>31 December 1998 LVL</b>
Loans to personnel (Note 22)	-	9,066
Prepaid social security costs	-	2,990
Other prepayments	295	1,670
Other assets	1,197	530
<b>Total</b>	<b>1,492</b>	<b>14,256</b>

#### 9. PHARE FINANCING AGREEMENT

A EU Phare Financing Agreement, number LE9704.02.03/0001, for 2 million euro was signed on 3 February 1999. 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. When projects assisted by the Fund under the ECS are implemented in accordance with the Financing Agreement the Phare funds used to finance such projects will be treated as a Grant in the balance sheet and will not be repayable. The Fund is not liable for interest on funds received under the Financing Agreement. As at 31 December 1999, a total of LVL 600,704 had been drawn down under the agreement and is shown in the balance sheet as follows:

	<b>31 December 1999 LVL</b>	<b>31 December 1998 LVL</b>
Phare Financing agreement liability	389,939	-
Transferred to Grants	210,765	-
<b>Total</b>	<b>600,704</b>	<b>-</b>

#### 10. NEFCO LOAN FACILITY AGREEMENT

A Loan Facility Agreement for 3.5 million euro was signed on 19 August 1998 with Nordic Environment Finance Corporation. 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 12 years and interest rate is LIBOR plus 1%. In accordance with the Loan Facility Agreement a front-end fee of 0.25% was paid.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### 11. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	<b>31 December 1999 LVL</b>	<b>31 December 1998 LVL</b>
Accrued expenses	5,132	2,264
Tax payable	22	4,122
Other accounts payable	1,129	4,033
<b>Total</b>	<b>6,283</b>	<b>10,419</b>

#### 12. SHARE CAPITAL

Authorised, issued and fully paid share capital was as follows:

	<b>31 December 1999 LVL</b>	<b>31 December 1998 LVL</b>
2,000 Ordinary shares of LVL 1 each	2,000	2,000

#### 13. GRANTS

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

#### 14. OFF BALANCE SHEET ITEMS

*Contingent liabilities.* In the opinion of Management, the Fund was not involved in any legal proceedings having significant effect on the financial statements as at 31 December 1999 and 31 December 1998.

*Committed loans granted, not drawn down*

	<b>31 December 1999 LVL</b>	<b>31 December 1998 LVL</b>
State and municipal companies	888,850	171,474
Private companies	355,065	149,780
Municipalities	1,720	49,307
<b>Total</b>	<b>1,245,635</b>	<b>370,561</b>



## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### 15. INTEREST INCOME

	<b>1999</b>	<b>1998</b>
	<b>LVL</b>	<b>LVL</b>
Balances with banks	90,999	88,801
Loans to customers	99,996	5,805
Fixed income securities	19,559	16,266
<b>Total</b>	<b>210,554</b>	<b>110,872</b>

The interest rates received on balances with banks for the years ended 31 December 1999 and 1998 were between 1.25% and 8%.

#### 16. INTEREST EXPENSES

Interest expenses is composed of:

	<b>1999</b>	<b>1998</b>
	<b>LVL</b>	<b>LVL</b>
NEFCO Loan Facility Agreement (Note 10)	7,237	-
<b>Total</b>	<b>7,237</b>	<b>-</b>

#### 17. FEE AND COMMISSION INCOME

1% front-end fee charged to borrowers on the date of signing loan agreement

#### 18. OTHER OPERATING INCOME

	<b>1999</b>	<b>1998</b>
	<b>LVL</b>	<b>LVL</b>
Staff expenses covered by other organisations	12,979	-
Gains from foreign exchange operations (Note 20)	14,073	145
Other income	1,456	1,895
<b>Total</b>	<b>28,508</b>	<b>2,040</b>

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### 19. ADMINISTRATIVE EXPENSES

	<b>1999</b>	<b>1998</b>
	<b>LVL</b>	<b>LVL</b>
Staff costs		
– wages and salaries to management and staff	83,026	73,860
– remuneration to the Members of the Executive Committee, Board of Directors and State Representative	11,331	5,016
– social security costs	26,876	15,750
Legal services	9,560	2,975
Office renovation expenses	7,838	600
Office rent and public utilities	5,720	3,223
Advertising and publicity	4,535	5,928
Business trips	3,956	1,064
Communications	3,818	3,552
Office supplies and stationary	3,585	1,444
Staff training	1,817	1,220
Other administrative expenses	7,366	5,382
<b>Total</b>	<b>169,428</b>	<b>120,014</b>

The average number of persons employed by the Fund during the years ended 31 December 1999 and 1998 was 15 and 11, respectively.

#### 20. OTHER OPERATING EXPENSES

	<b>1999</b>	<b>1998</b>
	<b>LVL</b>	<b>LVL</b>
Loss from foreign exchange operations (Note 18)	14,772	347
Other expense	-	21
<b>Total</b>	<b>14,772</b>	<b>368</b>

#### 21. SURPLUS FOR THE YEAR

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

#### 22. 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 1999 the Fund had not entered into any transaction with related parties. Loans outstanding as at 31 December 1998 were repaid during the year ended 31 December 1999.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### 23. CASH FLOW RECONCILIATION

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

Reconciliation of net increase in cash and cash equivalents:

	<b>31 December 1999</b>	<b>31 December 1998</b>	<b>Change</b>
	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
Cash on hand	9	53	(44)
Balances with banks			
- LVL accounts within 1 month	1,088,100	1,920,392	(832,292)
- LVL accounts from 1 month to 3 months	200,000	300,000	(100,000)
- USD accounts within 1 month	139	2,380	(2,241)
- EUR accounts within 1 month	562,309	-	562,309
<b>Total cash</b>	<b>1,850,557</b>	<b>2,222,825</b>	<b>(372,268)</b>
Treasury bills	-	98,100	(98,100)
<b>Cash and cash equivalents</b>	<b>1,850,557</b>	<b>2,320,925</b>	<b>(470,368)</b>

#### 24. RISK MANAGEMENT

##### **Credit risk**

*Balances with banks.* As all the Fund's bank balances are held in Unibanka, Rīga with a remaining maturity of 3 months or less, the Fund's management believes that these receivables are secure.

*Loans to customers.* The Fund's employees review each loan application and reports for decision are submitted to the Executive Committee. Loans are secured by pledge of real estate or by third party guarantee. The Fund disburses loans in accordance with the terms of the loan agreement against invoices and signed contracts. All procurements financed by the Fund must follow the Law on Public Procurement. The borrowers are obliged to submit reports on project implementation quarterly and audited financial statements annually. The Fund's employees make regular site visits.

##### **Market price risk**

It is the policy of the Fund to ensure that it is not exposed to risk when it engages in transactions that could be subject to market price fluctuations. Funds obtained through grants and not yet disbursed to customers are held in bank deposits and invested in Latvian Government treasury bills and bonds. All deposits have maturity of 3 months or less. As grants received are interest free, the Fund is not exposed to interest rate risk.

## ENVIRONMENTAL INVESTMENT FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 1999 AND 1998

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#### 25. FAIR VALUE

The following methods and assumptions were used to estimate fair values for the financial instruments.

The carrying value of cash and balances with banks approximates fair value due to the relatively short period of time between the origination of the instruments and their expected realisation.

In the case of securities, the fair values are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar instruments.

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

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

	31 December 1999		31 December 1998	
	Carrying Value LVL	Fair Value LVL	Carrying Value LVL	Fair Value LVL
<b>Financial Assets</b>				
Cash and balances with banks	1,850,557	1,850,557	2,222,825	2,222,825
Investments in fixed income securities	-	-	385,830	385,830
Loans to customers	2,080,996	1,802,639	400,431	334,177
Deferred expenses	34,932	25,332	39,257	28,532
<b>Total Financial Assets</b>	<b>3,966,485</b>	<b>3,678,528</b>	<b>3,048,343</b>	<b>2,971,364</b>
<b>Financial Liabilities</b>				
Accounts payable and accruals	6,283	6,283	10,419	10,419
NEFCO Loan Facility Agreement	178,007	155,961	-	-
Phare Financing Agreement	389,939	389,939	-	-
<b>Total Financial Liabilities</b>	<b>574,229</b>	<b>552,183</b>	<b>10,419</b>	<b>10,419</b>

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