

VIDES INVESTĪCIJU FONDS
(ENVIRONMENTAL INVESTMENT FUND)

*Annual report in accordance with
International Financial Reporting Standards
for the year ended 31 December 2002 and
2001 and Independent Auditor's Report*

ENVIRONMENTAL INVESTMENT FUND

TABLE OF CONTENTS

	Page
MANAGEMENT REPORT	3
EXECUTIVE COMMITTEE	4
STATEMENT OF MANAGEMENT'S RESPONSIBILITY	5
INDEPENDENT AUDITOR'S REPORT	6
FINANCIAL STATEMENTS:	
STATEMENTS OF REVENUES AND EXPENSES	7
BALANCE SHEETS	8
STATEMENTS OF SHAREHOLDER'S EQUITY	9
STATEMENTS OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENTS	11-20

ENVIRONMENTAL INVESTMENT FUND

MANAGEMENT REPORT

Despite many challenges that the year 2002 brought for the Environmental Investment Fund (Fund) it has been successful. Many new activities that will have an important role in the further development of the Fund have been initiated and started in the last year.

One of the most important tasks for 2002 was to increase the Fund's potential projects portfolio, specially targeting the private sector projects. In 2002 the Fund has received 24 new project applications that is two times more than in 2001. The Fund has started new activities to support projects that will facilitate cleaner production principles implementation in industrial enterprises, while continuing activities on the implementation of projects in the field of water and air protection. We are confident that, because of the initiated activities, the Fund will be able to provide better support for the implementation of environmental projects in the public and private sectors, not only by providing loans with favourable conditions but also by providing consultancy services on the most efficient solutions.

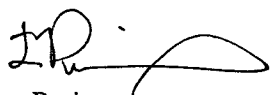
In 2002 the Fund's Cleaner Production Center has begun its operations. The Center will provide consultancy services on the implementation of cleaner production principles in Latvian enterprises. In the last year the Cleaner Production Center's strategy has been approved. The strategy foresees a much broader spectrum of activities that will provide support to industrial enterprises. The Fund's specialists have built up their expertise by conducting environmental audits for projects already financed by the Fund. In 2002 the most attention was paid to the industrial enterprises, which, in accordance with the "Law on Pollution", will need category "A" permits for their polluting activities. Five environmental audits were carried out in the large category "A" enterprises by specialists of the Fund's Cleaner Production Center. The experience acquired as well as the feedback gained from the enterprises confirm that the activities conducted are important for further implementation of cleaner production principles in Latvian enterprises while choosing the most efficient solutions for compliance with environmental requirements. Therefore in 2003 the Center plans to continue initiated activities by offering environmental audits to category "B" enterprises as well, and to broaden activities in the field of training and information dissemination on cleaner production principles and the best available technologies.

Analyzing the Fund's financial statements for the year 2002 one can see that the total amount of assets continued to increase and totalled at almost LVL 6 million at the end of the year. It should also be noted that the effectiveness of the Fund's operations has increased. Despite many new activities were initiated by the Fund in the last year, the Fund has reduced its administrative costs by 9 % in comparison to 2001.

Continuing to observe the principle of prudence in 2002, the Fund has increased provisions for the doubtful loans by LVL 120 thousand LVL. The total amount of provisions for doubtful loans has reached LVL 360 thousand or 7.59% of the total portfolio of loans.

In order to facilitate an exchange of expertise among borrowers and also to develop their financial analysis and management skills, the Fund has organized several training seminars for the Fund's and the Nordic Environmental Facility Corporation's (NEFCO) co-financed water sector development projects. The Fund plans to organize training seminars for its borrowers as well as for potential clients in the future in order to assist in the preparation and successful implementation of projects that will contribute to solving environmental problems.

We are confident that the activities started in 2002 will have an important role for the further successful development of the Fund and we will be able to satisfy our clients' needs in the most efficient way.



Ilze Puriņa
Director and Chairman of the Executive Committee

Rīga,
27 February 2003

ENVIRONMENTAL INVESTMENT FUND

EXECUTIVE COMMITTEE

As at the date of signing of the financial statements:

The Director

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Ilze Puriņa	Director	18 February, 2002

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 Executive Committee

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Ilze Puriņa	Chairman of the Executive Committee	1 February, 2002
Ieva Saleniece	Member of the Executive Committee	1 November, 1999
Jurijs Strods	Member of the Executive Committee	1 November, 1999
Zigfrīds Brūvers	Member of the Executive Committee	14 February, 2000
Vija Gēme	Member of the Executive Committee	18 February, 2002

Resignations between 1 January 2002 and the date of signing the financial statements:

The Director

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Jānis Doniņš	Director	1 July, 1999	17 January, 2002
Gints Kārklīšs	Acting Director	18 January, 2002	17 February, 2002

The State Representative

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Aivita Zavadska	State Representative	23 August, 1999	31 December, 2002

The Executive Committee

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Jurijs Strods	Acting Chairman	18 January, 2002	31 January, 2002
Jānis Doniņš	Chairman	1 November, 1999	17 January, 2002
Askolds Kļaviņš	Member	1 November, 1999	17 January, 2002
Andrejs Laškovs	Member	1 November, 1999	17 January, 2002
Zigurds Cīrulis	Member	1 November, 1999	15 March, 2002

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 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 that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 20 for the years ended 31 December 2002 and 2001. The management also confirms that applicable International 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
Director

Riga
27 February 2003

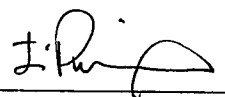
ENVIRONMENTAL INVESTMENT FUND

**STATEMENTS OF REVENUES AND EXPENSES
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

	Note	2002 LVL	2001 LVL
<i>Operating income</i>			
Interest income	4	334,134	363,429
Interest expense	5	<u>(72,846)</u>	<u>(88,194)</u>
Net interest income		261,288	275,235
Fee and commission income	6	1,500	14,255
Fee and commission expense		-	(5,349)
Other operating income	7	<u>8,917</u>	<u>9,412</u>
Other income, net		10,417	18,318
TOTAL OPERATING INCOME		<u>271,705</u>	<u>293,553</u>
<i>Operating expenses</i>			
Administrative expenses	8	(127,461)	(140,234)
Provisions for doubtful debts	16	(120,000)	(120,000)
Depreciation	17	(15,496)	(15,637)
Other operating expenses	9	<u>(657)</u>	<u>(3,330)</u>
TOTAL OPERATING EXPENSES		<u>(263,614)</u>	<u>(279,201)</u>
SURPLUS FOR THE YEAR	10	<u>8,091</u>	<u>14,352</u>

The accompanying notes on pages 11 to 20 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 27 February 2003 and signed on his behalf by:



 Ilze Puriņa
 Director

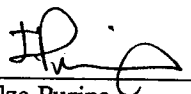
ENVIRONMENTAL INVESTMENT FUND

BALANCE SHEETS AS OF 31 DECEMBER 2002 AND 2001

	Note		
ASSETS			
Cash and balances with banks	11	1,365,730	1,015,770
Accrued interest income	12	76,362	81,135
Other current assets	13	2,290	5,396
Leasehold improvements	14	10,940	19,173
Loans to customers	15	4,383,854	4,697,928
Fixed assets	17	43,692	52,386
TOTAL ASSETS		<u>5,882,868</u>	<u>5,871,788</u>
LIABILITIES			
Phare Financing Agreement	18	364,010	454,715
NEFCO Loan	19	1,554,010	1,593,078
Deferred income	20	21,324	30,133
Provisions		2,745	5,330
Accounts payable and accrued expenses	21	4,871	10,715
TOTAL LIABILITIES		<u>1,946,960</u>	<u>2,093,971</u>
SHAREHOLDER'S EQUITY			
Share capital	22	2,000	2,000
Appropriations	23	3,909,607	3,759,607
Retained surplus		24,301	16,210
TOTAL SHAREHOLDER'S EQUITY		<u>3,935,908</u>	<u>3,777,817</u>
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		<u>5,882,868</u>	<u>5,871,788</u>
OFF BALANCE SHEET ITEMS			
Commitments			
Committed loans granted, not drawn down	24	152,044	207,804
		<u>152,044</u>	<u>207,804</u>

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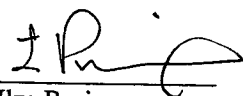
ENVIRONMENTAL INVESTMENT FUND

**STATEMENTS OF SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

	Share capital LVL	Appropriations LVL	Retained surplus LVL	Total LVL
At 31 December 2000	2,000	3,429,607	1,858	3,433,465
Appropriations received				
<i>Environmental Protection Fund</i>	-	330,000	-	330,000
Surplus for the year	-	-	14,352	14,352
At 31 December 2001	2,000	3,759,607	16,210	3,777,817
Appropriations received				
<i>Environmental Protection Fund</i>	-	150,000	-	150,000
Surplus for the year	-	-	8,091	8,091
At 31 December 2002	2,000	3,909,607	24,301	3,935,908

The accompanying notes on pages 11 to 20 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 27 February 2003 and signed on his behalf by:



Ilze Puriņa
Director


ENVIRONMENTAL INVESTMENT FUND

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001**

	Note	2002 LVL	2001 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		8,091	14,352
Adjustments to reconcile surplus for the period to net cash from operating activities:			
Depreciation		15,496	15,637
Depreciation of leasehold improvements		8,233	8,393
Net loss from disposal of fixed assets		-	1,566
Income from grant		(8,809)	(8,983)
Interest income		(334,134)	(363,429)
Interest expense		72,846	88,194
Provision for doubtful debts		120,000	120,000
Provisions decrease		(2,585)	(1,440)
Changes in operating assets and liabilities:			
Loans to customers decrease/(increase)		317,767	(1,123,969)
Interest received		260,931	262,771
Accrued interest decrease/(increase)		5,130	(5,237)
Other current assets decrease		3,106	6,063
Accounts payable and accruals (decrease)/ increase		(5,844)	3,332
Net cash inflow/(outflow) from operating activities		460,228	(982,750)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(6,802)	(8,686)
Proceeds from sale of fixed assets		-	295
Net cash outflow from investing activities		(6,802)	(8,391)
CASH FLOWS FROM FINANCING ACTIVITIES			
Appropriations received		150,000	330,000
Repayment of Phare Financing Agreement		(90,705)	(134,944)
(Repayment)/proceeds of NEFCO Loan		(167,861)	598,878
Net cash (outflow)/inflow from financing activities		(108,566)	793,934
Net effect of exchange rate changes on cash		5,100	(19,550)
Net increase/(decrease) in cash and cash equivalents		349,960	(216,757)
Cash and balances with banks at beginning of year		1,015,770	1,232,527
Cash and balances with banks at end of year	11	1,365,730	1,015,770

The accompanying notes on pages 11 to 20 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 27 February 2003 and signed on his behalf by:


 Ilze Purīņa
 Director

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

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 non-profit organization state 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 earmarked resources (e.g. natural resources taxes accumulated and managed by the Environmental Protection Fund as a donor agency) with foreign bilateral and multilateral funding to support investments in public and private environmental projects in accordance with the guidelines of the National Environmental Protection Policy and the National Environmental Action Program.

2. RISK MANAGEMENT

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

Credit risk

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

Financial risk

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

Currency risk

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

Operational 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 risks.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund maintains its accounting records in accordance with Latvian accounting legislation and International Financial Reporting Standards. The financial statements have been prepared from those accounting records.

Reporting currency

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

Foreign currency translation

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

	31.12.2002.	31.12.2001.
1 EUR	LVL 0.610000	LVL 0.560856
1 USD	LVL 0.594000	LVL 0.638000

Provisions for doubtful debts

The management and the Executive Committee have considered risk in determining the balance of provisions and possible loan losses. Provisions for loan losses as at the balance sheet date represent the estimated amounts of probable losses that have been incurred at the balance sheet date. The value of the collateral held in connection with the loan is based on its estimated realisable value and is taken into account when estimating the required provision.

The level of the provision is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported 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%

Reserves

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

Grants and appropriations

Cash monetary appropriations are credited to reserves.

Grants to be utilised in less than one year are transferred to income in order to match them with the related costs, which they are intended to compensate.

Fixed assets received as grants are recognised in the financial statements as deferred income. Income is recognized in the statement of revenues and expenses over the period of the useful life of the related fixed assets in order to match the grants to the related depreciation of the fixed assets, which they are intended to compensate for.

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/expenses are recognised when earned/incurred.

Securities

Trading securities are marketable securities that are acquired with the intention of reselling them in the short term. Trading securities are stated at the lower of cost or market value.

Short-term securities are recognised at amortised cost. The carrying value is based on the purchase value adjusted for discounts or premiums. The straight-line method is used for amortising discounts over the term of the securities and does not result in material differences as compared to amortisation according to the effective interest method. Held-to-maturity securities are accounted for using a settlement date basis for purchases.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

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 at an arm's length basis.

Reclassifications

Prior year balances have been reclassified, where appropriate, to conform with the current year presentation.

4. INTEREST INCOME

	2002 LVL	2001 LVL
Loans to customers	302,266	321,481
Balances with banks	29,468	40,092
Fixed income securities	2,400	1,856
Total	334,134	363,429

The interest rates received on balances with banks for the years ended 31 December 2002 and 2001 ranged from 0.3% to 6%.

5. INTEREST EXPENSE

	2002 LVL	2001 LVL
NEFCO Loan (Note 19)	72,846	85,626
Phare Financing Agreement	-	2,568
Total	72,846	88,194

In accordance with the NEFCO Loan Facility Agreement, borrowers transfer the interest payments directly to NEFCO.

6. FEE AND COMMISSION INCOME

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

7. OTHER OPERATING INCOME

	2002 LVL	2001 LVL
Release from deferred income	8,809	8,902
Other income	108	510
Total	8,917	9,412

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

8. ADMINISTRATIVE EXPENSES

	2002	2001
	LVL	LVL
Staff costs		
– wages and salaries to management and staff	60,391	62,458
– remuneration to the Members of the Executive Committee and State Representative	13,175	15,072
– social security costs	19,821	21,432
Depreciation of leasehold improvements	8,233	8,393
Legal services	7,216	9,069
Office rent and public utilities	5,794	5,895
Communications	4,045	4,451
Business trips	3,483	2,426
Provisions for vacation expenses	(2,585)	(1,440)
Advertising and publicity	2,300	1,071
Office supplies and stationary	1,997	1,335
Other administrative expenses	3,591	10,072
Total	127,461	140,234

The average number of persons employed by the Fund during the years ended 31 December 2002 and 2001 was 15 and 18, respectively.

9. OTHER OPERATING EXPENSES

	2002	2001
	LVL	LVL
Net loss/ (gain) from foreign exchange operations	154	(156)
Other expenses	503	3,486
Total	657	3,330

10. SURPLUS FOR THE YEAR

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

11. CASH AND BALANCES WITH BANKS

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

	31.12.2002.	31.12.2001.
	LVL	LVL
Cash on hand	53	34
Balances with banks		
- LVL due within 1 month	424,556	605,733
- LVL due from 1 month to 6 months	900,000	310,000
- EUR due within 1 month	41,121	98,977
- USD due within 1 month	-	1,026
Cash and balances with banks	1,365,730	1,015,770

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

12. ACCRUED INTEREST INCOME

	31.12.2002. LVL	31.12.2001. LVL
Accrued interest on loans	74,168	75,646
Accrued interest on balances with bank	2,194	5,489
Total	<u>76,362</u>	<u>81,135</u>

13. OTHER CURRENT ASSETS

	31.12.2002. LVL	31.12.2001. LVL
Other prepayments	2,279	5,385
Other assets	11	11
Total	<u>2,290</u>	<u>5,396</u>

14. LEASEHOLD IMPROVEMENTS

	31.12.2002. LVL	31.12.2001. LVL
<i>Historical cost</i>		
At the beginning of year	44,107	44,107
At the end of year	<u>44,107</u>	<u>44,107</u>
<i>Accumulated depreciation</i>		
At the beginning of year	24,934	16,541
Charge	8,233	8,393
At the end of year	<u>33,167</u>	<u>24,934</u>
<i>Net book value</i>		
At the beginning of year	19,173	27,566
At the end of year	<u>10,940</u>	<u>19,173</u>

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

15. LOANS TO CUSTOMERS

	31.12.2002. LVL	31.12.2001. LVL
<i>Remaining maturity</i>		
Due within one year	783,531	665,441
Within one to five years	2,613,357	3,137,903
Within five to ten years	1,326,356	1,133,934
More than ten years	20,610	650
Total	<u>4,743,854</u>	<u>4,937,928</u>
Provisions for doubtful debts (Note 16)	(360,000)	(240,000)
Total, net	<u>4,383,854</u>	<u>4,697,928</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

<i>Analysis by sector</i>		
Water and waste water treatment	2,574,439	2,598,742
Furnace and district heating	682,826	804,154
Recycling	597,525	638,425
Renewable energy	471,275	604,526
Cleaner production and other projects	417,789	292,081
Total	4,743,854	4,937,928
Provisions for doubtful debts (Note 16)	(360,000)	(240,000)
Total, net	4,383,854	4,697,928

31.12.2002. 31.12.2001.
LVL LVL

<i>Customer analysis</i>		
Municipal companies	2,271,338	2,298,923
Private companies	1,554,192	1,726,241
Municipalities	918,324	912,764
Total	4,743,854	4,937,928
Provisions for doubtful debts (Note 16)	(360,000)	(240,000)
Total, net	4,383,854	4,697,928

31.12.2002. 31.12.2001.
Currency LVL Currency LVL

<i>Currency analysis</i>				
LVL	3,246,357	3,246,357	3,455,428	3,455,428
EUR	2,454,913	1,497,497	2,643,281	1,482,500
Total		4,743,854		4,937,928
Provisions for doubtful debts (Note 16)		(360,000)		(240,000)
Total, net		4,383,854		4,697,928

31.12.2001. 30.06.2001.
No. LVL No. LVL

<i>Loan size analysis (LVL)</i>				
1,000 - 5,000	5	14,340	5	13,155
5,000 - 10,000	3	18,261	4	25,453
10,000 - 100,000	20	918,699	17	610,950
Over 100,000	15	3,792,554	17	4,288,370
Total	43	4,743,854	43	4,937,928
Provisions for doubtful debts (Note 16)		(360,000)		(240,000)
Total, net	43	4,383,854	43	4,697,928

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

16. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2002.	31.12.2001.
	LVL	LVL
At the beginning of year	240,000	120,000
Charge in Statement of Revenues and Expenses	120,000	120,000
At the end of year	<u>360,000</u>	<u>240,000</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

17. FIXED ASSETS

	Computer, car and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2000	55,487	22,716	78,203
Additions	8,686	-	8,686
Disposals	(6,210)	-	(6,210)
At 31 December 2001	57,963	22,716	80,679
Additions	5,665	1,137	6,802
At 31 December 2002	63,628	23,853	87,481
<i>Accumulated depreciation</i>			
At 31 December 2000	13,381	3,624	17,005
Charge for the year	5,411	1,324	6,735
Disposals	(4,349)	-	(4,349)
Depreciation of grant funded fixed assets	7,701	1,201	8,902
At 31 December 2001	22,144	6,149	28,293
Charge for the year	5,451	1,236	6,687
Depreciation of grant funded fixed assets	7,608	1,201	8,809
At 31 December 2002	35,203	8,586	43,789
<i>Net book value</i>			
At 31 December 2001	35,819	16,567	52,386
At 31 December 2002	28,425	15,267	43,692

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

18. PHARE FINANCING AGREEMENT

A EU Phare Financing Agreement, number LE9704.02.03/0001/MAIN, for EUR 2 million was signed on 24 October 2000. The purpose of the financing is to assist the Fund in 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. Interest is charged for the funds repaid by clients to the Fund.

As at 31 December 2002, a total of EUR 1,000,000 had been drawn down under the agreement and is reflected on the Balance Sheet as follows:

	31.12.2002. LVL	31.12.2001. LVL
<i>Long term liabilities</i>		
Disbursed to clients	275,257	358,010
Total	275,257	358,010
<i>Short term liabilities</i>		
Disbursed to clients, within one year	88,753	93,767
Repaid by clients	-	2,938
Total	88,753	96,705
Total	364,010	454,715

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

19. NEFCO LOAN

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

	31.12.2002.		31.12.2001.	
	EUR	LVL	EUR	LVL
Disbursed to ultimate borrowers	2,864,171	1,747,144	2,764,501	1,550,487
Unutilised	65,199	39,771	164,869	92,467
Total draw down	2,929,370	1,786,915	2,929,370	1,642,954
Commitment charge	2,585	1,577	515	289
Interest due	27,445	16,742	32,292	18,111
Repaid	(411,843)	(251,224)	(121,735)	(68,276)
Total	2,547,557	1,554,010	2,840,442	1,593,078

The total balance of loans within one year as at 31 December 2002 amounts to LVL 186,779.

20. DEFERRED INCOME

Balance at 31 December 2000	39,116
Decrease of deferred income	(81)
Release from deferred income	(8,902)
Balance as at 31 December 2001	30,133
Release from deferred income	(8,809)
Balance as at 31 December 2002	21,324

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.

21. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31.12.2002.	31.12.2001.
	LVL	LVL
Accrued liabilities	3,514	4,206
Overpaid interest	8	-
Other accounts payable	1,349	6,509
Total	4,871	10,715

22. SHARE CAPITAL

The Fund's fully paid share capital was 2,000 ordinary shares of LVL 1 each as at 30 June 2002. The Ministry of Environmental owns 100% of the shares of the Fund.

23. APPROPRIATIONS

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

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

24. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	31.12.2002. LVL	31.12.2001. LVL
Municipal companies	360,726	276,228
Private companies	39,771	120,413
Municipalities	-	39,600
Total	<u>400,497</u>	<u>436,241</u>
NEFCO loan	(248,453)	(228,437)
Total, net	<u>152,044</u>	<u>207,804</u>

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

The Fund has the right to drawdown the outstanding NEFCO loan facility by 31 December 2003.

25. RELATED PARTY TRANSACTIONS

Related parties are defined as shareholders, employees, members of the Executive Committee, their close relatives and companies in which the above-mentioned persons have a controlling interest. As at 31 December 2002 the Fund had not entered into any material transactions with related parties.

26. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities as at 31 December 2002 according to the currencies in which they are denominated is as follows:

LVL	Assets	Liabilities	Net currency exposure
EUR	1,555,359	1,555,359	-
Total	<u>1,555,359</u>	<u>1,555,359</u>	<u>-</u>

	LVL	EUR	TOTAL
Assets			
Cash and balances with banks	1,324,609	41,121	1,365,730
Accrued interest income	59,621	16,741	76,362
Loans to customers	3,246,357	1,497,497	4,743,854
Total Assets	<u>4,630,587</u>	<u>1,555,359</u>	<u>6,185,946</u>
Liabilities			
Accounts payable and accrued expenses	3,514	1,349	4,863
NEFCO Loan	-	1,554,010	1,554,010
Total Liabilities	<u>3,514</u>	<u>1,555,359</u>	<u>1,558,873</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2002 AND 2001

27. 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 2002 and 2001 was 6% and 9%, respectively for assets and liabilities.

	31.12.2002.		31.12.2001.	
	Carrying Value LVL	Fair Value LVL	Carrying Value LVL	Fair Value LVL
Financial Assets				
Cash and balances with banks	1,365,730	1,365,730	1,015,770	1,015,770
Loans to customers	4,383,854	4,409,608	4,697,928	4,556,520
Total Financial Assets	<u>5,749,584</u>	<u>5,775,338</u>	<u>5,713,698</u>	<u>5,572,290</u>
Financial Liabilities				
NEFCO Loan	1,554,010	1,522,025	1,593,078	1,393,971
Phare Financing Agreement	364,010	364,010	454,715	454,715
Accounts payable and accrued expenses	4,871	4,871	10,715	10,715
Total Financial Liabilities	<u>1,922,891</u>	<u>1,890,906</u>	<u>2,058,508</u>	<u>1,859,401</u>
