

BO valsts SIA
VIDES INVESTĪCIJU FONDS
(ENVIRONMENTAL INVESTMENT FUND)

*Annual report in accordance with
International Financial Reporting Standards
for the years ended 31 December 2003 and
2002 and Independent Auditor's Report*

ENVIRONMENTAL INVESTMENT FUND

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ENVIRONMENTAL INVESTMENT FUND

MANAGEMENT REPORT

The past year for the Environmental Investment Fund (Fund) has been very successful. Twenty two new loan agreements have been signed for the total loan amount of almost 1 million lats that, according to the number of loan agreements signed, is the highest figure since the Fund has started its operations. In total the Fund has received 43 applications for new project ideas with a total loan amount requested more than 6 million lats. This indicates a steady increase in interest within the municipal and private sector for the implementation of projects that ensure conformity to environmental protection requirements. Such projects include renovation of drinking water supply and wastewater treatment systems, and in the private sector improvement of enterprises operations according to the requirements of environmental legislation.

In the year 2003 several new financing schemes were successfully initiated for attracting grants in important fields for municipalities such as the renovation of drinking water supply and wastewater treatment systems, environmental friendly heat supply. This presented an opportunity to implement environmental infrastructure projects in smaller municipalities and to reduce their financial burden. We are confident that this successful practice will be continued in the future. A cooperation agreement with the United Nations Development Programme was signed in January 2004 aimed at establishing a joint financing scheme for the renovation of boiler houses in municipalities to ensure a switch from the use of fossil fuels to biomass is prove to that.

In the past year the Fund has started a new activity – project management. In this field of activities the first environmental protection and climate change mitigation project between the Ministry of Environment of Latvia and the Federal Ministry for Environment, Nature Protection and Nuclear Safety of Germany – "Housing renovation initiative for energy saving" has commenced. This project foresees total financing of approximately 5 million euro as loan financing and 2 million euro as a grant.

Last year the Fund has put a lot of effort into the improvement of its operations according to the ISO 9001:2000 standard requirements. During this year we have improved the Fund's internal operations procedures, trained our staff and, at the end of the year, we have successfully passed the certification audit. Our main goal in introducing a quality management system at the Fund is to ensure the continuous improvement of our services, thus providing our clients with adequate quality solutions and services.

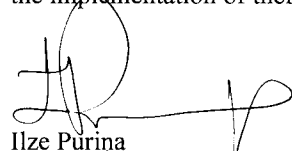
In the year 2003 implementation of the Fund's and the Nordic Environmental Finance Corporation co-financed water systems renovation projects was successfully completed.

In the year 2003 the Fund has continued organizing training seminars for our existing and potential clients in order to assist them in project preparation and successful implementation. The clients' survey shows that our clients are satisfied with the knowledge they receive and the services offered by the Fund.

In evaluating the Fund's financial statements for the year 2003, we can see that the Fund's assets in this year have not changed substantially despite the fact that the Fund did not receive appropriation from the Environmental Protection Fund this year. The Fund continues improving the efficiency of its operations, which has resulted in a surplus of 32,766 lats. Although the Fund has issued many new loans this year, has started new activities and has improved its operations according to ISO 9001:2000 standard requirements, the Fund's operating expenses in the year 2003 have not increased substantially and is at the level of previous years.

The year 2004 will be important for us as well as for our clients because Latvia will become a European Union member state, which will bring new possibilities for projects financing by attracting financing resources from various European Union funds. Therefore, based on the experience of 2003, the Fund is planning to continue development of its services and will provide the consultations needed for our clients to attract the European Union structural funds financing for the implementation of environmental infrastructure projects in the private, as well as the municipal sector. The Fund is also planning to continue the support to industrial enterprises initiated in previous years for the implementation of cleaner production principles.

We are confident that in the year 2004 our clients will find all the necessary support and consultancy advice for the implementation of their projects starting from the project idea until its full realization.



Ilze Purīņa
Chairperson of the Executive Committee

Rīga,
16 February 2004

ENVIRONMENTAL INVESTMENT FUND

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND EXECUTIVE COMMITTEE

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 Executive Committee

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>
Ilze Puriņa	Chairperson of the Executive Committee	1 February, 2002
Romāns Mežeckis	Member of the Executive Committee	4 April, 2003
Askolds Kļaviņš	Member of the Executive Committee	4 April, 2003

Resignations between 1 January 2003 and the date of signing the financial statements:

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 Director

<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Ilze Puriņa	Director	18 February, 2002	25 March, 2003

The Executive Committee

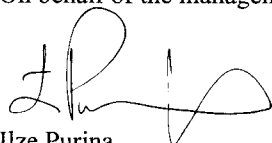
<i>Name</i>	<i>Position</i>	<i>Date of appointment</i>	<i>Date of resignation</i>
Ieva Saleniece	Member of the Executive Committee	1 November, 1999	4 April, 2003
Jurijs Strods	Member of the Executive Committee	1 November, 1999	4 April, 2003
Zigfrīds Brūvers	Member of the Executive Committee	14 February, 2000	4 April, 2003
Vija Gēme	Member of the Executive Committee	18 February, 2002	4 April, 2003

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 19 for the years ended 31 December 2003 and 2002. 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 Executive Committee

Rīga,
16 February 2004

AUDITORS' REPORT

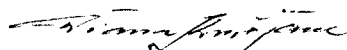
To the shareholder
of non-profit state limited liability company Vides investīciju fonds

We have audited the accompanying financial statements of non-profit state limited liability company Vides investīciju fonds (hereinafter – the Company) for the period ended 31 December 2003, set out on pages 7 through 19, 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 non-profit state limited liability company Vides investīciju fonds as of 31 December 2003, 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.

Ernst & Young Baltic SIA
License No. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Latvian Sworn Auditor
Certificate No. 124

Riga,
16 February 2004

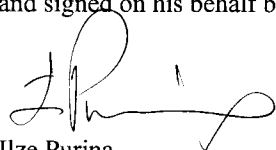
ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF REVENUES AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Note	2003 LVL	2002 LVL
<i>Operating income</i>			
Interest income	4	312,864	334,134
Interest expense	5	<u>(56,685)</u>	<u>(72,846)</u>
Net interest income		256,179	261,288
Fee and commission income	6	4,750	1,500
Other operating income	7	<u>14,139</u>	<u>8,917</u>
Other income, net		18,889	10,417
TOTAL OPERATING INCOME		<u>275,068</u>	<u>271,705</u>
<i>Operating expenses</i>			
Administrative expenses	8	(136,404)	(127,461)
Provisions for doubtful debts	15	(90,000)	(120,000)
Depreciation	16	(15,679)	(15,496)
Other operating expenses	9	<u>(219)</u>	<u>(657)</u>
TOTAL OPERATING EXPENSES		<u>(242,302)</u>	<u>(263,614)</u>
SURPLUS FOR THE YEAR	10	<u>32,766</u>	<u>8,091</u>

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 16 February 2004 and signed on his behalf by:



Ilze Puriņa
Chairperson of the Executive Committee

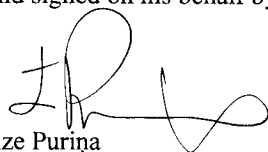
ENVIRONMENTAL INVESTMENT FUND

BALANCE SHEETS AS OF 31 DECEMBER 2003 AND 2002

	Note	31.12.2003. LVL	31.12.2002. LVL
ASSETS			
Cash and balances with banks	11	1,143,038	1,365,730
Accrued interest income		70,946	76,362
Other current assets	12	1,222	2,290
Leasehold improvements	13	3,337	10,940
Loans to customers	14	4,482,435	4,383,854
Fixed assets	16	30,023	43,692
TOTAL ASSETS		5,731,001	5,882,868
LIABILITIES			
Phare Financing Agreement	17	284,924	364,010
NEFCO Loan	18	1,457,776	1,554,010
Deferred income	19	12,381	21,324
Provisions		3,744	2,745
Accounts payable and accrued expenses	20	3,502	4,871
TOTAL LIABILITIES		1,762,327	1,946,960
SHAREHOLDER'S EQUITY			
Share capital	21	2,000	2,000
Appropriations	22	3,909,607	3,909,607
Retained surplus		57,067	24,301
TOTAL SHAREHOLDER'S EQUITY		3,968,674	3,935,908
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		5,731,001	5,882,868
OFF BALANCE SHEET ITEMS			
Commitments	23		
Committed loans granted, not drawn down		130,997	152,044
		130,997	152,044

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 16 February 2004 and signed on his behalf by:



Ilze Puriņa
Chairperson of the Executive Committee

ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF SHAREHOLDER'S EQUITY FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

	Share capital LVL	Appropriations LVL	Retained surplus LVL	Total LVL
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	<u>2,000</u>	<u>3,909,607</u>	<u>24,301</u>	<u>3,935,908</u>
Surplus for the year	-	-	32,766	32,766
At 31 December 2003	<u>2,000</u>	<u>3,909,607</u>	<u>57,067</u>	<u>3,968,674</u>

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

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Ilze Puriņa
Chairperson of the Executive Committee

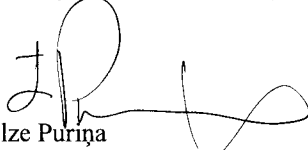
ENVIRONMENTAL INVESTMENT FUND

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

	Note	2003 LVL	2002 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		32,766	8,091
Adjustments to reconcile surplus for the year to net cash from operating activities:			
Depreciation		15,861	15,496
Depreciation of leasehold improvements		7,603	8,233
Net loss from disposal of fixed assets		14	-
Income from grant		(8,809)	(8,809)
Interest income		(312,864)	(334,134)
Interest expense		56,685	72,846
Provision for doubtful debts		90,000	120,000
Provisions increase/(decrease)		999	(2,585)
Changes in operating assets and liabilities:			
Loans to customers (increase)/decrease		(42,138)	317,767
Interest received		253,088	260,931
Accrued interest decrease		8,507	5,130
Other current assets decrease		1,068	3,106
Accounts payable and accruals increase/ (decrease)		(1,369)	(5,844)
Net cash inflow from operating activities		101,411	460,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(2,340)	(6,802)
Net cash outflow from investing activities		(2,340)	(6,802)
CASH FLOWS FROM FINANCING ACTIVITIES			
Appropriations received		-	150,000
Proceeds from Phare Financing Agreement		(79,086)	(90,705)
Proceeds from NEFCO Loan		(204,483)	(167,861)
Net cash outflow from financing activities		(283,569)	(108,566)
Net effect of exchange rate changes on cash		(38,194)	5,100
Net (decrease)/increase in cash and cash equivalents		(222,692)	349,960
Cash and balances with banks at beginning of year		1,365,730	1,015,770
Cash and balances with banks at end of year	11	1,143,038	1,365,730

The accompanying notes on pages 11 to 19 are an integral part of these financial statements.

The financial statements were approved by the Representative of State capital shareholder on 16 February 2004 and signed on his behalf by:


 Ilze Puriņa
 Chairperson of the Executive Committee

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

1. GENERAL INFORMATION

The Environmental Investment Fund ("the Fund") was registered on 28 April 1997. The Ministry of Environmental Protection and Regional Development 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 funding with foreign funding to finance environmentally friendly projects by lending money to public and private sector projects.

2. RISK MANAGEMENT

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

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.

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 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 ruling 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:

	31.12.2003.	31.12.2002.
1 EUR	LVL 0.67400	LVL 0.610000

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

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 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%

Reserves

In accordance with Article 4 of the Republic of Latvia Law 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.

Taxation

The Fund is exempt from corporate income tax under provisions set out in the Law On Non-profit Organisations. Accordingly, the financial statements do not contain any charges or balances for corporate taxes or deferred taxation. The Fund is not registered as a Value Added Taxpayer.

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.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

4. INTEREST INCOME

	2003 LVL	2002 LVL
Loans to customers	277,751	302,266
Balances with banks	35,113	29,468
Fixed income securities	-	2,400
Total	<u>312,864</u>	<u>334,134</u>

The interest rates received on balances with banks for the years ended 31 December 2003 and 2002 ranged from 0.30% to 5.00%.

5. INTEREST EXPENSE

In accordance with the NEFCO Loan Facility Agreement, borrowers transfer the interest payments directly to NEFCO (Note 18).

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. Municipalities are not charged by 1% front-end fee for the Fund loans.

7. OTHER OPERATING INCOME

	2003 LVL	2002 LVL
Release from deferred income	8,809	8,809
"Housing renovation initiative for energy saving" project	5,300	-
Other income	30	108
Total	<u>14,139</u>	<u>8,917</u>

8. ADMINISTRATIVE EXPENSES

	2003 LVL	2002 LVL
Staff costs		
– wages and salaries to staff	59,872	60,391
– remuneration to the Members of the Executive Committee, Representative of State capital shareholder and Responsible officer	8,750	13,175
– social security costs	17,835	19,821
"Housing renovation initiative for energy saving" project expenses	9,518	-
Office renovation expenses	7,603	8,233
Legal services	7,275	7,216
Office rent and public utilities	4,979	5,794
ISO 9001:2001 implementation expenses	4,366	-
Communications	4,168	4,045
Business trips	2,771	3,483
Office supplies and stationary	2,287	1,997
Advertising and publicity	1,840	2,300
Provisions for vacation expenses	999	(2,585)
Other administrative expenses	4,141	3,591
Total	<u>136,404</u>	<u>127,461</u>

The average number of persons employed by the Fund excluding the Members of the Executive Committee, Representative of State capital shareholder and Responsible officer during the years ended 31 December 2003 and 2002 was 9 and 10, respectively.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

9. OTHER OPERATING EXPENSES

	2003 LVL	2002 LVL
Net loss from foreign exchange operations	42	154
Other expenses	177	503
Total	219	657

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 with maturities of six months or less.

	31.12.2003. LVL	31.12.2002. LVL
Cash on hand	50	53
Balances with banks		
- LVL due within 1 month	142,988	424,556
- LVL due from 1 month to 6 months	1,000,000	900,000
- EUR due within 1 month	-	41,121
Total	1,143,038	1,365,730

12. OTHER CURRENT ASSETS

	31.12.2003. LVL	31.12.2002. LVL
Other prepayments	1,211	2,279
Other assets	11	11
Total	1,222	2,290

13. LEASEHOLD IMPROVEMENTS

	31.12.2003. LVL	31.12.2002. LVL
<i>Historical cost</i>		
At 31 December 2002	44,107	44,107
At 31 December 2003	44,107	44,107
<i>Accumulated depreciation</i>		
At 31 December 2002	33,167	24,934
Charge for the year	7,603	8,233
At 31 December 2003	40,770	33,167
<i>Net book value</i>		
At 31 December 2002	10,940	19,173
At 31 December 2003	3,337	10,940

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.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

14. LOANS TO CUSTOMERS

	31.12.2003. LVL	31.12.2002. LVL
<i>Remaining maturity</i>		
Less than one year	853,574	783,531
Within one to five years	2,824,151	2,613,357
Within five to ten years	1,158,398	1,326,356
More than ten years	96,312	20,610
Total	4,932,435	4,743,854
Provisions for doubtful debts (Note 15)	(450,000)	(360,000)
Total, net	4,482,435	4,383,854

<i>Analysis by sector</i>		
Water and waste water treatment	2,604,502	2,574,439
Environmentally friendly heat supply	801,569	682,826
Recycling	558,424	597,525
Renewable energy	366,609	471,275
Insulation of buildings	191,945	100,000
Cleaner technology and other projects	409,386	317,789
Total	4,932,435	4,743,854
Provisions for doubtful debts (Note 15)	(450,000)	(360,000)
Total, net	4,482,435	4,383,854

<i>Customer analysis</i>		
Municipal companies	2,122,424	2,271,338
Private companies	1,607,982	1,554,192
Municipalities	1,202,029	918,324
Total	4,932,435	4,743,854
Provisions for doubtful debts (Note 15)	(450,000)	(360,000)
Total, net	4,482,435	4,383,854

	31.12.2003.		31.12.2002.	
	Currency	LVL	Currency	LVL
<i>Currency analysis</i>				
LVL	3,486,390	3,486,390	3,246,357	3,246,357
EUR	2,145,467	1,446,045	2,454,913	1,497,497
Total		4,932,435		4,743,854
Provisions for doubtful debts (Note 15)		(450,000)		(360,000)
Total, net		4,482,435		4,383,854

	31.12.2003.		31.12.2002.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	6	9,255	5	14,340
5,000 - 10,000	4	32,683	3	18,261
10,000 – 100,000	35	1,395,116	20	918,699
Over 100,000	15	3,495,381	15	3,792,554
Total	60	4,932,435	43	4,743,854
Provisions for doubtful debts (Note 15)		(450,000)		(360,000)
Total, net	60	4,482,435	43	4,383,854

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

ENVIRONMENTAL INVESTMENT FUND

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002**

15. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2003. LVL	31.12.2002. LVL
At 31 December 2002	360,000	240,000
Charge in Statement of Revenues and Expenses	90,000	120,000
At 31 December 2003	<u>450,000</u>	<u>360,000</u>

16. FIXED ASSETS

	Computer, car and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2002	<u>63,628</u>	<u>23,853</u>	<u>87,481</u>
Additions	2,340	-	2,340
Disposals	(8,694)	-	(8,694)
At 31 December 2003	<u>57,274</u>	<u>23,853</u>	<u>81,127</u>
<i>Accumulated depreciation</i>			
At 31 December 2002	<u>35,203</u>	<u>8,586</u>	<u>43,789</u>
Charge for the year	5,615	1,255	6,870
Charge for "Housing renovation initiative for energy saving" project	182	-	182
Depreciation of grant funded fixed assets	7,608	1,201	8,809
Disposals	(8,546)	-	(8,546)
At 31 December 2003	<u>40,062</u>	<u>11,042</u>	<u>51,104</u>
<i>Net book value</i>			
At 31 December 2002	<u>28,425</u>	<u>15,267</u>	<u>43,692</u>
At 31 December 2003	<u>17,212</u>	<u>12,811</u>	<u>30,023</u>

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

17. 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.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2003 AND 2002

Under the agreement a total of 1 million euro had been transferred to State Treasury and 1 million euro had been transferred to the Fund for the project implementation. 1 million euro is reflected on the Fund Balance Sheet as follows:

	31.12.2003. LVL	31.12.2002. LVL
<i>Long term liabilities</i>		
Disbursed to clients	187,170	275,257
Total	187,170	275,257
<i>Short term liabilities</i>		
Disbursed to clients, due in less than one year	97,754	88,753
Total	97,754	88,753
Total	284,924	364,010

18. NEFCO LOAN

A Loan Facility Agreement for 3.5 million euro was signed on 19 August 1998 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.

	31.12.2003.		31.12.2002.	
	EUR	LVL	EUR	LVL
Disbursed to ultimate borrowers	2,929,370	1,974,395	2,864,171	1,747,144
Unutilised	-	-	65,199	39,771
Total draw down	2,929,370	1,974,395	2,929,370	1,786,915
Commitment charge	-	-	2,585	1,577
Interest due	17,405	11,731	27,445	16,742
Repaid	(783,903)	(528,350)	(411,843)	(251,224)
Total	2,162,872	1,457,776	2,547,557	1,554,010

The total balance of loans due in less than one year as at 31 December 2003 amounts to 204,633 lats.

19. DEFERRED INCOME

Balance as at 31 December 2002	21,324
Decrease of deferred income	(134)
Release from deferred income	(8,809)
Balance as at 31 December 2003	12,381

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.

ENVIRONMENTAL INVESTMENT FUND

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20. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31.12.2003. LVL	31.12.2002. LVL
Accrued liabilities	3,485	3,514
Overpaid interest	17	8
Other accounts payable	-	1,349
Total	3,502	4,871

21. SHARE CAPITAL

The Fund's fully paid share capital was 2,000 ordinary shares of 1 lat each as at 31 December 2003. The Ministry of Environmental owns 100% of the shares of the Fund.

22. APPROPRIATIONS

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

23. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	31.12.2003. LVL	31.12.2002. LVL
Municipal companies	74,250	360,726
Municipalities	39,369	-
Private companies	17,378	39,771
Total	130,997	400,497
NEFCO loan	-	(248,453)
Total, net	130,997	152,044

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

24. 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 2003 the Fund had not entered into any material transactions with related parties.

25. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities as at 31 December 2003 according to the currencies in which they are denominated is as follows:

LVL	Assets	Liabilities	Net currency exposure
EUR	1,457,776	1,457,776	-
Total	1,457,776	1,457,776	-

ENVIRONMENTAL INVESTMENT FUND

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	LVL	EUR	TOTAL
Assets			
Accrued interest income	59,215	11,731	70,946
Loans to customers	3,486,390	1,446,045	4,932,435
Total Assets	3,545,605	1,457,776	5,003,381
Liabilities			
NEFCO Loan	-	1,457,776	1,457,776
Total Liabilities	-	1,457,776	1,457,776

26. FAIR VALUE

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

The carrying value of cash and cash equivalents approximates 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 2003 was 6% for short-term assets and liabilities.

	31.12.2003.		31.12.2002.	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	LVL	LVL	LVL	LVL
Financial Assets				
Cash and balances with banks	1,143,038	1,143,038	1,365,730	1,365,730
Loans to customers	4,482,435	4,447,191	4,383,854	4,409,608
Total Financial Assets	5,625,473	5,590,229	5,749,584	5,775,338
Financial Liabilities				
NEFCO Loan	1,457,776	1,361,209	1,554,010	1,522,025
Phare Financing Agreement	284,924	284,924	364,010	364,010
Accounts payable and accrued expenses	3,502	3,502	4,871	4,871
Total Financial Liabilities	1,746,202	1,649,635	1,922,891	1,890,906
