

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

*Annual report in accordance with
International Financial Reporting Standards
for the years ended 31 December 2004 and
2003 and Independent Auditor's Report*

ENVIRONMENTAL INVESTMENT FUND

TABLE OF CONTENTS

	Page
MANAGEMENT REPORT	3
REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD	4
STATEMENT OF MANAGEMENT'S RESPONSIBILITY	5
AUDITORS' REPORT	6
FINANCIAL STATEMENT:	
STATEMENTS OF PROFIT OR LOSS/ REVENUES AND EXPENSES	7
BALANCE SHEETS	8
STATEMENTS OF SHAREHOLDER'S EQUITY	9
STATEMENTS OF CASH FLOWS	10
NOTES TO THE FINANCIAL STATEMENT	11-21

ENVIRONMENTAL INVESTMENT FUND

MANAGEMENT REPORT

The year 2004 has been rich with many important events for the Environmental Investment Fund (Fund) as well as for our clients.

In accordance with the Law on Procedures for the Coming into Force of The Commercial Law on 21 October 2004, the Fund has been registered in the Commercial register, which was the final step in the process of the changing the status of the Fund to a limited liability company. During this process the Fund's share capital has been raised and it is now LVL 4,186,698. Since 21 October 2004, the Fund has ceased to be a non-profit organisation and gains profit. The Board suggests to distribute the profit for the reporting year 2004 as follows:

- to transfer 27% of the Fund's net profit or LVL 5,690 to the state budget pursuant to the Law On State and Municipal Capital Companies,
- to transfer the difference amounting to LVL 15,383 to Retained earnings.

At the beginning of the year the Fund received the ISO 9001 certificate, which was a result of targeted improvements of the Fund's operations in order to ensure that our clients are provided with high quality services and the Fund continuously improves its services in order to meet the growing needs of our clients. In September a supervision audit took place and no substantial non-conformities were identified. The results of this audit indicate that the quality management system implemented at the Fund works successfully and fully corresponds to the requirements set by the international standard ISO 9001. Compliance with the established procedures ensures that the Fund is not materially exposed to such risks as market price risk, credit risk, liquidity risk and cash flow risk (see Note 25).

The Fund is continuously looking for opportunities to increase the efficiency of its operations. Thus, with the decrease of interest rates in the financial market in Latvia, the Fund since 1st July 2004 was able to also decrease its interest rates for several previously issued loans in order to ensure equal conditions for loans granted to municipalities. The Fund will continue to increase the efficiency of its operations in order to be able to continue to offer attractive loan conditions to our clients in the future.

In the past year the Fund received 66 new applications for project ideas with a total sum of loan required amounting to more than 7.5 million LVL. Twenty-one loan agreements were signed with the total loan amounting to almost 0.9 million LVL. During the previous year, the Fund considerably reduced the established provisions for doubtful debts for several times. The amount of provisions for doubtful debts were materially reviewed in October when it had become clear that the Fund's major loan for which the respective provisions had been established in amount of LVL 225,000 would be repaid ahead of schedule. As at the date of the financial statements, the borrower had refinanced and prematurely repaid its loan to the Fund amounting to LVL 400,000.

The Fund has been actively looking for new opportunities to attract grant financing for the implementation of environmental protection projects. Funds attracted from United Nations Development Programme grant financing in 8 municipalities for projects implemented in Latvia's boiler houses renovation have ensured a switch from the use of fossil fuels to biomass. In cooperation with the Latvian Environmental Protection Fund 9 water systems renovation projects and 1 air protection project have been implemented in municipalities of Latvia. We have succeeded to attract grant financing to most of the projects implemented with the Fund's loan financing.

This year small municipalities of Latvia have had the opportunity to attract EU Structural funds financing for their water sector improvement projects implementation. As the Fund has actively supported implementation of such types of projects, the Fund has also actively participated at the projects preparation stage providing consultations and support needed by the municipalities. At the end of the year the Fund signed the first loan agreement for financing of an ERDF co-financed project. The main priority for the Fund in the year 2005 will be to provide pre-financing, as well as all support and consultations required by municipalities for successful project implementation in accordance to the ERDF's requirements.

The Fund does not foresee any material changes in its operations and intends to maintain its operation at the level of previous years. In June 2005, the office rent agreement expired, therefore the Fund had announced a tender on rent of office premises for 96 months. We are confident that the Fund will be able to provide all necessary support to our clients in order to continue to implement projects successfully in the future.

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

ENVIRONMENTAL INVESTMENT FUND

MANAGEMENT REPORT

Rīga,
18 April 2005

ENVIRONMENTAL INVESTMENT FUND

REPRESENTATIVE OF STATE CAPITAL SHAREHOLDER AND BOARD

As at the date of signing of the financial statements:

Representative of State capital shareholder

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

The Board

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

ENVIRONMENTAL INVESTMENT FUND

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

1. The management is responsible for preparing the financial statements from the books of prime entry of the Fund for each financial period, that present fairly the state of affairs of the Fund as at the end of the financial period and the results of its operations and cash flows for that period.
2. The management confirms that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgments and estimates have been made in the preparation of the financial statements on pages 7 to 21 for the years ended 31 December 2004 and 2003. The management also confirms that applicable Financial Reporting Standards have been followed and that the financial statements have been prepared on a going concern basis.
3. The management is responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Fund and to prevent and detect fraud and other irregularities. They are also responsible for operating the Fund in compliance with legislation of the Republic of Latvia.

On behalf of the management,

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

Rīga,
18 April 2005

AUDITORS' REPORT

To the shareholder
of limited liability company Vides investīciju fonds

We have audited the accompanying financial statements of limited liability company Vides investīciju fonds (hereinafter – the Company) for the six month period ended 31 December 2004, set out on pages 7 through 21, which comprise the balance sheet, the statements of income, cash flows and changes in equity and the related notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these interim 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 interim financial statements referred to above give a true and fair view of the financial position of limited liability company Vides investīciju fonds as of 31 December 2004, and of the results of its operations and its cash flows for the six month period then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board.

Ernst & Young Baltic SIA
License No. 17

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

Rīga,
18 April 2005

ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF PROFIT OR LOSS/ REVENUES AND EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	Note	2004 LVL	2003 LVL
<i>Operating income</i>			
Interest income	4	294,438	312,864
Interest expense	5	(41,326)	(56,685)
Net interest income		253,112	256,179
Fee and commission income	6	-	4,750
Other operating income	7, 15	365,691	14,139
Other income, net		365,691	18,889
TOTAL OPERATING INCOME		618,803	275,068
<i>Operating expenses</i>			
Administrative expenses	8	(123,883)	(136,404)
Provisions for doubtful debts	15	-	(90,000)
Depreciation	16	(11,841)	(15,679)
Other operating expenses	9	-	(219)
TOTAL OPERATING EXPENSES		(135,724)	(242,302)
GROSS PROFIT/ SURPLUS FOR THE YEAR BEFORE TAXES		483,079	32,766
Corporate income tax	23	(3,484)	-
PROFIT/ SURPLUS FOR THE YEAR	10	479,595*	32,766

* – see Notes 2 and 10.

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

The financial statements were approved by the Representative of State capital shareholder on 18 April 2005 and signed on his behalf by:

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

ENVIRONMENTAL INVESTMENT FUND

BALANCE SHEETS AS OF 31 DECEMBER 2004 AND 2003

	Note	31.12.2004. LVL	31.12.2003. LVL
ASSETS			
Cash and balances with banks	11	1,061,712	1,143,038
Accrued interest income		67,312	70,946
Other current assets	12	1,441	1,222
Leasehold improvements	13	-	3,337
Loans to customers	14, 15	4,812,096	4,482,435
Fixed assets	16	18,013	30,023
TOTAL ASSETS		5,960,574	5,731,001
LIABILITIES			
Phare Financing Agreement	17	187,170	284,924
NEFCO Loan	18	1,303,091	1,457,776
Deferred income	19	6,678	12,381
Taxes	23	3,484	-
Provisions		6,345	3,744
Accounts payable and accrued expenses	20	5,537	3,502
TOTAL LIABILITIES		1,512,305	1,762,327
SHAREHOLDER'S EQUITY			
Share capital	21	4,186,698	2,000
Appropriations	22	-	3,909,607
Retained surplus		240,498	57,067
Retained profit		21,073	-
TOTAL SHAREHOLDER'S EQUITY		4,448,269	3,968,674
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		5,960,574	5,731,001
OFF BALANCE SHEET ITEMS			
Commitments	24		
Committed loans granted, not drawn down		142,754	130,997
		142,754	130,997

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

The financial statements were approved by the Representative of State capital shareholder on 18 April 2005 and signed on his behalf by:

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF SHAREHOLDER'S EQUITY FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	Share capital LVL	Appropriations LVL	Retained surplus LVL	Retained profit LVL	Total LVL
At 31 December 2002	2,000	3,909,607	24,301	-	3,935,908
Surplus for the year	-	-	32,766	-	32,766
At 31 December 2003	2,000	3,909,607	57,067	-	3,968,674
Reorganization *	3,966,674	(3,909,607)	(57,067)	-	-
Surplus for the year*	218,024	-	240,498	-	458,522
Profit for the year	-	-	-	21,073	21,073
At 31 December 2004	4,186,698	-	240,498	21,073	4,448,269

* – see Notes 2 and 10.

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

The financial statements were approved by the Representative of State capital shareholder on 18 April 2005 and signed on his behalf by:

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

ENVIRONMENTAL INVESTMENT FUND

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

	Note	2004 LVL	2003 LVL
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/ Surplus for the year		483,079	32,766
Adjustments to reconcile profit for the year to net cash from operating activities:			
Depreciation		11,841	15,861
Depreciation of leasehold improvements		3,337	7,603
Net loss from disposal of fixed assets		541	14
Income from grant		(5,703)	(8,809)
Interest income		(294,437)	(312,864)
Interest expense		41,326	56,685
Provision for doubtful debts		(360,000)	90,000
Provisions increase		2,601	999
Changes in operating assets and liabilities:			
Loans to customers decrease		80,791	(42,138)
Interest received		255,567	253,088
Accrued interest decrease		1,178	8,507
Other current assets decrease		(219)	1,068
Accounts payable and accruals increase		2,035	(1,369)
Net cash inflow from operating activities		221,937	101,411
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(372)	(2,340)
Net cash outflow from investing activities		(372)	(2,340)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Phare Financing Agreement		(97,754)	(79,086)
Proceeds from NEFCO Loan		(205,137)	(204,483)
Net cash outflow from financing activities		(302,891)	(283,569)
Net effect of exchange rate changes on cash		-	(38,194)
Net decrease in cash and cash equivalents		(81,326)	(222,692)
Cash and balances with banks at beginning of year		1,143,038	1,365,730
Cash and balances with banks at end of year	11	1,061,712	1,143,038

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

The financial statements were approved by the Representative of State capital shareholder on 18 April 2005 and signed on his behalf by:

Ilze Puriņa
Chairperson of the Board

Askolds Kļaviņš
Board member

Romāns Mežeckis
Board member

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

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 Order of the Cabinet of Ministers of the Republic of Latvia. The Fund is a limited liability company, which is governed by its own Charter and by the legislation of the Republic of Latvia. The Fund has been established to pool domestic funding with foreign funding to finance environmentally friendly projects by lending financial resources to public and private sector projects.

2. REORGANIZATION OF THE FUND

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The financial statements have been prepared under the historical cost convention and in accordance with the requirements of the International Financial Reporting Standards.

Reporting currency

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

Foreign currency translation

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

	31.12.2004.	31.12.2003.
1 EUR	LVL 0.703	LVL 0.674

Loans and credits

Loans and credits are accounted at initial value determined by adding expenses related to loan disbursement or subtracting costs of credit approval to loan or credit true value.

Afterwards loans and credits are accounted at amortized value using method of the actual interest rate. Amortized value is determined taking in account loan disbursement or credit approval costs as well as any other discounts or premiums related to loans or credits.

Profit or loss from amortization is disclosed in profit or loss statement as interest income and expenses.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions for doubtful debts

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

The level of the provisions is based on estimates considering known relevant factors affecting loan collectibility and collateral values. Ultimate losses may vary from the current estimates. These estimates are reviewed periodically, and as adjustments become necessary, they are reported as charges in the period in which they become known. Loans are stated net of provisions.

Fixed assets and depreciation

Fixed assets are stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful life of the assets. The rates per annum are as follows:

Miscellaneous office assets	30%–50%
Car, computer and office equipment	20%
Fixtures and fittings	10%

Cash and cash equivalents.

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

Grants and appropriations

Cash monetary appropriations are credited to reserves.

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

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

Income recognition

Income is recognized proportionally the Fund judgment to gain economical benefit and at such level as it is reasonable justifiable, excluding value added tax and discounts related to sales. Interest income is recognized in the period they are earned. The Fund does not accrue interest on non-performing loans. Commissions, fees and other income/ expenses are recognised when earned/ incurred.

Related parties transactions

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

Use of calculations

In the process of preparation of the financial statements, the management has made some judgments and assumptions, which has effect on some values and data in the financial reports. Therefore actual results may differ from those calculations.

Taxation

The Fund was exempt from corporate income tax under provisions set out in the Act On Non-profit Organisations till the Fund reorganization. Starting 21 October 2004 the Fund has to pay corporate income tax and dividends for use of the state capital. The Fund is not registered as a Value Added Taxpayer.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Corporate income tax

Corporate income tax is calculated by applying 15% tax rate to applicable income in period.

Deferred corporate income tax, which arises from short term deviations including some items on tax declaration form and in this financial statement, is calculated using liability method. Deferred corporate tax liabilities are estimated based on tax rates expected to be in the force when short term deviations will cease to exist. Main short term deviations arise from different fixed assets amortization rates used for accounting and tax purposes and specific, for tax purposes not deductible, provisions.

Fair value of financial assets and liabilities

Fair value represents the amount at which an asset could be sold or a liability settled at an arm's length basis.

4. INTEREST INCOME

	2004	2003
	LVL	LVL
Loans to customers	261,524	277,751
Balances with banks	32,914	35,113
Total	<u>294,438</u>	<u>312,864</u>

The interest rates received on balances with banks for the years ended 31 December 2004 and 2003 ranged from 0.30% to 4.00%.

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

	2004	2003
	LVL	LVL
Decrease of provisions for doubtful debts	360,000	-
Release from deferred income	5,691	8,809
"Housing renovation initiative for energy saving" project	-	5,300
Other income	-	30
Total	<u>365,691</u>	<u>14,139</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

8. ADMINISTRATIVE EXPENSES

	2004	2003
	LVL	LVL
Personal costs:		
– salaries	44,611	45,463
– social security costs	10,713	10,909
Management costs:		
– salaries	25,509	23,159
– social security costs	6,145	5,650
Legal services	9,199	7,275
Office rent and public utilities	8,818	4,979
Communications	4,135	4,168
Office renovation expenses	3,337	7,603
Provisions for vacation expenses	2,601	999
Office supplies and stationary	1,791	2,287
Business trips	1,214	2,771
Health insurance	923	1,276
Advertising and publicity	823	1,840
"Housing renovation initiative for energy saving" project expenses	-	9,518
ISO 9001:2001 implementation expenses	-	4,366
Other administrative expenses	4,064	4,141
Total	<u>123,883</u>	<u>136,404</u>

The average number of persons employed by the Fund excluding the Members of the Board, Representative of State capital shareholder and Responsible officer during the years ended 31 December 2004 and 2003 was 7 and 9, respectively.

9. OTHER OPERATING EXPENSES

	2004	2003
	LVL	LVL
Net loss from foreign exchange operations	-	42
Other expenses	-	177
Total	<u>-</u>	<u>219</u>

10. PROFIT

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

11. CASH AND BALANCES WITH BANKS

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

	31.12.2004.	31.12.2003.
	LVL	LVL
Cash on hand	4	50
Balances with banks		
- LVL current account	160,924	11,692
- LVL Visa Electron and Visa Mastercard	784	1,296
- LVL short terms deposits	900,000	1,130,000
Total	<u>1,061,712</u>	<u>1,143,038</u>

ENVIRONMENTAL INVESTMENT FUND

**NOTES TO THE FINANCIAL STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

12. OTHER CURRENT ASSETS

	31.12.2004. LVL	31.12.2003. LVL
Other prepayments	1,339	1,211
Other assets	102	11
Total	1,441	1,222

13. LEASEHOLD IMPROVEMENTS

	31.12.2004. LVL	31.12.2003. LVL
<i>Historical cost</i>		
At the beginning of year	44,107	44,107
At the end of year	44,107	44,107
<i>Accumulated depreciation</i>		
At the beginning of year	40,770	33,167
Charge	3,337	7,603
At the end of year	44,107	40,770
<i>Net book value</i>		
At the beginning of year	3,337	10,940
At the end of year	-	3,337

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.

14. LOANS TO CUSTOMERS

	31.12.2004. LVL	31.12.2003. LVL
<i>Remaining maturity</i>		
Less than one year	904,921	853,574
Within one to five years	2,822,321	2,824,151
Within five to ten years	932,263	1,158,398
More than ten years	242,591	96,312
Total	4,902,096	4,932,435
Provisions for doubtful debts (Note 15)	(90,000)	(450,000)
Total, net	4,812,096	4,482,435
<i>Analysis by sector</i>		
Water and waste water treatment	2,670,189	2,604,502
Environmentally friendly heat supply	1,079,106	801,569
Recycling	461,424	558,424
Renewable energy	232,632	366,609
Insulation of buildings	173,645	191,945
Cleaner technology and other projects	285,100	409,386
Total	4,902,096	4,932,435
Provisions for doubtful debts (Note 15)	(90,000)	(450,000)
Total, net	4,812,096	4,482,435

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

14. LOANS TO CUSTOMERS (CONTINUED)

	31.12.2004. LVL	31.12.2003. LVL
<i>Customer analysis</i>		
Municipal companies	1,970,986	2,122,424
Private companies	1,784,101	1,202,029
Municipalities	1,147,009	1,607,982
Total	4,902,096	4,932,435
Provisions for doubtful debts (Note 15)	(90,000)	(450,000)
Total, net	4,812,096	4,482,435

	31.12.2004.		31.12.2003.	
	Currency	LVL	Currenc y	LVL
<i>Currency analysis</i>				
LVL	3,609,574	3,609,574	3,486,390	3,486,390
EUR	1,838,580	1,292,522	2,145,467	1,446,045
Total		4,902,096		4,932,435
Provisions for doubtful debts (Note 15)		(90,000)		(450,000)
Total, net		4,812,096		4,482,435

	31.12.2004.		31.12.2003.	
	Number	LVL	Number	LVL
<i>Loan size analysis (LVL)</i>				
Up to 5,000	7	11,768	6	9,255
5,000 - 10,000	5	39,225	4	32,683
10,000 – 100,000	48	1,610,808	35	1,395,116
Over 100,000	16	3,240,295	15	3,495,381
Total	76	4,902,096	60	4,932,435
Provisions for doubtful debts (Note 15)		(90,000)		(450,000)
Total, net	76	4,812,096	60	4,482,435

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.

15. PROVISIONS FOR DOUBTFUL DEBTS

	31.12.2004. LVL	31.12.2003. LVL
At the beginning of year	450,000	360,000
Decrease	(360,000)	-
Charge in Statement of Revenues and Expenses	-	90,000
At the end of year	90,000	450,000

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

16. FIXED ASSETS

	Computer, car and office equipment LVL	Fixtures and fittings LVL	Total LVL
<i>Historical cost</i>			
At 31 December 2003	<u>57,274</u>	<u>23,853</u>	<u>81,127</u>
Additions	372	-	372
Disposals	(13,862)	(1,422)	(15,284)
At 31 December 2004	<u>43,784</u>	<u>22,431</u>	<u>66,215</u>
<i>Accumulated depreciation</i>			
At 31 December 2003	<u>40,062</u>	<u>11,042</u>	<u>51,104</u>
Charge for the year	4,924	1,226	6,150
Depreciation of grant funded fixed assets	4,490	1,201	5,691
Disposals	(13,631)	(1,112)	(14,743)
At 31 December 2004	<u>35,845</u>	<u>12,357</u>	<u>48,202</u>
<i>Net book value</i>			
At 31 December 2003	<u>17,212</u>	<u>12,811</u>	<u>30,023</u>
At 31 December 2004	<u>7,939</u>	<u>10,074</u>	<u>18,013</u>

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

	31.12.2004. LVL	31.12.2003. LVL
<i>Long term liabilities</i>		
Disbursed to clients	99,416	187,170
Total	<u>99,416</u>	<u>187,170</u>
<i>Short term liabilities</i>		
Disbursed to clients, due in less than one year	87,754	97,754
Total	<u>87,754</u>	<u>97,754</u>
Total	<u>187,170</u>	<u>284,924</u>

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

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.

	31.12.2004.		31.12.2003.	
	EUR	LVL	EUR	LVL
Disbursed to ultimate borrowers	<u>2,929,370</u>	<u>2,059,347</u>	<u>2,929,370</u>	<u>1,974,395</u>
Total draw down	<u>2,929,370</u>	<u>2,059,347</u>	<u>2,929,370</u>	<u>1,974,395</u>
Interest due	15,035	10,570	17,405	11,731
Repaid	<u>(1,090,790)</u>	<u>(766,826)</u>	<u>(783,903)</u>	<u>(528,350)</u>
Total	<u>1,853,615</u>	<u>1,303,091</u>	<u>2,162,872</u>	<u>1,457,776</u>

The total balance of loans due in less than one year as at 31 December 2004 amounts to LVL 213,438 (at 31 December 2003: LVL 435,407).

19. DEFERRED INCOME

Balance as at 31 December 2003	12,381
Decrease of deferred income	(12)
Recognised deferred income	<u>(5,691)</u>
Balance as at 31 December 2004	<u>6,678</u>

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.

20. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	31.12.2004.	31.12.2003.
	LVL	LVL
Accrued liabilities	5,537	3,485
Other accounts payable	<u>-</u>	<u>17</u>
Total	<u>5,537</u>	<u>3,502</u>

21. SHARE CAPITAL

As of 31 December 2004 the Fund's fully paid share capital was LVL 4,186,698 of 4,186,698 ordinary shares. The nominal value of ordinary share is 1 lat each. The Fund share capital was increased in order to fulfill "Law on Procedures for the Coming into Force of The Commercial Law" requirements (Note 2). After registration of changes in the Commercial register the Fund share capital will be LVL 4,427,196. The Fund share capital will be increased by excess of income over expenses credited to organizations reserves amounting LVL 240,498 for period from 1 September 2004 till 20 October 2004.

Fully paid share capital was as follows:

	31.12.2004.	31.12.2003.
	LVL	LVL
The Ministry of Environment	<u>4,186,698</u>	<u>2,000</u>

22. APPROPRIATIONS

The Fund received appropriations from Latvian Environmental Protection Fund to support investments in

ENVIRONMENTAL INVESTMENT FUND

**NOTES TO THE FINANCIAL STATEMENT
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

public and private environmental projects.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

23. CORPORATE INCOME TAX

Statements of profit or loss for the period 21 October through 31 December 2004

	2004
	LVL
Interest income	57,839
Interest expense	(8,364)
Interest income, net	49,475
Administrative expense	(25,585)
Other operating income	667
Other operating expenses	-
Profit before taxes	24,557
Corporate income tax	(3,484)
Profit for the period	21,073

Corporate income tax

	2004	2003*
	LVL	LVL
Payable corporate income tax		
Corporate income tax for the year	3,484	-
Deferred corporate income tax		
Deferred corporate income tax as a result of short term deviations	-	-
Disclosed in profit or loss statement:	3,484	-

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

Deferred corporate income tax:

	2004	2003
	LVL	LVL
Assets of deferred corporate income tax	-	-
Deviation between fixed assets value in financial and tax accounting	1,427	-
Provisions for asset	(1,427)	-
Gross deferred corporate income tax assets	-	-
Deferred corporate income tax assets/liabilities, net	-	-

Actual corporate income tax compared to theoretically calculated:

	2004	2003
	LVL	LVL
Profit before taxes	24,557	-
Theoretically calculated corporate income tax 15%	3,684	-
Permanent deviations	14	-
Short term deviations between fixed assets value in financial and tax accounting	(214)	-
Actual corporate income tax for year	3,484	-

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

24. OFF BALANCE SHEET ITEMS

Committed loans granted, not drawn down

	31.12.2004.	31.12.2003.
	LVL	LVL
Municipalities	126,754	39,369
Municipal companies	16,000	74,250
Private companies	-	17,378
Total	<u>142,754</u>	<u>130,997</u>

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

25. FINANCIAL RISK MANAGEMENT

The main financial instruments of the Fund are loans from credit institutions, cash and short term deposits. The main purpose of these financial instruments is to ensure the proper financing of the Fund daily activities. The other financial instruments of the Fund are for example accounts receivable and other debtors, accounts payable to suppliers and contractors and other creditors, which directly arise from the Fund's activities.

Interest rate risk

The Fund is vulnerable to interest rate risk mainly because of short term and long term loans. The policy of the Fund ensures that interest rates for most of the loans are fixed. The average interest rate for the Fund's loans is disclosed in Note 14.

Credit risk

The Fund is vulnerable to credit risk relating to disbursed loans and cash and balances with banks. The policy of the Fund ensures monitoring of the credit risk by constantly supervising client's credit history and by setting credit conditions for each client individually. Besides, the Fund constantly supervises debtors' balances in order to minimize possibility of the bad debts.

Liquidity risk

The Fund controls liquidity risk by maintaining sufficient level of cash and balances with banks.

Currency risk

It is the policy of the Fund to ensure a minimal risk when it engages into transactions that could be subject to exchange rate fluctuations. Starting 1 January 2005 the Bank of Latvia has declared fixed official lat exchange rate to euro at 0.702804. The Bank of Latvia will ensure that market rate does not differ more by 1% from the official rate. Therefore the Fund profit or loss from euro exchange rate fluctuations will not be significant, while the Bank of Latvia will maintain the above mentioned exchange rate.

Other types of activity risks

The Fund's activities also involve other types of risks that may cause unexpected losses. The cause of such risks, for example, may be human errors or fraud, information system problems and insufficient internal control and procedures. The Fund's management supervises, and the respective specialists monitor and control the above mentioned risks.

ENVIRONMENTAL INVESTMENT FUND

NOTES TO THE FINANCIAL STATEMENT FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

26. FOREIGN EXCHANGE EXPOSURE

The analysis of monetary assets and liabilities as at 31 December 2004 according to the currencies in which they are denominated is as follows:

LVL	Assets	Liabilities	Net currency exposure
EUR	1,853,615	1,853,615	-
Total	1,853,615	1,853,615	-

	LVL	EUR	TOTAL
Assets			
Accrued interest income	56,742	10,570	67,312
Loans to customers	3,609,575	1,292,521	4,902,096
Total Assets	3,666,317	1,303,091	4,969,408
Liabilities			
NEFCO Loan	-	1,303,091	1,303,091
Total Liabilities	-	1,303,091	1,303,091

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 2004 was 6% for short-term assets and liabilities.

	31.12.2004.		31.12.2003.	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	LVL	LVL	LVL	LVL
Financial Assets				
Cash and balances with banks	1,061,712	1,061,712	1,143,038	1,143,038
Loans to customers	4,812,096	4,785,332	4,482,435	4,447,191
Total Financial Assets	5,873,808	5,847,044	5,625,473	5,590,229
Financial Liabilities				
NEFCO Loan	1,303,091	1,217,791	1,457,776	1,361,209
Phare Financing Agreement	187,170	187,170	284,924	284,924
Accounts payable and accrued expenses	5,537	5,537	3,502	3,502
Total Financial Liabilities	1,495,798	1,410,498	1,746,202	1,649,635
