

**European Bank
for Reconstruction and Development**

The Baltic Technical Assistance Special Fund

**Annual Financial Report
31 December 2006**

European Bank for Reconstruction and Development

The Baltic Technical Assistance Special Fund

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The Baltic Technical Assistance Special Fund

Statement of movements in fund balance For the year ended 31 December 2006

| | Note | Year to 31 December 2006 €000 | Year to 31 December 2005 €000 |
|----------------------------------|------|-------------------------------------|-------------------------------------|
| Balance brought forward | | 1,365 | 1,598 |
| Interest and similar income | | 27 | 23 |
| | | 1,392 | 1,621 |
| Contributions refunded to donor | 4 | (830) | - |
| Disbursements | 5 | (52) | (252) |
| Other operating expenses | 6 | (4) | (4) |
| Balance of fund available | | 506 | 1,365 |

Balance sheet At 31 December 2006

| | Note | 31 December 2006 €000 | 31 December 2005 €000 |
|--|------|-----------------------------|-----------------------------|
| Assets | | | |
| Placements with credit institutions | | 506 | 1,362 |
| Other assets | | 4 | 6 |
| Total assets | | 510 | 1,368 |
| Liabilities and contributors' resources | | | |
| Unallocated fund balance | | 65 | 759 |
| Allocated fund balance | 5 | 441 | 606 |
| | | 506 | 1,365 |
| Other liabilities | | 4 | 3 |
| Total liabilities and contributors' resources | | 510 | 1,368 |

The Baltic Technical Assistance Special Fund

Notes to the financial statements

1 Creation of the Special Fund

The Baltic Technical Assistance Special Fund ("the Fund") was created by and is administered under the terms of an Agreement dated 14 April 1992 ("the Fund Agreement") between the European Bank for Reconstruction and Development ("the Bank") and the Governments of the Kingdom of Denmark, the Republic of Finland, the Republic of Iceland, the Kingdom of Norway and the Kingdom of Sweden ("the Nordic countries").

The Fund was established in accordance with Article 18 of the Agreement Establishing the Bank. The objective of the Fund is to promote the development of a market economic system in Estonia, Latvia and Lithuania. In this respect, the Fund focuses on the development of small and medium-sized enterprises in the private sector.

The Fund was terminated in July 2006 in a mutual agreement between the Bank and the Nordic countries with the approval of the Bank's Board of Directors. Upon termination of the Fund, the available net assets of the Fund were distributed to the donors. A final distribution will occur upon completion of the remaining projects within the Fund.

2 President's responsibilities

The President of the Bank is responsible for preparing the financial statements in accordance with the accounting policies disclosed in note 3 below.

3 Significant accounting policies

i Accounting convention

The financial statements have been prepared under the historical cost convention. Contributions and disbursements are accounted for on a cash basis. Interest income and operating expenses are accounted for on an accruals basis.

ii Foreign currencies

Disbursements in currencies other than euro (€) are translated into euro at exchange rates ruling at the time of the transaction.

iii Completed projects

A project is defined as completed when all consultants involved have satisfied all contractual obligations and all invoices related to the project have been submitted for payment.

On completion of a project any committed amounts not disbursed are reassigned to the unallocated fund balance.

iv Comparatives

No adjustments to comparative figures were necessary as there were no changes in presentation in the current year.

4 Contributions

Cumulative contributions received and refunded from the Nordic countries are set out below:

| | Contributions received €000 | Contributions refunded €000 | Net contributions €000 | % |
|----------------------------|-----------------------------------|-----------------------------------|------------------------------|--------------|
| Denmark | 1,450 | 179 | 1,271 | 21.5 |
| Finland | 1,411 | 173 | 1,238 | 20.9 |
| Iceland | 69 | 8 | 61 | 1.0 |
| Norway | 1,256 | 155 | 1,101 | 18.6 |
| Sweden | 2,564 | 315 | 2,249 | 38.0 |
| At 31 December 2006 | 6,750 | 830 | 5,920 | 100.0 |

The Baltic Technical Assistance Special Fund

Notes to the financial statements (continued)

5 Allocated fund balance and disbursements

The allocated fund balance represents all commitments approved by the Bank under the terms of the Fund Agreement net of cumulative disbursements.

| | Commitments approved €000 | Disbursements €000 | Allocated fund balance €000 |
|------------------------------|--|-------------------------------|--|
| Projects in operation | | | |
| At 1 January 2006 | 3,536 | 2,930 | 606 |
| Movement in the year | (1,074) | (909) | (165) |
| At 31 December 2006 | 2,462 | 2,021 | 441 |
| Completed projects | | | |
| At 1 January 2006 | 20,028 | 20,028 | - |
| Movement in the year | 961 | 961 | - |
| At 31 December 2006 | 20,989 | 20,989 | - |
| Total projects | | | |
| At 1 January 2006 | 23,564 | 22,958 | 606 |
| Movement in the year | (113) | 52 | (165) |
| At 31 December 2006 | 23,451 | 23,010 | 441 |

6 Other operating expenses

Other operating expenses comprise administrative expenses directly related to the Fund, including fees payable to the Bank for operating the Fund, calculated at 5 per cent of each contribution instalment received and each transfer of income from the Baltic Investment Special Fund. Operating expenses borne by the Bank and eligible for recharge to the Fund also include external auditors' remuneration of €3,720 (2005: €3,532).

7 Net currency position

All assets and liabilities of the Fund are denominated in euro.

Independent auditors' report to the European Bank for Reconstruction and Development (the 'Bank')

Report on the Financial Statements

We have audited the accompanying special purpose financial statements of the Baltic Technical Assistance Special Fund which comprise the Statement of Movements in Fund Balance, the Balance Sheet as at 31 December 2006, the related notes numbered 1 to 7 for the year then ended which have been prepared in accordance with the accounting policies disclosed in note 3. These special purpose financial statements have been prepared solely to meet the terms of the Agreement of Cooperation between EBRD and the Contributors to the Fund.

Responsibility of the President for the financial statements

The President's responsibilities for preparing the financial statements in accordance with the accounting policies are set out in note 2 to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 Auditing and Assurance Standards Board. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying special purpose financial statements have been prepared, in all material respects, in accordance with the accounting policies as set out in note 3 to the financial statements.

This report, including the opinion, has been prepared for and only for the Bank and for the confidential use of the Contributors to the Fund and for no other purpose. We do not, in giving this opinion, accept or

assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

6 March 2007

The maintenance and integrity of the EBRD's website is the responsibility of the President; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website. Legislation in the United Kingdom governing preparation and dissemination of financial statements may differ from legislation in other jurisdictions.