

**European Bank
for Reconstruction and Development**

The Baltic Investment Special Fund

**Annual Financial Report
31 December 2006**

European Bank for Reconstruction and Development

The Baltic Investment Special Fund

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The Baltic Investment Special Fund

Income statement		Year to	Year to
For the year ended 31 December 2006		31 December	31 December
	Note	2006	2005
		€000	€000
Interest and similar income			
From loans		-	16
Other interest		652	775
Net gains from share investments at fair value through profit or loss	4	76	661
Net losses from available-for-sale share investments	5	(847)	-
Foreign exchange (loss)/gain		(150)	394
Other operating expenses	6	(7)	(7)
Operating profit before provisions		(276)	1,839
Provisions for impairment of loan investments	7	-	12
Net (loss)/profit for the year		(276)	1,851

Balance sheet

At 31 December 2006		31 December	31 December
	Note	2006	2005
		€000	€000
		€000	€000
Assets			
Placements with credit institutions		4,833	37,307
Other assets	8	31	75
Share investments	9		
Share investments at fair value through profit or loss		-	371
Available-for-sale share investments		5,044	5,415
Total assets		9,908	43,168
Liabilities			
Other liabilities		7	7
Contributors' resources			
Contributions	10	7,050	41,500
Reserves and retained earnings		2,851	1,661
Total contributors' resources		9,901	43,161
Total liabilities		9,908	43,168

The Baltic Investment Special Fund

Statement of cash flows For the year ended 31 December 2006	Year to 31 December 2006 €000	Year to 31 December 2005 €000
Cash flows from operating activities		
Net (loss)/profit for the year	(276)	1,851
Adjustments for:		
Net gains from share investments at fair value through profit or loss	(76)	(661)
Net losses from available-for-sale share investments	847	-
Provisions for impairment of loan investments	-	(12)
Foreign exchange	150	(394)
Operating profit before changes in operating assets	<u>645</u>	<u>784</u>
Decrease/(increase) in operating assets:		
Interest receivable	44	4
Proceeds from repayment of loans	-	857
Proceeds from sale of share investments	2,269	2,902
Funds advanced for share investments	(832)	(2,859)
Decrease in operating liabilities:		
Accrued expenses	-	(1)
Net cash from operating activities	<u>2,126</u>	<u>1,687</u>
Cash flows from financing activities		
Donor contributions refunded	<u>(34,450)</u>	<u>-</u>
Net cash from financing activities	<u>(34,450)</u>	<u>-</u>
Net increase in cash and cash equivalents	<u>(32,324)</u>	<u>1,687</u>
Cash and cash equivalents at beginning of year	<u>37,307</u>	<u>35,226</u>
Effect of foreign exchange rate changes	(150)	394
Cash and cash equivalents at 31 December	<u>4,833</u>	<u>37,307</u>

Statement of changes in contributors' resources

For the year ended 31 December 2006	Contributions €000	Special reserve €000	General reserve €000	Accumulated (loss)/profit €000	Net reserves €000	Total €000
At 31 December 2004	41,500	173	-	(1,658)	(1,485)	40,015
Transitional restatement of opening balances for fair value of share investments	-	-	471	-	471	471
At 1 January 2005	41,500	173	471	(1,658)	(1,014)	40,486
Net fair value movement of available-for-sale share investments for the year	-	-	824	-	824	824
Profit for the year	-	-	-	1,851	1,851	1,851
At 31 December 2005	41,500	173	1,295	193	1,661	43,161
Net fair value movement of available-for-sale share investments for the year	-	-	1,466	-	1,466	1,466
Profit for the year	-	-	-	(276)	(276)	(276)
Donor contributions refunded	(34,450)	-	-	-	-	(34,450)
At 31 December 2006	7,050	173	2,761	(83)	2,851	9,901

No fees and commissions qualifying to be set aside to the special reserve were earned in the year to 31 December 2006. Therefore, there is no need, in accordance with the Fund Agreement, to set aside an amount to the special reserve.

The Baltic Investment Special Fund

Notes to the financial statements

1 Creation of the Special Fund

The Baltic Investment 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 private sector development through support for small and medium-sized enterprises in Estonia, Latvia and Lithuania ("the Baltic States").

The Fund was terminated in July 2006 in mutual agreement between the Bank and the Nordic countries with the approval of the Board of Directors. Upon termination of the Fund, the available net assets of the Fund were distributed to the donors. Further distributions will occur as appropriate under the terms of the termination and in accordance with the Rules and Regulations of the Fund.

2 President's responsibilities

The President of the Bank is responsible for preparing the financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

3 Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

i Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets held at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Fund's policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below in "critical accounting estimates and judgements".

ii Significant changes in the financial statements

Amendments to published standards effective in 2006

IAS 39 (Amendment), The Fair Value Option

This amendment permits the irrevocable designation on initial recognition of financial instruments that meet certain conditions as ones to be measured at fair value through profit or loss. The conditions that are required to be met under the amendment are where such designation eliminates or significantly reduces an accounting mismatch, when a group of financial assets, financial liabilities or both are managed and their performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and when an instrument contains an embedded derivative that meets particular conditions. From 1 January 2005 the Fund has designated its associate share investments and high-risk equity funds at fair value through profit or loss as the performance of these assets is managed on a fair value basis in accordance with the Bank's risk management and accounting policies.

Standards early adopted by the Fund

No standards were early adopted by the Fund in 2006.

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Notes to the financial statements (continued)

3 Accounting policies (continued)

Standards, amendments and interpretations effective in 2006 but not relevant to the Fund's operations

The following new standards, amendments and interpretations to existing standards are mandatory for the Fund's 2006 financial statements but are not relevant to the Fund's operations:

- IAS 19 (Amendment), Employee Benefits;
- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting for Forecast Intragroup Transactions;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRS 1 (Amendment), First-Time Adoption of International Financial Reporting Standards;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 4, Determining whether an Arrangement contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment.

Standards that are not yet effective and have not been early adopted by the Fund

The following standards have been published that are mandatory for the Fund's accounting period beginning on 1 January 2007 or later periods but that the Fund has not early adopted:

IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective for accounting periods from 1 January 2007)

IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including an analysis of sensitivity to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and the disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. IAS 1 (Amendment) introduces disclosures about the level of an entity's capital and how it manages that capital. The Fund has assessed the impact of IFRS 7 and IAS 1 (Amendment) and concluded that the main additional disclosures will be in relation to sensitivity analysis. The Fund will apply IFRS 7 and IAS 1 (Amendment) from its annual period beginning 1 January 2007.

IFRS 8, Operating Segments (effective for accounting periods from 1 January 2009)

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that it is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. As the Fund currently comprises a single primary segment (Banking operations) and one geographic region (the Baltic States) IFRS 8 is not expected to impact the financial statements. The Fund will apply IFRS 8 from its annual period beginning 1 January 2009.

Interpretations to existing standards that are not yet effective and not relevant for the Fund's operations

The following interpretations to existing standards have been published that are mandatory for the Fund's accounting period beginning on 1 January 2007 or later periods but are not relevant for the Fund's operations:

- IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods from 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective for accounting periods from 1 May 2006);
- IFRIC 9, Reassessment of Embedded Derivatives (effective for accounting periods from 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods from 1 November 2006);
- IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective for accounting periods from 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective for accounting periods from 1 January 2008).

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Notes to the financial statements (continued)

3 Accounting policies (continued)

Changes in critical accounting policies, accounting estimates and judgements in the prior period

International Accounting Standard 28, Investments in Associates (IAS 28 Revised 2005)

Prior to 2005 all share investments were accounted for as available-for-sale financial assets as the Fund did not issue consolidated financial statements under the requirements of the previous IAS 28. As of 1 January 2005, the Fund applied the exemption for venture capital organisations under IAS 28 Revised 2005. This permitted the Fund to designate share investments, previously held as available-for-sale, as financial assets at fair value through profit or loss. The Fund has chosen to designate all associate share investments as financial assets at fair value through profit or loss with changes in fair value included in the income statement. All remaining share investments continue to be designated as available-for-sale financial assets.

Prior to 2005 the Bank concluded that it could not reliably measure the fair value of the Fund's unlisted share investments and as such it was impracticable to restate 2004 comparatives for unlisted associate share investments.

Fair valuation of unlisted share investments

Prior to 2005, the Bank valued the Fund's unlisted share investments at historic cost, less any provisions for impairment. In 2005 the Bank performed an assessment of the fair value of the share investment portfolio as at 1 January 2005 and 31 December 2005. As a result of the assessment the Bank enhanced its valuation techniques so that unlisted equity could be measured at fair value.

As fair value could not be reliably measured prior to 2005 it was impracticable to restate 2004 comparatives for unlisted share investments. At 1 January 2005 the Fund released portfolio provisions for the unidentified impairment of share investments and specific provisions for the identified impairment of share investments, totalling € 3,732,000, to reserves. In addition the Fund restated all unlisted share investments to fair value resulting in a reduction to the Fund's reserves of €3,261,000. The total impact on the Fund's opening reserves was a net increase of €471,000.

iii Significant accounting policies

Financial assets

Financial assets at fair value through profit or loss

This category comprises the Fund's associate share investments. Such assets are measured at fair value on the balance sheet with changes in fair value recorded in the income statement. The basis of fair value for unlisted share investments is determined using valuation techniques appropriate to the market and industry of each investment. Purchases and sales of share investments are recorded at trade date. Note 10 analyses unlisted share investments.

Available-for-sale

This category comprises the Fund's non-associate share investments. Such assets are measured at fair value on the balance sheet with changes in fair value recorded through reserves, as disclosed in the "statement of changes in contributor's resources", until the financial asset is sold or determined to be impaired. At this time the cumulative profit or loss previously recognised in reserves is removed and included in the income statement. The basis of fair value for unlisted share investments is determined using valuation techniques appropriate to the market and industry of each investment. Purchases and sales of share investments are recorded at trade date. Note 8 analyses unlisted share investments.

iv Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Preparing financial statements in conformity with IFRS requires the Fund to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the reporting period.

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Notes to the financial statements (continued)

3 Accounting policies (continued)

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are the fair value of available-for-sale share investments and financial assets at fair value through profit or loss. These estimates are highly dependent on a number of variables which reflect the economic environment and financial markets of the Bank's countries of operations but which are not directly correlated to market risks such as interest rate and foreign exchange risk. The resultant volatility, combined with a lack of comparable information in relation to the Fund's banking portfolio, limits the Fund's ability to apply traditional sensitivity analysis methods.

v Foreign currencies

The unit of measurement for the presentation of the financial statements of the Fund is euro (€). Monetary assets and liabilities denominated in foreign currencies are translated into euro at spot rates as at 31 December 2006. Non-monetary items are expressed in euro at the exchange rates ruling at the time of the transaction. Revenue and expense items are translated into euro at the exchange rate on the date on which they occurred. Exchange gains or losses arising from the translation of assets, liabilities and transactions during the year are taken to the income statement.

vi Dividends

Dividends relating to share investments are recognised when received.

vii Contributions

Contributions are recognised as receivable in the balance sheet on the date of signature of a contribution agreement by the Bank and a contributor. Contributions receivable have not been discounted on a present value basis as there has been no indication as to the precise payment date of outstanding contributions. The Fund is satisfied that they will be realised for the amounts stated in the financial statements.

viii Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, which are available for use at short notice and which are subject to insignificant risk of changes in value.

ix Taxation

In accordance with Article 53 of the Agreement Establishing the Bank dated 29 May 1990, within the scope of its official activities, the Bank, its assets, property and income are exempt from all direct taxes and all taxes and duties levied upon goods and services acquired or imported.

x Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4 Net gains from share investments at fair value through profit or loss

	2006	2005
	€000	€000
Net unrealised gains from associate share investments.	76	661
Net gains from assets at fair value through profit or loss	76	661

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Notes to the financial statements (continued)

5 Net losses from available-for-sale share investments

	2006	2005
	€000	€000
Impairment losses from available-for-sale share investments	847	-
Net losses from available-for-sale share investments	847	-

6 Other operating expenses

Other operating expenses comprise administrative expenses directly relating to the Fund. Included in this amount is external auditors' remuneration of €7,400 (2005: €7,100).

7 Provisions for impairment of loan investments

	2006	2005
	€000	€000
Release for the year	€000	€000
Portfolio provision for the unidentified impairment of assets:		
Non-sovereign risk assets	-	(12)
Provisions for impairment of loan investments	-	(12)
Movement in provisions	€000	€000
At 1 January	-	12
Release	-	(12)
At 31 December	-	-

8 Other assets

	2006	2005
	€000	€000
Interest receivable on placements	31	75
At 31 December	31	75

9 Share investments

	Share investments at fair value through profit or loss €000	Available-for-sale share investments €000	Total share investments €000
Outstanding disbursements			
At 31 December 2004	-	7,605	7,605
Designated as fair value through profit or loss	2,419	(2,419)	-
At 1 January 2005	2,419	5,186	7,605
Disbursements	-	2,859	2,859
Disposals at cost	(1,877)	(1,025)	(2,902)
At 31 December 2005	542	7,020	7,562
Disbursements	-	832	832
Disposals at cost	(447)	(1,822)	(2,269)
At 31 December 2006	95	6,030	6,125
Fair value adjustment			
At 31 December 2004	-	(3,732)	(3,732)
Designated as fair value through profit or loss	(1,718)	1,718	-
Transitional restatement of opening balances to fair value	886	(415)	471
At 1 January 2005	(832)	(2,429)	(3,261)
Movement in fair value revaluation	661	824	1,485
At 31 December 2005	(171)	(1,605)	(1,776)
Movement in fair value revaluation	76	1,466	1,542
Impairment of available-for-sale share investments	-	(847)	(847)
At 31 December 2006	(95)	(986)	(1,081)
Fair value at 31 December 2006	-	5,044	5,044
Fair value at 31 December 2005	371	5,415	5,786

The Baltic Investment Special Fund

Notes to the financial statements (continued)

10 Contributions

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

	2006	2005	2006	2005
	€000	€000	%	%
Denmark	1,519	8,940	21.6	21.6
Finland	1,466	8,629	20.8	20.8
Iceland	72	427	1.0	1.0
Norway	1,314	7,732	18.6	18.6
Sweden	2,679	15,772	38.0	38.0
At 31 December	7,050	41,500	100.0	100.0

11 Analysis of operational activity

	Outstanding disbursements	Outstanding disbursements	Undrawn commitments	Undrawn Commitments
	2006	2005	2006	2005
	€000	€000	€000	€000
<i>Analysis by country</i>				
Regional	6,125	7,562	3,288	4,158
At 31 December	6,125	7,562	3,288	4,158

12 Net currency position

	Euro	United States dollars	Other currencies	Total
	€000	€000	€000	€000
Net currency position at 31 December 2006				
Assets				
Placements with credit institutions	4,187	646	-	4,833
Other assets	28	3	-	31
Share investments	-	-	5,044	5,044
Total assets	4,215	649	5,044	9,908
Liabilities				
Other liabilities	(7)	-	-	(7)
Total contributors' resources	(9,901)	-	-	(9,901)
Total liabilities	(9,908)	-	-	(9,908)
Net currency position at 31 December 2006	(5,693)	649	5,044	-

	Euro	United States dollars	Other currencies	Total
	€000	€000	€000	€000
Net currency position at 31 December 2005				
Assets				
Placements with credit institutions	35,713	1,594	-	37,307
Other assets	71	4	-	75
Share investments	-	-	5,786	5,786
Total assets	35,784	1,598	5,786	43,168
Liabilities				
Other liabilities	(7)	-	-	(7)
Total contributors' resources	(43,161)	-	-	(43,161)
Total liabilities	(43,168)	-	-	(43,168)
Net currency position at 31 December 2005	(7,384)	1,598	5,786	-

Amounts aggregated under "Other currencies" are derived from the currency risks undertaken through the Fund's share investments in regional operations. The exchange rate used for the conversion of assets and liabilities denominated in United States dollars into euro at 31 December 2006, where appropriate, was 1.3168 (2005: 1.1830).

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Notes to the financial statements (continued)

13 Liquidity position

The table below provides an analysis of assets, liabilities and contributors' resources into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates. Therefore, in the case of liabilities the earliest possible repayment date is shown, while for assets it is the latest possible repayment date.

Those assets and liabilities that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Maturity undefined €000	Total €000
Liquidity position at 31 December 2006				
Assets				
Placements with credit institutions	4,833	-	-	4,833
Other assets	31	-	-	31
Share investments	-	-	5,044	5,044
Total assets	4,864	-	5,044	9,908
Liabilities				
Other liabilities	-	(7)	-	(7)
Total contributors' resources	-	-	(9,901)	(9,901)
Total liabilities	-	(7)	(9,901)	(9,908)
Net liquidity position at 31 December 2006	4,864	(7)	(4,857)	-
Cumulative net liquidity position at 31 December 2006	4,864	4,857	-	-
	Up to and including 1 month €000	Over 1 month and up to and including 3 months €000	Maturity undefined €000	Total €000
Liquidity position at 31 December 2005				
Assets				
Placements with credit institutions	37,307	-	-	37,307
Other assets	75	-	-	75
Share investments	-	-	5,786	5,786
Total assets	37,382	-	5,786	43,168
Liabilities				
Other liabilities	-	(7)	-	(7)
Total contributors' resources	-	-	(43,161)	(43,161)
Total liabilities	-	(7)	(43,161)	(43,168)
Net liquidity position at 31 December 2005	37,382	(7)	(37,375)	-
Cumulative net liquidity position at 31 December 2005	37,382	37,375	-	-

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Notes to the financial statements (continued)

14 Interest rate risk

The table below summaries the Fund's exposure to interest rate risks. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Up to and including 1 month	Non-interest- bearing funds	Total
	€000	€000	€000
Interest rate risk 31 December 2006			
Assets			
Placements with credit institutions	4,833	-	4,833
Other assets	-	31	31
Share investments	-	5,044	5,044
Total assets	4,833	5,075	9,908
Liabilities			
Other liabilities	-	(7)	(7)
Total contributors' resources	-	(9,901)	(9,901)
Total liabilities	-	(9,908)	(9,908)
Interest sensitivity gap at 31 December 2006	4,833	(4,833)	-

	Up to and including 1 month	Non-interest- bearing funds	Total
	€000	€000	€000
Interest rate risk 31 December 2005			
Assets			
Placements with credit institutions	37,307	-	37,307
Other assets	-	75	75
Share investments	-	5,786	5,786
Total assets	37,307	5,861	43,168
Liabilities			
Other liabilities	-	(7)	(7)
Total contributors' resources	-	(43,161)	(43,161)
Total liabilities	-	(43,168)	(43,168)
Interest sensitivity gap at 31 December 2005	37,307	(37,307)	-

The table below summaries the effective interest rate by major currencies for monetary financial instruments:

	United		United	
	Euro	States dollars	Euro	States dollars
	2006	2006	2005	2005
	%	%	%	%
Assets				
Placements with credit institutions	2.59	3.50	1.99	2.64

15 Fair value of financial assets and liabilities

The carrying amounts of financial assets and liabilities presented on the balance sheet approximate to their fair value.

The Baltic Investment Special Fund

Notes to the financial statements (continued)

16 Segment information

In accordance with IAS 14, the primary segment of the Fund is business operation and the secondary segment is geographical. At 31 December 2006 the activities of the Fund comprised a single primary segment (Banking operations) and one geographic region (the Baltic States). Consequently, no additional disclosure is required.

17 Related parties

The Fund has a number of venture capital associates that it accounts for at fair value through profit or loss. At 31 December 2006, according to unaudited management information or most recently available audited financial statements from the investee companies, they had total assets of €447,000 (2005: €447,000), total liabilities of €0,000 (2005: €0,000), and for the year ended 31 December 2006 had revenue of €20,000 (2005: €20,000) and made a net profit of €76,000 (2005: €76,000).

18 Post balance sheet events

There have been no material post-balance sheet events that would require disclosure or adjustment to these financial statements.

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

Report on the Financial Statements

We have audited the financial statements of The Baltic Investment Special Fund for the year ended 31 December 2006 which comprise the income statement, the balance sheet, the statement of changes in contributor's resources, the statement of cash flows, the accounting policies and the notes to the financial statements ("financial statements").

President's responsibility for the financial statements

The President is responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board, and in accordance with the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions. 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. 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 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 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 financial statements present fairly, in all material respects, the financial position of the Fund at 31 December 2006 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board and the overall principles of the European Community's Council Directive on Annual Accounts and Consolidated Accounts of Banks and Other Financial Institutions.

Other matters

We also report to you if, in our opinion, the financial results section of the Financial Report is not consistent with the financial statements, if the Bank has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, flowing style.

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.