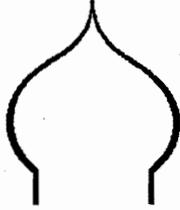


The
U.S. Russia 
Investment Fund

USAID Semi-Annual Review

September 2001

Not USG Classification

~~CONFIDENTIAL~~

Business Information or Predecisional Document under the Freedom of Information Act

The U.S. Russia Investment Fund

USAID Semi-Annual Review

September 2001

I.	Program Review Executive Summary	
	a) Investment Strategy	3
	b) Direct Investment Program.....	4
	c) Financial Services.....	14
	d) Raising a Private Fund.....	20
II.	Portfolio Review	
	e) Direct Investment Program.....	21
	f) Financial Services.....	45
	g) Technical Assistance Program	51
	h) Environmental	62
	i) Policies and Practices	63
III.	Administrative Review	
	j) Expense Analysis.....	64
	k) Staff	65
IV.	Financial Review	
	l) Financial Statements.....	69
	m) Drawdowns vs. Actual Expenditures	72
V.	Strategic Framework Matrix	73
VI.	Other	
	n) Compliance with Grant Agreement.....	83
	o) Board Information	84



Investment Strategy

The Fund does not seek so called “asset plays.” The Fund seeks to finance high quality entrepreneur/managers who have original business ideas which offer high value propositions to their customers. We only back those companies whose managements embrace transparency and corporate governance.

Our approach to portfolio management is extremely “hands on.” At least two investment staffers, and sometimes three, work every deal. We have also begun a trend of requiring board chairmanships and control over cash disbursements whenever possible.

During the past year our investment strategy has been refined and narrowed in focus to include three areas:

- TMT (telecommunications, media and technology) - examples include Port.ru, Pentacom, RadioPAGE, StoryFirst Communications, Cybiko and INTH
- Financial Services - examples include DeltaCredit, DeltaLeasing and DeltaBank
- Consumer Products Distribution - examples include Invacorp, Saint Springs, SPAR and Polygraf

Because of our success in incubating DeltaCredit, DeltaLeasing and, more recently, SPAR, we will seek similar situations which we can develop from the grass roots.

Direct Investment Program

Highlights

General

The Russian economy sustained robust growth throughout the first half of the year. GDP grew by 5.4% and industrial production rose 5.3%. Consumer confidence remained strong. The level of retail turnover increased by 10% in the six months ended June 2001, reaching its highest level since the early 90's. Unemployment continued to decrease in this period (9.2%) and real wages grew by 18%. The ruble appreciated in real terms by 8.4% and foreign currency reserves reached record high levels. The revenue side of the budget hit new highs, with tax collection increasing to 16.4% of the GDP. On the downside, inflationary pressure continues: prices grew 12.7% in the first half of the year. Inflation is expected to grow in the second half of 2001, with annual inflation reaching 18% rather than the 12 to 14% previously projected by the government. News coming from the Kremlin remains positive. Solid progress is being made in the areas of tax and land ownership reform.

Portfolio

SPAR Moscow successfully opened its first EUROSPAR supermarket in Moscow at the end of August. Sales are off to a great start.

Radisson Royal Hotel - St. Petersburg (Nevsky 49 Hotel) opened its doors in July. Occupancy levels are at budgeted levels.

The sale of our **Nizhny Newsprint** stake for \$16 million went forward as planned. The final \$5 million tranche of the proceeds was received in September. The IRR was just shy of 30%. This was the first major exit for the Fund.

We also sold our **Bitech** stake in September for \$2 million to Lukoil at a 55% premium to the listed share price.

Direct Investment Program

Highlights

The Fund received an offer on **TsUM**, which will give us an IRR of 8%. This offer was approved by the Investment Committee on June 4th. However, while completing the documentation process, we are investigating other potential sale opportunities.

Cybiko closed the first tranche of a proposed \$8.8 million financing. Shipments and production plans are on track despite the recent setbacks.

Port.ru raised \$1 million from existing shareholders at a valuation of \$6 million (pre-money). Negotiations with Intel, Eagle and the Fund have been renewed with the intention of raising \$3 million by the end of the year.

The Fund received a liquidating distribution in August on its investment in **MRCI** of \$1.6 million. Our initial investment was \$1.25 million.

Pipeline

We plan to participate in the current round of **Cybiko** with a minimum amount (\$500,000). The project will be brought to the Investment Committee by the end of September.

On June 1st, **Pentacom** received \$3.5 million of new equity from Mint Capital. The round resulted in a 46% step-up in valuation for the Fund. The Fund may seek Board approval to invest \$5 million in an upcoming round if supported by other institutional investors.

Direct Investment Program

Highlights

On June 4th, the Investment Committee approved an investment of \$2.6 million in **Sladkhaya Zhizn**, a leading food distributor and retailer in the Middle Volga region. The investment should close in October.

InterProgma, a software development project, is to be submitted to the Investment Committee at the beginning of October. The expected initial investment amount is \$700,000 out of a total \$3.15 million, with the remainder to be presented for approval at later stages and upon meeting specific milestones.

A second round with **SPAR Moscow** is currently under discussion. The details of the round should be completed and a memorandum distributed to the Investment Committee in advance of the upcoming Board meeting.

Direct Investment Program

Pipeline Projects

Sector - TMT

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Comcor TV	\$5.00	Equity Investment	Moscow Cable TV operator with a license for 1.5 million subscribers. The company currently provides pay-TV and Internet access in Chertanovo and Khamovniki. It has 90,000 passed homes and 15,000 TV subscribers.
Cybiko - Follow On	\$.50	Equity investment along with other institutional investors and high net worth individuals: <ul style="list-style-type: none">- Sun Capital Group - \$4.5M- Other Investors - \$4.3M First Closing was on September 4, the next and last is expected by September 30.	Cybiko, a developer of wireless Internet platform technologies, has successfully integrated a number of core technologies to produce a commercially viable handheld device. The first generation product, Cybiko 1.0, combines wireless messaging, PDA features and a games platform, and is targeted at the Gen Y market.

Direct Investment Program

Pipeline Projects

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
EGAR Technologies	\$1.00	Equity investment along with the IFC in a \$2.5 million round.	Development of trading and risk management software for small and mid-sized financial institutions and banks. The Company's development center is located in Moscow and employs about 100 people.
Elbrus International Ltd.	\$10.00	Equity investment along with EBRD and private investors.	Commercialization of a revolutionary microprocessor technology - Explicit Parallel Instruction Processing (EPIC). The technology is protected by 70 patents registered with the U.S. Patent Office.

Direct Investment Program

Pipeline Projects

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Friendly Light LLC	\$3.00	Equity investment	Friendly Light LLC is a development stage company engaged in the business of developing, manufacturing, marketing and distributing affordable, portable and easy-to-use medical lasers – broadening their use to include a larger cross-section of doctors, practitioners and consumers.
InterProgma	\$3.15	Equity investment. Cognitive Technologies will co-invest.	Off-shore software development project. Spin-off of Cognitive Technologies, a leading Russian software company. Cognitive will transfer its software development contracts with Intel, HP and others to InterProgma while InterProgma develops its own customer base.

Direct Investment Program

Pipeline Projects

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Kinostar Multiplexes	\$3.50	Equity investment. The total investment required is \$7.5 to \$8.0 million. Other equity partners to be determined.	Kinostar is a revival of last year's project to develop and operate a multiplex cinema in Moscow. In addition to \$7.5 million in equity, the project requires \$3 million in debt and envisages building up to 5 multiplexes in Moscow.
Paragraph	\$1.00	Equity investment along with Mint Capital.	Design and sales of VRML Internet 3D software products.
Pentacom - Follow On	\$5.00	Pentacom is looking to raise a third round of \$30M. The Fund seeks to invest \$5M in this round.	Pentacom is a cable and wireless cable company with licenses to operate in Moscow and parts of Moscow City. The Company currently provides multi channel pay TV. It will add voice-over-Internet-protocol telephony, high speed Internet access, video-on-demand and other value added services.

Direct Investment Program

Pipeline Projects

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Port.ru - Follow On	\$1.0	Possible \$1 million co-investment with Intel/Eagle Ventures.	Port.ru is the leading Russian language portal with rapidly growing advertising revenues.
Spektro Recognition, Inc.	\$2.00	Equity investment.	Spektro Recognition, Inc. researches, designs, manufactures and markets high security and anti-counterfeit products and advanced optical technology for documents, currency, and manufactured goods.
Versatel	\$3.00	Equity investment.	A network of wireless high capacity bandwidth and established MTK cable connections linking a majority of Moscow homes. The network will be used to deliver 24 digital stations to consumers in Moscow at a low monthly cost.

Direct Investment Program

Pipeline Projects

Sector - Consumer/Other

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Lenta	\$8.00	Minority stake - preference shares with drag long rights.	Owner and operator of discount club food stores in St. Petersburg.
Sladkhaya Zhizn Trade Group	\$2.60	Acquisition of 53.6% stake in the newly established retail holding company.	Regional food distribution company expanding its distribution and retail businesses in Nizhny Novgorod. The company has recently received SPAR franchise for Nizhny Novgorod and four adjacent regions.
SPAR Moscow Holdings Ltd. - Follow On	\$3.00	<p>\$3 million second round financing required to launch a distribution center and franchise development.</p> <p>Financing planned for October after initial proof of the Phase I concept.</p>	<p>SPAR Retail was recently established to develop a SPAR franchise for Moscow and Moscow region. This is a start up in partnership with Russmed, a mid-sized Moscow FMCG distributor. This funding will be used to launch the first flagship store.</p>

Direct Investment Program

Pipeline Projects

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Ural Glass Holdings	\$7.00	Creation of a regional glass holding company in which the Fund will acquire a 60% stake.	Regional glass packaging manufacturing company primarily servicing the beer industry. With multiple plants located in the Ural region, this holding will in fact have over 90% of the existing production capacity in a 1200 km radius from Ekaterinburg, Russia's third largest economic area.

Financial Services Investments

Highlights



DeltaCredit continues to streamline mortgage originations. Mortgage approvals have been growing at an impressive rate, averaging between \$1.3 to \$1.5 million weekly. However, mortgage disbursements have been averaging only about \$600,000 per week. The last remaining bottleneck is our clients' ability to find housing. Currently, Russia is experiencing a "sellers market" with housing demand far outstripping available supply. In order to eliminate this bottleneck, DeltaCredit has made significant strides in tapping into the new construction market. Previously, DeltaCredit did not provide mortgage finance for newly constructed homes due to complications with the securing the property rights. However, we have worked out a mechanism to secure these rights and plan to expand our product offering to also allow clients to purchase newly constructed housing. This step will allow us to disburse on the approximately \$9.8 million in the pipeline.

Mortgage Pipeline & Portfolio Status	Borrowers	Amount
Disbursed	518	\$15.6 million
Approved & Awaiting Disbursement	283	\$ 9.8 million
Pre-Approved & in process	1,023	\$34.5 million

In order to increase the average loan size of the portfolio, DeltaCredit focused its direct marketing campaign to targeted groups of western and Russian clients seeking apartments in excess of \$70,000. The initial results are positive with the average size mortgage loan increasing 14% to \$34,000. In order to tap into a higher income bracket client base, DeltaCredit has launched a direct mail campaign to 60,000 targeted customers in Moscow and 10,000 companies. This will be supported by a telemarketing campaign over the next three months whereby telemarketers will contact a database of potential mortgage customers to explain the benefits of taking a mortgage loan from DeltaCredit.

DeltaCredit recently forged a partnership with AIG Insurance, whereby DeltaCredit will offer AIG Insurance to DeltaCredit customers. In return, DeltaCredit will receive a commission from AIG for each insurance policy sold. During the quarter, DeltaCredit's finance department has focused on maximizing investor return on the products DeltaCredit offers. Some of the changes to be introduced to cover both overhead and increase the effective return include application fees, commission income from insurance sales, transaction fees, and other ancillary income. The conversion to full banking operations continues and is expected to be completed before year-end. In order to increase market share, DeltaCredit will be focusing its efforts on strengthening its distribution network. Once the banking license is in place, DeltaCredit will begin adding additional mortgage originators with the mortgage assets transferred to DeltaCredit after loan closing. These banks will act as agents for the DeltaCredit mortgage product and will receive an origination fee for their services.

Financial Services Investments

Highlights



DeltaLeasing continues to maintain a strong market position and is widely recognized as the leading leasing operator in the SME sector in Russia. The Company is currently operating in 12 regions of Russia through 5 offices. During the quarter ended June 2001, DeltaLeasing made its first leases in Ufa, Bashkortostan and Nizhny Novgorod. The Company's pipeline is growing and currently stands at \$6.5 million in new leases to be booked by the end of this year, increasing the size of our portfolio to slightly over \$20 million.

DeltaLeasing has nearly \$15 million outstanding in lease receivables diversified over 164 companies from more than 20 industries ranging from wood processing and furniture manufacturing, printing and label production, packaging and others. The average deal size in DeltaLeasing's portfolio has been slowly increasing and is currently slightly above \$90,000 with a repayment rate of 99.5%. In terms of customers, 68% represent businesses employing less than 100 workers. 99% of all equipment in the Company's portfolio is hard currency denominated and is made outside CIS. DeltaLeasing's leases are full-payout leases with a 25% to 30% up-front down payment with no residual risk in the lease portfolio.

Thanks to proactive cross-selling activities among the Delta Financial Services Group entities, DeltaLeasing and DeltaBank were able to attract two low credit risk reputable clients: a 100% subsidiary of one of the world's largest pharmaceutical producers Martin Bayer in Russia and a member of Rosinter group, one of the largest restaurant chains in Russia, Rosservice. DFSG entities will continue working together to cultivate potential cross-sell opportunities.

In order to further develop the financial function within the Company and to strengthen the internal control environment, DeltaLeasing has hired a financial controller, Irina Nedilko. Prior to DeltaLeasing, Irina was employed as a finance and administrative manager at Bridgestone for two years and earlier as a financial controller at Arthur Andersen for three years. Irina's responsibilities include streamlining the Company's Russian tax accounting, further developing the Company's MIS, shifting DeltaLeasing to a monthly US GAAP accounting cycle and working closely with Yuri Zolochovsky (VP of Planning and Control for the Fund) on internal controls.

Financial Services Investments

Highlights



DeltaBank's new share capital was fully registered with the Central Bank at the end of June, bringing the share capital to \$13.7 million. This officially placed the Bank at No. 139 in Russia by capital - ahead of HSBC and Societe Generale.

The Bank's credit approval system has been tested on two new borrowers - TransPromResource (\$500,000) and EuroSPAR (\$500,000) - the first successful Fund/Bank cross-sell customer (full banking services/strategic partnership). TransStal has been performing very well, with two timely repayments to date, \$1 million credit outstanding by the end of August, and reaching the planned a/c profitability level (\$120,000 per annum - No. 1 revenue earner for the Bank). The corporate credit pipeline includes eight new names for up to \$5 million in potential additional portfolio. The consumer finance product has been tested on five customers (\$77,000 outstanding), and is ready to be marketed to a broader customer base. The Draft Credit Origination & Maintenance Policy has been completed and will be submitted for board review.

On the customer franchise front, branding efforts have been completed. Ten new large corporate customers (including DeltaCredit) and another 150 individuals (500 plus new cards) have opened accounts, with 35 corporate customers in the pipeline. In addition to ongoing cross-selling efforts on the mortgage front, two corporate customers have been referred to DeltaLeasing, who already booked \$150,000 and \$96,000 leases for them. Results of DeltaBank's tender proposals for the US Embassy and Ericsson banking business are pending. AmEx Bank has approved \$3.5 million of credit lines on DB; AmEx Co. has added to that \$250,000 line for TCs purchase. Citibank is finalizing a \$2 million credit line at the end of September, with ABN AMRO and Raiffeisen working on establishing lines as well.

Human Resources optimization efforts have been completed: with a spin-off of our 20 IT staff, the head-count has been reduced to 113 - down from 154 at year end 2000/137 as of end of June 2001. Cost savings from these efforts amount to \$320,000 per annum. Also, the organizational structure has been streamlined, opening up a critical Chief Operating Officer position. A strong IT Project Manager (potentially Chief Investment Officer) and Chief Information Security Officer have been hired. Critical recommendations of the full-scale operational review of the Bank conducted in May/June are being implemented. Overall number of Major Business Risk items has been reduced from 45 (YE'00)/29 (end-June) down to 13. Internal review of all major bank assets has been completed, and adequate action steps taken to mitigate identified risks.

Financial Services Investments

Highlights

The financial results are encouraging. Since June customer deposits have increased from \$2.3 million to \$3.8 million; customer loans from \$300,000 to \$1.4 million (figures net of DC mortgages and funding). Monthly core customer revenues have increased by 30%; the Bank broke even (on a monthly basis) for the first time and made a modest net profit of \$25,000 both in July and August. The DeltaCredit loan portfolio has grown from \$1 million to \$2.6 million over the quarter ended June 2001.

Financial Services Investments

Highlights



DeltaLease-Far East

ЗАО «ДельтаЛиз-Дальний Восток»

DeltaLease-Far East continues to expand its leasing operations in the Russian Far East. The Company's portfolio consists of 24 active projects totaling \$1.9 million. DLFE's participation in projects amounts to \$1,572,000, of which \$1,162,000 (74%) is disbursed. Outstanding amounts are scheduled for disbursement through the end of the year. Lease receivables currently stand at \$410,000.

Jan. 1, 2001 – August 31, 2001	Forecast	Actual	Actual/Forecast
Approvals	\$840,000	\$1,361,686	1.62
Disbursements	\$720,000	\$912,487	1.27

Given steady disbursements in upcoming quarters, breakeven projections appear accurate. Company pipelines, amounting to \$800,000 are healthy. While young, DLFE's portfolio is adequately diversified. Maximum risk on a single client stands at 19%. Projects may be divided among business sectors as follows: 38.1% in food processing, 22.9% in non-food manufacturing, 17.0% in forestry, 13.1% in retail, 4.9% in wholesale and 4.0% in construction. Progress on plans for 2001:

Purchase of office space in Vladivostok. The legal purchase of real estate is complete. The total cost of property, including legal expenses, was \$49,344 on budget. Repairs have begun and are scheduled to run through November.

Equity increase. DLFE will approach the Fund prior to October in order to finalize the details for an equity increase. Discussions have already been conducted between the DLFE board and Fund. Participants are in basic agreement that the increase will be executed.

Transfer of costs and property from Fund to DLFE. Remaining transfers are scheduled for October 1, 2001 and January 1, 2002. Changes to this schedule are possible with final decisions to be based upon corporate income one month prior to each scheduled transfer. A sizable portion of the Fund's equipment and office furniture has been purchased by DLFE.

Financing projects that are characteristic of the RFE economy (i.e. forestry, fishing, ports and mining). Since the beginning of 2001, DLFE has approved projects in both the fishing and forestry sectors worth over \$650,000.

Financial Services Investments

Highlights

Small Business Portfolio

Six bank partners continue to receive funding for small business lending. Regarded as strategically important to the Fund, three are located in Moscow and three in the Russian Far East. Demand remains strong, though the funding is winding down. Most importantly, we maintain strong relationships with these and the other bank partners with whom we have outstanding portfolios.

Though the banks now assume 100% of the risk, the Fund continues to review each loan through its Credit Committee. The portfolio is monitored on a monthly basis and a risk rating system tracks changes in risk exposure. The small business program continues to maintain a 98% repayment rate.

Currently, the Bank Partner Program consists of 207 loans and tranching financing for auto loans. The following is a break out of the last quarter's activity:

	<u>April 2001</u>	<u>May 2001</u>	<u>June 2001</u>
Committed	\$675,000	\$480,000	\$256,000
Disbursed	\$550,000	\$937,000	\$303,900
Principal Outstanding	\$9,699,505	\$9,779,015	\$9,227,847

In addition to monitoring the existing loan portfolio, the Fund to review the financial condition of the regional Bank Partners, which are still servicing the regional portfolio of small business loans. We plan to have the regional portfolio pay down as the strategic position is focused on expanding DeltaLeasing in the regions. The latest report shows all bank partners in strong to stable condition.

Raising A Private Fund

The worldwide market for private equity has been abysmal for several months. Russia has been a blemished subset of the otherwise difficult global market.

Though the Fund's management remains committed to raising a private equity fund, a closing is not likely in calendar 2001.

Direct Investment Program

Funded Investments as of June 30, 2001

(Dollars in Millions)

	Committed Amount	Funded to Date	Amount Realized		Technical Assistance Grant Committed
			Principal	Interest, Fees & Gains	
<u>Satisfactory</u>					
1. Agribusiness	\$5.00	\$5.00	\$0.00	\$0.00	\$0.00
2. Bitech	3.00	3.00	0.00	0.00	0.00
3. Independent Network Television Holding	4.38	4.38	0.00	0.01	0.00
4. Interstom	0.08	0.08	0.00	0.00	0.01
5. ZAO Hotel Corporation (Nevsky 49)	9.52	9.41	0.88	0.00	0.07
6. Nizhny Newsprint Holdings	4.14	4.14	0.00	11.00 (a)	0.00
7. Polygraf	2.80	2.80	0.00	0.00	0.09
8. SPAR Moscow	2.00	1.85	0.00	0.00	0.00
9. SUN-Interbrew Ltd.	15.50	15.50	5.00	0.65	0.00
10. Time	0.28	0.20	0.19	0.07	0.00
11. TsUM	0.50	0.50	0.11	0.14	0.00
<u>Focus</u>					
12. Cybiko	1.00	1.00	0.00	0.00	0.00
13. FunTech	2.00	2.00	0.09	0.06	0.12
14. GVCO	0.90	0.90	0.06	0.10	0.07
15. Invacorp	10.00	10.00	0.00	0.00	0.10
16. Lomonosov	5.65	4.59	0.30	0.01	0.00
17. Phargo	2.60	2.60	0.00	0.00	0.02

Direct Investment Program

Reflows

	Committed Amount	Funded to Date	Amount Realized		Technical Assistance Grant Committed
			Principal	Interest, Fees & Gains	
18. Pentacom	5.00	5.00	0.00	0.00	0.00
19. Port.ru	1.00	1.00	0.00	0.00	0.17
20. Saint Springs	3.50	3.50	0.00	0.22	0.07
21. Segol RadioPAGE	3.30	3.30	0.00	0.00	0.17
22. StoryFirst	6.10	6.10	0.00	0.00	0.00
23. Vita Plus	5.00	5.00	0.00	0.00	0.20
<u>Work Out</u>					
24. Marine Resources	8.25	8.25	7.00 (b)	1.94 (c)	0.00
25. Russian Petroleum Investor, Inc.	1.95	1.95	0.10	0.01	0.21
<u>Exited</u>					
26. Dieselprom	3.66	3.66	0.07	0.00	0.00
27. FSS	0.25	0.21	0.00	0.00	0.02
28. GIANT	2.98	2.98	0.08	0.00	0.00
29. Grant	0.60	0.60	0.60	0.12	0.00
30. IBCS	5.00	5.00	0.00	0.00	0.00
31. Plyko LLC	5.83	5.83	2.33	1.58	0.25
32. USGH (Columbia Presbyterian-Moscow)	3.77	3.77	0.00	0.00	0.00
33. Zapsibinvest	<u>0.97</u>	<u>0.97</u>	<u>0.08</u>	<u>0.00</u>	<u>0.00</u>
Total	<u>\$126.51</u>	<u>\$125.07</u>	<u>\$16.89</u>	<u>\$15.91</u>	<u>\$1.57</u>

(a) As Nizhny Newsprint was fully written off (1997), all reflows from sales are accounted for as realized gains.

(b) Revolving line of credit of \$7 million fully repaid in June 2000. Does not reflect final \$5.3 million received 9/6-7/01.

(c) Represents interest and fees from former revolving line of credit. Does not reflect \$1.6 million received 8/15/01 representing liquidating distribution on equity investment (initial equity: \$1.25 million).

Direct Investment Program

Reflows

	<u>1995 - 1997 Fiscal Years</u>		<u>1998 Fiscal Year</u>		<u>1999 Fiscal Year</u>		<u>2000 Fiscal Year</u>		<u>2001 Fiscal YTD</u>		<u>Total Since Inception</u>	
	<u>Principal</u>	<u>Interest, Fees and Gain</u>	<u>Principal</u>	<u>Interest, Fees and Gain</u>	<u>Principal</u>	<u>Interest, Fees and Gain</u>	<u>Principal</u>	<u>Interest, Fees and Gain</u>	<u>Principal</u>	<u>Interest, Fees And Gain</u>	<u>Principal</u>	<u>Interest, Fees and Gain</u>
Dieselprom	\$72,000	-	-	-	-	-	-	-	-	-	\$72,000	-
FSS	-	-	-	\$3,250	-	-	-	-	-	-	-	\$3,250
FunTech	-	\$60,999	\$90,000	44,292	-	\$(41,688)	-	-	-	-	90,000	63,603
Giant	75,793	-	-	-	-	-	-	-	-	-	75,793	-
Grant	600,000	116,795	-	-	-	-	-	-	-	-	600,000	116,795
GVCO	-	6,000	55,213	36,265	-	59,703	-	-	-	-	55,213	101,968
INTH	-	2,547	-	7,685	-	-	-	-	-	-	-	10,232
Lomonosov	-	-	-	-	-	-	\$180,000	\$6,465	\$115,000	\$4,327	295,000	10,792
MRCI	-	493,104	-	391,728	-	591,593	7,000,000	365,794	-	94,672	7,000,000	1,936,891
Nevsky 49	-	-	-	-	-	-	-	-	880,000	-	880,000	-
Nizhny Newsprint	-	-	-	-	-	-	-	-	-	10,999,980	-	10,999,980
Plyko	-	7,344	-	88,080	2,325,000	1,483,691	2,325,000	-	-	-	2,325,000	1,579,115
RPI	100,000	6,792	-	-	-	-	-	-	-	-	100,000	6,792
Saint Springs	-	222,050	-	-	-	-	-	-	-	-	-	222,050
Segol RadioPAGE	-	-	-	1,404	-	-	-	1,917	-	-	-	3,321
StoryFirst	-	-	-	1,094	-	-	-	-	-	-	-	1,094
SUN-Interbrew	-	-	-	255,733	5,000,000	396,928	-	-	-	-	5,000,000	652,661
Time	169,000	33,598	20,000	31,719	-	-	-	-	-	-	189,000	65,317
TsUM	108,578	135,922	-	-	-	-	-	-	-	-	108,578	135,922
Zapsinvest	81,627	-	-	-	-	-	-	-	-	-	81,627	-
Total	\$1,206,998	\$1,085,151	\$165,213	\$861,250	\$7,325,000	\$2,490,227	\$7,180,000	\$374,176	\$995,000	\$11,098,979	\$16,872,211	\$15,909,783

Portfolio Review

Portfolio Company: Agribusiness Partners International L.P.

Status: *Satisfactory*

Investment Officer: *Vladimir Suleimanov*

The Fund's Investments (6/30/01)

Date of Initial Investment: 12/95

	Committed	Funded	Repaid	Carrying Value
Equity	\$ 1,250,000	\$ 1,250,000	\$ 0	\$ 1,250,000
Debt	\$ 3,750,000	\$ 3,750,000	\$ 0	\$ 3,750,000
Total	\$ 5,000,000	\$ 5,000,000	\$ 0	\$ 5,000,000

EQUITY

Shareholders	Contribution	Ownership Fully-Diluted
Archer Daniels Midland	\$6,250,000	25.0%
BV Capital Markets	\$5,625,000	22.5%
US West Pension Trust	\$4,250,000	17.0%
Others	\$3,884,800	15.5%
RHO Management	\$2,500,000	10.0%
The Fund	\$5,000,000	5.0%
America First	\$1,250,000	5.0%

Business Description

Agribusiness Partners International L.P. (API) is a privately managed direct investment fund established to invest in companies working in food processing and agribusiness-related industries in the CIS. API is capitalized with \$100M from private investors and is managed by CIS Management Company LLC, an affiliate of America First Investment Company, an Omaha-based fund manager. In addition to its \$5M investment commitment, the Fund has co-investment rights with API. Unlike the other limited partners, the Fund's participation is not included in the guarantee by OPIC.

In 1999 the Fund relinquished its board seat, considering that API is fully invested.

Current Status

API portfolio continues to improve from the standpoint of profitability and revenue growth. Rasko* continues to be a lead performer for API along with FoodMaster and Golden Rooster, which are showing increased profits for 1H01 compared to 1H00. Polygraph had a slight downturn due to a tax law change that has since been modified. The investment in KLP Soft Drinks looks likely to be written-off.

* Their regional glass packaging manufacturer.

Outlook

API still views Rasko as the best chance for a "home run" and continues to work closely with this company to help it grow and develop. Golden Rooster is currently negotiating with IFC for next round financing to double the breed facility capacity. The company is positioned as a prime candidate for strategic acquisition in the future. API's goal for Polygraph is to prepare for exit in 2003 by getting the physical production facility relocated and reorganized during 2002. Saint Springs recently received an inquiry from a possible strategic investor and hired an investment banker to assist in the negotiations.

API's managers believe the portfolio is making significant progress and will show a significant increase in profit for 2001 compared to 2000.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
Months	6	12
Revenue	\$64	\$1,147
Net Profit (Loss)	(\$4,669)	(\$8,201)
Total Assets	\$82,110	\$83,944
Net Worth	(\$11,132)	(\$6,463)
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Portfolio Review

Portfolio Company: Bitech Petroleum

Status: Satisfactory

Investment Officer: Geoffrey Moskowitz

The Fund's Investments (6/30/01) Date of Initial Investment: 06/97

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 3,000,000	\$ 3,000,000	\$ 0	\$ 2,182,200
Debt				
Total	\$ 3,000,000	\$ 3,000,000	\$ 0	\$ 2,182,200

* The Fund's shares are carried at C\$1.67 (US\$1.10) each, as per IFC's investment.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Public shareholders	\$7,952,333	35.6%
YPF	\$15,000,000	15.6%
Stena Group	\$19,973,000	12.9%
IFC	\$7,500,000	9.2%
Invesco	\$9,450,000	8.5%
Management	N/a	7.7%
Wind (Paus)	\$5,000,000	2.8%
Lidner Funds	\$3,020,000	2.7%
The Fund	\$3,000,000	2.7%
Framlington	\$2,250,000	2.3%

Business Description

Bitech Petroleum Corporation is the parent company of Bitech-Silur, an oil production company which owns and operates six licenses with proven reserves in fields in the Komi Republic, 200 kilometers south of the Arctic Circle. The parent company is listed on the Toronto Stock Exchange and is quoted in Frankfurt and Berlin. Its registered office is in Toronto, but operations are directed from London and its main base is in Pechora, Komi Republic.

Bitech-Silur is currently producing oil from wells in the South Kyrtael field, and started drilling in the Lekker field in early 1998. The oil is primarily exported via the Transneft pipeline or sold to domestic refineries to produce downstream product for export and local markets.

In June 1997 the Fund invested \$3M in a private placement to increase drilling capacity and position the Company to develop its production base, both in existing licenses and through participation in other projects with proven reserves.

Current Status

We are selling our stake in Bitech for \$2.0M to LUKOIL. All necessary documentation to sell our shares was prepared and sent out by the 31 August 2001 LUKOIL offer deadline.

Outlook

Sale completed.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00 *
Months	6	12
Revenue	\$26,821	\$52,473
Net Profit (Loss)	\$4,391	\$5,349
Total Assets	\$104,627	\$93,619
Net Worth	\$91,635	\$83,554
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* 2000 Net Profit reflects an extraordinary charge of \$6,851,317 for an out of court litigation settlement.

Portfolio Review

Portfolio Company: Independent Network Television Holding (INTH)

Status: Satisfactory

Investment Officer: Evelina Baxter

<u>The Fund's Investments (6/30/01)</u>		Date of Initial Investment: 11/95		
	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 4,377,690	\$ 4,377,690	\$ 0	\$ 4,377,690
Debt				
Total	\$ 4,377,690	\$ 4,377,690	\$ 0	\$ 4,377,690

* The last private placement was made in July 1998 at \$110 per share. However, due to the uncertain future of the advertising market the Fund carries the investment at its cost of \$60.53 per share.

Business Description

Independent Network Television Holding Ltd. (INTH) holds a 95% of the share capital in "ZAO Telekanal 27", a Russian joint stock company engaged in the development of a Russia-wide terrestrial commercial broadcast network. Telekanal 27 currently broadcasts under the name "TV3 Russia" in St. Petersburg and Moscow.

During 1999 the Company founded a 100% subsidiary "OOO Telestar Television Stations" which is holding the investments in television broadcasting companies in Chelyabinsk, Voronezh, Omsk and Saratov, which reach an estimated 23 million viewers.

By obtaining additional broadcast signals, expanding its audience base, upgrading existing transmission capability and developing a combination of high-quality, locally developed programming, Telekanal 27 aims to be a leading national Russian broadcast network.

Current Status

First half of 2001 consolidated revenues were 110% of the budget and 212% of prior year revenues. Operating loss was 30.7% less than budget, negative consolidated cash flow was 56.4% less than planned.

Both Moscow and St. Petersburg stations were ahead of planned revenues by 146% and 113%, respectively, and had positive cash flows. EBITDA margins for the stations were 25.3% and 39.7%.

Consolidated operating loss for the company was \$90,600 or 32% less than budget forecast.

The company is in the process of acquiring a Nizhny Novgorod station from SFC which will become its 9th station. INTH currently operates in 6 cities.

<u>EQUITY Shareholders</u>	<u>Contribution</u>	<u>Ownership Fully-Diluted</u>
New Investors	\$18,240,090	23.9%
Botts/Allen Investor Group	\$7,558,559	22.5%
ACT III Investors	\$6,801,444	17.8%
ACT III Russia	N/a	12.7%
The Fund	\$4,377,690	10.4%
INTH Management	N/a	5.1%
World Group Television	\$1,149,085	3.7%
Founders	N/a	3.6%
Other	N/a	0.3%

Outlook

The CEO is working on a 5 year plan including 3 scenarios: base, fund-raising with non-strategic investor and strategic partnership. An information package should be available in September.

New revisions to the Media Law do not affect the Company in its current state and have no implications with respect to the business plan.

Modern Times Group, a strategic investor, expressed interest in the company as it is currently evaluating the Russian media market with a view to acquiring media properties.

The 2002 budget will be presented in November.

Financial Information

(Dollars in '000s)

	<u>6/30/01</u> *	<u>12/31/00</u> **
<i>Months</i>	6	12
<u>Revenue</u>	\$2,078	\$2,521
<u>Net Profit (Loss)</u>	(\$659)	(\$2,590)
<u>Total Assets</u>	\$13,076	\$13,260
<u>Net Worth</u>	\$10,677	\$10,720
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* As presented in the June management report - 23.07.01

** US GAAP

Portfolio Review

Portfolio Company: Nevsky 49

Status: Satisfactory

Investment Officer: Paul Price

The Fund's Investments (6/30/01)

Date of Initial Investment: 07/98

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 8,047,188	\$ 8,047,188	\$ 0	\$ 8,047,188
Debt	\$ 1,470,000	\$ 1,360,000	\$ 880,000	\$ 480,000
Total	\$ 9,517,188	\$ 9,407,188	\$ 880,000	\$ 8,527,188

* Valued at cost. Debt commitment includes two short-term VAT loans of \$400K and \$190K.

Business Description

ZAO Hotel Corporation (Nevsky 49), a Russian joint stock company, was established to develop a 164 room first-class international hotel at 49 Nevsky Prospect. This will be the first privately owned and financed international quality hotel in St. Petersburg and will be managed by Radisson SAS (the "Operator").

The Fund initially committed \$7M for 48.4% equity as part of a total financing package of \$29M, EBRD agreeing to match equity with \$14.5M debt financing. Due to cost overruns and delays in closing EBRD's loan agreement, the project budget increased to \$33M. The Fund committed a further \$1M in equity of this \$4M increase, diluting its position to 43.4%.

Current Status

The hotel opened for business on July 22. The project was completed within the revised budget.

Due to the uncertainty of the opening date, the Operator did not start actively selling via the operators and agents until August 5th. Occupancy for the first two weeks was therefore low at 37%. Thereafter occupancy picked up and has averaged 51% to date.

EQUITY

Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$8,047,188	43.4%
Radisson SAS	\$4,599,693	24.8%
Moscow-America	\$3,022,345	16.3%
Ucgen	\$2,870,844	15.5%

Outlook

Strong occupancy (60%+) is projected for September. October and November were expected to be reasonable although the recent tragic event in the U.S. might change that. Thereafter the low season starts and business is not projected to pick up again until May. The Operator is working actively to pick up as much of the local corporate business as possible and is also working on a tourist concept of "White Days" with the other hotels and tour companies in St. Petersburg.

The delayed hotel opening caused Nevsky 49 to miss White Nights, which is the seasonal peak. The hotel opened with an operational reserve of \$300K. Based on the current business plan, this reserve, together with the planned net income, should be adequate to cover debt service requirements prior to the 2002 seasonal peak. Any shortfall that might occur thereafter will be covered by Radisson SAS under its \$3.5M debt service guarantee.

Repayments on the VAT loan will start in September when the final acceptance act for building is expected to be issued by the city property committee.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
Months	6	12
<u>Revenue</u>	\$0	\$0
<u>Net Profit (Loss)</u>	(\$386)	(\$392)
<u>Total Assets</u>	\$28,038	\$23,308
<u>Net Worth</u>	\$13,722	\$14,108
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

Portfolio Review

Portfolio Company: **Polygraph**

Status: *Satisfactory*

Investment Officer: *Vladimir Suleimanov*

The Fund's Investments (6/30/01)

Date of Initial Investment: 08/97

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 2,799,067	\$ 2,799,067	\$ 0	\$ 2,799,067
Debt				
Total	\$ 2,799,067	\$ 2,799,067	\$ 0	\$ 2,799,067

* Valued at cost

Business Description

JSC Polygrafoformlenie ("Polygraf" or "Company") is a leading producer of packaging materials. The Company is one of Russia's premier producers of printed folding cartons and labels, flexographic printed plain paper labels and high-relief printed folding cartons. It sells these products predominately to the confectionery, beverage, food, tobacco, dairy, medical and pharmaceutical industries. Located in St. Petersburg, Polygraf controls significant regional market share in each of its business segments and is well positioned to benefit from import substitution.

Polygraf was founded in 1879 and privatized in 1994. In July 1997 the Fund made a \$1.7M installment of its \$2.8M committed investment. The remainder was invested in November 1997. Late in 1998 Agribusiness invested \$5M, at a premium to the Fund's investment, to fund plant acquisition.

Current Status

After significant underperformance in 1Q01 the Company (and the whole market) shows signs of recovery. Sales nearly reached the budgeted level and profit margins are recovering, albeit slowly. The negative impact on the packaging market caused by the Russian customs' crackdown at the beginning of the year was huge, and an additional two or three quarters are required for the market to recover.

The most visible developments are coming in the tobacco segment, which is strategically important to the Company due to its volume and added value potential. In this segment, Polygraph's share increased from 0.5% to 2.5% in 2000 and now tobacco makes up 18% of total Company's output compared to 8% six months ago.

In July 2001 Polygraph was certified at ISO 9002.

Outlook

To attract potential strategic buyers, the Company needs to expand production and increase profitability. Polygraph has launched a new modern production site in August 2001 and by 2003 all major lines will be gradually moved there. The Company will then meet the requirements and standards of leading multi-nationals.

Polygraph is one of the recognized industry leaders and is well positioned for leading a consolidation play in order to reach the critical mass and gain operational synergy. A merger with another company, Polipack (Southern Russia) where the EBRD regional venture fund is a shareholder, is actively under discussion between the companies. Together these two companies are expected to have combined sales of close to \$100M in two years. The Fund is planning to have up to 17% in the consolidated structure.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Management	N/a	45.0%
The Fund	\$2,799,067	22.2%
API	\$5,000,000	22.2%
Individuals	N/a	10.6%

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00 *
Months	6	12
Revenue	\$18,396	\$33,622
Net Profit (Loss)	\$668	\$3,154
Total Assets	\$22,231	\$21,477
Net Worth	\$14,691	\$14,311
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

* Preliminary Results, not audited; Other income includes interest expense and currency loss.

Portfolio Review

Portfolio Company: **SPAR Moscow Holdings Ltd**

Status: *Satisfactory*

Investment Officer: *Paul Price*

The Fund's Investments (6/30/01)

Date of Initial Investment: 10/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 2,000,000	\$ 1,850,000	\$ 0	\$ 1,850,000
Debt				
Total	\$ 2,000,000	\$ 1,850,000	\$ 0	\$ 1,850,000

* Valued at cost

Business Description

SPAR Moscow Holdings (SPAR) was established in July 2000 by the Fund and a leading Moscow distributor to develop a chain of supermarkets in Moscow and Moscow Region under a franchise from SPAR, a world leading retail franchiser with over 17,000 stores in 31 countries.

In October 2000 the Fund acquired 75% of SPAR for \$2M. This is the first stage of a three-stage investment project with a total equity requirement of \$7 - 10M. Any commitment to second and third round funding by the Fund is dependant on success in the first phase, which consists of establishing the SPAR platform in Moscow and launching the first flagship store.

Current Status

The Company opened its first large supermarket on Varshavskoe Shosse in the south of Moscow on August 23. The store was completed on time and within budget.

Gross sales for the first week were \$140K, 30% ahead of plan. Average margin is running at 24%, ahead of the planned 20%. Daily customer traffic is between 2,000 and 3,000 and the average purchase is \$7.

The store has 14 cash points, the selling area is 1,800 meters with 200 meters of retail rental space. It has approximately 25,000 products on sale. The EUROSPAR format was adopted and targets weekly family shoppers.

The SPAR brand was leveraged well to attain better supply prices than the leading local food retail networks. The first store launch was well publicized by the media. Already the brand is commanding a strong market presence which bodes well for sub-franchise development.

Outlook

The company plans to increase the first store's sales by 50% over the next three months. Through refining the product range, improving customer service and in-store selling the average purchase is expected to increase from \$7 to \$10. By intensified local advertising and targeted promotions the store plans to increase average daily customers to 4,000. Targeted annual sales for the store are \$10M.

A task force from SPAR Baltics was brought in to work with two local chains consisting of ten stores that are planning to become sub-franchisees before the year-end. It is expected that 3 of these stores would be converted in 2001.

The Company is working on a number of store site options to develop its next EUROSPAR. It hopes to open the second owned store in January 2002. This is subject to a second round of equity financing. A memorandum will be circulated to the ICOM ahead of the September BoD meeting. The investment team is also working with the Company to attain a term debt from one of the multi-nationals.

EQUITY Shareholders	Contribution	Ownership* Fully-Diluted
The Fund	\$1,850,000	75.0%
Elliot & Co., Inc (Management)	N/a	25.0%

* Management of the company contributed SPAR franchise.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00 *
Months	6	3
Revenue	\$0	\$0
Net Profit (Loss)	(\$217)	(\$103)
Total Assets	\$1,541	\$410
Net Worth	\$1,531	\$398
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

* Operations started in 4Q00. Other assets include \$300K for transaction costs.

Portfolio Review

Portfolio Company: **SUN Interbrew Limited**

Status: *Satisfactory*

Investment Officer: *Paul Sofianos*

The Fund's Investments (6/30/01)

Date of Initial Investment: 08/95

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 10,500,000	\$ 10,500,000	\$ 0	\$ 7,316,400
Debt	\$ 5,000,000	\$ 5,000,000	\$ 5,000,000	\$ 0
Total	\$ 15,500,000	\$ 15,500,000	\$ 5,000,000	\$ 7,316,400

* Based on 6/15/99 cash closing of strategic deal between SUN and Interbrew. Share price was \$4.24 after the split.

Business Description

SUN-Interbrew was created in June 1999 following the merger of Sun Brewing (The Fund's original investment) with the CIS brewing businesses of Interbrew S.A., the privately owned Belgian brewing company.

With 2000 acquisition of Klin in Moscow and Rogan in Ukraine, the company now has eight breweries in Russia, and four in Ukraine. Total capacity is now approximately 8 million hectoliters in Russia and 4 million in Ukraine. Current capacity now represents 16% of the Russian market and 34% of the Ukrainian market.

Following the merger, senior Interbrew executives have been appointed to key management positions. The company is focusing on developing the quality and capacity of its operations in Russia and Ukraine.

Current Status

In 2Q01 total sales increased by 51% compared to 2Q00 due to volume growth, an improvement in sales mix and real growth in pricing. Additional sales were generated from organic growth in Russia and the sales revenue from the Rogan acquisition in Ukraine. The Company has focused on both the growth in net sales and the improvement in costs, which has resulted in improved gross margins. Gross margins have increased substantially on a quarter by quarter basis and by 7% from the Q1 2001.

The Company continues to seek improvements in its cost profile and is seeking strategic alliances with its suppliers in both Russia and Europe to ensure its cost profile remains competitive.

Sales, marketing and distribution expenses are increasing due to the investment in marketing core brands as well as the increased costs resulting from distributing the Klinskoye, Tolstiak, Sibirskaya Korona and Chernigivskie brands to new regions in their respective markets. This strategy is however delivering clear growth and brand equity in both Russia and Ukraine.

EQUITY Shareholders

	Contribution	Ownership Fully-Diluted
Interbrew	\$253,923,828	64.9%
SUN Trade International Ltd.	\$74,728,867	17.2%
Institutional Investors	\$58,486,401	16.3%
The Fund	\$10,500,000	1.5%

Outlook

Due to a strong summer 2Q01 performance, the Company was able to meet its 1H01 plan. With the increased capacity from Klin, supported by substantial marketing of core brands, 2001 continues to a successful year.

SUN-Interbrew is also expanding its brand portfolio into two key segments in which it has been largely absent: Russian-brand premium beer and cheap value beer in PET packs. Its recent launch of Stella Artois (in the premium sector) has met with considerable success.

Similarly, the Company's Ukraine business demonstrates encouraging sales and the benefits and synergies from the Rogan acquisition are being realized. Its purchase of additional brewing capacity is adding greatly to its growth potential.

Financial Information

(Dollars in `000s)

	6/30/01 *	12/31/00
Months	6	12
Revenue	\$151,295	\$275,825
Net Profit (Loss)	\$7,387	\$10,539
Total Assets	\$457,914	\$468,945
Net Worth	\$338,944	\$319,742
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* Exchange rate 1 Euro = \$0.8498 as of 06/30/01

Portfolio Review

Portfolio Company: Torgovy Dom TSUM (TSUM)

Status: Satisfactory

Investment Officer: Geoffrey Moskowitz

The Fund's Investments (6/30/01)		Date of Initial Investment: 12/96		
	Committed	Funded	Repaid	Carrying Value*
Equity	\$ 495,838	\$ 495,838	\$ 244,508	\$ 267,500
Debt				
Total	\$ 495,838	\$ 495,838	\$ 244,508	\$ 267,500

* Carrying value based on Moscow OTC last price on 6/26/01 at \$0.25 per share.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Other Individuals/Entities	\$10,114,500	30.2%
Societe Generale Placement	\$6,170,000	18.7%
Management and Employees	\$5,740,000	17.4%
Moscow Government	\$5,380,000	16.3%
Brunswick Millennium Fund	\$3,300,000	10.0%
Other Foreign Investors	\$2,050,000	6.2%
The Fund	\$387,260	1.2%

Business Description

OAO Torgovy Dom TsUM ("TsUM"), is Moscow's second largest department store and is one of Russia's leading retailers. Located in the very center of Moscow, TsUM has 9,300 square meters of prime retail space.

The Fund invested in December 1996 after the Company appointed a new General Director who initiated a dramatic turnaround in the business: boosting sales, improving margins, strengthening concession contracts and embarking on an ambitious \$22M renovation project.

The Fund initially purchased 1,370,000 shares at \$0.36 per share, and then sold 300,000 shares in July 1997 at \$0.82/share, generating \$245K from the transaction and realizing a \$136K gain.

Current Status

An offer by Darnel Group is still outstanding. Final agreement of documentation was delayed by Darnel's agent. Trading price on the market's fluctuating and is approaching Darnel's offer of \$0.35 per share.

Another buyer seems to be acquiring shares although has not made an offer to the Fund.

Outlook

The Fund will try to sell these shares for the best price possible. We are closely watching the market price and talking to all potential investors.

Financial Information

(Dollars in '000s)

	6/30/01*	12/31/00**
Months	6	12
Revenue	\$17,952	\$34,818
Net Profit (Loss)	\$1,206	\$2,583
Total Assets	N/a	\$22,087
Net Worth	N/a	\$14,838
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* Data are taken from internal managerial accounting system of TsUM

** FY00 is the first year for which TsUM has IAS audited financials.

Portfolio Review

Portfolio Company: Cybiko

Status: *Focus*

Investment Officer: *Vitaly Belik*

The Fund's Investments (6/30/01)

Date of Initial Investment: 12/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 1,000,000	\$ 1,000,000	\$ 0	\$ 1,000,000
Debt				
Total	\$ 1,000,000	\$ 1,000,000	\$ 0	\$ 1,000,000

* Valued at cost

Business Description

Cybiko is a technology company which has successfully integrated a number of core technologies to produce a commercially viable wireless handheld device. The Company's first product, Cybiko 1.0, combines wireless messaging, PDA features and a games platform, and is targeted at the Gen Y market.

The Cybiko 1.0 – which is about the size of a Walkman - already offers multi-task processing through a lean operating system running on a 16bit platform, combined with full duplex wireless communications, operating at 15kbps in the 900 MHz free frequency band.

Future generations of the Cybiko device will have a wider communication range and a touch screen, as well as compatibility with BlueTooth technology.

Current Status

The Company's main focus has been on closing the current finance round, which has been delayed until the end of September. The Company has offered existing shareholders a new rights issue to attract necessary funding for restructuring the business. Currently, the Company has commitments for app. \$8.8M.

The sales are still poor at around \$80K/month, but expected to pick up toward the end of the year. Launch of operations in new geographic markets (i.e. UK) might increase sales sooner.

The contract with UK distributor and manufacturing of units are on plan. First shipments of the new Cybiko units are expected at the beginning of October, while shipments of reworked Cybiko 1.0 to UK have been completed.

Restructuring plans and shift to technology-oriented business are still under consideration. The recent Board meeting has not adopted medium term plans and encouraged the management to further work out the plans. The next Board meeting is expected to decide on the strategy and adopt revised plans dependent on the results of the finance raising.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Common Stock Holders	N/a	54.5%
AOL	\$8,453,150	23.4%
Series B Preferred Investors	\$1,500,000	20.7%
The Fund	\$1,000,000	1.4%

Outlook

This finance round has a good chance of a successful closure and is expected to close soon. Nonetheless, time to closure significantly influences the Company's operations; further delays might cause significant damage to the business.

Overall the long-term outlook for the business is positive, albeit continuing economic difficulties worldwide may cause short and medium-term problems. Nonetheless, even currently existing commitments (\$8M) may provide enough cash for the Company to survive through the difficult times ahead.

Financial Information

(Dollars in '000s)

	6/30/01 *	12/31/00
<i>Months</i>	6	12
<u>Revenue</u>	(\$2,521)	\$20,108
<u>Net Profit (Loss)</u>	(\$9,988)	(\$15,510)
<u>Total Assets</u>	\$6,188	\$20,929
<u>Net Worth</u>	\$5,191	\$20,380
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

* Due to significant returns at the beginning of the year, the Company has negative revenues for the 1H2001.

Portfolio Review

Portfolio Company: **FunTech**

Status: *Focus*

Investment Officer: *Vitaly Belik*

The Fund's Investments (6/30/01)

Date of Initial Investment: 08/96

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 1,000,000	\$ 1,000,000	\$ 0	\$ 0
Debt	\$ 1,000,000	\$ 1,000,000	\$ 90,000	\$ 910,000
Total	\$ 2,000,000	\$ 2,000,000	\$ 90,000	\$ 910,000

* In 1998 the Fund took a 90% equity write-down. At 3Q99 the balance of equity was also written down. FunTech remains insolvent.

Business Description

FunTech is a Moscow-based company involved in Xerox copy equipment trading and services, including equipment repair. FunTech also operates seven full-service document centers.

The venture was established by two Russian entrepreneurs, Evgeny Kolikov and Anatoly Shlugleit, with further investment by the Fund and Xerox.

The Fund has invested a total of \$2M, including \$1M for the purchase of a 26% stake in the Company and a \$1M, 4-year loan at 14% annual interest. Xerox invested at the same price as the Fund and acquired a 4% stake. The Fund has two seats on FunTech's Board of Directors; Xerox holds one seat and the FUN Group holds the remaining two seats.

Current Status

The legal problems with the loan made by the Fund in 1998 remain unresolved and new ways for solving them are currently being explored, although we should be prepared for a complete write-off. Debt-to-equity conversion seems to be the only possible solution now and the Fund's lawyers are reviewing and evaluating the risks of getting the debt converted into equity.

Outlook

Currently, no estimation of the likelihood of overcoming legal problems exists as we are waiting for our lawyer's opinion. Otherwise, the business outlook remains positive and expects to generate cash to start repayment of debt. Our main focus is on solving the legal problems with the debt by November of this year, otherwise, we would not be able to collect the debt and would have to write it off.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
<i>Months</i>	6	12
Revenue	\$4,212	\$10,063
Net Profit (Loss)	N/a	\$31
Total Assets	N/a	N/a
Net Worth	N/a	N/a
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
FUN Group	N/a	70.0%
The Fund	\$1,000,000	26.0%
Rank Xerox	\$153,848	4.0%

Portfolio Review

Portfolio Company: Genesee-Volkhov Connection, Inc. (GVCO)

Status: *Focus*

Investment Officer: *Paul Price*

The Fund's Investments (6/30/01)

Date of Initial Investment: 04/97

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 300,000	\$ 300,000	\$ 0	\$ 0
Debt	\$ 600,000	\$ 600,000	\$ 55,213	\$ 450,000
Total	\$ 900,000	\$ 900,000	\$ 55,213	\$ 450,000

* The Fund's carrying value for both debt and equity was written down by 25% as of 3Q98 based on the company's generally negative trend. As of 3Q99 the equity value was fully written down as the trend continued.

Business Description

Genesee-Volkhov Connection, Inc. (GVCO) is a U.S. corporation formed in 1994. The Company is a product of a sister city program, which links Rochester, New York, and the Russian city of Novgorod. GVCO's founders sought to leverage their relationship with Eastman Kodak to build a network of Kodak minilabs. The Company owns and operates minilab processing centers, as well as several additional sales points in and around the cities of Novgorod, Tver, and Cheboksary.

In April 1997, the Fund acquired approximately 24% of GVCO for \$300K and extended a \$600K, five-year loan to the company at interest of 10%. Current equity holding is 21.82% subsequent to a new share offering. Investment proceeds have helped finance GVCO's expansion plans, including the acquisition of 16 new Noritsu minilabs through 1Q98.

Current Status

The Company has returned to profitability and has agreed to resume payments of its loan beginning 3Q01. The Company agreed to make two equal payments of \$10.5K in Q3 and Q4 keeping itself current on interest for the half-year. The loan will be rescheduled, including principal repayments, in early 2002 based on a full-year assessment of free cash flow.

Outlook

The Company and its sector were particularly hard hit by the crisis of 1998. The Company returned to profitability towards the end of 2000. Performance based incentives have been introduced for senior staff and are driving sales. Our efforts are focused on nursing the Company back to a position where it can service our debt in full.

Financial Information

(Dollars in '000s)

	6/30/01 *	12/31/00 **
<i>Months</i>	6	12
<u>Revenue</u>	\$238	\$637
<u>Net Profit (Loss)</u>	(\$4)	\$1
<u>Total Assets</u>	\$750	\$643
<u>Net Worth</u>	\$646	(\$29)
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* Consolidated GVCO and entrepreneurs

** The Balance sheet is that of the US entity and is not consolidated. The P&L is based on the Company's management accounts and includes the Russian entity and the entrepreneurs.

Portfolio Review

Portfolio Company: Invacorp

Status: Focus

Investment Officer: Vladimir Suleimanov

The Fund's Investments (6/30/01)

Date of Initial Investment: 07/97

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 10,000,156	\$ 10,000,156	\$ 0	\$ 10,000,156
Debt				
Total	\$ 10,000,156	\$ 10,000,156	\$ 0	\$ 10,000,156

* Valued at cost

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Company Management	N/a	30.2%
The Fund	\$10,000,156	22.8%
Other Individuals	N/a	19.1%
Sector Capital	\$4,965,955	18.2%
Absolut Bank	\$2,190,375	5.8%
Oriflame	\$2,000,000	3.9%

Business Description

Invacorp is one of Russia's leading pharmaceutical distributors. It ranks in the top three in terms of market share, regional presence and infrastructure. Invacorp supplies pharmaceutical products to pharmacies and regional wholesalers all over Russia through its branch network. The Company has a 7% market share and is well positioned to further solidify its position.

Invacorp was founded in 1992. In November 1996, Sector Capital made a \$5M equity investment into the Company. In 3Q97 the Fund and Oriflame, a European producer of health and beauty products, invested \$5M and \$2M, respectively, to support Invacorp's regional expansion. In May 1999 the Fund invested a further \$5M.

Current Status

In 1H01 Invacorp's sales were \$74.8M, showing growth of 14% on y-o-y basis, but still 13% below budget. In 1H01 the Company generated \$695K of net loss instead of the budgeted profit of \$300K. Based on 1H01 results the whole-year budget was also scaled down. There is a serious concern that Invacorp may start to lose its market share to competitors.

A very weak performance and management's inability to return the Company to profitability since 1998 has forced the Board to start restructuring Invacorp. British company SMC was engaged to provide operational audit and support in restructuring and strategic development. The first stage of the strategy calls for expense cuts, working capital reduction, sales and marketing improvement. The Board formed a Steering Group to provide leadership and strategic direction for the project and also agreed to replace the General Director and a number of other top executives. Two highly respected recruitment agencies have been engaged.

Outlook

The undertaken restructuring will likely cause the slow-down of sales' growth in the short term. Subsequent decrease in market share may continue. While Invacorp is in a restructuring mode and unable to make serious capital investments there is a threat that its main competitors may start building their retail chains (Western Europe model). Though such a model has not been successfully proven in Russia, Company owned pharmacies would have substantial advantages over the competition.

According to experts the main European pharm distributors will not come to Russia earlier than year end 2002. Invacorp should complete restructuring by that time.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
Months	6	12
Revenue	\$74,833	\$140,967
Net Profit (Loss)	(\$695)	\$441
Total Assets	\$79,574	\$76,681
Net Worth	\$23,556	\$24,250
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Portfolio Review

Portfolio Company: Lomonosov Porcelain Plant

Status: Focus

Investment Officer: Evelina Baxter

The Fund's Investments (6/30/01) Date of Initial Investment: 08/98

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 4,299,267	\$ 4,299,265	\$ 0	\$ 4,299,265
Debt	\$ 1,350,000	\$ 295,000	\$ 295,000	\$ 0
Total	\$ 5,649,267	\$ 4,594,265	\$ 295,000	\$ 4,299,265

* Valued at cost

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
KKR	\$4,300,160	29.8%
The Fund	\$4,299,265	29.8%
Stoomhamer	N/a	25.6%
Private individuals	N/a	14.8%
Max Asgari	N/a	0.0%
Others	N/a	0.0%

Business Description

Lomonosov Porcelain Factory, based in St. Petersburg, is the leading producer of porcelain tableware in Russia. The Lomonosov brand is well known throughout the country and associated with high quality porcelain. Lomonosov is one of the few brand names developed during the Soviet economy, which preserved the old tradition of Russian artistry.

The Fund co-invested with KKR and Max Asgari, former head of Asea Brown Bovari's Russian operations and CEO of SUN Brewing Ltd., to develop the under-utilized assets of Lomonosov's brand name and its production capabilities.

Current Status

Sales revenues 1H01 were up by 29% in comparison with 1H00, but constituted only 94% of the 2001 budget for the period. Operating profit is 2% off plan and operating margin fell from 24% last year to 12% for the same period this year. Progress was made in improving the quality of the product, i.e. whiteness and quality of the glaze. Deputy general manager Daniel Buatois is working closely with production staff to implement the changes to the production process and achieve consistently improved product by the end of the year.

Following the damage incurred by US distributors from the Ross Simons court settlement earlier this year they are now facing increased pressure from the shuttle traders (grey export) who are offering the product on US market at substantially lower prices. The Company has not succeeded in addressing this issue yet. Legitimate (white) export sales would be 30% lower than last year's with the exclusion of the Ross-Simons contract. The Fund has recommended remedies for this situation, which would avoid serious damage to local sales (80%). Barter was eliminated and new policies on handling of export quality products were also introduced.

Outlook

As of September 1, the Company had increased prices for the 1st grade product on the local market in an attempt to bridge the gap between local and export prices. Management is carefully monitoring the effect of the price increase on the local market before moving forward on full equalization of local and export prices.

First draft of the 5-year business plan was presented to the Board in July and management is working on its refinement and addressing the comments and recommendations. The business plan incorporates the engineering report of the porcelain industry specialist from Limoges. Investment requirements and options would be considered by the board during September-October.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
Months	6	12
Revenue	\$4,425	\$8,042
Net Profit (Loss)	\$288	\$1,798
Total Assets	\$22,471	\$21,955
Net Worth	\$21,374	\$21,087
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Portfolio Review

Portfolio Company: **Pentacom**

Status: *Focus*

Investment Officer: *Evelina Baxter*

The Fund's Investments (6/30/01)

Date of Initial Investment: 05/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 5,000,000	\$ 5,000,000	\$ 0	\$ 5,000,000
Debt				
Total	\$ 5,000,000	\$ 5,000,000	\$ 0	\$ 5,000,000

* Following Mint Capital's investment of \$3.5m in June 2001 the company's valuation was \$20m, up from original \$7m. However, we did not revalue our investment as Pentacom's success is highly dependent on further financing rounds.

Business Description

Pentacom is a cable and wireless cable company with licenses to operate in Moscow Region and parts of Moscow City. It was founded by the Fund in May 2000.

The Company started selling multi-channel pay TV services in December 2000. In time it also intends to provide voice-over-internet-protocol telephony, high speed internet access, video-on-demand and other value added services.

Pentacom is a wholly owned subsidiary of Russia Broadband Communications N.V., a Dutch holding company. The Fund currently controls RBC's Board with 3 out of 5 seats.

Current Status

Raising money for additional build-out has become a very high priority for Pentacom. The company is considering hiring a new financial advisor, Compere, which is experienced in broadband plays. Broadgate, the current financial advisor, has not been helpful in fund raising.

The Fund indicated to Pentacom that any additional funding from existing investors would only come as part of the next round, or only as a means for a critical advancement of the company. As such, we have pushed the company for 18-month projections for survival without any additional funding. This plan was provided and approved by the BoDs.

This is the worst case scenario, but in the current environment, it is a prudent approach.

Outlook

The Fund team met with Compere and has given the go-ahead to start working together once the existing financial advisor's contract is terminated.

Fund management has reviewed preliminary 18-month scaled back, no additional funding projections. The company will survive to the end of 2002 without additional funding.

EQUITY Shareholders	Contribution	Ownership* Fully-Diluted
The Fund	\$5,000,000	53.0%
Mint Capital	\$3,500,000	25.9%
Management	N/a	21.1%

* Management options are exercisable during a 2-year period.

Financial Information

(Dollars in '000s)

	6/30/01 *	12/31/00 **
Months	6	8
Revenue	\$0	\$0
Net Profit (Loss)	(\$1,860)	(\$1,926)
Total Assets	\$5,223	\$3,589
Net Worth	\$4,734	\$3,074
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

* Consolidated RBC (RBC + Pentacom + Anzani)

** Operations started in May 2000.

Portfolio Review

Portfolio Company: Phargo Management And Consulting Limited

Status: Focus

Investment Officer: Vadim Rulko

The Fund's Investments (6/30/01) Date of Initial Investment: 12/97

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 2,500,000	\$ 2,500,000	\$ 0	\$ 946,492
Debt	\$ 96,803	\$ 96,803	\$ 0	\$ 96,803
Total	\$ 2,596,803	\$ 2,596,803	\$ 0	\$ 1,043,295

* The investment was written down by \$625K at the end of fiscal year 1998 and written down by an additional \$930K at the end of 1999.

Business Description

Phargo has held the Alphagraphics franchise rights for Russia since 1988. In 1998 the Company expanded to operate three Alphagraphics stores in Moscow, one in St. Petersburg, and one Order entry kiosk in Novgorod.

Following the 1998 financial crisis the company transferred the Novgorod Kiosk to a Moscow City Center location, and has downsized the St. Petersburg operation.

There are five main revenue centers in the company: Printing (42%), Binding (16%), Electronic Printing (14%), Design (12%), Color Copying (8%). Rapid response printing is the strongest part of the business.

Current Status

2Q01 results were still below budget as the company continued to suffer from a lack of working capital. However, management still expects to achieve net profit of \$100K for the year.

The three main investors in Phargo, including the Fund, are considering a reorganization of the company to cut administrative costs, improve logistics and, ultimately, to position the company for attracting new capital or preparing it for sale. The plan envisages buying out the minority shareholders at, or around, the current NAV. Such reorganization would require financing of no more than \$100K from each of the three largest shareholders. Framlington is leading this initiative. The decision on this will have to be made by the end of the year.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
P. Phelan	\$1,800,000	32.3%
Framlington	\$2,757,000	22.9%
The Fund	\$2,500,000	21.0%
Carr-Harris family	\$500,000	16.4%
Private individuals	N/a	7.4%

Outlook

Plans to open new stores have been scaled down: one new store and one small site at Moscow State University are planned to be opened by the end of the year, which would bring the total number of outlets to five.

Acquisition of a full color commercial press has been postponed until Q102.

Phargo is now exploring opportunities for selling Alphagraphics franchise outside Moscow. One firm from Kazakhstan and one from Ukraine indicated preliminary interest.

When the reorganization is completed this year, the financial investors will strategize on exiting this company.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
<i>Months</i>	6	12
<u>Revenue</u>	\$1,141	\$2,770
<u>Net Profit (Loss)</u>	(\$65)	(\$390)
<u>Total Assets</u>	\$691	\$734
<u>Net Worth</u>	\$139	\$486
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

Portfolio Review

Portfolio Company: **Port.ru**

Status: *Focus*

Investment Officer: *Vitaly Belik*

The Fund's Investments (6/30/01)

Date of Initial Investment: 03/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 1,000,000	\$ 1,000,000	\$ 0	\$ 1,000,000
Debt				
Total	\$ 1,000,000	\$ 1,000,000	\$ 0	\$ 1,000,000

* Valued at cost

Business Description

Port.ru is an internet portal focused on the worldwide Russian-speaking community. Port has a number of major sub-sites: web-based mail site, Mail.ru; Consumer e-commerce sites Torg.ru (B2B and B2C) and Molotok (C2C); Travel and tour site, Travel.ru, content sites and others.

Port.ru initially raised \$1M seed finance in July 1999, and the Fund invested \$1M on 30 March 2000 as part of a \$2.5M round which valued the company at \$27.5M post-money. There was a further equity round of \$2.1M in 2000 based on the valuation of \$40M post-money. The Fund did not participate in this round.

Current Status

The Company performs according to its plans and currently has a burn rate of around \$150K/month. It is expected to reach revenues of around \$90K/month and be cash-flow breakeven by the end of this year.

To have some cushion, the Company decided to raise some capital and made a Rights Issue to the existing shareholders. The proposed common shares value the Company at \$6M on a fully-diluted basis. Currently, the Company has commitments of around \$1M and is expected to raise in total up to \$2M.

Negotiations on additional financing with Intel Capital, Eagle Ventures, and the Fund were put on hold while the Company handled the Rights Issue. However, the Company still expects to raise \$3M for capital investments and acquisitions program from these investors. The valuation is expected to be around \$7M (pre-money). The whole situation will be reviewed at the beginning of September to see if Eagle and Intel still want to consider investment in Port.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
NetBridge Shareholders	N/a	45.0%
Founders	N/a	23.9%
First round private investors	\$958,334	12.1%
New Investors (Feb 01)	\$1,000,000	6.0%
Employees	N/a	2.0%
Others	\$259,096	2.0%
Dr Pscharr (third round)	\$2,100,000	2.0%
Second round investors	\$1,450,000	1.9%
Interim round investors	\$37,800	1.7%
The Fund	\$1,000,000	1.3%
Advisors	N/a	1.3%

Outlook

Some international players appeared in Russia. Lycos started its Russian operations and opened its local portal Lycos.ru. While Lycos' Russian operations do not represent a significant threat to Port's position in the market, Lycos appearance is an indication of the attractiveness of the Russian market and intensifying competition. Thus, Port has to be prepared to the increasing competition and keep an eye on coming strategics.

After the Rights Issue, the Company is on the base-case scenario to reach profitability. Additional cash is required to have some reserves if it needs to fight the increasing competition and to ensure repayment of the Company's debt.

In any case, the primary focus will be on cost controls and the protection of existing market share.

Financial Information

(Dollars in `000s)

	6/30/01	12/31/00 *
Months	6	12
Revenue	N/a	\$1,482
Net Profit (Loss)	N/a	(\$4,175)
Total Assets	\$6,178	\$3,695
Net Worth	\$3,433	\$1,099
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

* Preliminary estimates. Audited Financial Statements will be available shortly.

Portfolio Review

Portfolio Company: Saint Springs Water Limited

Status: Focus

Investment Officer: Paul Sofianos

The Fund's Investments (6/30/01)

Date of Initial Investment: 12/95

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 3,500,000	\$ 3,500,000	\$ 0	\$ 6,268,750
Debt				
Total	\$ 3,500,000	\$ 3,500,000	\$ 0	\$ 6,268,750

* Based on sale of shares to third parties in early 1998 at \$4,250/share.

Business Description

Saint Springs Water Limited is engaged in the production and distribution of bottled water in Russia. The Company is a market leader in a small but rapidly growing segment of the country's beverage business. From its modern plant in Kostroma, Saint Springs bottles premium spring water products which it sells in Moscow, St. Petersburg and other leading Russian markets. The venture involves cooperation between a group of US. investors led by John King, President and CEO, and the Kostroma Eparchy of the Russian Orthodox Church.

In 1998 the company launched its Home Office Delivery (HOD) division, which serves both Moscow and regional urban centers.

Current Status

For the first time in its corporate history the Board of Saint Spring is not dominated by "friends and family". Currently the board consists of seven people, four of which represent the financial investors. This move, driven by the Fund, gives us the ability to guide the company in what appears to be a critical period in its development. There has been a clear message given to management to prepare the company for sale to a strategic investor with the capabilities to take them to the next level. Renaissance Capital has been selected by management (with Board approval) to act as its investment bank in this process. Thus far, Nestle (Perrier / Vittel) has emerged as an interested party and discussions on valuation and preliminary due diligence have begun. Nevertheless, the company continues to face considerable challenges from competition in both its small pack (PET) as well as its home-office delivery business. Although as a brand it remains one of leaders in the market (10% market share), high growth in both of these business units is stretching the company's resources (both production and employees) to the limit. Additionally, management's inability to capitalize on this growth has resulted in the strengthening of its primary competitors.

EQUITY Shareholders

	Contribution	Ownership Fully-Diluted
Original Investors	\$1,445,095	25.4%
The Fund	\$3,500,000	15.1%
Framlington	\$3,500,000	15.1%
John V. R. King	\$820,670	13.8%
Rurik Investments Ltd.	\$3,723,856	8.5%
Stoner Group Ltd.	\$2,285,556	5.2%
Eaton International	\$2,285,556	5.2%
Agribusiness Partners	\$2,258,508	5.1%
Renaissance Capital	N/a	3.5%
Sigma Capital Corporation	N/a	2.5%
Other New Investors	\$225,400	0.5%

Outlook

The company has several issues to address including possible tax obligations as well as political pressure in the region of its primary production facility. Additionally, there will be a need to raise debt capital in the near future in the amount of \$5M to support its expanding production needs. This is problematic on several fronts as we have little confidence in management's ability to grow the company profitably in the future.

Ongoing discussions with possible strategic buyers continue under the guidance of the board and our investment bankers.

Notwithstanding any adverse tax rulings, we expect company 2001 revenues to reach \$21.5M with a profit of \$580K.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
<i>Months</i>	6	12
<u>Revenue</u>	\$9,961	\$15,072
<u>Net Profit (Loss)</u>	(\$65)	(\$2,018)
<u>Total Assets</u>	N/a	\$21,941
<u>Net Worth</u>	N/a	\$20,745
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Portfolio Review

Portfolio Company: Segol RadioPAGE

Status: Focus

Investment Officer: Geoffrey Moskowitz

The Fund's Investments (6/30/01) Date of Initial Investment: 02/98

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 2,500,000	\$ 2,500,000	\$ 0	\$ 371,228
Debt	\$ 800,000	\$ 800,000	\$ 0	\$ 800,000
Total	\$ 3,300,000	\$ 3,300,000	\$ 0	\$ 1,171,228

* Debt is carried at cost. Equity is carried at the Fund's warrant price of 20 cents/share. No value is ascribed to warrants.

Business Description

Segol RadioPAGE, Inc. (SRP), a Seattle based company, is a developer and operator of wireless messaging systems in Moscow, Tula, Minsk and Tashkent. SRP has 33,000 subscribers, of which 23,000 are in Moscow, where it is the largest operator with approximately 20% of the market.

The Fund increased its ownership from 15% to 67% after providing a stabilization credit of \$800K, with warrants, in 4Q99. Following disbursement of the credit the company's performance started to improve. Costs were cut, and initial diversification plans were implemented. The company now offers call-center services, as well as paging.

In December 2000 the Fund created the post of President of Russian Operations, responsible for managing the core Moscow businesses, and appointed a new Acting CEO of the company, focused on corporate activities including debt restructuring and merging activities.

Current Status

The company is being prepared for sale. The main objectives are to rid our portfolio of this time-consuming, unpromising, and high-liability company. As such, we have identified VimpleSistema as the buyer who can best help us achieve these goals.

A term sheet and other agreements are being negotiated to effect the sale. This sale would be an effective loss for the Fund, however, the proceeds will go to a special account allowing us to invest 110% of that amount into other VimpleSistema telecommunication and technology projects. We also have the option of withdrawing 100% in cash, though the amount will be less than \$250K.

EQUITY Shareholders	Contribution	Ownership* Fully-Diluted
The Fund	\$2,500,000	59.8%
Mosenergo	\$115,000	7.9%
Childs, Lawrence R.	\$182,405	7.4%
Loges Clayton and Family	\$176,422	7.1%
Individual Investors	\$681,473	4.6%
Champion Technology Holdings Ltd.	\$1,200,000	4.5%
Other Founders	N/a	3.3%
Management & Employees	\$68,670	3.1%
Other Institutional Investors	\$212,126	2.3%

* Assuming full accrual of all interest due on the Fund's Convertible Loan, the Fund's ownership will increase to 67%. There is a Voting Agreement among major shareholders which currently gives the Fund voting control over 67%.

Outlook

The sale should close by the end of the year.

Financial Information

(Dollars in `000s)

	6/30/01	12/31/00 *
Months	6	12
Revenue	\$1,624	\$4,383
Net Profit (Loss)	(\$50)	\$81
Total Assets	N/a	\$2,453
Net Worth	N/a	\$426
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

* Preliminary estimates; not final figures

Portfolio Review

Portfolio Company: **StoryFirst Communications**

Status: *Focus*

Investment Officer: *Evelina Baxter*

The Fund's Investments (6/30/01)

Date of Initial Investment: 09/96

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 6,098,395	\$ 6,098,395	\$ 0	\$ 3,300,074
Debt				
Total	\$ 6,098,395	\$ 6,098,395	\$ 0	\$ 3,300,074

* At 3Q98 the Fund's carrying value was written down to \$2.3M. The current carrying value is based on a share price of \$426.11, the valuation used in the August 1999 new round of financing of \$10M, in which the Fund invested \$1M.

Business Description

StoryFirst Communications, Inc. (SFC) is a US corporation, founded in 1989, to build radio and television broadcasting networks in Central and Eastern Europe. StoryFirst's principal assets are ownership interests in Russian television, radio broadcasting joint ventures, and its STS TV network.

StoryFirst currently has eight owned and operated stations, and over 300 affiliates. StoryFirst's joint ventures in Russia generate revenue from the sale of advertising time on the Company's co-owned television network, television stations and radio stations.

Current Status

Gross sales for 1H01 increased by 123% against last year and exceeded the budget by 36% or by \$1.3M. Audience share was 6.2% as opposed to 5.3% this time last year. However, the Company is short of its operating plan in terms of the audience share, which was expected to average 6.9% throughout 2Q01.

The Company is continuing efforts to increase its distribution with the addition of 5 new cities. Station group sales were 24% above budget, with operating expenses 16% below plan.

Mostelecom debt is being steadily repaid, improving the company's cash flow performance in comparison with the budget.

Morgan Stanley (30% shareholder) is willing to sell its stake. NewsCorp and Modern Times Group (Sweden) have expressed interest in the stake.

We are considering participation at a level of \$5M subject to a greater understanding of the new law on foreign ownership.

Outlook

Company's management is currently re-forecasting total sales for 2001 at \$20M from \$18.3M, which was set at the Board meeting in March.

The Company plans to be EBITDA positive in 2001 for the first time in its history.

The Company is planning to upgrade its transmitter/reception unit over 2001-2003 and is currently in the planning process.

STS Regions alliance with Alfa Bank aimed at developing regional start-up stations is expected to be negotiated by the end of the year.

New Media Law was approved by the President, posing significant risk that SFC would have to reduce its holdings in the Russian operating subsidiaries to below 50%. The Company is actively lobbying the government for clarification and "grandfathering" from the new legal requirement.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Morgan Stanley Asset Management	\$43,405,000	28.5%
Current Directors	\$899,100	13.9%
Other Investors and Employees	\$2,603,900	13.2%
Capital Research	\$25,000,690	12.8%
News Corp/Logovaz	\$7,500,350	8.6%
Universal Television	\$7,507,500	5.6%
The Fund	\$6,098,395	4.6%
Mercury Asset Management	\$8,008,000	4.1%
Sector Capital	\$6,999,850	3.6%
Northwood Ventures	\$1,900,120	2.0%
Alliance Scan East	\$3,000,140	1.5%

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00 *
Months	6	12
Revenue	\$13,170	\$15,377
Net Profit (Loss)	N/a	(\$7,682)
Total Assets	N/a	\$22,682
Net Worth	N/a	\$4,870
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

* In accordance with US GAAP

Portfolio Review

Portfolio Company: **Vita Plus**

Status: *Focus*

Investment Officer: *Vladimir Suleimanov*

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Dispenser A.G. (Management)	N/a	61.6%
The Fund	\$5,000,048	38.4%

The Fund's Investments (6/30/01) Date of Initial Investment: 07/98

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 5,000,048	\$ 5,000,048	\$ 0	\$ 574,000
Debt				
Total	\$ 5,000,048	\$ 5,000,048	\$ 0	\$ 574,000

* At the end of 1Q00 carrying value was written down to the Company's Net Book Value as the company continued to experience operating losses.

Business Description

Before the crisis, the Company was one of the leading Russian pharmaceutical distributors based market coverage and product range. Following the crisis, the Company lost its ranking as a national distributor and is now considered a regional distributor operating mainly in Moscow and the Moscow region. The Company has a developed logistics infrastructure including warehouses, transport and information system.

Current Status

Vita Plus is continuing to generate losses which reached \$600K by the end of 2Q01. The Company recently raised an additional \$800K of credit from a Russian bank to increase its bank debt to \$3M.

The current summer monthly sales are about \$1.2M. Sales are expected to grow to \$2.5M in autumn and to \$3.5M in the peak winter season, which would allow Vita Plus to reach break even at the sales level of about \$2.5M per month.

Outlook

As the situation has not changed there is no confidence that the current management is capable of delivering results. Negotiation with Invacorp about possible merger was broken off by Vita Plus six months ago.

The Company is looking for strategic partnership with its bank, which might be interested in extending into wholesale, pharmaceutical distribution and providing additional equity investment to Vita Plus. According to the bank they also might be interested in either buying out the Fund's stake or continuing negotiations with Invacorp.

The Fund is also evaluating an opportunity to replace existing management and then to force merger/sale with one of the industry leaders, or re-orient business towards a logistic trading activity.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
<i>Months</i>	6	12
<u>Revenue</u>	\$8,460	\$15,668
<u>Net Profit (Loss)</u>	(\$601)	(\$1,598)
<u>Total Assets</u>	\$5,984	\$7,945
<u>Net Worth</u>	(\$5,332)	\$251
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

Portfolio Review

Portfolio Company: Marine Resources (MRCI)

Status: *Work out*

Investment Officer: *Lori Singer*

The Fund's Investments (6/30/01)

Date of Initial Investment: 03/96

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 1,250,000	\$ 1,250,000	\$ 0	\$ 750,000
Debt	\$ 7,000,000	\$ 7,000,000	\$ 7,000,000	\$ 0
Total	\$ 8,250,000	\$ 8,250,000	\$ 7,000,000	\$ 750,000

* Initial liquidation distribution for \$1.6M was received on August 15, 2001. Results in realized gain of \$851,609 given written down.

Business Description

Established in 1976, Marine Resources Company International was reportedly the oldest Russian-American joint venture in operation and one of the largest suppliers of Russian seafood products to the North America and Japanese markets. The Company was involved in the conversion and refitting of Russian fishing vessels, the sale of marine equipment, and the management of Russian fishing vessels.

MRCI had a strong management team with over one hundred years of combined experience in converting and operating fishing vessels, marketing seafood products and doing business in Russia.

In February 1996, the Fund invested \$1.25M in equity and provided the company with a \$5M Line of Credit which was increased to \$7M in April 1997. This Line of Credit was terminated in June, 2000.

Current Status

Hexagon (Management) and TMR (the Fund) voted to dissolve and liquidate MRCI on April 5th. Pacific Fish Company did not attend the meeting, as their ownership dispute is still ongoing.

Prior to the meeting TMR and Hexagon had signed an agreement for liquidation distributions to be paid into escrow so as to ensure that TMR is guaranteed a prior return of its initial \$1.25M investment in MRCI.

The initial \$1.6M distribution was received on August 15, 2001.

Outlook

Final liquidation distributions will be paid out in September and arrangements to be made for post-liquidation period. The final audit report is expected in mid-October.

Unable to estimate additional liquidation proceeds at this time given lease buy out for Seattle office space remains unsettled and reserve funds are needed for potential legal costs.

Financial Information

(Dollars in '000s)

	6/30/01	12/31/00
<i>Months</i>	6	12
<u>Revenue</u>	\$34,530	\$56,035
<u>Net Profit (Loss)</u>	\$2,124	\$2,388
<u>Total Assets</u>	\$14,289	\$24,691
<u>Net Worth</u>	\$11,853	\$10,153
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Pacific Fish Company	\$4,167,000	50.0%
Hexagon (Management Group)	\$2,917,000	35.0%
The Fund	\$1,250,000	15.0%

Financial Services Investments

Delta Financial Group

As of June 30, 2001

	<u>DeltaLeasing</u>	<u>DeltaLeasing Far East</u>	<u>Delta AutoLease</u>	<u>DeltaCredit</u>	<u>DeltaBank</u>	<u>Total</u>
Equity Investment						
Disbursed	\$629,613	-	\$199,662	\$12,518,355	\$8,899,165	\$22,246,795
Loans from Fund to affiliates						
Disbursed	8,798,030	1,197,460	142,875	11,965,446	11,550,000	33,653,811
Reflows						
Principal	2,375,240	164,660	38,251	500,000	-	3,078,151
Interest	478,425	-	616	-	-	479,041
Loans Outstanding	6,422,790	1,032,800	104,624	11,465,446	11,550,000	30,575,660
Total Fund outstanding investment at cost basis	\$7,052,403	\$1,032,800	\$304,286	\$23,983,801	\$20,449,165	\$52,822,455

Financial Services Investments

Small Business Program Disbursements and Outstanding Balances

As of June 30, 2001

	<u>Small Business (a)</u>	<u>Microenterprise</u>	<u>Auto Lending</u>	<u>Mortgage Lending (b)</u>	<u>Total</u>
Disbursed	\$43,389,854	\$1,001,956	\$9,680,000	\$185,236	\$54,257,046
Reflows					
Principal	35,810,736	691,396	5,935,559	62,579	42,500,270
Interest (c)	2,601,756	90,337	626,352	297,548	3,615,993
Write-offs	2,397,940	-	8,327	-	2,406,267
Loans Outstanding	5,181,178	310,560	3,736,114	122,657	9,350,509

(a) Includes community lending, trade finance and direct loans.

(b) Mortgage loan portfolio of the Fund was transferred to DC Mortgage effective January 1, 2001. The transfer price was \$5,065,446 representing principal and accrued interest as of 12/31/00 of \$5,023,938 and \$41,508, respectively. The remaining amounts in the table classified as Mortgage Lending represent two banks, Petrovsky and Industry & Construction Bank, St. Petersburg, which were not included in the assignment.

(c) As of April 1, 2001, interest received by the Fund on small business, micro and auto lending programs, net of \$3,500 per month, is then paid to DeltaBank for administering the loan portfolios. The amounts reflected in the table are gross amounts received by the Fund. As of June 30, 2001, the Fund has paid DeltaBank a total of \$160,528 in such fees.

Financial Services Investments

Small Business Credit Performance

As of June 30, 2001

	Disbursed		Repaid %	Good %	Pass/Watch %	EM %	Substandard %	Doubtful %	Write off %
	Number	Amount							
<u>Small Business Program</u>									
St. Petersburg									
Baltiskiy	51	\$4,336,535	63	14	2	-	-	-	21
Bank St. Petersburg	1	100,000	-	-	-	-	-	-	100
St. Petersburg Bank for R&D	9	685,000	67	22	11	-	-	-	-
Inkasbank	11	882,000	55	18	9	18	-	-	-
Bank of Moscow	1	100,000	-	100	-	-	-	-	-
Dalnevostochny	2	110,000	50	50	-	-	-	-	-
Moscow									
Business Development	4	423,173	100	-	-	-	-	-	-
Menatep	12	1,157,000	42	-	-	-	-	-	58
Credo	3	207,000	-	-	-	-	-	-	100
Mosbusiness (Troitskoye)	1	100,000	100	-	-	-	-	-	-
Mosbusiness (Pushkinskoye)	2	148,200	100	-	-	-	-	-	-
Bank of Moscow (Kolomna)	4	271,700	50	-	-	-	-	50	-
Probusiness	88	8,198,835	61	17	16	-	1	-	4
Bank of Moscow (Moscow)	10	1,000,000	80	20	-	-	-	-	-
Bank of Moscow (MBB/Troitskoye loans)	8	810,388	25	-	13	-	-	62	-
Guta Bank	2	109,500	50	50	-	-	-	-	-
MDM Bank (Trade Finance Program)	15	3,050,000	100	-	-	-	-	-	-
First Mutual Credit	15	993,000	53	47	-	-	-	-	-
International Industrial Bank	29	1,684,000	61	17	17	-	-	-	-

Financial Services Investments

Small Business Credit Performance

As of June 30, 2001

	Disbursed		<u>Repaid</u> %	<u>Good</u> %	<u>Pass/Watch</u> %	<u>EM</u> %	<u>Substandard</u> %	<u>Doubtful</u> %	<u>Write off</u> %
	<u>Number</u>	<u>Amount</u>							
<u>Small Business Program (continued)</u>									
Russian Far East									
Regio (Khabarovsk)	18	888,250	72	-	-	-	-	6	22
Dalryb (Vladivostok)	18	1,112,000	94	-	-	-	-	-	6
Dalnevostochny (Vladivostok)	24	1,260,278	75	25	-	-	-	-	-
Dalnevostochny (Yuzhno-Sakhalinsk)	16	484,900	56	13	19	6	-	-	6
Primsotsbank	23	1,197,000	35	22	43	-	-	-	-
Primsotsbank (Dalrybank loans)	13	1,057,880	62	-	8	15	-	-	15
Bank of Moscow (Khabarovsk)	7	270,000	100	-	-	-	-	-	-
Kostroma/Yaroslavl									
First Mutual Credit (SBS/Kostroma loans)	3	58,000	100	-	-	-	-	-	-
SBS Agro	2	15,000	100	-	-	-	-	-	-
Yarsotsbank	7	679,000	100	-	-	-	-	-	-
Rostov/Krasnodar/Novorossiisk									
Inkom (Krasnodar)	1	70,000	-	-	-	-	-	-	100
Promstroy (Rostov)	3	264,500	33	-	-	-	-	-	67
DonInvest (Rostov)	39	2,189,106	74	-	3	-	5	3	15
Krasnodar (Krasnodar)	3	101,000	67	-	-	-	-	-	33
Kuban (Krasnodar)	5	347,500	80	-	-	-	-	-	20
Mosbusiness (Krasnodar)	2	130,000	100	-	-	-	-	-	-
Center-Invest (Rostov)	19	749,900	74	11	5	-	10	-	-
Guta (Rostov)	2	50,000	-	100	-	-	-	-	-

Financial Services Investments

Small Business Credit Performance

As of June 30, 2001

	Disbursed		<u>Repaid</u> %	<u>Good</u> %	<u>Pass/Watch</u> %	<u>EM</u> %	<u>Substandard</u> %	<u>Doubtful</u> %	<u>Write off</u> %
	<u>Number</u>	<u>Amount</u>							
<u>Small Business Program (continued)</u>									
Bank of Moscow (MBB/Krasnodar bank loans)	5	326,767	40	-	-	20	-	-	40
Bank of Moscow (MBB/Novorossiisk loans)	1	150,000	100	-	-	-	-	-	-
Pervomaisky (Krasnodar bank loans)	7	443,000	100	-	-	-	-	-	-
Pervomaisky (Kuban)	1	100,000	-	100	-	-	-	-	-
Pervomaisky (Krasnodar)	4	250,000	25	-	75	-	-	-	-
First Mutual Credit (Krasnodar bank loans)	3	177,000	100	-	-	-	-	-	-
Ekaterinburg									
Severnaya Kazna	53	3,165,150	92	4	-	-	-	-	4
UralVneshtorg	9	1,033,000	78	22	-	-	-	-	-
Guta	5	180,000	80	20	-	-	-	-	-
<u>Community Lending Program</u>									
Kostroma	17	510,400	100	-	-	-	-	-	-
Petropavlovsk	29	1,338,892	76	21	3	-	-	-	-
<u>Direct/Other</u>									
NrsbiF	4	275,000	100	-	-	-	-	-	-
Vostok Les	1	150,000	-	-	-	-	-	-	100
Total Small Business Portfolio	<u>612</u>	<u>43,389,854</u>	68%	12%	8%	1%	1%	2%	8%

Financial Services Investments

Status of Small Business Loan Loss Reserve

	<u>As of March 31, 2001</u>		<u>As of June 30, 2001</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Prior Reserve		\$2,514,804 (12/31/00)		\$2,564,886 (3/31/01)
Loans Charged Off	2	(46,317)	2	(115,121)
Recoveries		11,599		-
Additions to Reserve		<u>84,800</u>		<u>162,165</u>
Calculated Reserve		\$2,564,886 (3/31/01)		\$2,611,930 (6/30/01)
Reserve as a % of loans outstanding*		25%		28%

* Reserve is exceptionally high given we had reserved on the mortgage loan portfolio, which, as of January 1, 2001, was assigned to DC Mortgage. Reserve will be evaluated at year end.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
<u>Direct Investments</u>				
Frank's Siberian Supreme	\$14,858	\$14,858	The grant was used to implement an MIS and inventory monitoring, sales tracking and financial reporting system.	Completed.
Frank's Siberian Supreme II	8,200	8,200	Secondment by PriceWaterhouseCoopers staff member.	Completed.
FunTech	75,927	75,927	The grant was used to acquire and implement management information and financial reporting systems.	Completed.
FunTech II	17,000	13,915	This grant was used to provide training to FunTech employees in the areas of sales and special operating procedures for certain Xerox equipment and product knowledge as well as customer service.	Completed
FunTech III	27,000	32,112	The grant was used to upgrade its accounting procedures and develop a model for GAAP restatement.	Completed.
GVCO	70,338	70,338	The grant was used to purchase and install an MIS.	Completed.
Interstom	24,800	14,185	The grant was used for Dr. Todd Nicol's consultancy services at the clinic. In addition to the \$15,000 grant, the Fund compensates Dr. Nicol for out-of-pocket expenses, estimated at \$9,800.	Completed.
Invacorp	100,000	100,000	The grant was used by Invacorp to upgrade its MIS.	Completed.
Junior Achievement International	34,614	34,614	The grant was used to provide an intensive business skills training program to entry and mid-level management of Plyko, Saint Springs, Kostroma Savings Bank and Kostroma Regional Property Fund. The program was developed and implemented by JAI.	Completed.
Nevsky 49	69,102	69,102	The grant was used to engage a Project Coordinator, Marc Bashaw, for six months or until EBRD disbursed under the loan agreement, if that occurred later. Monthly fee of \$5,000 plus expenses.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Plyko	248,556	248,556	The grant was used to install and implement an MIS, retain an engineering consultant to assist in the installation of a new production line and recommend operational improvements.	Completed. Original commitment amount was \$250,000.
Polygraf	50,000	50,000	The grant was used to purchase and implement a U.S. GAAP MIS.	Completed.
Russian Petroleum Investor, Inc.	150,000	150,000	The grant was used to train Russian editorial and research staff.	Completed.
Russian Petroleum Investor, Inc. II	62,500	62,500	The grant was used to cover 50% of the costs required for the publication of a special edition assessing the implications of Russia elections for foreign investors.	Completed.
Saint Springs	41,217	41,217	The grant was used to cover the cost of training Saint Springs' employees, provided by the Center of Business Skills Development which was founded with the help of a USAID grant.	Completed.
Saint Springs II	25,000	9,676	The grant was used to cover 50% of costs to research regional distribution alternatives.	Completed.
Segol RadioPAGE	43,625	43,625	The grant was used to upgrade MIS to a Y2K updated version of existing Platinum software.	Completed.
Segol RadioPAGE II	5,240	5,240	The grant was used to contribute pagers for emergency services after the Ostankino TV Tower fire.	Completed.
Segol RadioPAGE III	5,400	5,400	The grant was used for Finance Director recruitment.	Completed.
Segol RadioPAGE IV	18,000	18,000	The grant was used to cover the cost of accounting software support from Platinum™.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Segol RadioPAGE V	80,000	77,200	The grant was used to cover the cost of acting management (secondment of Regina von Fleming as President of the Company) and 100% of related expenditures, not to exceed \$80K until June 30, 2001. Support given to assist Company to perform a merger with another business in the paging sector.	Completed.
Segol RadioPAGE VI	6,102	6,102	The grant was used to cover 100% of the recruitment cost for Financial Director, Nadezhda Rodina.	Completed.
Segol RadioPAGE VII	7,500	7,500	This grant was used to pay costs related to the Uzbeki entity, including payroll, independent valuation of operations, search firm and local lawyer.	Completed.
TIME	2,462	2,462	The grant was used to purchase a computer for implementation of a new accounting system.	Completed.
Vita Plus	200,000	-	The grant will be used to upgrade Vita Plus' MIS.	System specification defined and supply offers under review.
Accounting Training for Portfolio Companies	23,000	13,309	The grant was used to provide GAAP accounting training to the senior staff of the Fund's portfolio companies through two 3-day courses developed in conjunction with Arthur Andersen to address problems the crisis has presented.	Completed.
Crisis Support: Secondments	44,758	50,649	Temporary accounting staff provided to Saint Springs (\$24,758) and Alphagraphics (\$20,000).	Completed.
Crisis Guide	205,000	200,020	Development and launch of Small Business Crisis Guide.	Completed.
Distribution of Fast Moving Consumer Goods	35,000	35,000	This grant was used to complete a study of opportunities in FMCG distribution to provide the Fund with a market research analysis.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Distribution of Pharmaceutical Goods	25,000	25,000	This grant was used to complete a study of opportunities and changing trends in the industry, to assist the two pharmaceutical companies in the Fund's portfolio as well as numerous companies within the small business bank partner program, with market strategy formation.	Completed.
Tax Efficient Structures	<u>65,000</u>	<u>5,160</u>	The grant is being used to engage independent tax consultants to review existing businesses and recommend transparent tax efficient structures for Polygraf (\$35,000) and Segol RadioPAGE (\$30,000).	Ongoing.
Subtotal Direct Investments	<u>1,785,199</u>	<u>1,489,867</u>		
<u>Financial Services</u>				
Phase I	150,000	155,347	The grant was used to expand activity in the Financial Services Sector, specifically with regard to expanding the range of products offered through the Bank Partner Program and development of leasing, mortgage and other customer credit activities.	Completed 11/30/99.
Phase II	470,000	678,930	Phase II commencement of DeltaLease and acquisition of DRB. Addendum to be completed	Completed 5/31/00.
Phase III	<u>650,000</u>	<u>856,831</u>	Phase III management services to DeltaBank (started 6/1/00). Addendum to be completed.	Ongoing.
Subtotal Financial Services	<u>1,270,000</u>	<u>1,691,108</u>		
<u>Private Fund</u>				
Tucker Anthony	<u>51,498</u>	<u>51,498</u>	Monthly retainer fee and expenses for Delta Russia Fund. (Retainer is to be applied against success fee).	Ongoing.
Subtotal Private Fund	<u>51,498</u>	<u>51,498</u>		
<u>Small Business</u>				
Averon-MT	10,000	10,167	The grant was used to upgrade computers. (SBP Entrepreneur of the Year - 1999).	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Bank Partner Program Management Conference	50,920	48,062	Conference on issues of development and expansion of the range of financial services offered by Russian banks. Main purpose was to educate bank partner management in innovative lending products in the Russia market such as mortgage lending, auto lending and leasing.	Completed.
Fartop	10,000	10,000	The grant was used to purchase and make software upgrades and to provide technical training in graphics production. (SBP Entrepreneur of the Year - 1997).	Completed.
Kanadsky Khleb	10,025	10,025	The grant was used to upgrade its MIS (SBP Entrepreneur of the Year - 1998).	Completed.
PriceWaterhouseCoopers	452,022	334,798	The grant was used to present 13 sessions of Credit Analysis for Small Businesses to partner bank professionals. Also includes training instructors to teach the course, travel and conference facilities. Additional session for Micro Credit Program.	Completed. Remaining grant being used in Micro Credit.
Primsotsbank	<u>65,000</u>	<u>52,100</u>	The grant is being used to provide IAS audits for 1998 and 1999 as well as restatement of Russian financials through June 30, 2000. Supports development of regional banking institutions in RFE, preparing the bank for consideration of an equity investment by a western partner.	Ongoing.
Subtotal Small Business	<u>597,967</u>	<u>465,152</u>		
<u>Mortgage</u>				
CMG	49,647	49,930	The grant was used to develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
CMG II	50,391	50,684	The grant was used for August 2000 public awareness campaign.	Completed.
Nicholai Chitov	21,500	21,518	The grant was used for consulting services on development of the financial operation for mortgage originations and servicing.	Completed.
Nicholai Chitov II	12,173	12,173	The grant was used for consulting services on development of the financial operation for mortgage originations and servicing.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Denilor Ltd.	16,540	16,540	Public awareness campaign (radio advertising).	Completed.
DeltaCredit	4,500	4,500	Grant was used to pay Intrepid Marketing recruitment of an Internal Control and Review Specialist.	Completed.
Development of Mortgage Lending Origination and Servicing Software	12,091	12,091	Grant to consultant to evaluate and streamline originations and servicing system.	Completed.
Development of Mortgage Lending Software	10,000	10,000	Grant to consultant, Caroline Lee, to develop mortgage lending software for servicing of residential mortgage loans.	Completed.
Development of Mortgage Lending Quality Control System and On-line Originations	12,132	12,259	Grant to consultant to develop comprehensive quality control system and evaluation of the originations and servicing system.	Completed.
Danube Management	19,375	19,375	Grant used for public information hotline about mortgage lending (March 2001).	Completed.
Danube Management	58,125	58,125	Grant used for public information hotline about mortgage lending (June 2001).	Completed.
Diasoft	6,000	6,037	The grant was used to develop mortgage originations and servicing software for use by Russian bankers to support development of residential mortgage lending.	Completed.
Fannie Mae	50,853	50,853	Fannie Mae provided a team with expertise in servicing operations, systems and the legal aspects of securitization to assist the Fund in assessing the feasibility of establishing a state-of-the-art mortgage loan servicing system in Russia.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Global Reputation Management Corp.	25,008	25,008	The grant was used to develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
Institute for Urban Economics	3,555	3,539	The grant was used to train Russian bankers in residential mortgage lending through Certified Mortgage Lenders Course.	Completed.
Institute for Urban Economics II	7,360	7,419	Certified Mortgage Lenders Course II.	Completed.
Institute for Urban Economics III	5,530	5,556	To train Russian bankers in residential mortgage lending through Course III.	Completed.
Institute for Urban Economics IV	18,000	18,110	To develop internal instructions and procedures for commercial mortgage lending and construction period finance in Russia.	Completed.
Institute for Urban Economics V	2,500	2,505	The grant was used to train and implement residential mortgage lending in Russia.	Complete.
Institute for Urban Economics VI	18,000	18,107	To develop the internal instructions and procedures for commercial mortgage lending and construction period finance in Russia.	Completed.
IMH Media Ltd.	15,771	15,771	Public awareness campaign (Moscow and St. Petersburg/Feb. - June 2001).	Completed.
IMH Media Ltd.	5,782	5,782	Public awareness campaign (St. Petersburg/ Feb. - June 2001).	Completed.
Jiffy Traders Inc.	70,000	70,000	Press campaign (Feb.-June 2001) in Moscow.	Completed.
Jiffy Traders Inc.	29,699	29,699	Press campaign (Moscow/Feb. - June 2001) Two grants.	Completed.
Jiffy Traders Inc.	7,336	7,336	Public awareness campaign (St. Petersburg/Feb. - June 2001).	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Mass Media Campaign	30,924	25,096	Public awareness campaign for residential mortgage lending.	Completed.
Mikhailov & Partners	11,233	11,293	The grant was used for July 2000 public awareness campaign.	Completed.
Mikhailov & Partners	16,950	17,048	The grant was used for August and September 2000 public awareness campaigns.	Completed.
Mortgage Call Center Training	6,264	6,293	The grant was used to train call center operators.	Completed.
Mortgage Lending	27,000	27,993	The grant was used to develop an educational and promotional film for the purchase of a home.	Completed.
NC Marketing Services	6,205	6,205	Public awareness campaign (St. Petersburg/Feb. - June 2001).	Completed.
Public Awareness Campaign (Moscow)	66,287	71,022	Grant provided to Mikhailov & Partners for public awareness campaign for residential mortgage lending in Moscow (2 separate grants-\$61,937 and \$4,350).	Completed.
Public Awareness Campaign (St. Petersburg)	17,775	17,871	Grant provided to Mikhailov & Partners for public awareness campaign for residential mortgage lending in St. Petersburg.	Completed.
Public Awareness Campaign	41,829	41,829	The grant was used to develop and promote a public awareness campaigning for residential mortgage lending in Russia.	Completed.
Public Awareness Campaign	18,888	18,888	The grant was used to develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
RadioPAGE Call Center	98,472	99,092	The grant was used to establish a mortgage call center to provide necessary information to the general public and where to obtain financing for residential mortgage loans. (Includes 3 grants: \$48,714, \$45,792 and \$3,966).	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Telford - Phase II	17,000	17,000	The grant was used for Phase II of the mortgage originations and servicing software - default administration servicing development.	Completed.
Telford - Phase III	17,000	17,000	The grant was used for Phase III of the mortgage originations and servicing software - default administration servicing software development.	Completed.
Telford - Phase IV	16,000	16,000	The grant was used for Phase IV of the mortgage originations and servicing software - escrow agreement monitoring and servicing software development.	Completed.
Telford	48,890	49,980	The grant was used to develop mortgage originations and servicing software for residential mortgage lending.	Completed.
Telford	58,871	58,871	The grant was used to develop mortgage originations and servicing software for residential mortgage lending.	Completed.
Telford	<u>10,700</u>	<u>10,720</u>	The grant was used for implementation of module of current deposits and payments.	Completed.
Subtotal Mortgage	<u>1,042,156</u>	<u>1,045,118</u>		
<u>Leasing</u>				
RCM Leasing	30,000	20,800	The grant was used to purchase MIS and computer support to upgrade existing reporting. Program supports development of leasing in southwest Russia.	Completed.
RCM Leasing II	25,000	28,051	The grant was used to research the expansion of leasing activity in Moscow, St. Petersburg and Ekaterinburg, including the legal work required to activate leasing activity in these regions.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
RCM Leasing III	50,000	35,371	The grant is being used to create a GAAP module within MIS to allow for transparent financial statements.	Ongoing.
RCM Leasing IV	6,000	3,000	The grant is being used to create an internet website (www.leasing.ru) that will allow promotion of leasing services and educate Russian businesses on leasing.	Ongoing.
RCM Leasing V	45,000	40,000	The grant was used to cover cost of an audit under GAAP that will allow Company to improve financial reporting.	Completed.
DeltaLeasing	<u>12,000</u>	<u>1,002</u>	The grant is being used to develop the content of the internet website (www.leasing.ru).	Ongoing.
Subtotal Leasing	<u>168,000</u>	<u>128,224</u>		
<u>Micro Credit</u>				
Opportunity International	250,000	100,000	The grant is being used to develop microenterprise lending programs in selected regions in Russia.	Funding will occur at various stages of program development.
Russian Women's Micro-finance Network	50,000	50,000	The grant was used to fund micro loan portfolios of Fund for the Support of Women Entrepreneurs.	Completed.
Volkhov	2,500	2,607	The grant was used to pay for Volkhov's executive director's registration fees and expenses for the third annual seminar on new development in Frankfurt, Germany.	Completed.
Working Capital/ Counterpart	50,000	50,000	The grant was used to fund a micro loan portfolio in Nizhny Novgorod.	Completed.
Working Capital/ Counterpart	500,000	498,126	The grant was used to develop a microenterprise lending program in the Russian Far East.	Completed.

Technical Assistance Program

As of June 30, 2001

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Working Capital/ Counterpart	100,000	100,000	The grant was used to fund a microlending portfolio in the Russian Far East made in lieu of a portion of loan financing.	Completed.
Working Capital/ Counterpart	48,000	1,750	The grant will be used to conduct and audit of Micro Credit Operations.	Ongoing.
Working Capital/ Counterpart	16,550	16,550	The grant was used to fund a micro loan portfolio in Khabarovsk, made in lieu of a portion of the loan financing.	Completed.
Working Capital/ Counterpart	10,800	10,800	The grant was used to fund a micro loan portfolio managed by Working Capital Russia, a micro lending program in Khabarovsk.	Completed.
Working Capital/	<u>101,250</u>	<u>101,250</u>	The grant was used for the conversion of loan balance to a TA grant.	Completed.
Subtotal Micro Credit	<u>1,129,100</u>	<u>931,083</u>		
Total	<u>\$6,043,920</u>	<u>\$5,802,050</u>		

Principles for Environmental Management

The U.S. Russia Investment Fund (the "Fund") is a private, non-profit corporation funded initially by the U.S. Government to encourage the development of private businesses in Russia. An important aspect of this task is to encourage the emerging private sector to be sensitive to the environmental implications of its activities and, where necessary, work to improve over time any negative environmental repercussions of such activities. To this end, the Fund will seek to ensure that it and the firms in which it invests will not support any activity that poses a significant threat of irreparable harm to the environment.

In making decisions regarding investments, the Fund will, whenever practicable, attempt to follow the policies underlying the International Chamber of Commerce's Business Charter for Sustainable Development and the CERES Principles. While committed to improving the Russian environment, the Fund recognizes that the unique circumstances in Russia, particularly the existence of significant environmental degradation caused by previous environmental practices, dictate that the process of improving environmental performance in Russia will be ongoing and gradual. Under such conditions, the Fund cannot guarantee the attainment of specific environmental objectives, but it is committed to ensuring that the firms in which it invests take steps to mitigate environmental degradation.

In practice, the Fund's efforts to encourage continuous improvement of the environmental posture of firms in which it invests and of Russian business generally will take several forms. First, the Fund will consider the environmental posture of a firm as part of the standard application and project evaluation process. As a project moves through the approval process, environmental issues will be discussed as necessary. In cases where the business for which investment is sought causes adverse environmental impacts, the Fund will finance only those investments which over the long term will raise environmental compliance levels.

Second, the Fund will expect management of the firms in which it invests to demonstrate a commitment to improving the environmental performance of their firms and to reducing the harmful effects their products, processes, or operations have had or do have on the environment. To this end, whenever possible, the Fund will encourage the enterprise in which it invests to modify activities and operations to mitigate harm to the environment.

Third, once financing is made available and, where feasible and necessary, the Fund will attempt to arrange for ongoing advice and technical assistance to firms in which it invests. Such monitoring and advice with respect to environmental performance will be a part of this ongoing relationship.

Policies and Practices Conducive to Private Sector Development

The Fund, through DeltaLeasing and the Fund's Bank Partner Program, is one of the leading providers of small business finance in Russia. The Fund provides much-needed debt financing to small businesses operating in Russia to purchase new equipment, to expand through working capital loans, and to grow their businesses. The Fund provides comprehensive lending policies, financial models for credit analysis, marketing, and monitoring. Based on the Fund's efforts, Russian banks have noted that portfolios of small businesses have performed well even during difficult macroeconomic periods. The concept of lending to the small business sector is being accepted more and more by Russian banks. Several Russian bank partners of the Fund have even begun lending to this sector using their own capital, helping to further promote economic development in regional economies. Finally, credit policies and analysis techniques within Russian banks have been strengthened through the efforts of the Bank Partner Program.

DeltaLeasing is the leading provider of long-term equipment leases to the small to medium-sized enterprises in Russia. The leasing operation provides expansion capital for small businesses and entrepreneurs who would not be able to access intermediate term loans from banks. DeltaLeasing is an active participant in lobbying efforts to the State Duma for changes to legislation beneficial to both leasing transactions and small businesses. DeltaLeasing provides a model for other Russian entities to provide lease financing to small businesses and entrepreneurs.

The Fund's Auto Lending program promotes the concept of retail banking in Russia by offering both technical assistance and financing to Russia banks. The Fund's loan officers provide our Russia bank partners with credit policies, marketing, and work side by side on credit analysis for this program. The efforts of this program have resulted in the institutionalization of lending to individuals in the Moscow, St. Petersburg and Ekaterinburg markets. The Fund continues to support its auto lending web page (carloan@deltacap.ru), which attracts over 60 visitors per day.

Our mortgage lending program, DeltaCredit, is the leading provider of residential home mortgages in Russia. DeltaCredit, in cooperation with FannieMae and the Agency for Mortgage Housing Lending, has been instrumental in establishing an industry standard for securitization. By combining industry guidelines, technology, policies & procedures, and financing, DeltaCredit has firmly established this important component of developing a stable middle class in Moscow, St. Petersburg, and the Russian Far East.

Through DeltaBank, we intend to make a difference in the Russian financial services market by introducing ordinary Russian citizens and companies to high quality banking products delivered with honesty and transparency. Our aim is to not only fill a gap in the provision of banking services to our target market segments, but also to be a role model for other Russian banks.

Administrative Review

Year To Date 2001 Expense Budget vs. Actual (as of June 30, 2001)

Summary

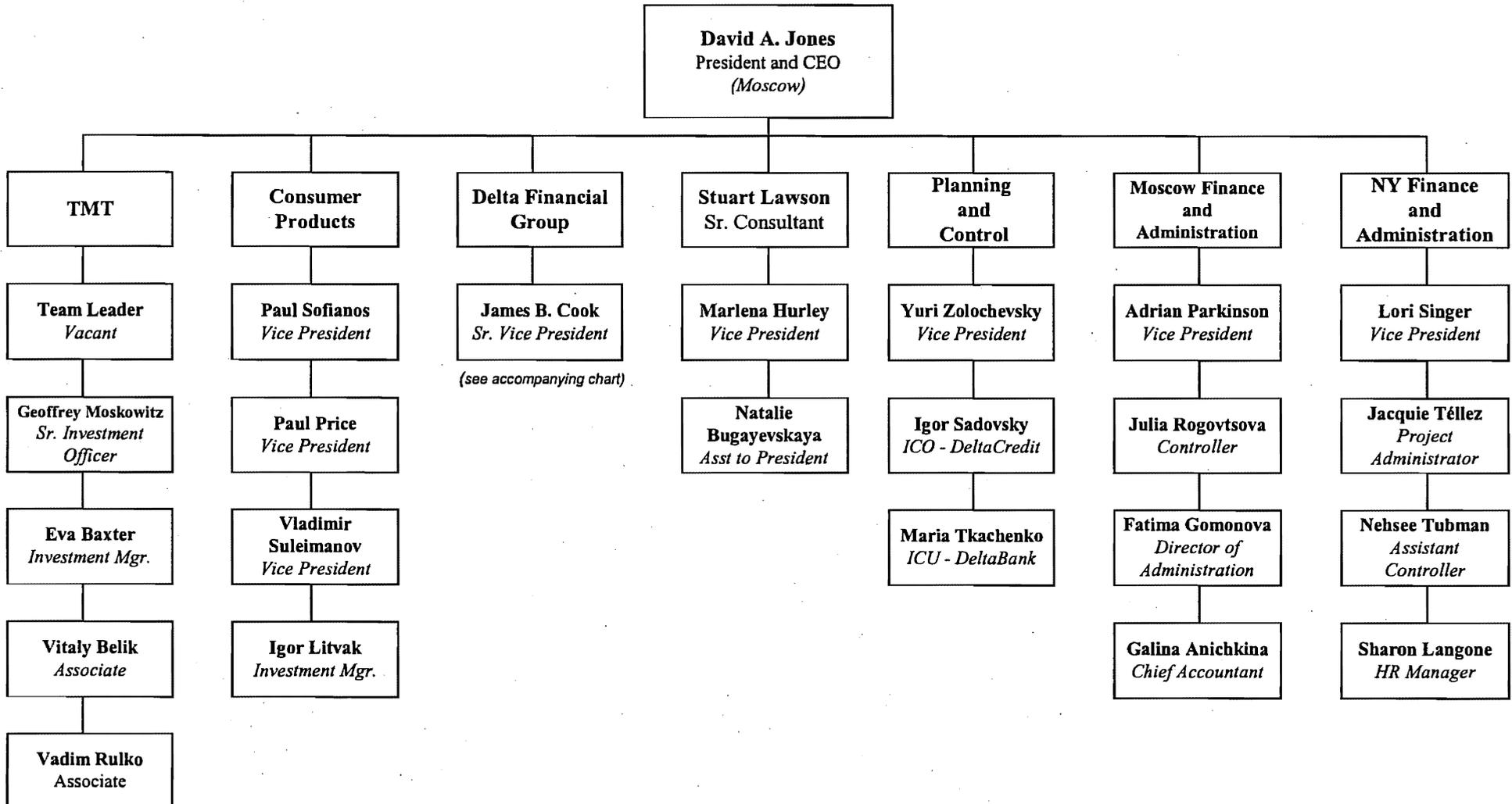
(Dollars in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u>
<u>Continuing Operations</u>			
Personnel	\$3,631	\$3,291	\$(340)
Occupancy	495	470	(25)
Depreciation	194	195	1
Telecommunications	241	148	(93)
Administration	339	360	21
Professional fees			
General	626	768	142
Transaction	625	464	(161)
Employee travel and non-travel costs	374	516	142
Directors' expenses	187	78	(109)
Program development expenses	<u>296</u>	<u>307</u>	<u>11</u>
Total expenses from continuing operations	\$7,008	\$6,597	(411)
Lomonosov related transaction costs	-	25	25
Nizhny Newsprint litigation costs	<u>-</u>	<u>534</u>	<u>534</u>
Total expenses	<u>\$7,008</u>	<u>\$7,156</u>	<u>\$148</u>

Administrative Review

Organization Chart

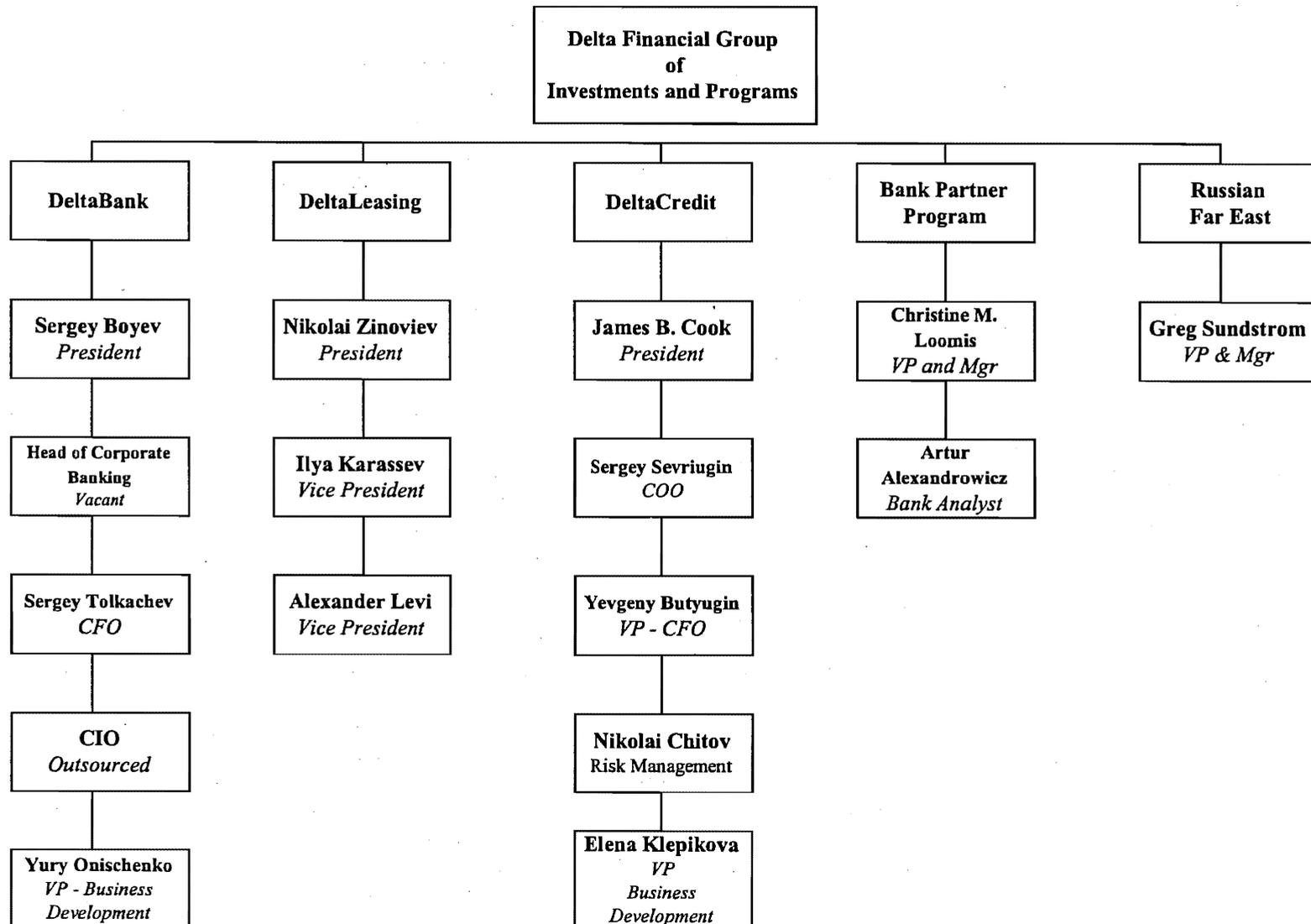
September 2001



Administrative Review

Organization Chart

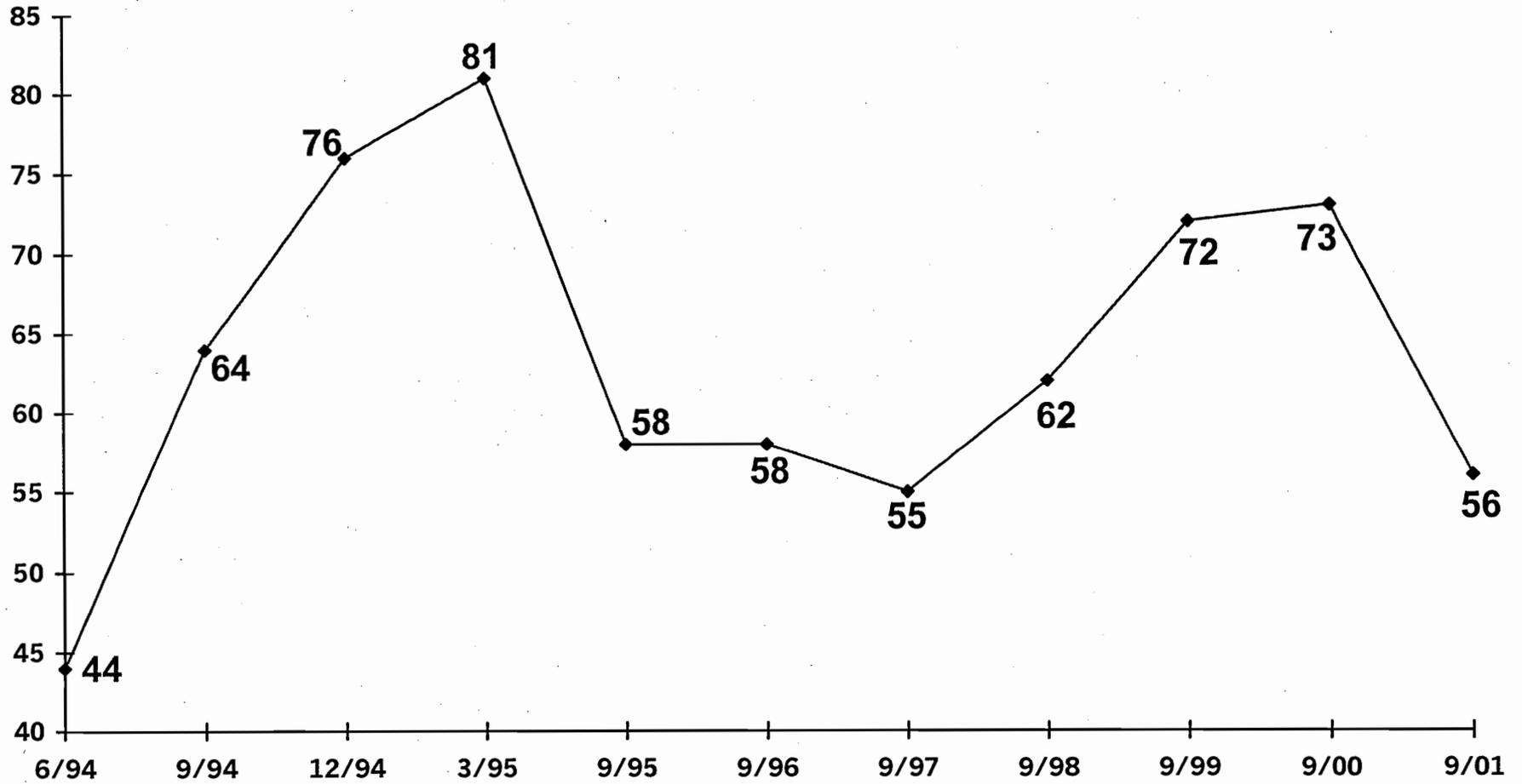
September 2001



Administrative Review

Organization Chart

September 2001



Note: Initial years quarterly detail reflects changes in the Fund; thereafter, shown on fiscal year end basis, with most recent quarterly headcount.

The
U.S. Russia 
Investment Fund

The U.S. Russia Investment Fund
545 Fifth Avenue - Suite 300
New York, New York 10017
(212) 818-0444
Fax (212) 818-0445

Lori I. Singer
Vice President and Financial Controller

September 19, 2001

Mr. William Frej
Director E&E/MT
Office of Enterprise Development
Bureau for Europe and the NIS
U.S. Agency for International Development
1300 Pennsylvania Avenue
Room 5.08-101
Washington, DC 20523

Dear Mr. Frej:

I have reviewed the payroll records for The U. S. Russia Investment Fund (the "Fund"). Based on this review, no employee or consultant of the Fund is being paid a salary in excess of \$150,000 per annum.

I have confirmed with our Direct Investment and Financial Services senior management that no staff member of an affiliate/subsidiary or majority owned investment is being paid a salary in excess of \$150,000 per annum from the USG grant.

Sincerely,



Financial Review

Statement of Investment Operations For the Nine Months Ended June 30, 2001

INCOME

Interest, fees and dividends on investments and loans	\$ 1,053,938
Interest on cash and cash equivalents	<u>279,357</u>
Total income	1,333,295

EXPENSES

Continuing Operations

Personnel	3,291,406
Occupancy	470,305
Depreciation and amortization	194,841
Telecommunications	148,250
Administrative	360,359
Professional services	
General	767,902
Transaction, net	464,174
Employee travel and expense	515,495
Directors expenses	77,416
Program development	<u>306,761</u>
Expenses from continuing operations	6,596,909
Lomonosov related transaction costs	24,486
Nizhny Newsprint litigation costs	<u>534,345</u>
Total expenses	<u>7,155,740</u>
Excess of operating expenses over income	(5,822,445)

REALIZED AND UNREALIZED GAIN (LOSS)

Unrealized loss on investments	-
Realized gain on investments	10,999,980
Provision for loan loss	(347,265)
Foreign currency translation loss	<u>(3,860)</u>
Net realized and unrealized gain (loss)	<u>10,648,855</u>
Net increase in fund balance resulting from investment operations	4,826,410
U.S. Government grants utilized for program expenditures	16,049,950
Technical assistance grants utilized	<u>(1,478,368)</u>
Net change in fund balance	19,397,992
Fund balance -- beginning of the period	<u>117,977,308</u>
Fund balance -- end of the period	<u>\$137,375,300</u>

Financial Review

Balance Sheet

As of June 30, 2001

ASSETS

Direct investments, at carrying value (cost \$82,360,097)	\$67,506,093
Financial Services investments (cost \$52,822,454)	52,561,455
Bank Partner Program loans, net of loan loss reserve of \$2,611,930	<u>6,738,577</u>
Total investments	126,806,125
Cash and cash equivalents	5,395,743
Accrued interest	11,853
Accounts receivable	129,160
Fixed assets, net	334,948
Prepaid expenses and deposits	<u>879,709</u>
TOTAL ASSETS	<u>\$133,557,538</u>

LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$1,232,188
U.S. Government grants received and held for future program purposes	<u>(5,049,950)</u>
Total Liabilities	(3,817,762)
Fund Balance	<u>137,375,300</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$133,557,538</u>

Financial Review

Statement of Cash Flows

For the Nine Months Ended June 30, 2001

CASH FLOWS FROM OPERATING ACTIVITIES

Net change in fund balance resulting from investment operations	\$4,826,410
<i>Adjustments to reconcile net change in fund balance to net cash used in operating activities:</i>	
Depreciation and amortization	194,841
Provision for loan losses	347,265
Increase in net unrealized loss on investments	-
Realized gain on investments	(10,999,980)
<i>Changes in operating assets and liabilities:</i>	
Accrued interest	35,317
Accounts receivable	381,951
Prepaid expenses and deposits	(83,858)
Accounts payable and accrued expenses	<u>(298,274)</u>
Net cash used in operating activities	<u>(5,596,328)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Cash received from U.S. Government grants	11,000,000
Technical assistance grants expended	(1,478,368)
Direct investments, net of reflows	8,409,780
Financial Services investments	(13,870,311)
Loans, Bank Partner Program, net of reflows	(246,069)
Purchase of fixed assets	<u>28,701</u>
Net cash provided by investing activities	<u>3,843,733</u>
Net decrease in cash and cash equivalents	<u>(1,752,595)</u>
Cash and cash equivalents, beginning of period	<u>7,148,338</u>
Cash and cash equivalents, end of period	<u>\$5,395,743</u>

Fund Draw Downs vs. Actual Expenditures

From Inception through June 30, 2001

Fiscal Year	Beginning Cash Balance	Draw Downs	Actual Expenditures					Less Reflows	Total Net Expenditures	Ending Cash Balance
			Direct Investments	Financial Services	Small Business Program	Technical Assistance	Cash Operating Expenses			
1994	-	13,238,645	1,095,564	-	27,500	2,462	6,648,182	62,974	7,710,734	5,527,911
1995	5,527,911	39,652,512	28,611,003	-	2,304,373	-	11,674,350	1,093,757	41,495,968	3,684,455
1996	3,684,455	35,300,000	19,929,107	-	3,132,354	431,556	10,699,847	3,202,417	30,990,447	7,994,008
1997	7,994,008	31,750,000	25,174,735	-	5,494,480	623,908	8,514,257	4,603,199	35,204,181	4,539,827
1998	4,539,827	45,081,000	23,162,733	-	14,592,616	592,440	8,669,457	8,360,097	38,657,151	10,963,676
1999	10,963,676	5,440,000	14,705,427	477,480	5,892,503	791,657	10,136,224	19,960,025	12,043,266	4,360,410
2000	4,360,410	50,500,000	8,827,933	32,147,244	19,855,438	1,985,238	9,700,421	24,807,388	47,708,885	7,151,525
YTD 2001	7,151,525	11,000,000	3,405,200	22,482,874	4,353,855	852,613	8,025,519	26,364,278	12,755,784	5,395,743
		231,962,157	124,911,702	55,107,598	55,653,119	5,279,874	74,068,257	88,454,135	226,566,416	

Strategic Framework Matrix

Goal: Establishment/Strengthening of SME's Across Different Sectors/Regions

1. Direct Investment Portfolio Digest: For each direct investment and discrete program, please show the requested data:

Firm Name	Total Cost Basis (\$ million, cost basis) 06/30/01 ⁽¹⁾	Current Valuation (\$ million) 06/30/01 ⁽¹⁾	Number of Jobs	Woman-owned ⁽¹⁾ %	Sales ⁽²⁾ (\$ million)	Return on Equity ⁽²⁾ (%)	Location
Agribusiness Partners	5.00	5.00	15		N/A	N/A	Moscow
Bitech Petroleum	3.00	2.18 ³	245		52.5	7	Moscow
Cybiko	1.00	1.00	180		20.1	N/A	Moscow/California
FunTech	1.91	0.91	100		10.1	N/A	Moscow
Genesee-Volkhov Connection	0.85	0.45	111	14.5%	0.6	0	Novgorod/Rochester
INTH	4.38	4.38	35		2.5	-18	Moscow/California
Interstom	0.08	0.08	10		0.1	39	Rostov-on-Don
Invacorp	10.00	10.00	220		141.0	2	Moscow
Lomonosov Porcelain Factory	4.30	4.30	1,400		8.0	9	St. Petersburg
Marine Resources Company Intl.	1.25	0.75 ⁽⁴⁾	42		56.0	25	Seattle, Vladivostok, Sakhalin
Nevsky 49	8.53	8.53	140		0.0	N/A	St. Petersburg
Nizhny Newsprint	0.00	0.00 ⁽⁵⁾	3,900		200.9	91	Nizhny Novgorod
Pentacom	5.00	5.00	34		N/A	N/A	Moscow
Phargo Management	2.60	1.04	70		2.8	-44	Moscow
Polygrafoformlenie	2.80	2.80	616		34.0	28	St. Petersburg
Port.ru	1.00	1.00	100		1.5	-100	Moscow
Saint Springs Water Limited	3.50	6.27	315		15.0	-9	Moscow, Kostroma
Segol RadioPAGE	3.30	1.17	677		4.4	24	Moscow/Seattle
SPAR Moscow Holdings	1.85	1.85	300		N/A	N/A	Moscow
StoryFirst Communications	6.10	2.70	500		15.4	-98	Moscow, St. Petersburg
SUN-Interbrew	10.50	7.32	5,000		276.0	6	Moscow
Time	0.02	0.02	25		0.3	N/A	Moscow
Tsentralny Universalny Magazine	0.39	0.17	1,438		35.0	26	Moscow
VitaPlus	5.00	0.57	170		15.7	-86	Moscow
TOTAL DIRECT INVESTMENT	82.36	67.49	15,643				

⁽¹⁾Please note that a significant number of investors are institutional as opposed to individuals.

⁽²⁾Sales and return on equity are stated for the 12 months ended 12/31/00.

⁽³⁾In early September the Fund exited this investment for \$2.0.

⁽⁴⁾This investment is in liquidation. The Fund has so far received \$1.6 million in liquidating distributions, with further reflows (albeit small) possible in the future.

⁽⁵⁾The Fund has exited this investment, receiving \$16.0m. As of 6/31/01, \$11.0m had been received with the remaining \$5m transferred in early September; cost basis is shown at zero given that the investment was fully written off. The original investment was \$4.14m.

Strategic Framework Matrix

2. Bank Partner Program

	Disbursed	# Companies/ borrowers	Women owned companies and %	Principal Reflows	Interest Reflows	Write-Offs	Loans Outstanding
Small Business ^{(1) (2)}	43,389,854	608	208/34%	35,810,736	2,601,756	2,397,940 ⁽³⁾	5,181,178
Micro Enterprise ⁽²⁾	1,001,956	390	115/29%	691,396	90,337	-	310,560
Auto Lending ⁽²⁾	9,680,000	1,360	404/30%	5,935,559	626,352	8,327	3,736,114
Mortgage Lending ⁽⁴⁾	185,236	16	8/50%	62,579	297,548	-	122,657
Total Bank Partner	54,257,046	2,374	735/31%	42,500,270	3,615,993	2,406,267	9,350,509

⁽¹⁾Includes community lending, trade finance and direct loans.

⁽²⁾Starting April 1, 2001, interest received by the Fund on small business, micro and auto lending programs, net of \$3,500 per month, is then paid to DeltaBank for administering the loan portfolios. The amounts reflected in the table are gross amounts received by the Fund. As of 6/30/01, the Fund has paid DeltaBank a total of \$160,528 in such fees.

⁽³⁾The majority of these amounts occurred at the start up phase of the program.

⁽⁴⁾The Fund's Mortgage loan portfolio was transferred to DC Mortgage effective 1/1/01. The transfer price was \$5,065,446 representing principal and accrued interest as of 12/31/00 of \$5,023,938 and \$41,508, respectively. The remaining amounts in the table classified as Mortgage Lending represent two banks, Petrovsky and Industry & Construction Bank, St. Petersburg, which were not included in the assignment.

Strategic Framework Matrix

2a. Financial Services Investments

	Equity Investment	Disbursed Loans from Fund	Principal Reflows	Interest Reflows	Loans Outstanding	Total Fund Outstanding Investment
DeltaLeasing	629,613	8,798,030	2,375,240	478,425	6,422,790	7,052,403
DeltaLeasing Far East	-	1,197,460	164,660	-	1,032,800	1,032,800
Delta AutoLease	199,662	142,875	38,251	616	104,624	304,286
DeltaCredit	12,518,355	11,965,446	500,000	-	11,465,446	23,983,801
DeltaBank	8,899,165	11,550,000	-	-	11,550,000	20,449,165
Total	22,246,795	33,653,811	3,078,151	479,041	30,575,660	52,822,455

Strategic Framework Matrix

Objective 1: Investments in SMEs in Different Sectors (in millions unless otherwise indicated)

1. Cumulative Investment through end of fiscal year indicated. Show planned programs in the “projected” columns”, even if the program doesn’t exist yet.

	Actuals	Projected			
	Invested to Date (06/30/01)	2001	2002	2003	By the end of the Fund
Direct Investments	124.91	130.00	170.00	240.00	240.00
Financial Service Investments ⁽¹⁾	55.11	65.00	100.00	138.00	138.00
Bank Partner Program	55.65	57.00	65.00	70.00	70.00
Technical Assistance	5.28	6.00	8.00	10.00	10.00
Cash Operating Expenditure	74.07	77.00	77.00	77.00	77.00
Reflows ⁽²⁾	(88.45)	(95.00)	(95.00)	(95.00)	(95.00)
FUND TOTAL	226.57	240.00	325.00	440.00	440.00

⁽¹⁾Includes DeltaBank, DeltaCredit and DeltaLeasing companies.

⁽²⁾Assumes sufficient reflows to support all or part of operating expenses from 2001 onwards.

Strategic Framework Matrix

2. For Small Business and Micro-Lending, show the planned break-even year, including cost of Funds.

	Planned year for break-even
Small	N/A ⁽¹⁾
Micro	N/A ⁽¹⁾

3. Does the Fund have a target ratio for Operating Expenses (gross) as a percent of Authorized Capital?

Yes/No	Ratio
Yes	2¼ %

4. By what year does the Fund expect to be fully invested?

Year
2003

⁽¹⁾No plans for these programs to breakeven as most of the value will be

Strategic Framework Matrix

5. What "profitability ratio" (Net Assets/Cash Drawn) does the Fund aim for at termination?

Actual 12/31/00	Target, End of Fund
59%*	100%

*Net Assets: \$137,375,300
 Cash Drawn: \$231,962,157

Objective 2: Capital Under Management By The Fund From Other Sources
 (List by investment or organization with the amount in millions unless otherwise noted)

1. None at this time.
2. Does Enterprise Fund plan to raise a Private Fund?

Yes/No	Target Amount	Target Closing Date
Yes	\$100mm	Q1 02

Strategic Framework Matrix

3. Other capital mobilized by Fund to date, e.g. Bank-provided small loan capital, IPO's, etc.

	Cumulative	December 2000
	Firm/Org	Amount (\$millions)
US	Archer Daniels Midland	25.0
	AIG Brunswick	3.3
	Alliance ScanEast	3.0
	America First	5.0
	Botts-Allen	7.5
	Capital Research	25.0
	CS First Boston	2.1
	Equitable	6.7
	KKR	4.2
	Mercury Asset Mgt.	16.0
	Moscow-America	2.6
	News Corporation	5.0
	Private Investors	0.3
	US West	17.0
	TOTAL U.S.	122.7
Non US	Alfa Bank	5.0
	Framlington	19.7
	Mint Capital	3.5
	Morgan Stanley Asset Mgt.	44.0
	Moscow Govt.	5.2
	Oriflame	2.0
	Private Investors	2.1
	Quadriga Capital Holdings	1.0
	Radisson/SAS	4.0
	Renaissance	0.5
	Sector	12.0
	Societe Generale	6.1
	Stena	25.0
	Sun Capital	5.0
	YPF	15.0
	TOTAL NON-U.S.	150.1

Strategic Framework Matrix

4. Financial Institutions Created/Strengthened. In "Amount", show other capital mobilized to date.

Small Business Program	Amount
Russian Far East	
Regio (Khabarovsk)	\$888,250
Dalryb (Vladivostok)	1,112,000
Dalnevostochny (Vladivostok)	1,260,278
Dalnevostochny (Yuzhno-Sakhalin)	484,900
Bank of Moscow (Khabarovsk)	270,000
Primsotsbank	2,,254,880
Kamchatagroprombank	1,338,892
Northern Region	
Bank St. Petersburg	100,000
Baltiskiy	4,336,535
Bank Moscow (St. Petersburg)	100,000
Dalnevostochny (St. Petersburg)	110,000
Inkasbank	882,000
St Petersburg Bank for Reconstruction and Development	685,000
Urals	
Gutabank	180,000
Severnaya Kazna	3,165,150
Uralvneshtorg	1,033,000
Southern Russia	
Center-Invest (Rostov)	749,900
DonInvest (Rostov)	2,189,106
Gutabank (Rostov)	50,000
Krasnodar (Krasnodar)	101,000
Kuban (Krasnodar)	347,500
Bank of Moscow (Krasnodar)	326,767

Strategic Framework Matrix

Small Business Program	Amount
Southern Russia (cont'd)	
Inkom Bank (Krasnodar)	70,000
Bank Moscow (Novorossiisk)	150,000
Mosbusiness (Krasnodar)	130,000
Pervomaisky (Krasnodarbank)	443,000
Pervomaisky (Krasnodar)	250,000
Pervomaisky (Kubanbank)	100,000
RosPromStroybank (Rostov)	264,500
First Mutual Credit (Krasnodarbank)	177,000
Other, including Moscow	
Bank of Moscow (Kolomna)	271,700
Bank of Moscow (Moscow)	1,000,000
Bank of Moscow (Troitskoye)	810,388
Business Development	423,173
Credo	207,000
First Mutual Credit (Kostroma)	58,000
First Mutual Credit (Moscow)	993,000
Guta Bank (Moscow)	109,500
International Industrial Bank	1,684,000
Kostroma Sberbank	510,400
MDM Bank (Moscow)	3,050,000
Menatep	1,157,000
Mosbusiness (Troitskoye)	100,000
Mosbusiness (Pushkinskoye)	148,200
Probusiness	8,198,835
SBS Agro Bank	15,000
Yarsotsbank	679,000

Strategic Framework Matrix

Objective 3: Policy Reform

How has the Fund worked to improve Legal, Fiscal and Regulatory Policies and practices that support private sector development?

The Fund continues in its mission to support and foster private sector development throughout Russia. From small business and consumer lending to direct investments, the spirit of entrepreneurship is being encouraged. Fund programs such as mortgage, trade finance and automobile lending are among the first of their kind in Russia.

The Fund's leasing operation provides expansion capital for small businesses and entrepreneurs who would not be able to access intermediate term loans from banks. DeltaLeasing provides a model for other Russian entities.

The Fund's recent bank acquisition creates a unique institution in Russia and will make a difference in the Russian financial services market by filling a gap in the provision of banking services and serve as a role model for other Russian banks.

The Fund has devoted a significant amount of time and resources to enforcing shareholders' rights. A prominent example was the Fund's massive mobilization of resources and direct public relations to bring international scrutiny to the issue of shareholders' rights regarding the Lomonosov Porcelain Factory.

The
U.S. Russia 
Investment Fund

The U.S. Russia Investment Fund
545 Fifth Avenue - Suite 300
New York, New York 10017
(212) 818-0444
Fax (212) 818-0445

David A. Jones
President and CEO

September 19, 2001

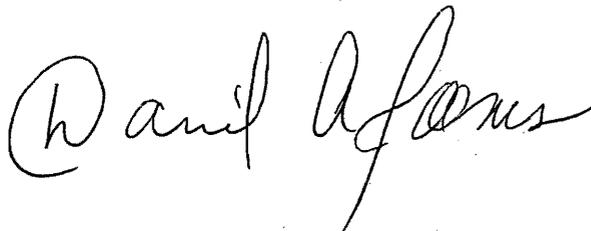
Mr. William Frej
Director E&E/MT
Office of Enterprise Development
Bureau for Europe and the NIS
U.S. Agency for International Development
1300 Pennsylvania Avenue
Room 5.08-101
Washington, DC 20523

Dear Mr. Frej:

As President and Chief Executive Officer of The U.S. Russia Investment Fund, I know of no instances of non-compliance with the terms of the Grant Agreement including any violation of General Provision 13 "Conflicts of Interest".

I know of no misuse or misappropriation of grant funds.

Sincerely,



BOARD OF DIRECTORS

Patricia M. Cloherty, Chair
The U.S. Russia Investment Fund
545 Fifth Avenue - Suite 300
New York, New York 10017
(212) 818-0444 (p)
(212) 818-0445 (f)
pcloherty@deltacap.org

Office:

155 Main Street
Cold Spring, NY 10516
(845) 265-4244 (p)
(845) 265-4158 (f)
cloherty@highlands.com

Garrison Home:

(845) 424-3387 (p)
(845) 424-8258 (f)

Jenne K. Britell
Chairman and CEO
Structured Ventures, Inc.
1820 Rittenhouse Square
Philadelphia, PA 19103
(215) 731-9397 (p)
(215) 731-9398 (f)
(212) 688-1826 (NY apt.)
jennek1@structuredventures.com
jennek1@aol.com

Frank J. Caufield
General Partner
Kleiner Perkins Caufield & Byers
Four Embarcadero Center
Suite 3620
San Francisco, CA 94111
(415) 421-3110 (p)
(415) 421-3128 (f)
fcaufield@aol.com

BOARD OF DIRECTORS

Arthur DelVesco
Co-Founder
Wind Point Partners
3674 Ranch Creek Drive
Austin, Texas 78730
(512) 372-8880 (p)
(512) 372-8881 (f)
art@delvesco.net

D. Jeffrey Hirschberg
Former Vice Chairman
Ernst & Young LLP
5804 Madaket Road
Bethesda, MD 20816
(301) 229-6760 (p)
(301) 320-8897 (f)
(301) 332-7443 (mobile)
djeffh@aol.com

Robert D. Hormats
Vice Chairman
Goldman, Sachs International
85 Broad Street - 22 Floor
New York, New York 10004
(212) 902-5347 (p)
(212) 346-3349 (f)
robert.hormats@gs.com

Karen Horn
Managing Director and President
Global Private Client Services
Marsh subsidiary of MMC
1166 Avenue of the Americas - 23rd Floor
New York, NY 10036-2774
(212) 345-3656
(212) 345-2023
karen.n.horn@marshmc.com

BOARD OF DIRECTORS

David A. Jones
President and CEO
The U.S. Russia Investment Fund
2/3 Paveletskaya Square
Moscow, 113054 Russia
(011-7-501) 960-3131 (p)
(011-7-501) 960-3132 (f)
teal72@aol.com
djones@deltacap.ru

James V. Kimsey
Founder and Chairman Emeritus
AOL
1700 Pennsylvania Ave., NW – Suite 900
Washington, D.C. 20006
(202) 785-0307 (p)
(202) 785-0404 (f)
kimseyoffice@aol.com

J. Bruce Llewellyn
Chairman
Philadelphia Coca-Cola Bottling Co.
30 Rockefeller Plaza - 29 Floor
New York, New York 10112
(212) 698-7700 (p)
(212) 698-7825/7881 (f)

Steven L. Pease
Deucalion Securities
19501 Brooklime
Sonoma, CA 95476
(707) 938-4974 (p)
(707) 938-8921 (f)
spease@vom.com

BOARD OF DIRECTORS

Victor Sedov
Vice President and Co-Founder
Victoria Enterprises, Inc.
1900 L Street, NW - Suite 202
Washington, DC 20036
(202) 785-1935 (p)
(202) 833-1156 (f)
(703) 470-1305 (m)
victoriaenterprises@erols.com
vsedov@msn.com

President
Enterprise Russia

Richard D. Turner
Retired Executive Vice President
South Shore Bank of Chicago
1071 Jean Baptiste Drive
Porter, IN 46304
(219) 929-1065 (p)
(219) 929-1322 (f)
turner@niia.net

Note: All members of The U. S. Russia Investment Fund's Board of Directors serve a three year term. Members were re-elected at the 2000 Annual Meeting of the Corporation and will serve through the 2004 Annual Meeting of the Corporation.