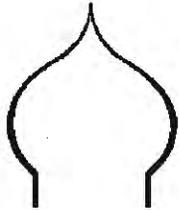


The  
U.S. Russia   
Investment Fund

USAID Semi-Annual Review

September 25, 2002

**NOT A U.S.G. CLASSIFICATION**



# The U.S. Russia Investment Fund

## USAID Semi-Annual Review

September 25, 2002

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# The U.S. Russia Investment Fund

## USAID Semi-Annual Review

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# Investment Strategy

The Fund eschews natural resources (due to their capital intensity) and Soviet infrastructure investments. 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 work every deal. We have also begun a trend of requiring board chairmanships and control over cash disbursements whenever possible.

Our sector strategy continues in three broad areas: financial services, consumer products and TMT. Given the dearth of private equity capital in Russia and the legal complexities of deals, we are placing increasingly large sums into specific investments. Small deals, unless extremely compelling, take too much resources for the prospective upside.

# Activities and Significant Developments

## Russian Economic Conditions

After contracting between autumn 2001 and early 2002, the Russian economy is now picking up in the wake of increased investment activity and a gradually rising oil price, although the rate is expected to drop off somewhat in autumn 2002. As a result, economic growth should be over 3.9% this year and may well exceed 4% in 2003.

Inflation in 1H02 has already reached 9.1%, not far off from the government's target for the year of 12-14%. Price increases in June dropped to 0.5% and inflation in July-August is expected to be low due to seasonal factors. However, the government's recent decision to increase wages for the army and police will contribute to slightly higher inflation in the autumn and the figure for the year could exceed 15%.

Structural reforms are likely to proceed at a gradual pace through the end of this year and into 2003, which should see completion of UES restructuring, pension reform and reform of the banking sector.

Against a background of increased unreturned export earnings, Russia's non-financial sector increased its foreign borrowings to \$3bn in 1H02. Given that investments did not grow much over the period, the loans may have been primarily used to purchase assets in Russia and take control of other companies. This fact, together with decreased foreign direct investments in 1H02 (\$0.9bn against \$1.2bn in 1H01), may also indicate that the government has been unable to fully restore investor confidence.

Nevertheless, the Russian economy seems to be much healthier and more stable than before the 1998 crisis.

# Activities and Significant Developments

## Portfolio Highlights - TMT and Consumer Products

### Portfolio

A new general manager joined **SPAR Moscow Holdings** in August 2002. He is a seasoned retail manager with twenty years of experience, the last eight of which were spent as a general manager at SPAR Austria. This strengthens the company's management prior to a new \$7M round of capital that the Fund is considering. The new round will fund the launch of three more EUROSPARs, bringing the company to sustainable break-even and laying the foundation for the development of the INTERSPAR hypermarkets in the Moscow region.

The Fund's initial investment of \$2.6 M in **SPAR Middle Volga** was fully funded in June 2002. The company has outperformed its plan and, with our investment, will open six stores rather than the planned five. Company management has leveraged our money and obtained \$2M of medium term debt at competitive rates. The Fund is considering a follow-on investment of \$3.4M in the form of a convertible loan to finance the launching of two new green-field EUROSPARs. The loan would be convertible to a new external round of equity that the Company plans to raise in 1H03.

### Pipeline

**Bistroff** is the market leader in breakfast cereals and instant drinks with a well-developed brand, experienced management, and strong financials. Cereals comprise 73% of 2001 sales, drinks 17%. Bistroff is the best-known brand in the market with a 60%+ advertisement awareness and a 60%+ loyal customer retention rate. Having gained a 67% market share in hot cereals, the company is diversifying into related products such as flakes/muesli and snacks/sweet bars. To this end, the Company seeks to raise \$5M for a 25%+1 share. The Fund is conducting active due diligence. DeltaLeasing is working on accounting due diligence, a security check is being conducted, and an industry expert has been retained for a two-week consulting project.

# Activities and Significant Developments

## Portfolio Highlights - TMT and Consumer Products

**BridgeTown Snack Foods** is a high growth market leader in Russia's snack food segment (35% market share) that has already integrating Western transparency standards with backing from Quadriga Capital Russia. 61% of Bridgetown sales are generated in Moscow and its surrounding regions. The company has an efficient distribution system and needs capital to expand its sales, marketing and distribution efforts throughout Russia. The Fund is considering an opportunity to invest up to \$5M in equity.

**Russian Integrated Logistics Solution (RILS)** is an incubation project for a multi-category logistics and supply chain services provider servicing both Russian and multi-national customers' needs throughout the CIS. We plan to utilize western best practice operational methods and to leverage established relationships coupled with innovative IT solutions in this essential industry. The project's initial requirements will be approximately \$7M, partly for the acquisition of an existing logistics platform to build out the company and its required IT infrastructure.

**United Glass Holdings Ltd.** is a regional glass packaging manufacturing company primarily servicing the beer industry. With two plants (one existing facility and a large, newly constructed one) located in the heart of Ural region (Ekaterinburg), this holding will have over 80% of existing production capacity in a 1200 km radius from Ekaterinburg, Russia's third largest economic area. Although the entire project calls for nearly \$26M in debt and equity, the Fund can leverage its position and maintain majority control of the company with an initial equity investment of \$6.5M.

# Pipeline Projects

## Sector – TMT

<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.
INTH - Follow On	\$10.00	The Company seeks \$20-25M in equity financing. Management is marketing to US financial and strategic investors. The Fund proposes a \$5-10M equity investment in this round to support the expansion plan.	Independent Network Television Holding Ltd. ("INTH") holds a 100% interest in Telekanal 27 (TK27), a Russian joint stock company engaged in the development of a Russia-wide terrestrial commercial broadcast network. TK27 currently broadcasts under the name "TV 3 Russia" in St. Petersburg, Moscow and Chelyabinsk, reaching an estimated 15 million viewers. By obtaining additional broadcast signals to expand its audience base, upgrading existing transmission capability and developing a combination of high-quality, locally developed programming, TK27 aims to become a leading national Russian broadcast network.

## Pipeline Projects

### Sector – TMT

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
InterProgma	\$0.80	Equity investment. Cognitive Technologies will co-invest. The closing of the first tranche will occur following completion of all applicable conditions precedent set in the loan agreement.	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.
Optiva	\$3.00	Equity investment. Optiva is now looking to conclude a new \$20M round to take the company to operational breakeven. In July 2002, the Company had a first closing of \$9M of this round and has commitments for \$6M more for the second closing.	Optiva was incorporated in 1997 to commercialize a unique and proprietary new Thin Crystal Film (TCF™) technology enabling breakthrough optical materials and components for a wide range of large markets. Optiva is headquartered in South San Francisco. Optiva has a world-class research and development division established in Moscow and sales offices in Europe, Japan, Hong Kong and Taiwan.
RRC Business Telecommunications	\$3.10	Equity investment. RRC is raising funds to enhance its market position in the CIS/CEE and to develop comprehensive solutions for customers.	RRC is the largest, in terms of sales, value-added solutions provider in Eastern Europe. The Company specializes in supplying and servicing telecommunication and network equipment for small working groups as well as for scalable multi-user networks. The Company has offices in Moscow, St. Petersburg, Kiev, Warsaw, Prague and Budapest.

## Pipeline Projects

### Sector – Consumer/Other

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Bistroff	\$5.00	We have an opportunity to acquire 25% + 1 share.	Market leader in breakfast cereals and instant drinks with a well-developed brand name, experienced management and strong financials. Having gained a 67% market share in hot cereals, the company plans to diversify into related products such as flakes/muesli and snacks/sweet bars.
BridgeTown Snack Foods	\$5.00	Equity investment.	The Company is a high growth market leader in Russia's snack food sector (35% market share), integrating Western transparency with backing from Quadriga Capital Russia. Its main production facility is located in Vladimir. 61% of BridgeTown sales are generated in Moscow and its surrounding regions. The Company has an efficient distribution system and is poised to expand its sales, marketing and distribution efforts throughout Russia.
Budget Hotel Chain	\$7.50	25% equity stake in newly formed hotel operating company.	In participation with Radisson SAS, as an operator, and IFU and Swede Fund as financial partners, the Fund plans to develop 8 budget hotels in Moscow, St. Petersburg and other regions under the name Carlson Brand/Country Inn.

# Pipeline Projects

## Sector – Consumer/Other

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
Russia Integrated Logistics Solution	\$15.00	Funding of a wholly owned off-shore holding company with the task of a share acquisition of an existing logistics company (SBS).	National, multi-category logistics and supply chain services provider servicing both Russian and multi-national customers' needs throughout the CIS, utilizing western best practice operational methods and leveraging established relationships and innovative IT solutions in this essential industry.
SPAR Middle Volga - Follow On	\$3.40	Convertible debt.	Regional food distribution company expanding its distribution and retail businesses in the Nizhny Novgorod region. The Company recently received the SPAR franchise for Nizhny Novgorod and four other adjacent regions. The Fund is considering a follow-on investment of \$3.4M as a convertible loan to finance the launching of two new green-field EUROSPARs. The loan would be convertible to a new external round of equity that the Company plans to raise in 1H03.

# Pipeline Projects

## Sector – Consumer/Other

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
SPAR Moscow Holdings Ltd. - Follow On	\$7.00	Equity and convertible debt.	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 as a SPAR franchise (a world leader with over 17,000 stores in 31 countries). The new round will fund the launching of 3 more EUROSPARs, bringing the Company to sustainable breakeven and laying the foundation for the development of the INTERSPAR hypermarkets in the Moscow region.
United Glass Holding Ltd.	\$6.50	Creation of a regional glass holding company in which the Fund will acquire a 60% plus stake.	Regional glass packaging manufacturing company primarily servicing the beer industry. With multiple plants located in the Ural region, this Company will have over 80% of the existing production capacity in a 1200 km radius from Ekaterinburg, Russia’s third largest economic area.

# Pipeline Projects

## Sector – Financial Services

<u>Project</u>	<u>Investment Amount (\$ Millions)</u>	<u>Description of Transaction</u>	<u>Description of Business</u>
DeltaBank - Follow On	\$1.50	Equity and Subordinated Debt.	DeltaBank plans to launch a major effort into consumer finance. This effort was not a part of DeltaBank's original business plan and will require additional funding to succeed. The Consumer Finance business plan is being reviewed.

## **Raising A Private Fund**

The worldwide market for private equity has been abysmal for three years. Russia's reputation has improved dramatically but is suffering from disarray in global private equity markets. The earliest closing of a private fund, and this may be optimistic, is spring 2003.

# Portfolio Review

## Funded Investments as of June 30, 2002

(Dollars in Millions)

	Committed Amount	Funded to Date	Amount Realized		Technical Assistance Grant Committed
			Principal	Interest, Fees Gains (Losses)	
<b>Financial Services</b>					
<u>Satisfactory</u>					
1. Delta AutoLease	\$0.99	\$0.99	\$0.09	\$0.00	\$0.00
2. DeltaCredit Bank	38.48 (a)	39.89	1.41	0.00	1.15
3. DeltaLease - Far East	4.45	4.45	1.58	0.00	0.00
4. DeltaLeasing	32.12	32.12	19.49	1.02	0.13
<u>Focus</u>					
5. DeltaBank	<u>20.50</u>	<u>20.50</u>	<u>0.00</u>	<u>0.00</u>	<u>1.80</u>
Subtotal Financial Services	<u>96.54</u>	<u>97.95</u>	<u>22.57</u>	<u>1.02</u>	<u>3.08 (b)</u>
<b>TMT</b>					
<u>Satisfactory</u>					
6. Independent Network Television Holding	4.38	4.38	0.00	0.01	0.00
7. StoryFirst Communications, Inc.	6.10	6.10	0.00	0.00	0.00
<u>Focus</u>					
8. Cybiko	1.50	1.50	0.00	0.00	0.01
9. Pentacom	6.00	6.00	0.00	0.00	0.00
10. Port.ru	<u>1.00</u>	<u>1.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.17</u>
Subtotal TMT	<u>18.98</u>	<u>18.98</u>	<u>0.00</u>	<u>0.01</u>	<u>0.18</u>
<b>Consumer Products</b>					
<u>Satisfactory</u>					
11. ZAO Hotel Corporation (Nevsky 49)	9.52	9.52	0.88	0.00	0.07
12. Polygraf	2.80	2.80	0.00	0.00	0.05

# Portfolio Review

## Funded Investments as of June 30, 2002

(Dollars in Millions)

Consumer Products (cont'd)	Committed Amount	Funded to Date	Amount Realized		Technical Assistance Grant Committed
			Principal	Interest, Fees Gains (Losses)	
<u>Satisfactory</u>					
13. SPAR Middle Volga	2.60	2.60	0.00	0.00	0.00
14. SPAR Moscow Holdings Ltd.	5.00	4.01	0.00	0.00	0.09
15. SUN Interbrew Ltd.	15.50	15.50	5.00	0.66	0.00
<u>Focus</u>					
16. Lomonosov	5.65	4.59	0.30	0.02	0.06
<u>Work Out</u>					
17. Invacorp	10.00	10.00	0.00	0.00	0.16
<u>Exited</u>					
18. Saint Springs	<u>3.50</u>	<u>3.50</u>	<u>0.00 (c)</u>	<u>0.22 (c)</u>	<u>0.08</u>
Subtotal Consumer Products	<u>54.57</u>	<u>52.52</u>	<u>6.18</u>	<u>0.90</u>	<u>0.51</u>
<b>Legacy</b>					
<u>Satisfactory</u>					
19. Agribusiness	5.00	5.00	0.00	0.00	0.00
20. Interstom	0.08	0.08	0.00	0.00	0.01
21. Time	0.28	0.20	0.19	0.08	0.00
<u>Focus</u>					
22. FunTech	2.00	2.00	0.09	0.06	0.12
23. GVCO	0.90	0.90	0.06	0.11	0.07
24. Phargo	2.60	2.60	0.00	0.00	0.02

# Portfolio Review

## Funded Investments as of June 30, 2002

(Dollars in Millions)

Legacy (cont'd)	Committed Amount	Funded to Date	Amount Realized		Technical Assistance Grant Committed
			Principal	Interest, Fees Gains (Losses)	
<u>Work Out</u>					
25. Vita Plus	5.00	5.00	0.00	0.00	0.20
<u>Exited/Written Off</u>					
26. Bitech	3.00	3.00	2.18	(1.05)	0.00
27. Dieselprom	3.66	3.66	0.07	0.00	0.00
28. FSS	0.25	0.21	0.00	0.00	0.02
29. GIANT	2.98	2.98	0.08	0.00	0.00
30. Grant	0.60	0.60	0.60	0.12	0.00
31. IBCS	5.00	5.00	0.00	0.00	0.00
32. Marine Resources	8.25	8.25	7.75	2.52	0.00
33. Nizhny Newsprint Holdings	4.14	4.14	0.00	15.82	0.00
34. Plyko LLC	5.83	5.83	2.33	(1.92)	0.25
35. Russian Petroleum Investor, Inc.	1.95	1.95	0.10	0.01	0.21
36. Segol RadioPAGE	3.30	3.30	0.35	(2.93)	0.22
37. TsUM	0.50	0.50	0.43	0.12	0.00
38. USGH (Columbia Presbyterian-Moscow)	3.77	3.77	0.00	0.00	0.00
39. Zapsibinvest	<u>0.97</u>	<u>0.97</u>	<u>0.08</u>	<u>0.00</u>	<u>0.00</u>
Subtotal Legacy	<u>60.06</u>	<u>59.94</u>	<u>14.31</u>	<u>12.94</u>	<u>1.12</u>
<b>Total</b>	<b><u>\$230.15</u></b>	<b><u>\$229.39</u></b>	<b><u>\$43.06</u></b>	<b><u>\$14.87</u></b>	<b><u>\$4.89</u></b>

- (a) Committed amount includes short-term debt of \$5 million was be repaid to the Fund in July following the signing of long-term financing agreements with EBRD and IFC.
- (b) Excludes technical assistance Financial Services sector (Phase IV), which includes costs attributable to DeltaLease, DeltaBank and DeltaCredit, totaling \$1,537,168 as of June 30, 2002.
- (c) The investment was exited in July 2002; amounts above reflect Fund's holding as of June 30, 2002. Realized gain on sale \$3.3 million.

# Portfolio Review

## Direct Investment Reflows As of June 30, 2002

	<u>Inception through 2001 Fiscal Year</u>		<u>2002 Fiscal YTD 6/30/02</u>		<u>Total Since Inception</u>	
	<u>Principal</u>	<u>Interest, Fees &amp; Gains</u>	<u>Principal</u>	<u>Interest, Fees &amp; Gains</u>	<u>Principal</u>	<u>Interest, Fees &amp; Gains</u>
Bitech	\$2,182,200	\$(1,047,987)	-	-	\$2,182,200	\$(1,047,987)
DeltaCredit	500,000	-	910,000	-	1,410,000	-
DeltaLease - Far East	367,927	-	1,212,015	-	1,579,942	-
DeltaLeasing	3,344,525	618,850	16,149,169	398,198	19,493,694	1,017,048
Delta AutoLeasing	49,665	616	35,642	-	85,307	616
Dieselprom	72,000	-	-	-	72,000	-
FSS	-	3,250	-	-	-	3,250
FunTech	90,000	63,603	-	-	90,000	63,603
Giant	75,793	-	-	-	75,793	-
Grant	600,000	116,795	-	-	600,000	116,795
GVCO	55,213	101,968	-	11,250	55,213	113,218
INTH	-	10,232	-	-	-	10,232
Lomonosov	295,000	15,118	-	-	295,000	15,118
MRCI	7,750,000	2,523,382	-	-	7,750,000	2,523,382
Nevsky 49	880,000	-	-	-	880,000	-
Nizhny Newsprint	-	15,821,028	-	-	-	15,821,028
Plyko	2,325,000	(1,920,885)	-	-	2,325,000	(1,920,885)
RPI	100,000	6,792	-	-	100,000	6,792
Saint Springs	-	222,050	-	-	-	222,050
Segol RadioPAGE	-	3,321	350,000	(2,938,000)	350,000	(2,934,679)

# Portfolio Review

## Direct Investment Reflows As of June 30, 2002

	<u>Inception through 2001 Fiscal Year</u>		<u>2002 Fiscal YTD</u>		<u>Total Since Inception</u>	
	<u>Principal</u>	<u>Interest, Fees &amp; Gains</u>	<u>Principal</u>	<u>Interest, Fees &amp; Gains</u>	<u>Principal</u>	<u>Interest, Fees &amp; Gains</u>
StoryFirst	-	1,094	-	-	-	1,094
SUN-Interbrew	5,000,000	659,661	-	-	5,000,000	659,661
Time	189,000	82,764	-	-	189,000	82,764
TsUM	108,578	135,922	326,350	(12,760)	434,928	123,162
Zapsibinvest	<u>81,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,627</u>	<u>-</u>
<b>Total</b>	<b>\$24,066,528</b>	<b>\$17,417,574</b>	<b>\$18,983,176</b>	<b>\$(2,541,312)</b>	<b>\$43,049,704</b>	<b>\$14,876,262</b>

# Portfolio Review

## Financial Services

Portfolio Company: DeltaCredit Bank

Status: Satisfactory

Investment Officer: James Cook

The Fund's Investments (06/30/02)      Date of Initial Investment: 05/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 13,420,855	\$ 13,420,855	\$ 0	\$ 13,420,855
Debt	\$ 25,055,446	\$ 26,465,446	\$ 1,410,000	\$ 25,055,446
<b>Total</b>	<b>\$ 38,476,301</b>	<b>\$ 39,886,301</b>	<b>\$ 1,410,000</b>	<b>\$ 38,476,301</b>

\* Debt amount includes short-term debt of \$5M, which was repaid in July 2002 following the signing of long-term financing agreements with EBRD (\$20M) and IFC (\$20M).

### Business Description

DeltaCredit Bank (the "Company") is Russia's first mortgage bank providing long-term residential mortgages. The Company works through a network of partner banks and realty companies which source the mortgage loans to a centralized mortgage servicing facility. Through this network, the Company is able to achieve a faster rate of growth through economies of scale while mitigating the overhead of an extensive branch network. The Company is considered to be the market leader in terms of market share for mortgage lending in Russia. The Company acquired of JP Morgan's banking license in order to further facilitate and expand this system.

### Current Status

The Company met or exceeded its disbursement targets for the second quarter. During the quarter, the Company received \$40M in additional third party financing for mortgage disbursements. The current pipeline of approved mortgages in process is more than \$70M. The Company continues to have a commanding market lead with an 80% market share in Moscow and 60% in Russia. In order to maintain market share, the Company has invested in banking systems and an infrastructure that will enable it to compete during the next five years. These include investments in SWIFT, a new branch to handle customer flow, and depository boxes for mortgage transactions. The Company also incurred and fully expensed the upfront fees of \$257k for third party finance, which are reflected in the quarterly results.

Mortgage disbursements continue to average \$3M per month, and the portfolio has maintained a 99% repayment rate. Average monthly income from interest and commissions is increasing and is projected at \$460k by the end of third quarter.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$13,420,855	100.0%

### Outlook

The Company is expected to show losses until the end of 2003 due to the build-out of its operations in anticipation of portfolio growth. These investments in infrastructure should enable the Company to firmly position itself in the market and effectively compete with future competitors. While the Company has a commanding market share and good name recognition, it must establish a visible presence in the market. This should be accomplished through the opening of its first branch in the very center of Moscow in October.

The Company is meeting its targets for loan disbursements and third party financing should be sufficient until the end of 2002. However, the Company will need to receive additional capital to sustain growth. This capital infusion should occur no later than 1Q03, or the Company may face problems in financing its growth. Management has streamlined operations and internal systems for a full-service banking operation. In order to diversify its income sources, the Company has introduced several fee and commission products which should boost revenue streams.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$1,981	\$1,369
<u>Net Profit (Loss)</u>	(\$1,113)	(\$3,064)
<u>Total Assets</u>	\$50,238	\$33,137
<u>Net Worth</u>	\$17,572	\$19,410
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

## Financial Services

Portfolio Company: DeltaLease Far East

Status: Satisfactory

Investment Officer: James Cook

The Fund's Investments (06/30/02)      Date of Initial Investment: 06/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 567,000	\$ 567,000	\$ 0	\$ 567,000
Debt	\$ 3,519,527	\$ 3,512,527	\$ 1,579,942	\$ 1,932,585
<b>Total</b>	<b>\$ 4,086,527</b>	<b>\$ 4,079,527</b>	<b>\$ 1,579,942</b>	<b>\$ 2,499,585</b>

\* In 2Q02 the Fund converted \$567k debt to equity, with a similar amount scheduled for 4Q02

### Business Description

DeltaLease Far East is a provider of equipment leasing to medium-sized companies in the Russian Far East. The Company started as the Fund's small business program for the RFE and became an independent leasing company in 2000. All of the Fund's costs have been transferred to the Company and are covered by its leasing income. The Company is headquartered in Vladivostok, and has satellite offices in Khabarovsk and Sakhalin.

### Current Status

The Company's portfolio consists of 55 leases for a total portfolio amount of \$3,456,980. The current pipeline is \$970k. Net lease margins are \$941k (up 18% from April 2002) with an average deal size of \$63k. The average rate is 19.49% with an average term of 31.7 months.

The portfolio is diversified among the following sectors: food processing 20%; forestry 19%; construction 20%; non-food processing 14%; printing 12%; retail trade 7%; and wholesale trade 8%. The Company is performing in line with its forecasts and has begun preliminary discussions to attract third party finance. The Company showed a loss for the period primarily due to the build-out of its operations in anticipation of portfolio growth.

### Outlook

The Company is on track for disbursements this year, and management believes that it will meet its target. Management continues to look at neighboring markets for expansion opportunities and has identified Novosibirsk as the most attractive market for leasing. The market provides opportunities based on its population size and the relative lack of lease financing available from local players. Discussions are continuing with CAT Finance (Germany) regarding an agreement that would extend trade credits to DLFE.

### Financial Information (Dollars in '000s)

	06/30/02	12/31/01
Months	6	12
Revenue	\$228	\$164
Net Profit (Loss)	(\$20)	\$38
Total Assets	\$3,713	\$1,985
Net Worth	\$579	\$16
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$567,000	100.0%

# Portfolio Review

## Financial Services

Portfolio Company: DeltaLeasing

Status: *Satisfactory*

Investment Officer: *James Cook*

The Fund's Investments (06/30/02) Date of Initial Investment: 04/99

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 5,629,613	\$ 5,629,613	\$ 0	\$ 5,629,613
Debt	\$ 19,493,694	\$ 19,493,694	\$ 7,493,694	\$ 7,000,000
<b>Total</b>	<b>\$ 25,123,307</b>	<b>\$ 25,123,307</b>	<b>\$ 7,493,694</b>	<b>\$ 12,629,613</b>

\* In 1Q2002 the Fund converted \$5M debt into equity.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$5,629,613	100.0%

### Business Description

DeltaLeasing (the "Company") is wholly owned by the Fund and received its leasing license on May 21, 1999. The Company provides lease financing to medium-sized businesses operating in Russia with prospects sourced through a network of equipment vendors. The Company operates through six regional offices covering 28 regions. Basilcom, a Cyprus-based company, was set up as financing company for DeltaLeasing. This entity was capitalized by the Fund with \$5M equity and \$7M debt, plus debt from third party financiers.

### Current Status

The Company continues to perform according to projections and has doubled its leasing portfolio from last year. On average, the Company disburses \$2M per month in lease finance. The repayment rate is currently 99% with more than 300 active leases through over 100 equipment vendors.

DeltaLeasing is one of the leading providers of lease finance to medium-sized enterprises in Russia. The lease portfolio consists of equipment financing in printing, wood processing, food processing, packaging, and manufacturing industries. The remainder of the portfolio is diversified among furniture production, retail, construction materials production, and auto repair.

As of the second quarter, DeltaLeasing had over \$29M in gross lease receivables diversified among 20 industries. Over 75% of the Company's leases represent businesses employing fewer than 100 workers.

The Company incurred a loss of \$256k as of the end of the second quarter. The loss was a result of \$100k accounting correction made by PWC relating to 2001, a \$100k contingency for possible differences in taxable base between U.S. GAAP and Russian accounting, and \$56k for build-out of operations in anticipation of portfolio growth.

### Outlook

Following the completion of third party finance, the Company will incur the upfront costs of this financing this year. This financing of \$20M will enable the Company to fulfill its commitments until the second quarter of 2003.

The Company has strengthened its management team by hiring a new CFO, the former CFO of DeltaCredit Bank.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
Months	6	12
Revenue	\$1,221	\$1,644
Net Profit (Loss)	(\$256)	\$355
Total Assets	\$20,911	\$12,309
Net Worth	\$5,831	\$1,157
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

## Financial Services

Portfolio Company: DeltaBank

Status: *Focus*

Investment Officer: *James Cook*

The Fund's Investments (06/30/02)      Date of Initial Investment: 07/00

	Committed	Funded	Repaid	Carrying Value
Equity	\$ 8,499,165	\$ 8,499,165	\$ 0	\$ 8,499,165
Debt	\$ 12,000,835	\$ 12,000,835	\$ 0	\$ 12,000,835
<b>Total</b>	<b>\$ 20,500,000</b>	<b>\$ 20,500,000</b>	<b>\$ 0</b>	<b>\$ 20,500,000</b>

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$8,499,165	100.0%

### Business Description

DeltaBank (the "Bank") is a Russian commercial bank established in the form of a joint-stock company. The Bank previously operated as Development and Restructuring Bank ("DRB") and in January 2001 changed its name to DeltaBank. DRB was registered by the Central Bank of Russia on October 15, 1997. On January 30, 1998 it received banking license #3316 to conduct banking operations in rubles and other currencies. By the end of January 1998 it was fully registered and capitalized. On April 24, 2000 DRB received an additional banking license to conduct operations with ruble and foreign currency funds of private individuals.

The Bank also holds the following licenses and memberships:

- Affiliated membership in Visa International with issuing and acquiring rights in Russia
- Principal membership in Europay International with issuing and acquiring rights in Russia
- Membership in S.W.I.F.T.

### Current Status

During the quarter, the Fund changed the management of the Bank and refocused its strategy to expand into consumer finance and credit cards. Following this change, the Bank won a tender to provide credit cards to IKEA customers. IKEA, the largest retailer in Russia, provides an opportunity for the Bank to increase its profile while accessing a highly desirable distribution channel for the credit card product. The IKEA credit card launch is scheduled for September.

The Bank also hired a new CFO, previously with AIG Investment Bank, to restructure its financial division and brought in a new team to restructure credit activities.

The Bank will continue to build its corporate portfolio but is facing competition from both foreign and Russian banks in this sector. By focusing on a clearly defined and untapped niche of consumer finance, DeltaBank will be well-positioned to build value.

### Outlook

DeltaBank is expected to incur losses until the end of 2003 as it builds its new business lines and positions itself in the market. In order to reduce these losses, management is formulating a cost-cutting plan to streamline operations and increase revenue. The Bank has a distinct advantage in that it has an existing suitable infrastructure with low rental costs. The Bank's credit card division is particularly desirable to strategic investors interested in the Russian credit card market.

The Bank is currently evaluating plans to expand its product offerings in auto loans but must identify and line up additional sources of finance before wide-scale launch of the product. The Bank also plans to build up its ruble funding base by introducing competitive rates to attract customer deposits.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$1,084	\$2,661
<u>Net Profit (Loss)</u>	(\$1,333)	(\$1,337)
<u>Total Assets</u>	\$21,896	\$17,966
<u>Net Worth</u>	\$12,879	\$13,405
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

**TMT**

**Portfolio Company:** Independent Network Television Holding (INTH)

**Status:** *Satisfactory*

**Investment Officer:** *Evelina Baxter*

**The Fund's Investments (06/30/02)**      Date of Initial Investment: 11/95

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 4,377,690	\$ 4,377,690	\$ 0	\$ 4,377,690
Debt				
<b>Total</b>	<b>\$ 4,377,690</b>	<b>\$ 4,377,690</b>	<b>\$ 0</b>	<b>\$ 4,377,690</b>

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

## Business Description

Independent Network Television Holding Ltd. ("INTH", or the "Company") 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

For the 1H02 the Company's consolidated net revenues were \$3.2M, 5% below budget projections and 55% greater than last year's results. The Company generated an EBITDA of \$203K, vs. negative \$818K for the same period last year. However, the Company did not meet its 1H02 budgeted EBITDA of \$441K, principally due to the 2Q revenue shortfall in St. Petersburg. Individual performance of the stations in the group shows strong improvement over 1H01 results with Moscow station EBITDA at \$590K and the St. Petersburg at \$535K, translating into increases of 172% and 94% year on year, respectively. The regional station group had a positive EBITDA, benefiting from the addition of the Nizhny Novgorod station.

The TV3 National Network is still in the development stage, and costs are under control. It had a negative EBITDA of \$850K, which is 5% less than anticipated. TV3 acquired new programming for the substantial daily kids block and first-run, exclusive all-Russia rights to quality adult programming. The average national audience share for the quarter was 1.83%. With the addition of the Nizhny Novgorod channel in July, TV3 Network is now carried on all INTH-owned stations.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
New Investors	\$18,240,050	23.6%
ACT III Investors	\$6,415,000	17.6%
Botts/Allen Investor Group	\$7,464,180	17.2%
ACT III Russia	N/a	13.8%
The Fund	\$4,377,690	10.9%
Founders	N/a	7.2%
INTH Management	N/a	5.5%
World Group Television	\$1,050,000	3.9%
Other	N/a	0.3%

## Outlook

The Company continues fundraising for \$15-\$20M to support its plan to increase the distribution in Moscow. Renaissance Capital was engaged to lead the effort.

In anticipation of the new financing the Company has expressed interest in a loan facility. The Fund proposed a structure which would allow the Fund to convert the loan into equity at an attractive valuation should the new closing be delayed.

We believe that the Company presents an excellent investment opportunity, and, subject to negotiation of acceptable terms, we will seek investment committee approval for an additional investment of \$5-10M.

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01 *
<i>Months</i>	6	12
<u>Revenue</u>	\$3,223	\$5,039
<u>Net Profit (Loss)</u>	(\$388)	\$1,048
<u>Total Assets</u>	\$13,288	\$12,405
<u>Net Worth</u>	\$9,803	\$10,253
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

\* U.S. GAAP

# Portfolio Review

TMT

**Portfolio Company:** StoryFirst Communications

**Status:** *Satisfactory*

**Investment Officer:** *Evelina Baxter*

The Fund's Investments (06/30/02)      Date of Initial Investment: 09/96

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 6,098,395	\$ 6,098,395	\$ 0	\$ 2,695,146
Debt				
<b>Total</b>	<b>\$ 6,098,395</b>	<b>\$ 6,098,395</b>	<b>\$ 0</b>	<b>\$ 2,695,146</b>

\* The Fund's carrying value is \$2.7M based on the share price of \$426.11 in August 1999 financing round. MTG purchase price was not disclosed, estimated price paid for shares in certain class supports our valuation.

## Business Description

StoryFirst Communications, Inc. ("SFC", or the "Company") 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 revenues from the sale of advertising time on the Company's co-owned television network, television stations and radio stations.

## Current Status

The Company's operating results are in line with the budget for 2Q02. The Company is pursuing a number of initiatives to increase the audience share percentage which suffered from the new ratings/coverage system introduced by Gallup Media at the beginning of 2002.

In May the Company appointed a new general director for CTC, Alexander Rodnyansky, who is an extremely valuable addition and is expected to bring a creative edge and more Russian programming to the network to boost ratings.

On August 15, the Fund acquired an additional 4.2% stake from Merrill Lynch to be split between the Fund and Barings Vostok within three month.

EQUITY Shareholders	Contribution	Ownership* Fully-Diluted
Modern Times Group AB	\$51,923,805	36.7%
Barings Vostok/Sector Capital	\$34,226,103	18.2%
Other Investors and Employees	\$8,326,982	11.5%
Current Directors	\$1,159,500	9.0%
News Corp/Logovaz	\$5,000,373	8.9%
The Fund	\$6,098,395	4.7%
Merrill Lynch Investment Managers	\$8,008,000	4.2%
Pierre Calland Funds	\$2,651,250	3.7%
Northwood Ventures	\$2,577,370	3.1%

\* On August 15, 2002 the Fund acquired additional 4.2% stake to be split between the Fund and BVCP

## Outlook

We are continuing to work with SFC management to improve the quality of financial reporting.

With the appointment of a new General Director for the main operating subsidiary, the Company announced ambitious plans to increase its national penetration from 59% to 80% and ratings over the next three years. It is important for CTC to retain its #4 national TV network position in Russia (7.7% audience share, behind ORT, RTR and NTV) with TV6 coming back on the air this summer.

## Financial Information

(Dollars in `000s)

	06/30/02	12/31/01
Months	6	12
Revenue	\$26,625	\$32,085
Net Profit (Loss)	\$1,943	\$3,100
Total Assets	\$39,880	\$34,496
Net Worth	\$12,542	\$11,218
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

**TMT**

**Portfolio Company:** Cybiko

**Status:** *Focus*

**Investment Officer:** *Kirill Dmitriev*

**The Fund's Investments (06/30/02)**      Date of Initial Investment: 12/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 1,500,000	\$ 1,500,000	\$ 0	\$ 1,500,000
Debt				
<b>Total</b>	<b>\$ 1,500,000</b>	<b>\$ 1,500,000</b>	<b>\$ 0</b>	<b>\$ 1,500,000</b>

\* Valued at cost.

## Business Description

Cybiko (the "Company") is a technology company that has successfully integrated a number of core technologies to produce a commercially viable wireless handheld device. The Company's first product, Cybiko 1.0, combined wireless messaging, PDA features and a games platform, and was 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.

The company was reorganized into four business units, Cybiko Advanced Technology (CAT), Cybiko Wireless Applications and Games (CWAG), Cybiko Design Center (CDC) and Cybiko Holding Company.

## Current Status

Cybiko closed \$1.1M of further financing in August, in which the Fund participated, investing 65k. Debts were negotiated down significantly. The CAT and CWAG business units are trying to build sustainable businesses.

CAT is trying to close a key contract with Motorola. The new funding will allow the company to work with Motorola through the end of September. If unsuccessful, the group will scale down and seek management buy-out or sale.

CWAG continues to gain orders and still has delays in collecting revenue. Funding should take this group to cash flow breakeven. The potential merger with PicoFun will not take place, as PicoFun chose another merger opportunity.

Phil Terrett will step down as CEO as soon as a replacement is found. Phil and the Board continue to look for a permanent CEO for the Corporation.

## Outlook

The company is completely reorganized and focused. It is treating this new financing as its last opportunity to get its subunits to breakeven.

If CAT can close a deal with Motorola, it may become a profit center. If CWAG can build its pipeline and collect some revenue, it too may develop into a self-sustaining business.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Sun Capital Partners	\$6,300,000	21.1%
AOL	\$9,953,150	20.6%
Wireless Frontiers	\$5,500,000	18.5%
Other Private Investors	\$3,408,500	15.3%
Inventec Besta Co.	\$1,000,000	11.7%
Founders	N/a	5.6%
The Fund	\$1,500,000	5.0%
Common Stock Holders	\$1,447,190	2.1%

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$74	\$8,909
<u>Net Profit (Loss)</u>	(\$4,372)	(\$15,338)
<u>Total Assets</u>	\$5,080	\$11,614
<u>Net Worth</u>	\$2,148	\$6,520
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

**TMT**

**Portfolio Company:** Pentacom

**Status:** *Focus*

**Investment Officer:** *Evelina Baxter*

**The Fund's Investments (06/30/02)**      Date of Initial Investment: 05/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 6,000,000	\$ 5,666,667	\$ 0	\$ 5,666,667
Debt				
<b>Total</b>	<b>\$ 6,000,000</b>	<b>\$ 5,666,667</b>	<b>\$ 0</b>	<b>\$ 5,666,667</b>

\* \$667k of committed \$1M was disbursed to RBC to acquire 1.2% stake in the company along side Mint Capital's investment of \$333k (0.6% stake). The Fund's remaining \$333k is held in a wholly owned Cyprus holding company, and its disbursement is subject to agreement with Mint Capital.

## Business Description

Pentacom (the "Company") 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. Its business plan envisaged the addition of 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

After approving an investment of \$1M, the company started preparing for streamlining the business and improving penetration rates.

Restructuring of the Company has led to a number of redundancies, including the former executive director and one of the founders. The Company is currently working on resolving the dispute with the former manager, restructuring the compensation debts and cutting costs.

## Outlook

Pentacom struggled to attract substantial financing on the market for the roll-out of the regional network. Now the Company needs to scale down and partner with a stronger player.

The Fund is actively pursuing M&A options with two existing cable networks and another Moscow Region telecom operator. Through a partnership the Company should achieve stability and further utilize the existing network platform.

An acquisition plans are being developed with the following goals in mind:

- 1) give RBC proven management
- 2) provide RBC with high telephone penetration rates
- 3) lead RBC to break-even

Resolution of the current legal issues and further restructuring would be crucial for striking the successful partnership for going forward.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$5,666,667	54.2%
Mint Capital	\$3,833,333	26.5%
Management	N/a	19.3%

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	N/a	\$14
<u>Net Profit (Loss)</u>	N/a	(\$3,193)
<u>Total Assets</u>	N/a	\$3,789
<u>Net Worth</u>	N/a	\$3,398
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

TMT

Portfolio Company: Port.ru

Status: *Focus*

Investment Officer: *Paul Sofianos*

The Fund's Investments (06/30/02)      Date of Initial Investment: 03/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 1,000,000	\$ 1,000,000	\$ 0	\$ 94,950
Debt				
<b>Total</b>	<b>\$ 1,000,000</b>	<b>\$ 1,000,000</b>	<b>\$ 0</b>	<b>\$ 94,950</b>

\* The Fund's shares are carried at \$0.47 each, as per Rights Offering at the Summer of 2001.

## 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 in 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 remains one of the top three online media companies in Russia. At present, the Company has more than 5.5 million registered mail boxes. The Company's projects capture 80% of Russian Internet audience (4 million users). Revenues grow on par with the market and the Company's competitors.

Though the Company has put significant efforts into diversifying services, its revenue is mainly derived from advertising-related sources. In 2Q02 sales increased by 57% compared to 1Q02, while costs fell by 5%. However, EBITDA and net income remain negative. Additional sales growth is required for the Company to be profitable.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
NetBridge Shareholders	N/a	45.0%
Founders	N/a	24.0%
First round private investors	\$1,013,334	12.8%
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

As the outlook for the Russian online ad market remains positive, the Company is well positioned to capture a significant part of the growth.

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01 *
Months	6	12
Revenue	\$455	\$617
Net Profit (Loss)	(\$261)	(\$1,900)
Total Assets	\$6,356	\$6,658
Net Worth	\$3,842	\$4,103
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

\* Financial statements are provided for 10 month period (March-December 2001) after the merger with NetBridge. No audit has been performed since 2000.

# Portfolio Review

## Consumer Products

Portfolio Company: Nevsky 49

Status: *Satisfactory*

Investment Officer: *Paul Price*

The Fund's Investments (06/30/02)      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	\$ 1,470,000	\$ 880,000	\$ 590,000
<b>Total</b>	<b>\$ 9,517,188</b>	<b>\$ 9,517,188</b>	<b>\$ 880,000</b>	<b>\$ 8,637,188</b>

\* 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 is the first privately owned and financed international quality hotel in St. Petersburg and is managed by Radisson SAS (the "Operator").

The Fund initially committed \$7M for 48.4% equity as part of a total financing package of \$29M, with 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 results for the half-year were in line with budget. Gross operating profit for the six months was \$2.3M on sales of \$4.2M. Operating cash flow was adequate to cover debt servicing on a timely basis.

YTD occupancy was 3% ahead of plan at 65.2%. As expected, the revenue per average room (the "RevPAR") penetration fell in the second quarter, for the YTD it was 94%. Because the Company's marketing strategy is heavily focused on the corporate sector, or year-round customer, the RevPAR% is expected to move back above 100% in the final quarter, outperforming competitors.

The effort to refinance the EBRD loan continues. Dresdner Bank and Raiffeisen Bank are considering the loan.

### Outlook

The current year-end profit forecast indicates a slight improvement on the budget; the Company forecasts a net profit.

We expect to complete the loan refinancing effort by 4Q02, reducing loan interest cost by approximately 5%. However, the refinancing is subject to the completion of the investment agreement. The issue regarding transfer of electrical assets still remains unresolved. We hope to close this issue by 4Q02.

### Financial Information

(Dollars in '000s)

	<u>06/30/02</u>	<u>12/31/01</u>
<i>Months</i>	<i>6</i>	<i>12</i>
<u>Revenue</u>	\$4,245	\$2,352
<u>Net Profit (Loss)</u>	(\$97)	(\$2,390)
<u>Total Assets</u>	\$28,967	\$29,064
<u>Net Worth</u>	\$13,562	\$13,659
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

<u>EQUITY Shareholders</u>	<u>Contribution</u>	<u>Ownership Fully-Diluted</u>
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%

# Portfolio Review

## Consumer Products

Portfolio Company: **Polygraph**

Status: *Satisfactory*

Investment Officer: *Igor Litvak*

The Fund's Investments (06/30/02)      Date of Initial Investment: 08/97

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

\* Valued at cost

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%

### Business Description

JSC Polygrafoformlenie ("Polygraf", or the "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 primarily 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

The Company's sales have stabilized during the second quarter vs. the start of 2002 when the Company lost two accounts. Overall 6 months sales were only 7% higher than for the same period last year, which is modest compared to management's projections of 25% growth. There is a small chance that the Company will develop additional momentum in the second half of the year. EBIT margin was slightly lower than 2001, 5.2% vs. 6.5%, and net income was significantly lower, 1.8% vs. 6.3%. This is partly explained by recent investments, which have not yet contributed to sales.

The Company has borrowed almost \$4M for new equipment despite the Fund's and API's opposition to management's development strategy.

EBRD approved an \$11M loan to the Company. The Fund and API both voted against the loan. We do not believe that EBRD will proceed with the loan after the negative reaction from financial investors.

### Outlook

While the Company is profitable and its debt has not exceeded dangerous proportions, the Fund and API believe that we need to exit from this investment.

Shareholders are presently jointly developing an exit opportunity. The Fund is actively driving the process. We have obtained a preliminary offer from an Austrian industry player to acquire Polygraf. Coupled with a division of proceeds agreement, which the Fund helped negotiate amongst the shareholders, this offer could lead to a deal which stands to deliver a double digit IRR to the Fund even in the worst-case scenario.

Currently, everyone, including the management, is interested in the sale of the Company.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
Months	6	12
Revenue	\$19,746	\$43,107
Net Profit (Loss)	\$351	\$2,667
Total Assets	\$29,745	\$24,547
Net Worth	\$16,129	\$15,675
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

## Consumer Products

Portfolio Company: **SPAR Middle Volga**

Status: *Satisfactory*

Investment Officer: *Paul Price*

The Fund's Investments (06/30/02)      Date of Initial Investment: 02/02

	Committed	Funded	Repaid	Carrying Value
Equity	\$ 2,600,000	\$ 2,600,000	\$ 0	\$ 2,600,000
Debt				
<b>Total</b>	<b>\$ 2,600,000</b>	<b>\$ 2,600,000</b>	<b>\$ 0</b>	<b>\$ 2,600,000</b>

### Business Description

On February 22, 2002, the Fund, in partnership with Sladkaya Zhizn (Longview Ltd.), the leading Nizhny Novgorod food distributor, created a new holding company, SPAR Middle Volga, to exploit a master franchise awarded to it by SPAR International for the Middle Volga region of Russia. The franchise covers Nizhny Novgorod city and region as well as four other regions along the middle Volga.

The new company acquired Sladkaya Zhizn's existing retail subsidiary and its retail operations, consisting of three operating food stores and two green-field sites. The Fund funded an equity investment of \$2.6M for 53.6% of the new company. The funds will be used to extend and convert the existing three Nizhny Novgorod stores to SPAR format and to open three additional stores in 2002. SPAR Middle Volga plans to open ten additional stores by 2003.

### Current Status

Sales for the first six months were \$3.1M. The Company is achieving its planned revenues and profitability targets. SPAR as a brand is performing well in this region and is well perceived by the consumer public.

There are now two SPAR stores in operation and one store under the old format. The company, as anticipated, ran a small loss in the first six months due to the launch cost of its second SPAR store and losses related to further store launches. The second SPAR store, located in Derzhinsk, was launched in June, reached profitability in August and is performing well.

### Outlook

Planned store openings remain on target. The company plans to have six stores in operation by early October 2002. Due to the three new store openings the company will run small losses in the second half of the year, reaching break-even at company level in November.

The Fund is discussing the terms of the second financing round of \$3.4M with the company. The funds would be used to develop two new EUROSPARs in Q4'02. This round would allow management to continue the early stage development ahead of a larger round of debt/equity early in 2003.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
Months	6	12
Revenue	\$3,104	N/a
Net Profit (Loss)	(\$156)	N/a
Total Assets	\$4,501	N/a
Net Worth	\$3,390	N/a
IAS	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$2,600,000	53.6%
Longview Ltd.	N/a	46.4%

# Portfolio Review

## Consumer Products

Portfolio Company: SPAR Moscow Holdings Ltd

Status: *Satisfactory*

Investment Officer: *Paul Price*

The Fund's Investments (06/30/02)      Date of Initial Investment: 10/00

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 3,200,000	\$ 3,200,000	\$ 0	\$ 3,200,000
Debt	\$ 1,800,000	\$ 810,000	\$ 0	\$ 810,000
<b>Total</b>	<b>\$ 5,000,000</b>	<b>\$ 4,010,000</b>	<b>\$ 0</b>	<b>\$ 4,010,000</b>

\* 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 International, 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 was the first stage of a three-stage investment project with a total equity requirement of \$10M.

### Current Status

The company incurred a net loss of \$850k on sales of \$3M. Sales are falling behind target due to the delayed opening of the second EUROSPAR, intended to be launched in early June. The new store located in Tanganskaya will open in early December, five months behind plan.

The company plans to launch a third new EUROSPAR by year-end, and Marta, its sub-franchisee partner, who launched its third SPAR store in August, plans to open three more SPAR stores before the year-end. This would result in a total of nine stores in Moscow under the SPAR banner by year-end.

In August, Thomas Hora, an experienced Austrian retailer, joined the company's management team. He will assume the general manager position in September. Mr. Hora has twenty years of retailing experience, eight of which were with SPAR Austria. He spent the past four years in the Czech Republic as general manager for the Czech market of SPAR Austria.

EQUITY Shareholders	Contribution	Ownership* Fully-Diluted
The Fund	\$3,200,000	82.8%
Elliot & Co., Inc (Management)	N/a	17.2%

\* Management of the company contributed SPAR franchise.

### Outlook

With a strong retailer on board, SPAR Moscow expects to improve in-store performance and enhance working practices. A program of training is under development with SPAR Austria to provide on-the-job training in Hungary and the Czech Republic for SPAR Moscow's line managers.

SPAR Moscow remains on track to become a leading retailer in Moscow city and region. The company plans to have six EUROSPARs opened by the end of 2003, bringing the company to breakeven. The Fund is considering a new \$7M investment to fund this development. The new round would also lay the foundation for the development of INTERSPAR hypermarkets in the Moscow region. No other food retail chains are focusing on the Moscow region as yet.

SPAR Moscow plans to raise debt/equity of \$30/40M to develop Moscow regional hypermarkets. The company has identified a number of suitable sites for green-field development to date.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$3,076	\$2,222
<u>Net Profit (Loss)</u>	(\$850)	(\$1,719)
<u>Total Assets</u>	\$2,909	\$2,732
<u>Net Worth</u>	\$410	\$232
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

## Consumer Products

Portfolio Company: **SUN Interbrew Limited**

Status: *Satisfactory*

Investment Officer: *Paul Sofianos*

The Fund's Investments (06/30/02)      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
<b>Total</b>	<b>\$ 15,500,000</b>	<b>\$ 15,500,000</b>	<b>\$ 5,000,000</b>	<b>\$ 7,316,400</b>

\* 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 (the "Company") 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 the 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 and 34% of the Ukrainian markets.

Following the merger, senior Interbrew executives were appointed to key management positions.

### Current Status

First quarter capital expenditure and continuing marketing efforts have resulted in sufficient sales growth at 40% over 2Q01. Although EBITDA increased 28%, EBIT was approximately flat and net income was \$2.6M compared to \$7.2M in 2Q01. Therefore 1H02 net income is still negative. Usually beer sales surge in the third quarter of the year. Next quarter results should reflect the efficiency of distribution and advertising expenses in 1H02.

The consolidation trend in Russia's beer sector is increasing and competition is growing, focused among the foreign breweries which already dominate the market.

### Outlook

Although the Company is operationally sound, we agree with analyst reports that the current ownership structure of the Company is a risk factor to the long-term success of the Company in terms of both market share and revenue objectives.

The Company is seeking ways to not only vertically integrate its operations (malt and hops) but is also examining other strategic supplier synergies in an effort to improve its bottom line.

Focus should be kept on the above as well as on acquisitions as the market is becoming set. Organic growth will not allow the company the opportunity to execute their long term strategic plans which are based on a duopolistic market scenario.

### Financial Information

(Dollars in '000s)

	06/30/02 *	12/31/01 **
<i>Months</i>	6	12
<b>Revenue</b>	\$212,161	\$349,751
<b>Net Profit (Loss)</b>	(\$4,234)	\$20,003
<b>Total Assets</b>	\$608,906	\$492,375
<b>Net Worth</b>	\$410,305	\$368,309
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

\* 1 USD = 1.01 Euro as of 06/30/2002  
The figures are based on management estimate. Official 1H02 statement will be issued on September 16.

\*\* 1 USD = 1.1215 Euro as of 12/31/2001

# Portfolio Review

## Consumer Products

Portfolio Company: Lomonosov Porcelain Plant

Status: Focus

Investment Officer: *Evelina Baxter*

The Fund's Investments (06/30/02)      Date of Initial Investment: 08/98

	Committed	Funded	Repaid	Carrying Value *
Equity	\$ 4,305,207	\$ 4,305,207	\$ 0	\$ 4,305,207
Debt	\$ 1,350,000	\$ 295,000	\$ 295,000	\$ 0
<b>Total</b>	<b>\$ 5,655,207</b>	<b>\$ 4,600,207</b>	<b>\$ 295,000</b>	<b>\$ 4,305,207</b>

\* Valued at cost

### Business Description

Lomonosov Porcelain Plant (LFZ), based in St. Petersburg, is the leading producer of porcelain tableware and gift items in Russia. The LFZ brand is one of the few brand names developed during the Soviet economy that preserved the old tradition of Russian artistry. It is well known throughout the country and associated with high quality porcelain.

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

The Company's 2Q02 revenues were at 75% of budget. Due to savings in direct labor and overhead costs, gross profit was 83% of budget. Negative trends in sales continued from 1Q with all three distribution channels (export, retail and wholesale) underperforming. In comparison with last years 2Q results, only retail showed a 10% growth while the rest of the business was in decline, resulting in a 12% decrease in sales year on year. The negative results are due to the general slowdown during Russian May holidays, price increases at the beginning of the year, the delay in opening the Moscow branch and the fact that last year's export operations were boosted by the legal settlement sale to a major US catalogue company. If this deal were excluded, the export department would show a modest \$45K increase over last year.

Operating income was \$211K for the quarter, translating into a 12% margin. The company generated a small loss (\$2K) and operating cash flow was a negative \$31K.

At the Extraordinary General Meeting, shareholders approved the changes to the Charter and the Company's new legal status (Open JSC). \$100K out of the personal loan from M.Tokarz was disbursed in August.

### Outlook

Management presented the long awaited business plan outlining the total investment needs, revised sales forecast and external financing requirements. Out of the total \$13.9M investment requirement, \$5.7M is targeted for the completion of the new workshop and partial production relocation. \$1.2M is earmarked for the development of retail business. The remainder is for technical upgrades, repairs and maintenance and increase of capacity. Management also presented its latest estimates for the remainder of 2002, with a downward revision of revenues by 23% to \$9.5M, operating profit revised downward by 28%, and previously forecasted net income of \$190K was replaced with a \$790K projected net loss.

Both the Business Plan and Budget revisions raised great concerns for us and KKR. The board is formulating specific requests for improvements to be made to both plans. Executive search was resumed in June and resulted in a strong CEO candidate, who is currently studying the issues as part of the evaluation process.

Nikoil showed strong initiative throughout the discussions related to the long term plan and has developed its own view of how to proceed.

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
The Fund	\$4,305,207	30.2%
KKR	\$4,293,729	29.4%
Galina Tzvetkova/Nikoil	N/a	25.6%
Private individuals	N/a	14.8%

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$3,579	\$9,079
<u>Net Profit (Loss)</u>	(\$194)	\$1,002
<u>Total Assets</u>	N/a	\$23,038
<u>Net Worth</u>	N/a	\$22,089
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

# Portfolio Review

## Consumer Products

Portfolio Company: Invacorp

Status: *Work out*

Investment Officer: *Regina von Flemming*

The Fund's Investments (06/30/02)      Date of Initial Investment: 07/97

	Committed	Funded	Repaid	Carrying Value
Equity	\$ 10,000,156	\$ 10,000,156	\$ 0	\$ 0
Debt				
<b>Total</b>	<b>\$ 10,000,156</b>	<b>\$ 10,000,156</b>	<b>\$ 0</b>	<b>\$ 0</b>

### Business Description

Invacorp (the "Company") supplies pharmaceutical products to pharmacies and regional wholesalers all over Russia through its branch network.

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

The Fund called in an extraordinary annual shareholder meeting on May 29 in order to vote on liquidation of the company. No quorum was achieved, and the Fund has resigned from the BOD immediately.

Bankruptcy was filed against Invacorp at the end of March. The Fund did not receive notice about this until the beginning of July. Starting in July Coudert Brothers took over all legal work on behalf of the Fund. The Fund bought creditor claims against Invacorp, to be informed and obtain knowledge about the creditors committee as well as the following bankruptcy procedures. The information obtained showed that bankruptcy was strategically planned by the management:

- Asset stripping (warehouses) started in November 2001. The creditor committee and the first bankruptcy hearing at the Moscow court revealed these facts at the beginning of August 2002.

- A Sberbank loan of \$7M obtained in December 2001 was secured with unpaid goods in the warehouse. The BOD was not informed about this pledge.

Despite the above, the Russian Federal Agency for Bankruptcy did not come back to the court with a clear signal for starting criminal investigation on deliberate bankruptcy against management.

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%

### Outlook

It is expected that the next court hearing in September will decide whether investigations on deliberate bankruptcy will begin. Our level of influence is minimal. The only positive aspect is that the newly appointed temporary manager of the company is a candidate of a group of creditors who are strongly convinced that fraud, theft and mismanagement led the company to its current state. We are currently working directly with the Company's creditors and through the court to hold management accountable. It is very likely that both a criminal and tax investigation will be initiated by the court against management in the near future.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01 *
<i>Months</i>	6	12
<u>Revenue</u>	N/a	\$125,579
<u>Net Profit (Loss)</u>	N/a	(\$14,707)
<u>Total Assets</u>	N/a	\$52,392
<u>Net Worth</u>	N/a	\$9,543
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

\* No audit was made since 2000.

# Portfolio Review

## Consumer Products

Portfolio Company: Saint Springs Water Limited

Status: *Exited*

Investment Officer: *Paul Sofianos*

The Fund's Investments (06/30/02)      Date of Initial Investment: 12/95

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

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

### Business Description

Saint Springs Water Limited (the "Company") 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 U.S. 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

Exited to Nestle Western Group.

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	0.6%

### Outlook

The Company was sold to Nestle in July 2002. The Fund received a net amount of \$6.76M as proceeds from the sale.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	N/a	\$21,318
<u>Net Profit (Loss)</u>	N/a	\$120
<u>Total Assets</u>	N/a	\$23,825
<u>Net Worth</u>	N/a	\$20,650
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

# Portfolio Review

**Legacy**

**Portfolio Company:** Agribusiness Partners International L.P.

**Status:** Satisfactory

**Investment Officer:** Paul Sofianos

**The Fund's Investments (06/30/02)**      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
<b>Total</b>	<b>\$ 5,000,000</b>	<b>\$ 5,000,000</b>	<b>\$ 0</b>	<b>\$ 5,000,000</b>

\* At cost.

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	\$1,250,000	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 (\$25M in equity and \$75M - debt) 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, as API is fully invested.

## Current Status

API presented its 2001 Annual Report with portfolio company sales revenues increasing from \$109M in 2000 to \$147M in 2001. Of the seven portfolio companies, only one, Bagrationi, did not show a profit.

Total net income of all companies in the fund portfolio was \$11.5M in 2001 as compared to a loss of \$1.1M in 2000.

In 1Q02, total portfolio performance was on target with \$42M in revenues and \$2.4M in net income.

## Outlook

No actions required at the level of API investment.

## Financial Information

(Dollars in `000s)

	06/30/02	12/31/01 *
Months	6	12
Revenue	\$746	\$102
Net Profit (Loss)	(\$4,128)	(\$14,305)
Total Assets	\$76,099	\$76,357
Net Worth	(\$24,899)	(\$20,769)
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

\* Other income includes net loss on portfolio companies

# Portfolio Review

Legacy

Portfolio Company: FunTech

Status: *Focus*

Investment Officer: *Regina von Flemming*

The Fund's Investments (06/30/02)      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
<b>Total</b>	<b>\$ 2,000,000</b>	<b>\$ 2,000,000</b>	<b>\$ 90,000</b>	<b>\$ 910,000</b>

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

## 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 Fund wishes to exit this investment at the earliest possible opportunity. In preparation, the Fund and FunTech signed a protocol that stipulates the buy-back of the shares by the Company after an initial conversion of the debt into equity, as follows:

- The Company will carry out an additional share registration.
- The Company will increase the Fund's share in capital from 26% to 72.4%.
- Over a period of 18 months (starting 4 months after the registration of the new share emission), the Company will buy back a portion of the shares (669,495 shares for \$182k) through monthly installments. After this period, the Fund's stake will have gone back down to 47.5%.
- Concurrently, and starting immediately, the Company will pay 50% of the net profits as dividends to the Fund, until such payments have reached an overall sum of \$450k. After that, FunTech will continue paying 30% of the net profits as dividends to the Fund.
- The Company shall implement the repayment of the credit payable in accordance with the Credit Agreement #968-02 by a Fund bill of exchange.

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%

## Outlook

Sale to Management, after the preparatory phase is completed. There is concern that FunTech will start generating losses once again and will be unable to pay dividends. Thus, the Fund's return of capital may remain limited to \$182k.

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01 *
<i>Months</i>	6	12
<u>Revenue</u>	\$7,372	\$14,016
<u>Net Profit (Loss)</u>	\$465	\$404
<u>Total Assets</u>	\$5,937	\$5,608
<u>Net Worth</u>	(\$823)	(\$1,141)
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

\* No IAS audit for 2001, only RAS financial were audited

# Portfolio Review

## Legacy

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

**Status:** *Focus*

**Investment Officer:** *Lori Singer*

**The Fund's Investments (06/30/02)**      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
<b>Total</b>	<b>\$ 900,000</b>	<b>\$ 900,000</b>	<b>\$ 55,213</b>	<b>\$ 450,000</b>

\* 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 the 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%. Investment proceeds have helped finance GVCO's expansion plans, including the acquisition of 16 new Noritsu minilabs through 1Q98.

### Current Status

GVCO's revenue for 1H02 exceeded projections by 18%. Operating profit for 1H02 was \$18K, which was 8% below plan. Net income was also below plan.

### Outlook

The Company experiences seasonal fluctuations in sales but an 11% increase is still projected for 2002.

The Fund and GVCO are restructuring the outstanding debt of \$544,785. Proposals to date from GVCO include debt to equity conversions, which is unacceptable to the Fund. The Company, at the Fund's request, is preparing cash flow projections, allowing for a reserve to replace equipment, to service the debt.

### Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$322	\$552
<u>Net Profit (Loss)</u>	\$1	(\$48)
<u>Total Assets</u>	N/a	\$572
<u>Net Worth</u>	N/a	(\$83)
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input checked="" type="checkbox"/>

EQUITY Shareholders	Contribution	Ownership Fully-Diluted
Other Shareholders	\$675,000	49.1%
Management & Directors	\$400,000	29.1%
The Fund	\$300,000	21.8%

# Portfolio Review

**Legacy**

**Portfolio Company:** Phargo Management And Consulting Limited

**Status:** Focus

**Investment Officer:** Regina von Flemming

**The Fund's Investments (06/30/02)**      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
<b>Total</b>	<b>\$ 2,596,803</b>	<b>\$ 2,596,803</b>	<b>\$ 0</b>	<b>\$ 1,043,295</b>

\* 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 downsized the St. Petersburg operation.

There are five main revenue centers in the company: Printing (44%), Binding (18%), Electronic Printing (16%), Design (13%), Color Copying (9%). Rapid response printing is the strongest part of the business.

## Current Status

The company's situation is not improving, and we are monitoring operations carefully. The bank loan from Alfabank (\$100K), which is due at the beginning of October, will not be renewed. The rental agreement for the premises will expire in December. Sales have been declining over the past three months, which is normal during the summer period. The company has failed to pay salaries for two months, and plans for buying new printing equipment are still on hold. Our co-shareholder Framlington organized a share swap earlier this year, increasing its stake from 22.9% to 33%. The Fund was not properly notified of this transaction, and we have challenged this transaction in accordance with the shareholder agreement. We are in the process of ascertaining the legal structure of the business with regard to the Russian and Cypriote entities and gaining a better understanding of Phargo's poor performance.

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%
Others	N/a	7.4%

## Outlook

The outlook for the business remains guarded, as the Fund does not have a reliable picture of the real financial situation. The Fund is interested in exiting this investment as soon as we can identify an acceptable exit opportunity.

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	\$1,414	\$2,737
<u>Net Profit (Loss)</u>	(\$64)	\$73
<u>Total Assets</u>	N/a	\$805
<u>Net Worth</u>	N/a	\$277
IAS	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

# Portfolio Review

Legacy

Portfolio Company: Vita Plus

Status: *Work out*

Investment Officer: *Elena Lomakina*

The Fund's Investments (06/30/02)      Date of Initial Investment: 07/98

	Committed	Funded	Repaid	Carrying Value
Equity	\$ 5,000,048	\$ 5,000,048	\$ 0	\$ 574,000
Debt				
<b>Total</b>	<b>\$ 5,000,048</b>	<b>\$ 5,000,048</b>	<b>\$ 0</b>	<b>\$ 574,000</b>

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

## Business Description

Before the crisis, (the "Company") was one of the leading Russian pharmaceutical distributors based on 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

A bankruptcy case against the Company has been initiated by the Croatia-based Pliva, one of the company's creditors. The Fund's lawyer participates in the court hearings and monitors the process.

## Outlook

The final bankruptcy hearing will take place on November 5, 2002.

## Financial Information

(Dollars in '000s)

	06/30/02	12/31/01
<i>Months</i>	6	12
<u>Revenue</u>	N/a	\$17,002
<u>Net Profit (Loss)</u>	N/a	(\$1,697)
<u>Total Assets</u>	N/a	\$6,905
<u>Net Worth</u>	N/a	(\$1,428)
IAS	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Audited	<input type="checkbox"/>	<input type="checkbox"/>

# Portfolio Review

## Small Business Program

### Disbursements and Outstanding Balances

As of June 30, 2002

	<u>Small Business (a)</u>	<u>Microenterprise</u>	<u>Auto Lending</u>	<u>Mortgage Lending (b)</u>	<u>Total</u>
Disbursed	\$44,280,454	\$1,001,956	\$9,835,000	\$185,236	\$55,302,646
Reflows					
Principal	40,187,831	945,695	8,623,981	114,676	49,872,183
Interest (c)	2,834,821	95,920	918,398	308,813	4,157,952
Write-offs	2,685,877	-	32,973	-	2,718,850
Loans Outstanding	1,406,746	56,261	1,178,046	70,560	2,711,613

(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 December 31, 2000 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 above table are stated at gross amounts received by the Fund. As of June 30, 2002 the Fund has paid DeltaBank a cumulative total of \$665,088 in such fees.

# Portfolio Review

## Small Business Program

### Credit Performance

As of June 30, 2002

	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</u>									
St. Petersburg									
Baltiskiy	51	\$4,336,535	76	2	-	-	-	-	22
Bank St. Petersburg	1	100,000	-	-	-	-	-	-	100
St. Petersburg Bank for R&D	9	685,000	100	-	-	-	-	-	-
Inkasbank	11	882,000	91	-	-	9	-	-	-
Bank of Moscow	1	100,000	100	-	-	-	-	-	-
Dalnevostochny	2	110,000	100	-	-	-	-	-	-
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	92	8,726,835	82	9	3	1	1	-	4
Bank of Moscow (Moscow)	10	1,000,000	100	-	-	-	-	-	-
Bank of Moscow (MBB/Troitskoye loans)	8	810,388	25	-	13	-	-	62	-
Guta Bank	2	109,500	100	-	-	-	-	-	-
MDM Bank (Trade Finance Program)	15	3,050,000	100	-	-	-	-	-	-
First Mutual Credit	15	993,000	93	7	-	-	-	-	-
International Industrial Bank	31	1,884,000	90	10	-	-	-	-	-

# Portfolio Review

## Small Business Program

### Credit Performance

As of June 30, 2002

	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	78	-	-	-	-	-	22
Dalryb (Vladivostok)	18	1,112,000	94	-	-	-	-	-	6
Dalnevostochny (Vladivostok)	24	1,260,278	100	-	-	-	-	-	-
Dalnevostochny (Yuzhno-Sakhalinsk)	16	484,900	81	13	-	-	-	-	6
Primsotsbank	25	1,232,000	76	12	8	4	-	-	-
Primsotsbank (Dalrybank loans)	13	1,057,880	77	-	-	-	8	-	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	85	-	-	-	-	-	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	79	5	-	11	5	-	-
Guta (Rostov)	2	50,000	100	-	-	-	-	-	-

# Portfolio Review

## Small Business Program

### Credit Performance

As of June 30, 2002

	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	-	-	-	-	-	60
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	-	-	-	-	-	-
<u>Ekaterinburg</u>									
Severnaya Kazna	53	3,165,150	96	-	-	-	-	-	4
UralVneshtorg	9	1,033,000	100	-	-	-	-	-	-
Guta	5	180,000	100	-	-	-	-	-	-
<u>Community Lending Program</u>									
Kostroma	17	510,400	100	-	-	-	-	-	-
Petropavlovsk	31	1,466,492	87	7	6	-	-	-	-
<u>Direct/Other</u>									
NrsbiF	4	275,000	100	-	-	-	-	-	-
Vostok Les	1	150,000	-	-	-	-	-	-	100
<b>Total Small Business Portfolio</b>	<b><u>622</u></b>	<b><u>\$44,280,454</u></b>	<b>84%</b>	<b>4%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>1%</b>	<b>8%</b>

**Portfolio Review**  
**Small Business Program**  
**Credit Performance**  
As of June 30, 2002

	<u>As of March 31, 2002</u>		<u>As of June 30, 2002</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Prior Reserve		\$1,006,568 (12/31/01)		\$937,117 (3/31/02)
Loans Charged Off	1	(136,946)	1	(83,543)
Recoveries		58,595		-
Additions to Reserve		<u>8,900</u>		<u>-</u>
Calculated Reserve		\$937,117 (3/31/02)		\$853,574 (6/30/02)
Reserve as a % of loans outstanding		22%		31%

# Technical Assistance Program

As of June 30, 2002

	Committed <u>Amount</u>	Amount <u>Funded</u>	<u>Description</u>	<u>Status</u>
<b><u>The U.S. Center for Entrepreneurship</u></b>	\$1,679,000	\$70,163	The Company is in the setup phase. It was registered as the Delta Center for Entrepreneurship in the state of Delaware, and a wholly owned subsidiary, The U.S. Russia Center for Entrepreneurship, is being registered in Moscow. The Foundation for Enterprise Development is responsible for developing and managing the Center's educational content. The U.S. Russia Center for Entrepreneurship designs and delivers innovative, interactive learning modules for growth entrepreneurs, directs entrepreneur peer-learning programs, conducts learning/networking events that bring together entrepreneurs with investment managers and policymakers to address policy and business issues, and manages a resource center to facilitate just-in-time learning for entrepreneurs.	Ongoing.
<b><u>Direct Investments</u></b>				
Cybiko	9,000	1,810	To obtain an independent valuation of the commercial potential of Cybiko's technological assets.	Open.
Frank's Siberian Supreme	14,858	14,858	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	To acquire and implement management information and financial reporting systems.	Completed.
FunTech II	13,915	13,915	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. (Original grant amount was \$17,000)	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
FunTech III	32,112	32,112	To upgrade Funtech's accounting procedures and develop a model for GAAP restatement. (The original grant amount was \$27,000; cost overrun due to CFO departure and ensuing additional training of replacement).	Completed.
GVCO	70,338	70,338	To purchase and install an MIS.	Completed.
Interstom	14,185	14,185	For Dr. Todd Nicol's consultancy services at the clinic.	Completed.
Invacorp	100,000	100,000	To upgrade MIS.	Completed.
Invacorp II	34,000	34,000	To conduct an audit of business processes and operational audit by Arthur Andersen.	Completed.
Invacorp III	22,200	22,200	To perform an analysis of the existing MIS and supporting infrastructure to assess ability to support business requirements.	Completed.
Junior Achievement	34,614	34,614	To provide intensive business skills training to entry and mid-level management of Plyko and St. Springs.	Completed.
Logistics Management (pipeline project)	38,000	38,000	To assist company in revising and reconciling its financial reports and procedures to better assess financial situation and determine value (original grant \$45,600).	Completed.
Lomonosov	39,799	39,799	To assist in restructuring and modernization of Human Resources Dept., including basic organization restructuring, establishing HR control policies and procedures, pay system rationalization and fine tuning employee incentives.	Completed.
Lomonosov II	19,350	19,350	To identify and recruit a candidate for the position of General Director.	Completed.
Nevsky 49	69,102	69,102	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, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Plyko	248,556	248,556	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.
Polygraf	50,000	50,000	To purchase and implement a U.S. GAAP MIS.	Completed.
Russian Petroleum Investors	150,000	150,000	To train Russian editorial and research staff.	Completed.
RPI II	62,500	62,500	To cover 50% of the costs required for the publication of a special edition assessing the implications of Russian elections for foreign investors.	Completed.
Saint Springs	41,217	41,217	To cover the cost of training Saint Springs' employees, provided by the Center of Business Skills Development (founded with the help of a USAID grant).	Completed.
Saint Springs II	9,676	9,676	To cover 50% of costs to research regional distribution alternatives. (Original grant amount was \$25,000).	Completed.
Segol RadioPAGE	43,625	43,625	To upgrade MIS to a Y2K updated version of existing Platinum software.	Completed.
Segol RadioPAGE II	5,400	5,400	To recruit a Finance Director.	Completed.
Segol RadioPAGE III	5,240	5,240	To contribute pagers for emergency services needed after the Ostankino TV Tower fire.	Completed.
Segol RadioPAGE IV	18,000	18,000	To cover the cost of accounting software support from Platinum™.	Completed.
Segol RadioPAGE V	132,220	132,220	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 \$80,000 until June 30, 2001. Support given to assist Company to perform a merger with another business in the paging sector. Grant extended until October 21, 2001.	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Segol RadioPAGE VI	6,102	6,102	To cover 100% of the recruitment cost for Financial Director, Nadezhda Rodina.	Completed.
Segol RadioPAGE VII	7,500	7,500	To pay costs related to the Uzbeki entity, including payroll, independent valuation of operations, search firm and local lawyer.	Completed.
SPAR	85,000	85,000	To establish and install MIS.	Completed.
TIME	2,462	2,462	To purchase and implement MIS.	Completed.
Vita Plus	200,000	-	To upgrade Vita Plus' MIS.	Open.
Accounting Training for Portfolio Companies	13,309	13,309	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 presented.	Completed.
Crisis Support: Secondments	50,650	50,650	Temporary accounting staff provided to Saint Springs (\$24,655) and Alphagraphics (\$24,995). Original grant amounts were \$24,758 and \$20,000, respectively.	Completed.
Crisis Guide	200,020	200,020	Development and launch of Small Business Crisis Guide. (Original grant amount was \$205,000).	Completed.
Distribution of Fast Moving Consumer Goods	35,000	35,000	To complete a market research study of opportunities in FMCG distribution sector.	Completed.
Distribution of Pharmaceutical Goods	25,000	25,000	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 bank partner program, with market strategy formation.	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Tax Efficient Structures	<u>5,160</u>	<u>5,160</u>	To engage independent tax consultants to review existing businesses and recommend transparent tax efficient structures for Polygraf and Segol RadioPAGE. (Original grant amounts were \$35,000 and \$30,000, respectively).	Completed.
Subtotal Direct Investments	<u>1,992,237</u>	<u>1,785,047</u>		
<b><u>Financial Services</u></b>				
Phase I	155,347	155,347	To expand activity in the Financial Services Sector, specifically aimed at expanding the range of financial products and services through the development of leasing, mortgage and consumer credit activities. (Original grant amount was \$150,000).	Completed 11/30/99.
Phase II	678,930	678,930	Phase II commencement of DeltaLeasing and acquisition of DRB. (Original grant amount was \$470,000).	Completed 5/31/00.
Phase III	968,718	968,718	Phase III management services to DeltaBank (started 6/1/00). (Original grant amount was \$850,000).	Completed 9/30/01.
Phase IV	<u>1,537,168</u>	<u>1,537,168</u>	Continuing expansion of DeltaLeasing, DeltaCredit and DeltaBank.	Ongoing.
Subtotal Financial Services	<u>3,340,163</u>	<u>3,340,163</u>		
<b><u>Private Fund</u></b>				
Haussmann, Weber-Thedy	210,000	131,321	To engage the financial communications firm of Haussmann, Weber-Thedy to attract private investors.	Open.
Pensions 2000	25,000	25,000	Pensions 2000 sponsorship fee – The New Europe: Berlin-Moscow	Completed.
Tucker Anthony/Nugent & Co.	<u>188,275</u>	<u>188,275</u>	Monthly retainer fees and expenses for fund raising.	Completed.
Subtotal Private Fund	<u>423,275</u>	<u>344,596</u>		

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
<b><u>Small Business</u></b>				
Averon-MT	10,167	10,167	To upgrade computers. (SBP Entrepreneur of the Year – 1999). (Original grant amount was \$10,000).	Completed.
Bank Partner Program Management Conference	48,062	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	To upgrade its MIS (SBP Entrepreneur of the Year – 1998).	Completed.
PriceWaterhouseCoopers	314,816	314,816	To present 13 sessions of Credit Analysis for Small Businesses to partner bank professionals. Also included training instructors to teach the course, travel and conference facilities. (Original grant amount was \$452,022; portion used for Micro Credit Program).	Completed.
Primsotsbank	<u>52,100</u>	<u>52,100</u>	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. (Original grant amount \$65K).	Completed.
Subtotal Small Business	<u>445,170</u>	<u>445,170</u>		

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
<b><u>Mortgage</u></b>				
CMG	49,930	49,930	To develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
CMG II	50,684	50,684	For August 2000 public awareness campaign.	Completed.
Nicholai Chitov	21,518	21,518	Consulting services on development of the financial operation for mortgage originations and servicing.	Completed.
Nicholai Chitov II	12,173	12,173	Consulting services on development of the financial operation for mortgage originations and servicing.	Completed.
Denilor Ltd.	16,540	16,540	Public awareness campaign (radio advertising).	Completed.
Development of Mortgage Lending Origination and Servicing Software	12,091	12,091	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	12,259	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	Public information hotline about mortgage lending (March 2001).	Completed.
Danube Management II	58,125	58,125	Public information hotline about mortgage lending (June 2001).	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Diasoft	6,037	6,037	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.
Global Reputation Management Corp.	25,008	25,008	To develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
Institute for Urban Economics	3,539	3,539	To train Russian bankers in residential mortgage lending through Certified Mortgage Lenders Course.	Completed.
Institute for Urban Economics II	7,419	7,419	Certified Mortgage Lenders Course II.	Completed.
Institute for Urban Economics III	5,556	5,556	To train Russian bankers in residential mortgage lending through Course III.	Completed.
Institute for Urban Economics IV	18,110	18,110	To develop internal instructions and procedures for commercial mortgage lending and construction period finance in Russia.	Completed.
Institute for Urban Economics V	2,505	2,505	To train and implement residential mortgage lending in Russia.	Completed.
Institute for Urban Economics VI	18,107	18,107	To develop the internal instructions and procedures for commercial mortgage lending and construction period finance in Russia.	Completed.
Institute for Urban Economics VII	2,480	2,480	To conduct training in mortgage lending to realtors.	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Intrepid Marketing	4,500	4,500	To pay for recruitment of an Internal Control and Review Specialist.	Completed.
IMH Media Ltd.	15,771	15,771	Public awareness campaign (Moscow and St. Petersburg/Feb.-June 2001).	Completed.
IMH Media Ltd. II	5,782	5,782	Public awareness campaign ( St. Petersburg/ Feb.-June 2001).	Completed.
IMH Media Ltd. III	2,304	2,304	Public awareness campaign (Moscow/Feb.-July 2001).	Completed.
Jiffy Traders, Inc.	70,000	70,000	Press campaign (Feb. - June 2001) in Moscow.	Completed.
Jiffy Traders Inc. II	29,699	29,699	Press campaign (Moscow/Feb.-June 2001) Two grants.	Completed.
Jiffy Traders Inc. IV	17,610	17,610	Public awareness campaign (St. Petersburg/Marketing Services Feb.-July 2001).	Completed.
Jiffy Traders Inc. V	12,063	12,063	Public awareness campaign (Photo Shoot).	Completed.
Jiffy Traders Inc. VI	23,756	23,756	Public awareness campaign (St. Petersburg/Marketing Services Feb.-June 2001).	Completed.
Jiffy Traders Inc. VII	49,194	49,194	Public awareness campaign (Marketing Services July-Sept. 2001)	Completed.
Mass Media Campaign	25,116	25,116	Public awareness campaign for residential mortgage lending.	Completed.
Mikhailov & Partners	11,293	11,293	July 2000 public awareness campaign.	Completed.
Mikhailov & Partners II	17,048	17,048	August and September 2000 public awareness campaigns.	Completed.
Mortgage Call Center Training	6,293	6,293	To train call center operators.	Completed.
Mortgage Lending	27,993	27,993	To develop an educational and promotional film for the purchase of a home.	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
NC Marketing Services	6,205	6,205	Public awareness campaign (St. Petersburg/Feb. - June 2001).	Completed.
Public Awareness Campaign (Moscow)	71,022	71,022	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)	17,871	17,871	To Mikhailov & Partners for public awareness campaign for residential mortgage lending in St. Petersburg.	Completed.
Public Awareness Campaign	41,829	41,829	To develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
Public Awareness Campaign	18,888	18,888	To develop and promote a public awareness campaign for residential mortgage lending in Russia.	Completed.
RadioPAGE Call Center	99,092	99,092	RadioPAGE established mortgage call center to provide necessary information to the general public. (Includes 3 grants: \$48,714, \$45,792 and \$3,966).	Completed.
Telford - Phase II	17,000	17,000	Phase II of the mortgage originations and servicing software - default administration servicing development.	Completed.
Telford - Phase III	17,000	17,000	Phase III of the mortgage originations and servicing software - default administration servicing software development.	Completed.
Telford - Phase IV	16,000	16,000	Phase IV of the mortgage originations and servicing software - escrow agreement monitoring and servicing software development.	Completed.
Telford	49,980	49,980	To develop mortgage originations and servicing software for residential mortgage lending.	Completed.

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Telford	58,871	58,871	To develop mortgage originations and servicing software for residential mortgage lending.	Completed.
Telford	<u>10,720</u>	<u>10,720</u>	Implementation of module of current deposits and payments.	Completed.
Subtotal Mortgage	<u>1,145,209</u>	<u>1,145,209</u>		
<b><u>Leasing</u></b>				
RCM Leasing	20,800	20,800	To purchase MIS and computer support to upgrade existing reporting. Program supports development of leasing in southwest Russia. (Original grant amount was \$30,000).	Completed.
RCM Leasing II	28,051	28,051	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. (Original grant amount was \$25,000).	Completed.
RCM Leasing III	35,371	35,371	To create a GAAP module within MIS to allow for transparent financial statements. (Original grant amount was \$50,000).	Completed.
RCM Leasing IV	6,000	6,000	To create an internet website ( <a href="http://www.leasing.ru">www.leasing.ru</a> ) that will allow promotion of leasing services and educate Russian businesses on leasing.	Completed.
RCM Leasing V	40,000	40,000	To cover cost of an audit under GAAP that will allow Company to improve financial reporting. (Original grant maximum amount was \$45,000).	Completed.
DeltaLeasing	<u>4,018</u>	<u>4,018</u>	To develop the content of the internet website ( <a href="http://www.leasing.ru">www.leasing.ru</a> ). (original grant \$12k).	Completed.
Subtotal Leasing	<u>134,240</u>	<u>134,240</u>		

# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
<b><u>Micro Credit</u></b>				
Opportunity International	100,000	100,000	To develop microenterprise lending programs in selected regions in Russia.	Completed.
PriceWaterhouseCoopers	19,982	19,982	Component of Bank Partner Program Grant (see above).	Completed.
Russian Women's Micro-finance Network	50,000	50,000	To fund micro loan portfolios of Fund for the Support of Women Entrepreneurs.	Completed.
Volkhov Business Incubator	2,607	2,607	To pay for Volkhov's executive director's registration fees and expenses for the third annual seminar on new development in Frankfurt, Germany. (Original grant amount was \$2,500).	Completed.
Volkhov II	168,800	168,800	To convert the Fund's existing loans to a grant in order for the company to become self-sustaining.	Completed.
Working Capital/ Counterpart	50,000	50,000	To fund a micro loan portfolio in Nizhny Novgorod.	Completed.
Working Capital/ Counterpart	498,126	498,126	To develop a microenterprise lending program in the Russian Far East. (Original grant amount was \$500,000).	Completed.
Working Capital/ Counterpart	100,000	100,000	To fund a microlending portfolio in the Russian Far East made in lieu of a portion of loan financing.	Completed.

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# Technical Assistance Program

As of June 30, 2002

	<u>Committed Amount</u>	<u>Amount Funded</u>	<u>Description</u>	<u>Status</u>
Working Capital/ Counterpart	1,750	1,750	To conduct an audit of Micro Credit Operations. (original amount \$48k)	Completed.
Working Capital/ Counterpart	16,550	16,550	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/ Counterpart	<u>101,250</u>	<u>101,250</u>	For the conversion of loan balance to a TA grant.	Completed.
Subtotal Micro Credit	<u>1,119,865</u>	<u>1,119,865</u>		
Total	<u>\$10,279,159</u>	<u>\$8,384,453</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, expand through working capital loans, and 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 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 legislation changes beneficial to leasing transactions and small businesses. DeltaLeasing serves as a model for other Russian entities to provide lease financing to small businesses and entrepreneurs.

DeltaCredit is the leading provider of residential mortgages in Russia. DeltaCredit has been instrumental in providing the framework for mortgage lending in Russia and is actively involved with the State Duma in enacting legislation which will help the market grow. DeltaCredit has also provided industry guidelines, technology, policies and procedures and financing to ensure that mortgage lending in Russia is firmly established. The target market of DeltaCredit is the emerging middle class of young Russians and entrepreneurs seeking better living conditions through mortgage finance. Through home ownership, DeltaCredit is helping to build a stable and responsible middle class in Russia. DeltaCredit currently serves Moscow, the Moscow Region and St. Petersburg.

DeltaBank is transforming the financial services industry through several channels. The bank has adopted a consumer finance strategy focusing on credit cards, consumer finance, and corporate lending. DeltaBank recently launched the first revolving credit card in Russia which will introduce thousands of Russians to credit for the first time. Russia's leading retailer, IKEA, has selected the bank to offer DeltaBank credit cards to IKEA's customers. This partnership will give DeltaBank access to up to 3.5 million IKEA customers in Moscow alone. DeltaBank is expanding its retail banking services to the middle class and will serve as a role model to other banks developing in the marketplace.

# Administrative Review

## Expense Budget vs. Actual for the Nine Months Ended June 30, 2002

### Summary

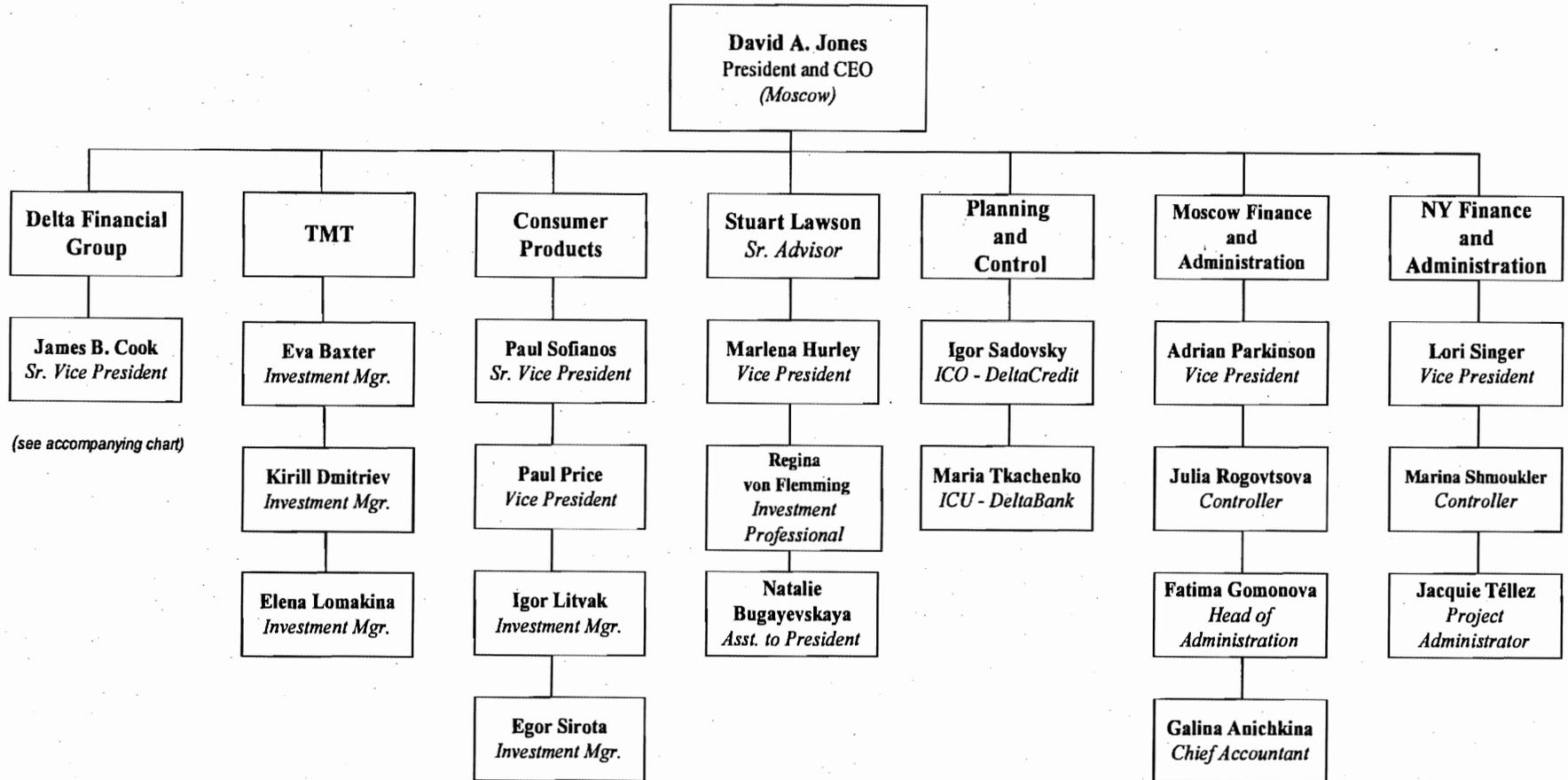
(Dollars in Thousands)

	<u>Budget</u>	<u>Actual</u>	<u>Over/(Under)</u>
Personnel	\$3,937	\$3,931	\$(6)
Occupancy	474	471	(3)
Depreciation	186	168	(18)
Telecommunications	149	181	32
Administrative	526	565	39
Professional Services			
General	975	804	(171)
Transaction	900	1,216	316
Employee travel and expense	496	517	21
Directors' expenses	173	76	(97)
PR and Marketing	240	241	1
Staff training and development	<u>116</u>	<u>122</u>	<u>6</u>
Expenses from continuing operations	\$8,172	\$8,292	\$120
IFC commitment fees for DeltaCredit and DeltaLeasing	-	175	175
Invacorp related costs	<u>-</u>	<u>221</u>	<u>221</u>
Total expenses	<u>\$8,172</u>	<u>\$8,688</u>	<u>\$516</u>

# Administrative Review

## Fund Organization Chart

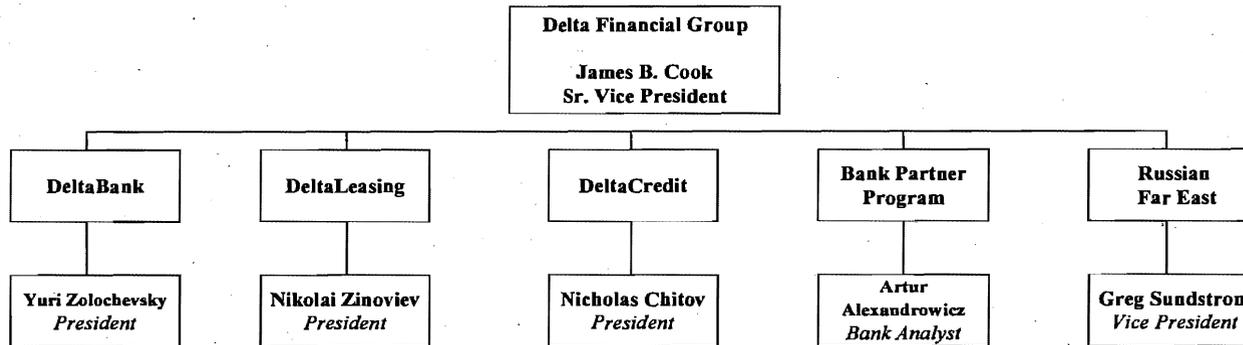
September 2002



# Administrative Review

## Delta Financial Services Group Organization Chart

September 2002



# Financial Controls

## Compliance with U.S. Patriot Act 2001

The broad anti-terrorist program launched after the tragic events of September 11, 2001, are designed, among other things, to deter money laundering and other illicit movements of funds. The U.S. Russia Investment Fund has reviewed its procedures in this connection following that program's launch.

Even before the broad anti-terrorist package, called the USA Patriot Act of 2001 (the "Act") was signed by President Bush, legal entities of the Delta Financial Group "DFG", including DeltaBank, DeltaCredit and DeltaLeasing had established comprehensive anti money laundering procedures. These procedures include "Know Your Customer Policy" and anti-money laundering training sessions. DFG entities are in full compliance with the requirements of the Act.

Since the introduction of the Act, a number of steps have been taken, including:

### 1. Certification

By December 25, 2001 DeltaBank and DeltaCredit sent certifications to American banks that they have correspondent accounts with, confirming:

- (1) companies are not shell banks (a foreign bank that does not have a physical presence in any country);
- (2) Nostro accounts are not being used to indirectly provide services to a foreign shell bank;
- (3) direct and indirect owners of the banks;
- (4) name and address of a person who resides in the US and is authorized to accept service of legal process for recording a correspondent account.

### 2. Policies and Procedures

DeltaBank, DeltaCredit and DeltaLeasing established appropriate, specific, and, where necessary, enhanced policies, procedures and controls designed to detect and record instances of money laundering (this was completed ahead of the required deadline of April 25, 2002). Each company designated a compliance officer and established ongoing employee anti-money laundering training. In addition, each company has an independent audit function to test programs, supervised by the Fund's VP of Planning and Control.

### 3. Statutory Regulations

DeltaBank, DeltaCredit and DeltaLeasing also fully comply with Russian regulations, in particular, with a law on combating money laundering [Federal Law "the Law" No. 115-FZ, dated August 7, 2001 "On Counteraction of Legitimization (Laundering) of the proceeds of Crime"], adopted by Russia in preparation for joining the WTO.

The Law, effective as of February 1, 2002, introduces government monitoring of certain “suspicious” operations with the purpose of preventing money laundering. It requires financial organizations including, among others, banks and leasing companies, to disclose information on certain transactions to an authorized government agency.

The Law distinguishes two sets of rules for disclosing information: “compulsory” and “discretionary” rules. “Compulsory” rules require disclosure of information by financial organizations when a particular organization falls within the exhaustive list of operations set forth in the Law. This list includes certain cash operations, transactions with anonymous holders’ accounts, operations of an entity registered for less than three months, financial lease operations and other operations. Financial organizations must submit data on such operations to the Authorized Agency, the Russian Federation Committee on Financial Monitoring.

The second set of rules introduces a “discretionary” criterion for disclosing information, based on a financial organization’s internal control over clients operations. When carrying out internal control, if an employee of a financial organization determines that the purpose of a particular operation is money laundering, the employee is obligated to submit relevant information to the Compliance Officer of the organization, who, after verification, submits it to the Authorized Agency. The best practices of major western financial organizations were used as the basis for the “discretionary” internal controls of DFG.

#### 4. Databases

DFG customer databases were checked for any relationships with a list of alleged suspects under investigation by FBI in connection with the World Trade Center and Pentagon attacks, as well as against the Office of Foreign Asset Control “OFAC” Specially Designated Nationals list. No suspicious entities or individuals were revealed, with all names being “clean”. An automated OFAC monitoring system is being installed in DFG entities for screening purposes.

The  
U.S. Russia   
Investment Fund

The U.S. Russia Investment Fund  
545 Fifth Avenue  
Suite 300  
New York, NY 10017  
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Lori I. Singer  
Vice President and Financial Controller

September 5, 2002

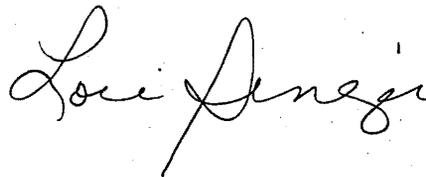
Mr. William Frej  
Director E&E/MT  
Office of Enterprise Development  
Bureau for Europe and the NIS  
U.S. Agency for International Development  
1300 Pennsylvania Avenue  
Room 5.08-101  
Washington, DC 20523

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,



# The U.S. Russia Investment Fund

## Statement of Investment Operations

For the Nine Months Ended June 30, 2002

### INCOME

Interest, fees and dividends on investments and loans	\$ 549,879
Interest on cash and cash equivalents	<u>85,978</u>
Total income	635,857

### EXPENSES

Personnel	3,930,879
Occupancy	470,735
Depreciation and amortization	167,633
Telecommunication	181,185
Administrative	564,724
Professional services	
General	803,788
Transaction, net	1,216,406
Employee travel and expense	517,080
Directors expenses	76,153
PR and Marketing	241,403
Staff training and development	<u>122,293</u>
Total expenses from continuing operations	8,292,279
Extraordinary expenses	
IFC commitment fees for DeltaCredit and DeltaLeasing	175,000
Invacorp related costs	<u>221,253</u>
Total expenses	<u>8,688,532</u>
Excess of operating expenses over income	(8,052,675)

### REALIZED AND UNREALIZED GAIN (LOSS)

Unrealized loss on investments	(6,989,247)
Realized loss on investments	(2,950,760)
Provision for loan loss	(27,428)
Foreign currency translation loss	<u>(6,117)</u>
Net realized and unrealized gain (loss)	<u>(9,973,552)</u>
Net decrease in fund balance resulting from investment operations	(18,026,227)
U.S. Government grants utilized for program expenditures	19,500,000
Technical assistance grants utilized	<u>(1,924,942)</u>
Net change in fund balance	(451,169)
Fund balance – beginning of the period	<u>140,021,372</u>
Fund balance – end of the period	<u>\$139,570,203</u>

# The U.S. Russia Investment Fund

## Balance Sheet

As of June 30, 2002

### ASSETS

Direct investments, at carrying value (cost \$155,807,930)	\$133,710,281
Bank Partner Program loans, net of loan loss reserve of \$853,574	<u>1,858,032</u>
Total investments	135,568,313
Cash and cash equivalents	3,769,609
Accounts receivable	538,492
Fixed assets, net	352,168
Prepaid expenses and deposits	<u>832,170</u>
<b>TOTAL ASSETS</b>	<b><u>\$141,060,752</u></b>

### LIABILITIES AND FUND BALANCE

Accounts payable and accrued expenses	\$1,490,549
U.S. Government grants received and held for future program purposes	-
Total Liabilities	<u>1,490,549</u>
Fund Balance	<u>139,570,203</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b><u>\$141,060,752</u></b>

# The U.S. Russia Investment Fund

## Statement of Cash Flows

For the Nine Months Ended June 30, 2002

### CASH FLOWS FROM OPERATING ACTIVITIES

Net change in fund balance resulting from investment operations	\$(18,026,227)
<i>Adjustments to reconcile net change in fund balance to net cash used in operating activities:</i>	
Depreciation and amortization	167,633
Provision for loan losses	27,428
Unrealized loss on investments	6,989,247
Realized loss on investments	2,950,760
<i>Changes in operating assets and liabilities:</i>	
Accrued interest	1,677
Accounts receivable	179,611
Prepaid expenses and deposits	(140,682)
Accounts payable and accrued expenses	(255,745)
Net cash used in operating activities	(8,106,298)

### CASH FLOWS FROM INVESTING ACTIVITIES

Cash received from U.S. Government grants	19,500,000
Technical assistance grants expended	(1,924,942)
Direct investment disbursements	(39,124,488)
Direct investments principal repayments and sales proceeds	18,681,326
Bank Partner Program loan disbursements	(548,000)
Bank Partner Program principal repayments and recoveries	4,922,432
Purchase of fixed assets	(246,291)
Net cash provided by investing activities	<u>1,260,037</u>
Net decrease in cash and cash equivalents	(6,846,261)
Cash and cash equivalents, beginning of period	<u>10,615,870</u>
Cash and cash equivalents, end of period	<u>\$3,769,609</u>

# Fund Draw Downs vs. Actual Expenditures

From Inception through June 30, 2002

054

Fiscal Year	Beginning Cash Balance	Draw Downs	Actual Expenditures				Less Reflows	Total Net Expenditures	Ending Cash Balance
			Total Direct Investments	Small Business Programs	Technical Assistance	Cash Operating Expenditures			
1994	-	13,238,645	1,095,564	27,500	2,462	6,637,438	74,139	7,688,825	5,549,820
1995	5,549,820	39,652,512	28,611,003	2,304,373	-	11,560,000	958,391	41,516,985	3,685,347
1996	3,685,347	35,300,000	19,929,107	3,132,354	461,556	10,751,806	2,522,923	31,751,900	7,233,447
1997	7,233,447	31,750,000	25,174,735	5,494,480	597,908	8,685,039	5,455,601	34,496,561	4,486,886
1998	4,486,886	45,081,000	23,162,733	14,592,616	603,295	8,598,507	8,340,654	38,616,497	10,951,389
1999	10,951,389	5,440,000	15,182,907	5,892,503	795,276	10,072,528	19,892,485	12,050,729	4,340,660
2000	4,340,660	50,500,000	40,975,177	19,855,438	1,863,370	9,700,736	24,702,399	47,692,322	7,148,338
2001	7,148,338	15,500,000	35,790,022	3,455,382	2,135,645	8,709,070	38,057,651	12,032,468	10,615,870
YTD 06/30/02	10,615,870	19,500,000	39,124,488	548,000	1,924,941	8,806,672	24,057,841	26,346,261	3,769,609
		255,962,157	229,045,736	55,302,646	8,384,453	83,521,796	124,062,084	252,192,548	

# Strategic Framework Matrix

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

### 1. Direct Investment Portfolio Digest:

Firm Name	Total Cost Basis (\$ million) 06/30/02	Current Valuation (\$ million) 06/30/02	Number of Jobs	Woman-owned <sup>(1)</sup> %	Sales <sup>(2)</sup> (\$ million)	Return on Equity <sup>(2)</sup> (%)	Location
Agribusiness Partners	5.00	5.00	50		0.8	N/A	Moscow
Cybiko	1.50	1.50	50		11.5	-83	Moscow/California
Delta Auto Lease	0.91	0.91	10		N/A	N/A	Moscow
DeltaBank	20.50	20.50	160		2.4	-19	Moscow, Moscow region, St. Petersburg
DeltaCredit	38.48	38.48	150		1.8	-30	Moscow, St. Petersburg
DeltaLeasing	12.63	12.63	58		1.6	43	Moscow, St. Petersburg, Rostov, Samara, Nizhny Novgorod, Ekaterinburg
DeltaLeasing - Far East	2.50	2.50	12		0.3	0	Vladivostok
FunTech	1.91	0.91	95		15.5	34	Moscow
Genesee-Volkhov Connection	0.84	0.45	70	14.5%	0.8	0	Novgorod/Rochester
INTH	4.38	4.38	100		6.1	1	Moscow/California
Interstom	0.08	0.08	12		N/A	39	Rostov-on-Don
Invacorp	10.00	-	200		53.6	-61	Moscow
Lomonosov Porcelain Factory	4.30	4.30	1,765		8.2	3	St. Petersburg
Nevsky 49	8.64	8.64	250		6.5	-16	St. Petersburg
Paperspace	0.03	0.03	10		N/A	N/A	Munich
Pentacom	6.00	6.00	17		N/A	N/A	Moscow region
Phargo Management	2.60	1.04	70		3.0	-46	Moscow
Polygrafoformlenie	2.80	2.80	616		44.4	16	St. Petersburg
Port.ru	1.00	0.09	65		1.2	-8	Moscow
Saint Springs Water Limited	3.50	6.27	315		21.3	1	Moscow, Kostroma
SPAR Middle Volga	2.60	2.60	200		3.1	-14	Nizhny Novgorod
SPAR Moscow Holdings	4.01	4.01	280		5.3	18	Moscow
StoryFirst Communications	6.10	2.70	200		40.3	-59	Moscow, St. Petersburg
SUN-Interbrew	10.50	7.32	10,000		410.4	3	Moscow
Time	0.02	0.02	18		0.3	N/A	Moscow
VitaPlus	5.00	0.57	100		N/A	N/A	Moscow
<b>TOTAL DIRECT INVESTMENT</b>	<b>155.83</b>	<b>133.73</b>					

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

<sup>(2)</sup> Where available, results for the period to June 30, 2002 have been used, other wise December 31, 2001 results are disclosed.

# Strategic Framework Matrix

## 2. Bank Partner Program

	<b>Disbursed</b>	<b># Companies/ borrowers</b>	<b>Women owned companies and %</b>	<b>Principal Reflows</b>	<b>Interest &amp; Fees Reflows</b>	<b>Write-Offs</b>	<b>Loans Outstanding</b>
Small Business <sup>(1)(2)</sup>	44,280,454	622	209/34%	40,187,833	2,834,821	2,685,877 <sup>(3)</sup>	1,406,744
Micro Enterprise <sup>(2)</sup>	1,001,956	390	115/30%	945,698	95,920	-	56,258
Auto Lending <sup>(2)</sup>	9,835,000	1,371	411/30%	8,623,981	918,397	32,973	1,178,046
Mortgage Lending <sup>(4)</sup>	185,236	16	8/50%	114,676	308,813	-	70,560
<b>Total Bank Partner</b>	<b>55,302,646</b>	<b>2,399</b>	<b>743/31%</b>	<b>49,872,188</b>	<b>4,157,951</b>	<b>2,718,850</b>	<b>2,711,608</b>

<sup>(1)</sup> Includes community lending, trade finance and direct loans.

<sup>(2)</sup> Starting 04/01/01 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 06/30/02, the Fund has paid DeltaBank a total of \$665,088 in such fees.

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

<sup>(4)</sup> The Fund's Mortgage loan portfolio 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.

# Strategic Framework Matrix

## Objective 1: Investments in SMEs in Different Sectors (in millions)

1. Cumulative Investment through end of fiscal year indicated.

	Actuals	Projected			
	Invested to Date (06/30/02)	2002	2003	2004	By the end of the Fund
Direct Investments	229.0	234.0	310.0	370.0	390.0
Bank Partner Program	55.3	56.0	58.0	59.0	60.0
Technical Assistance	8.4	9.0	12.0	14.0	15.0
Cash Operating Expenditure	83.5	87.0	80.0	80.0	80.0
Reflows <sup>(1)</sup>	(124.1)	(136.0)	(105.0)	(105.0)	(105.0)
<b>FUND TOTAL</b>	252.1	250.0	355.0	418.0	440.0

<sup>(1)</sup>Assumes sufficient reflows to support all or part of operating expenses from 2002 onwards.

# Strategic Framework Matrix

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

	<b>Planned year for break-even</b>
Small	N/A <sup>ⓐ</sup>
Micro	N/A <sup>ⓐ</sup>

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

<b>Yes/No</b>	<b>Ratio</b>
<b>Yes</b>	<b>2¼ %</b>

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

<b>Year</b>
<b>2005</b>

---

<sup>ⓐ</sup>No plans for these programs to breakeven as most of the value will be transferred to Fund's financial service investments

# Strategic Framework Matrix

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

Actual 06/30/02	Target, End of Fund
55%*	100%

\*Net Assets: \$139,570,203  
Cash Drawn: \$255,962,157

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## Objective 2: Capital Under Management By The Fund From Other Sources

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

Yes/No	Target Amount	Target Closing Date
Yes	\$100m	Spring 2003

# Strategic Framework Matrix

## 3. Other capital mobilized by Fund to date.

	Cumulative	06/30/02
	Firm/Org	Amount (\$millions)
<b>US</b>	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
	<b>TOTAL U.S.</b>	<b>122.7</b>
<b>Non US</b>	Alfa Bank	5.0
	EBRD	14.5
	Framlington	19.7
	Mint Capital	3.8
	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
	<b>TOTAL NON-U.S.</b>	<b>164.90</b>

# Strategic Framework Matrix

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

<b>Small Business Program</b>	<b>Amount</b>
<b><u>Russian Far East</u></b>	
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	2,289,880
Kamchatagprombank	1,466,492
<b><u>Northern Region</u></b>	
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
<b><u>Urals</u></b>	
Gutabank	180,000
Severnaya Kazna	3,165,150
Uralvneshtorg	1,033,000
<b><u>Southern Russia</u></b>	
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

<b>Small Business Program</b>	<b>Amount</b>
<b>Southern Russia (cont'd)</b>	
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
<b>Other, including Moscow</b>	
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	1,884,000
Kostroma Sberbank	550,400
MDM Bank (Moscow)	3,050,000
Menatep	1,157,000
Mosbusiness (Troitskoye)	100,000
Mosbusiness (Pushkinskoye)	148,200
Probusiness	8,726,835
SBS Agro Bank	15,000
Yarsotsbank	679,000

# Strategic Framework Matrix

## **Objective 3: Policy Reform**

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.

DeltaBank 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 DeltaCredit Bank's team was actively involved in changing the legislation for mortgage lending in Russia, which will make mortgage lending more attractive to both investors and lenders.

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  
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David A. Jones  
President and CEO

September 5, 2002

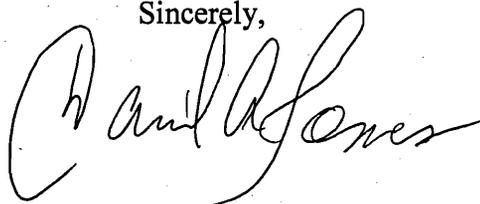
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Director E&E/MT  
Office of Enterprise Development  
Bureau for Europe and the NIS  
U.S. Agency for International Development  
1300 Pennsylvania Avenue  
Room 5.08-101  
Washington, DC 20523

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,



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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.