



**The U.S. Russia Investment Fund**  
**Annual Report**  
**2001**

## MISSION STATEMENT

The U.S. Russia Investment Fund (the "Fund") is a private U.S. investment firm established to promote the development of a free-market economy in the Russian Federation. The Fund is authorized to receive \$440 million from the U.S. Government to make equity capital, loans and technical assistance available to private businesses operating in Russia. The Fund's mandate is to encourage private sector development while assisting in the long-term growth and profitability of businesses of all sizes throughout Russia.

*"There are at present two great nations in the world — I allude to the Russians and the Americans... Their starting point is different and their courses are not the same, yet each seems marked out by the will of heaven to sway the destinies of half the globe..."*

*Alexis de Tocqueville,  
1835*

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## LETTER FROM MANAGEMENT



Radisson SAS Royal, St. Petersburg

*"In the believe-it-or-not category of economic development, there is a new success story in the making, a place with one of the world's lowest income tax rates but highest rates of growth. No, not Hong Kong. It's Russia... the good news is that Russia's economy is showing more signs of sanity and promise than anytime in the past decade..."*

*The Wall Street Journal  
November 12, 2001*

Fiscal 2001 was the most successful year in the history of The U.S. Russia Investment Fund. The Fund began realizing significant returns on its equity investments just as Russia turned the corner and entered a period of political stability and economic growth. Most important has been the fundamental change in the business and investment climate. Long-awaited structural reforms, combined with a new entrepreneurial spirit and the growing sophistication of management teams, have reshaped the way business is being done in Russia — and the Fund has benefited. As a new year begins, we are looking at a unique time of opportunity and increasing liquidity in Russia's private equity market.

We enter 2002 committed to a clear investment strategy that places us in a solid position to benefit from trends underway in Russia. Our achievements to date provide us with a competitive edge in building and expanding relationships with investors and managers of our existing portfolio companies, as well as with emerging entrepreneurial teams. We continue to reach beyond Moscow to other markets in this vast country, taking advantage of our seven-plus years of experience.

We have found that our ability to incubate some of the businesses in which we invest is well-suited to the evolving Russian marketplace of the 21st century. This enables us to nurture a style of Russian management based on best Western business practices while also reflecting Russia's realities. Incubation tends to ensure transparency, high standards of corporate governance, and mutual expectations for management and investors. Incubation also establishes best practices as a theme for management.

We continue to pursue opportunities in the three particular markets which manifest effective demand for capital, where we have productive relationships with investees and where we have built solid in-house experience. These target markets include: financial services; telecommunications, media, and technology (TMT); and consumer products distribution and logistics. We have achieved outstanding results in each sector. Three successful exits in 2001 demonstrated that there is liquidity as well as profitability in the Russian equity market. Other profitable exits are expected in fiscal 2002.

The Fund enjoyed a write-up on the value of our \$4 million 1996 investment in Nizhny Newsprint (NNP). Written off after the company defaulted on debt repayment during Russia's fiscal crisis, the investment was sold in 2001 at a \$16 million profit.

The exit was gratifying, but so too was the quality of the "hands-on" investment management that produced it. By working actively with management, our investment professionals were able to assist in bringing fiscal order to the company's balance sheet, reducing the debt burden and establishing sound financial management. The Fund's successful exit resulted from assertive management leadership, aligned with investor interests, within the framework of a nurturing partnership.

## LETTER FROM MANAGEMENT

The sale of the Fund's stake in Bitech Petroleum, an oil production company based in the Republic of Komi, underscored the growing liquidity of the Russian domestic financial market. Publicly-held LUKoil, the leading Russian oil company, bought Bitech in a public sale, supported by Russian investors.

In addition, the Fund successfully liquidated its investment in Marine Resources Inc., in which the Fund first purchased shares in 1996.

Meanwhile, new investments continued as the Fund became the majority investor in SPAR Moscow under an agreement with SPAR International, the world's largest retail chain. In 2001, SPAR Moscow opened the 20,000 sq. ft. EUROSPAR store, the first supermarket in Russia carrying the SPAR brand. SPAR Moscow plans to build a network of some 20 stores within three years and develop its own distribution system. Capitalizing on strong consumer response to SPAR Moscow's offerings, the Fund is also developing plans to help SPAR to be introduced to Russia's regions.

Three "macro" elements have been central to Russia's progress: steady political leadership exemplified by the productive and purposeful relationship between President Putin and the Duma; sorely-needed tax reform which has lowered rates and increased revenues; and the establishment of property and labor rights according to international norms.

At the "micro" level, and just as important, the difficult years of privatization are beginning to bear fruit for ordinary Russians. Interest in private investment is rising, as is the rate of private investing. The regular payment of wages and pensions, a welcome hallmark of the Putin era, not only makes private investment possible but also fosters a substantial increase in demand and consumption. Russians as consumers and investors no longer exist solely in the imagination of planners, but as realities in the Russian economy today.

But there is more. No longer are we witnessing the euphoria and speculation by Russians and outsiders that characterized the mid-nineties. A widespread change in Russian attitudes, perceptions and self-confidence is occurring, with the net effect that the country has become increasingly "investor-friendly" since 1998.

Russian enterprises today are focused in the main on corporate value building. We see evidence of this when approached for capital by young Russian entrepreneurs. Managers realize, as they enter the competitive business arena, that the critical imperative is satisfying their customers. Managers who focus on improving information systems, raising standards of transparency and establishing a foundation of best practices are being rewarded by the marketplace. Most significant, there is a new recognition of the long-term value of training and personnel development as crucial factors in building stronger companies. These are certainly new factors in the business mix in Russia.



EUROSPAR store, Moscow

*"...there is an abundance of signs this fall that Russia has reached — at long last — a crucial milepost that East Europeans achieved in the mid-1990's: the status of a growing, politically stable and hopeful nation."*

*The New York Times  
November 18, 2001*

## LETTER FROM MANAGEMENT

*"Few would have thought that the debacle of '98 was the best thing that could have happened to Russia. And yet it's so. Where once there was chaos, collapse and destitution, there is now stability, reform and growth... Russia today is an entirely different place. It is normalizing. Broad-based economic growth and financial stability are the outward signs. But the roots go much deeper... business has shifted from the politics of corruption to, well, real business. Today's focus is entrepreneurship and making money in Western ways, with real budgets and real management."*

*Newsweek International  
November 19, 2001*

Particularly impressive during 2001 has been a highly visible reverse Diaspora. Young Russians who flocked West to business schools and universities in the wake of the events of 1991 and 1998 are returning with their education and newly-honed skills. They are joining other bright young Russians who stayed to form a new class of sophisticated entrepreneurs and managers. As a result, training and experience are available that makes identifying and partnering with innovative and responsible Russian management teams increasingly possible.

Admittedly, despite three years of consistent economic expansion and achievement, and a growth rate of over 7 percent for 2000 and 5.5 percent projected for 2001, Russia's road to economic modernization and full global integration will not be smooth. However, we know that the brainpower exists to produce an entrepreneurial economy. The "zero-sum" role of oil and other extractive industries as determinants of prosperity and budgetary health needs to be balanced with diverse new sources of wealth creation. A modern banking system must be created and integrated into Russian life. New institutions that will further enhance the rule of law and protect property rights must be developed even as existing institutions are strengthened.

With the balance of realism and optimism that our long experience in Russia demands, The U.S. Russia Investment Fund is looking ahead to 2002 with enthusiasm and confidence. We are convinced that our approach to developing Russia's business base by promoting best management practices is effective, well-timed and fruitful. Our deliberate strategic focus on financial services, TMT and consumer products distribution and logistics through the models of DeltaCredit, DeltaLeasing and SPAR Moscow, among others, has proven to be sound and fertile. Unquestionably, there is a changed Russia emerging, and the Fund and its management team are well positioned to capitalize on it.

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of  
The U.S. Russia Investment Fund:

We have audited the accompanying balance sheets of The U.S. Russia Investment Fund (the "Fund") (a Delaware not-for-profit corporation), including the schedules of investments, as of September 30, 2001 and 2000, and the related statements of investment operations and changes in fund balance, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Notes 3 and 6, the financial statements include investments valued at \$129,829,019 and \$110,446,799 as of September 30, 2001 and 2000, respectively, whose values are stated at fair value as determined by management, in accordance with the guidelines set forth in Notes 3 and 6, and adopted by the Board of Directors in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those determined values may differ from the values that would have been used had a ready market for the investments existed, and the differences could be material.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The U.S. Russia Investment Fund as of September 30, 2001 and 2000, and the results of its investment operations and changes in fund balance and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



New York, New York  
December 14, 2001

**BALANCE SHEETS**  
**SEPTEMBER 30, 2001 AND 2000**

|  | 2001           | 2000           |
|--|----------------|----------------|
| <b>A S S E T S</b>   |                |                |
| INVESTMENTS, at fair value<br>(Cost: 2001 — \$145,925,486 and<br>2000 — \$127,964,144) | \$ 129,829,019 | \$ 110,446,799 |
| CASH AND CASH EQUIVALENTS  | 10,615,870     | 7,148,338      |
| FIXED ASSETS, net  | 273,510        | 558,490        |
| ACCOUNTS RECEIVABLE  | 356,108        | 511,111        |
| PREPAID EXPENSES AND DEPOSITS  | 691,488        | 795,851        |
| ACCRUED INTEREST   | 1,677          | 47,180         |
| Total assets   | \$ 141,767,672 | \$ 119,507,769 |

**LIABILITIES AND FUND BALANCE**

**LIABILITIES:**

|   |              |              |
|---|--------------|--------------|
| Accounts payable and other<br>accrued expenses                          | \$ 1,746,299 | \$ 1,530,461 |
| U.S. Government grants received<br>and held for future program purposes | —            | —            |
| Total liabilities   | 1,746,299    | 1,530,461    |

**COMMITMENTS (Note 5)**

|                                    |                |                |
|------------------------------------|----------------|----------------|
| FUND BALANCE                       | 140,021,373    | 117,977,308    |
| Total liabilities and fund balance | \$ 141,767,672 | \$ 119,507,769 |

*The accompanying notes are an integral part of these financial statements.*

## STATEMENTS OF INVESTMENT OPERATIONS AND CHANGES IN FUND BALANCE

|   | 2001           | 2000           |
|---|----------------|----------------|
| REVENUE:  |                |                |
| Interest on investments and loans                               | \$ 1,206,038   | \$ 1,450,738   |
| Interest on cash and cash equivalents                           | 316,161        | 613,211        |
| Total revenue   | 1,522,199      | 2,063,949      |
| EXPENSES:   |                |                |
| Personnel   | 4,509,095      | 4,882,744      |
| Professional services   | 2,087,695      | 1,670,851      |
| Employee travel   | 710,173        | 523,473        |
| Administration and office expenses                              | 700,867        | 729,144        |
| Occupancy   | 618,763        | 693,437        |
| Depreciation and amortization                                   | 276,021        | 251,979        |
| Directors' expenses   | 168,281        | 228,917        |
| Program development   | 395,718        | 417,044        |
| Total expenses  | 9,466,613      | 9,397,589      |
| Excess of expenses over revenue                                 | (7,944,414)    | (7,333,640)    |
| REALIZED AND UNREALIZED GAIN (LOSS):                            |                |                |
| Net realized gain (loss) on investments                         | 15,361,097     | (2,069,216)    |
| Decrease (increase) in net unrealized loss on investments       | 6,602          | (1,311,198)    |
| Decrease (increase) in allowance for small business loan losses | 1,259,068      | (25)           |
| Foreign currency translation loss                               | (2,643)        | (8,947)        |
| Net realized and unrealized gain (loss)                         | 16,624,124     | (3,389,386)    |
| Net increase (decrease) in operations                           | 8,679,710      | (10,723,026)   |
| U.S. GOVERNMENT GRANTS UTILIZED FOR PROGRAM EXPENDITURES        | 15,500,000     | 50,500,000     |
| TECHNICAL ASSISTANCE GRANTS                                     | (2,135,645)    | (1,863,370)    |
| Net increase in fund balance                                    | 22,044,065     | 37,913,604     |
| FUND BALANCE, beginning of year                                 | 117,977,308    | 80,063,704     |
| FUND BALANCE, end of year                                       | \$ 140,021,373 | \$ 117,977,308 |

*The accompanying notes are an integral part of these financial statements.*

**STATEMENTS OF CASH FLOWS**  
**SEPTEMBER 30, 2001 AND 2000**

|  | 2001                | 2000               |
|--|---------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>   |                     |                    |
| Net increase (decrease) in operations  | \$ 8,679,710        | \$ (10,723,026)    |
| Adjustments to reconcile net increase (decrease)<br>in operations to net cash used in operating activities |                     |                    |
| Depreciation and amortization  | 276,021             | 251,979            |
| (Decrease) increase in allowance for loan losses   | (1,259,068)         | 25                 |
| (Decrease) increase in net unrealized loss<br>on investments   | (6,602)             | 1,311,198          |
| Net realized (gain) loss on investment   | (15,361,097)        | 2,069,216          |
| Changes in operating assets and liabilities  |                     |                    |
| Decrease (increase) in accounts receivable   | 155,003             | (338,888)          |
| Decrease in prepaid expenses and deposits  | 104,363             | 8,661              |
| Decrease in accrued interest   | 45,492              | 133,776            |
| Increase in accounts payable and other<br>accrued expenses   | 215,839             | 36,116             |
| Net cash used in operating activities  | (7,150,339)         | (7,250,943)        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>   |                     |                    |
| Cash received from U.S. Government grants  | 15,500,000          | 50,500,000         |
| Technical assistance grants expended   | (2,135,645)         | (1,863,370)        |
| Net cash provided by financing activities  | 13,364,355          | 48,636,630         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>   |                     |                    |
| Decrease in restricted cash  | —                   | 3,031,681          |
| Investments  |                     |                    |
| Investment disbursements   | (35,790,023)        | (40,975,177)       |
| Principal repayments and proceeds on sales   | 24,374,509          | 4,650,658          |
| Small Business Lending Program   |                     |                    |
| Loans  | (3,455,382)         | (19,855,438)       |
| Principal repayments   | 12,115,452          | 14,822,335         |
| Purchase of fixed assets   | (61,011)            | (252,068)          |
| Proceeds from sales of fixed assets  | 69,971              | —                  |
| Net cash used in investing<br>activities   | (2,746,484)         | (38,578,009)       |
| Net increase in cash and cash<br>equivalents   | 3,467,532           | 2,807,678          |
| <b>CASH AND CASH EQUIVALENTS,<br/>beginning of year</b>  | <b>7,148,338</b>    | <b>4,340,660</b>   |
| <b>CASH AND CASH EQUIVALENTS,<br/>end of year</b>  | <b>\$10,615,870</b> | <b>\$7,148,338</b> |

*The accompanying notes are an integral part of these financial statements.*

## **1. ORGANIZATION AND DESCRIPTION OF BUSINESS**

The U.S. Russia Investment Fund (the "Fund") is a not-for-profit corporation established pursuant to authority contained in the Foreign Assistance Act of 1961, as amended, the Support for East European Democracy Act of 1989, as amended (the "SEED Act"), and the Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act of 1992 for the primary purpose of promoting the development of the Russian private sector and policies and practices conducive to such development. The Fund was incorporated in Delaware on May 10, 1995, and commenced operations on August 1, 1995, upon the combination of two previously established not-for-profit corporations, the Russian American Enterprise Fund ("RAEF") and the Fund for Large Enterprises in Russia ("FLER"). As of September 30, 2001, the Fund operated out of New York, Moscow, Ekaterinburg with a presence in Rostov-on-Don, St. Petersburg, Ekaterinburg, Khabarovsk, Vladivostok, Sakhalin and Krasnodar. Funding comes from a \$440 million grant (the "Grant"), dated August 15, 1995, and is administered by the U.S. Agency for International Development ("USAID") to be utilized for program purposes and administrative expenditures of the Fund. Grants received from USAID are conditioned upon the Fund's compliance with the requirements of the SEED Act, which imposes certain U.S. policy objectives and reporting obligations. Subject to the terms of the grant agreement with USAID, the Fund may hold funds in interest-bearing accounts and may retain investment and program income for program purposes. As of September 30, 2001, the Fund has received \$236 million pursuant to the Grant.

The Fund is engaged in a private investment program in Russia which provides equity investments, loans and technical assistance grants to Russian enterprises, Western firms and Russian-Western joint ventures operating in Russia. Through its direct role in investments in the Russian private sector, the Fund seeks to generate profits that will further support its activities and attract investments by others. The Fund also seeks to provide training and managerial and technical assistance to business enterprises directly connected to the investments made by the Fund.

## **2. BASIS OF PRESENTATION**

The Fund's financial statements are presented under U.S. generally accepted accounting principles. Revenues and expenses are accounted for using the accrual method of accounting, which calls for recognition of income and expenses in the period earned and incurred, respectively.

## NOTES TO FINANCIAL STATEMENTS

### SEPTEMBER 30, 2001 AND 2000

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### Investment Valuation

The Fund's investments, as set forth in the accompanying schedules of investments, are not readily marketable and are generally not listed on a stock exchange or quoted in an open market. These investments are stated at fair value. Investment valuation is undertaken by management and, in each case, the year-end values are approved by the Board of Directors (the "Board") in conformity with the following broad guidelines:

Investments are carried at cost except where a change in the company's situation clearly warrants a revaluation. A conservative basis is sought by generally requiring upward adjustments to be based on values established in meaningful third party transactions in the securities of the company in question, while downward adjustments may be made at the discretion of the Board to reflect changed conditions within the company (see Note 6).

The carrying values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be determined with certainty until the individual positions are liquidated.

#### Functional Currency

The functional currency for all locations is the U.S. dollar, even though a number of transactions may be conducted in Russian rubles. Income earned and expenses incurred in rubles are translated at the actual rates in effect at the time of the transaction or at the average rates in effect during the period if an actual rate cannot be determined. Assets and liabilities denominated in rubles are translated at the year-end exchange rate. The resulting translation gains/losses are reflected in the accompanying statements of investment operations and changes in fund balance.

#### Grant Funds Recognition

Grant funds received are recognized in the statements of investment operations and changes in fund balance when funds are disbursed consistent with the purposes of the Fund set forth in the SEED Act. Amounts received, but not disbursed, are reported as U.S. Government grants received and held for future program purposes.

**Depreciation and Amortization**

Office equipment, computers, automobiles, furniture and fixtures are depreciated on a straight-line basis over their estimated useful lives which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

**Cash and Cash Equivalents**

The Fund considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

**Donated Services**

Members of the Fund's Board donate significant amounts of their time to the Fund's programs. The Fund's directors receive no compensation or fees for serving as directors. No amounts have been reflected in the accompanying financial statements for such donated services, inasmuch as no objective basis is available to measure the value of such services.

## NOTES TO FINANCIAL STATEMENTS

### SEPTEMBER 30, 2001 AND 2000

#### 4. FIXED ASSETS

As of September 30, 2001 and 2000, fixed assets consist of:

|   | 2001       | 2000       |
|---|------------|------------|
| Office equipment and computers            | \$ 913,529 | \$ 958,636 |
| Furniture and fixtures                    | 349,192    | 353,281    |
| Leasehold improvements                    | 126,767    | 400,951    |
| Automobiles                               | 156,701    | 95,544     |
| Total fixed assets                        | 1,546,189  | 1,808,412  |
| Less-                                     |            |            |
| Accumulated depreciation and amortization | 1,272,679  | 1,249,922  |
| Net book value                            | \$ 273,510 | \$ 558,490 |

#### 5. COMMITMENTS

##### Investment Commitments

As of September 30, 2001, the Fund had no legally binding investment commitments.

##### Lease Commitments

The Fund's New York office lease commenced in November 1996 under a three-year commitment. The lease was renewed in November 1999 for an additional term of five years. Monthly rental payments are required under the lease.

The Fund's current Moscow office lease commenced in July 1999. Under the lease, the Fund is committed to make annual rental pre-payments for a term of five years.

Rent expense is included in occupancy in the statements of investment operations and changes in fund balance.

Minimum annual lease commitments are as follows:

|                                     |                     |
|-------------------------------------|---------------------|
| Fiscal year ending<br>September 30: |                     |
| 2002                                | \$ 541,197          |
| 2003                                | 541,197             |
| 2004                                | 451,427             |
| 2005                                | 18,383              |
|                                     | <u>\$ 1,552,204</u> |

**6. INVESTMENTS, LOANS, NET REALIZED AND UNREALIZED LOSSES AND LOAN LOSS RESERVE**

In the direct investment portfolio, investments and loans are stated at the amount outstanding net of unrealized gains and losses. In addition to realized gains and losses on investment dispositions, realized losses are recognized on direct investments when the probability of recovering any capital is remote. Although a direct investment may be charged off by management, collection efforts may continue and future recoveries may occur.

Interest and dividends are generally recognized on an accrual basis. In certain cases in which direct investments have experienced significant impairment of value, any future interest or dividend payments are recognized as a return of capital instead of income when received.

In the small business portfolio, loans are stated at the principal amount outstanding reduced by a loan loss reserve. Interest is generally recognized on a cash basis due to the uncertainty of the collectibility. The loan loss reserve is increased by provisions for losses charged against income and decreased by charge-offs, net of recoveries. Although a loan may be charged off by management when deemed uncollectible, collection efforts continue and future recoveries may occur.

Amounts estimated as unrealized losses are maintained at a level believed adequate by management to absorb potential losses in direct investments. This determination is based on the exposure after an evaluation of the portfolio, current economic conditions, volume, growth and composition of the portfolio, fair value of an investee, and other relevant factors and estimates which are subject to change over time. Estimating the risk of loss and amount of loss on any investment is subjective and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known.

Changes in net unrealized loss on direct investments (excluding small business loans) for the years ended September 30, 2001 and 2000, are as follows:

## NOTES TO FINANCIAL STATEMENTS

### SEPTEMBER 30, 2001 AND 2000

|                                       | Unrealized<br>Gains | Unrealized<br>Losses | Net             |
|---------------------------------------|---------------------|----------------------|-----------------|
| Balance, September 30, 1999           | \$ 13,809,834       | \$ (27,613,640)      | \$ (13,803,806) |
| Net changes in unrealized gain (loss) | 2,375,836           | (3,687,034)          | (1,311,198)     |
| Balance, September 30, 2000           | 16,185,670          | (31,300,674)         | (15,115,004)    |
| Net changes in unrealized gain (loss) | 1,846,880           | (1,840,278)          | 6,602           |
| Balance, September 30, 2001           | \$ 18,032,550       | \$ (33,140,952)      | \$ (15,108,402) |

#### Investment Portfolio Information

Following is the cost, carrying value and percentage of net assets as of September 30, 2001, by industry classification in the accompanying schedules of investments (excluding small business loans):

|  | Cost                  | Carrying Value        | Percent of<br>Net Assets |
|--|-----------------------|-----------------------|--------------------------|
| Agribusiness                             | \$ 5,000,000          | \$ 5,000,000          | 3.6%                     |
| Telecommunications, media and technology | 20,776,085            | 13,517,786            | 9.7                      |
| Consumer products                        | 16,000,000            | 15,585,150            | 11.1                     |
| Financial services                       | 60,306,565            | 60,306,565            | 43.1                     |
| Manufacturing                            | 7,113,634             | 7,113,634             | 5.1                      |
| Retailing                                | 5,738,850             | 2,729,645             | 1.9                      |
| Leisure                                  | 8,637,188             | 8,637,188             | 6.2                      |
| Pharmaceutical                           | 15,000,205            | 10,574,157            | 7.5                      |
| Other                                    | 105,000               | 105,000               | 0.1                      |
|  | <u>\$ 138,677,527</u> | <u>\$ 123,569,125</u> | <u>88.3%</u>             |

The carrying value of each of the following investments exceeds 5% of net assets:

|                                      | Cost          | Carrying Value |
|--------------------------------------|---------------|----------------|
| DC Mortgage Finance Netherlands B.V. | \$ 27,983,801 | \$ 27,983,801  |
| DeltaLeasing                         | 9,570,388     | 9,570,388      |
| DRB Holdings B.V. and Affiliates     | 20,449,165    | 20,449,165     |
| JSC Invacorp                         | 10,000,157    | 10,000,157     |
| Nevsky Holdings, Inc.                | 8,637,188     | 8,637,188      |
| Sun-Interbrew                        | 10,500,000    | 7,316,400      |

## **7. TAX STATUS**

### **United States**

The Fund is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the "Code") and is classified as an organization that is not a private foundation as defined in Section 509(a)(1) and Section 170(b)(1)(A) IRS ruling (vi) of the Code. The Fund is also exempt from payment of state and local income taxes.

### **Russia**

The Fund is an organization funded by the U.S. Government and aimed at implementing a program of assistance in accordance with The Agreement of the United States of America and the Government of the Russian Federation to Facilitate the Provision of Assistance dated April 4, 1992, effective between March 1994 and March 1998 (the "Agreement"). Under the Agreement, organizations with responsibility for implementing the U.S. Government assistance programs were exempt from paying taxes in Russia.

Although the Agreement has formally expired and the U.S. and Russian Governments have yet to implement a new agreement, the Fund has taken the position that as a provider of assistance in Russia, the Fund is exempt from paying taxes in Russia.

The applicability of Value-Added Tax ("VAT") to organizations which provided assistance to Russia is currently the subject of negotiation between the U.S. Government and the Russian Government. It is the Fund's position that, as a provider of assistance in Russia, the Fund is not subject to VAT. In management's opinion, the U.S. Government supports this position.

It is not possible to estimate the amount of any liability for VAT and, therefore, the Fund has not made an accrual for any taxes.

## **8. FUNCTIONAL EXPENSES**

As of September 30, 2001 and 2000, functional expenses presented in the accompanying statements of investment operations and changes in fund balances totaled \$4,656,533 and \$3,961,058 respectively, for management and general administration and totaled \$6,945,725 and \$7,299,901, respectively, for direct investment and small business loan programs, which include technical assistance.

## **9. RELATED PARTY TRANSACTION**

On March 10, 2001 the Fund entered into a portfolio monitoring and program service agreement with one of its investees, DeltaBank, via an affiliated company, Amrus New Technology (Cyprus) Limited, to perform the monitoring of the Fund's Small Business Lending Program portfolio. Monthly fees for these services are calculated based on the total interest collected by the Fund net of \$3,500. For the year ended September 30, 2001 the Fund paid \$365,808 in such fees. The fees paid are presented in the accompanying statements of investment operations and changes in Fund balance as an offset to interest income.

**SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2001**  
(000's omitted)

| <b>DIRECT INVESTMENTS:</b>  | <b>Ownership<br/>Percentage</b> | <b>Cost</b> |
|---|---------------------------------|-------------|
| Agribusiness Partners International, L.P.<br>Fund for investment in agribusiness industry |                                 |             |
| Debt  |                                 | \$ 3,750    |
| Partnership interest  | 5.0%                            | 1,250       |
| Cybiko<br>Wireless handheld technologies  |                                 |             |
| Preferred stock   | 1.4                             | 1,000       |
| DeltaLeasing<br>Leasing finance for equipment purchases                                   |                                 |             |
| Debt  |                                 | 8,941       |
| Equity  | 100.0                           | 630         |
| DeltaLease-Far East<br>Leasing finance for equipment purchases                            |                                 |             |
| Debt  | 100.0                           | 1,404       |
| DeltaLease Holdings, Inc.<br>Automotive leasing finance                                   |                                 |             |
| Debt  |                                 | 546         |
| Equity  | 100.0                           | 353         |
| DC Mortgage Finance Netherlands B.V.<br>Mortgage lending                                  |                                 |             |
| Debt  |                                 | 15,466      |
| Equity  | 100.0                           | 12,518      |
| DRB Holdings B.V. and Affiliates (a)<br>Financial services                                |                                 |             |
| Debt  |                                 | 11,950      |
| Equity  | 100.0                           | 8,499       |
| FunTech<br>Xerox copy center operations<br>and distribution of Xerox office products      |                                 |             |
| Debt  |                                 | 910         |
| Common stock  | 26.0                            | 1,000       |
| Genesee-Volkhov Connection, Inc.<br>Photo processing center                               |                                 |             |
| Debt  |                                 | 545         |
| Common stock  | 21.8                            | 300         |

*The accompanying notes are an integral part of this schedule.*

**SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2001**  
**(000's omitted)**

| <b>DIRECT INVESTMENTS (continued):</b>   | <b>Ownership<br/>Percentage</b> | <b>Cost</b>  |
|--|---------------------------------|--------------|
| Independent Network Television Holdings, Ltd.<br>Commercial network broadcasting<br>Common stock | 3.7%                            | \$ 4,378     |
| Interstom<br>Dental clinic<br>Common stock   | 58.1                            | 75           |
| JSC Invacorp<br>Pharmaceutical distribution<br>Common stock                                      | 22.8                            | 10,000       |
| JSC Polygrafoformlenie<br>Packaging materials manufacturing<br>Common stock                      | 22.2                            | 2,799        |
| Lomonosov Porcelain Factory<br>Porcelain tableware production<br>Common stock                    | 29.9                            | 4,299        |
| Nevsky Holdings, Inc.<br>Hotel<br>Debt<br>Common stock   | 43.4                            | 590<br>8,047 |
| Paperspace<br>Paper and pulp broker<br>Common stock  | 0.6                             | 30           |
| Pentacom<br>Broadband telecommunications<br>Common stock   | 53.0                            | 5,000        |
| Phargo Limited<br>Alphagraphics business services<br>Debentures and warrants<br>Common stock     | 21.0                            | 97<br>2,500  |
| Port.ru LLC<br>Internet portal<br>Common stock   | 1.3                             | 1,000        |
| Saint Springs Water Limited<br>Production and distribution of bottled water<br>Common stock      | 15.1                            | 3,500        |

*The accompanying notes are an integral part of this schedule.*

**SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2001**  
(000's omitted)

| <b>DIRECT INVESTMENTS (continued):</b>   | <b>Ownership<br/>Percentage</b> | <b>Cost</b>       |
|--|---------------------------------|-------------------|
| Segol RadioPAGE, Inc.<br>Wireless messaging systems<br>Debt                          |                                 | \$ 800            |
| Common stock   | 60.2% (b)                       | 2,500             |
| SPAR Moscow Holdings<br>Retail franchises<br>Common stock                            | 75.0                            | 2,000             |
| StoryFirst Communications, Inc.<br>Radio and television broadcasting<br>Common stock | 4.8                             | 6,098             |
| Sun-Interbrew<br>Brewing and bottling facilities<br>Common stock                     | 1.5                             | 10,500            |
| Time<br>Women's clothing production<br>Common stock                                  | 8.0                             | 15                |
| Tsentralny Universalny Magazine<br>Retail department store<br>Common stock           | 1.2                             | 387               |
| Vita Plus<br>Pharmaceutical distribution<br>Common stock                             | 38.4 (b)                        | 5,000             |
| Total direct investments, at cost  |                                 | <u>138,677</u>    |
| Less-<br>Unrealized loss on investments  |                                 | 15,108            |
| Total direct investments, at carrying value  |                                 | <u>123,569</u>    |
| Small Business Lending Program, net of allowance of \$988                            |                                 | 6,260             |
| Total investments, at carrying value   |                                 | <u>\$ 129,829</u> |

(a) Through DRB Holdings B.V. and affiliates, the Fund owns 100% of DeltaBank (Russian joint stock company).

(b) Ownership percentage interest represents fully diluted ownership assuming exercise of all Fund options and warrants.

*The accompanying notes are an integral part of this schedule.*

**SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2000**  
(000's omitted)

| <b>DIRECT INVESTMENTS:</b>  | <b>Ownership<br/>Percentage</b> | <b>Cost</b> |
|---|---------------------------------|-------------|
| Agribusiness Partners International, L.P.<br>Fund for investment in agribusiness industry |                                 |             |
| Debt  |                                 | \$ 3,750    |
| Partnership interest  | 5.0%                            | 1,250       |
| Bitech Petroleum Corporation<br>Petroleum production                                      |                                 |             |
| Common stock  | 2.7                             | 3,000       |
| DeltaLeasing<br>Leasing finance for equipment purchases                                   |                                 |             |
| Debt  |                                 | 5,032       |
| Equity  | 100.0                           | 630         |
| DeltaLease-Far East<br>Leasing finance for equipment purchases                            |                                 |             |
| Debt  | 100.0                           | 137         |
| DeltaLease Holdings, Inc.<br>Automotive leasing finance                                   |                                 |             |
| Debt  |                                 | 134         |
| Equity  | 100.0                           | 100         |
| DC Mortgage Finance Netherlands B.V.<br>Mortgage lending                                  |                                 |             |
| Debt  |                                 | 1,531       |
| Equity  | 100.0                           | 12,518      |
| DRB Holdings B.V. and Affiliates (a)<br>Financial services                                |                                 |             |
| Debt  |                                 | 3,550       |
| Equity  | 100.0                           | 8,499       |
| FunTech<br>Xerox copy center operations and distribution<br>of Xerox office products      |                                 |             |
| Debt  |                                 | 910         |
| Common stock  | 26.0                            | 1,000       |
| Genesee-Volkhov Connection, Inc.<br>Photo processing center                               |                                 |             |
| Debt  |                                 | 545         |
| Common stock  | 21.8                            | 300         |

*The accompanying notes are an integral part of this schedule.*

**SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2000**  
(000's omitted)

| <b>DIRECT INVESTMENTS (continued):</b>  | <b>Ownership<br/>Percentage</b> | <b>Cost</b>  |
|---|---------------------------------|--------------|
| Independent Network Television Holdings, Ltd.<br>Commercial network broadcasting<br>Common stock          | 10.4%                           | \$ 4,378     |
| Interstom<br>Dental clinic<br>Common stock  | 58.1                            | 75           |
| JSC Invacorp<br>Pharmaceutical distribution<br>Common stock   | 22.8                            | 10,000       |
| JSC Polygrafoformlenie<br>Packaging materials manufacturing<br>Common stock                               | 22.2                            | 2,799        |
| Lomonosov Porcelain Factory<br>Porcelain tableware production<br>Debt<br>Common stock                     | 29.8                            | 115<br>4,299 |
| Marine Resources Company International<br>Seafood production and fishing vessel refitting<br>Common stock | 15.0                            | 1,250        |
| Nevsky Holdings, Inc.<br>Hotel<br>Debt<br>Common stock  | 46.4                            | 800<br>7,902 |
| Pentacom<br>Broadband telecommunications<br>Common stock  | 100.0                           | 5,000        |
| Phargo Limited<br>Alphagraphics business services<br>Debentures and warrants<br>Common stock              | 21.0                            | 97<br>2,500  |
| Port.ru LLC<br>Internet portal<br>Common stock  | 3.1                             | 1,000        |

*The accompanying notes are an integral part of this schedule.*

**SCHEDULE OF INVESTMENTS**  
**AS OF SEPTEMBER 30, 2000**  
**(000's omitted)**

| <b>DIRECT INVESTMENTS (continued):</b>  | <b>Ownership<br/>Percentage</b> | <b>Cost</b>       |
|---|---------------------------------|-------------------|
| Saint Springs Water Limited<br>Production and distribution of bottled water<br>Common stock | 15.1%                           | \$ 3,500          |
| Segol RadioPAGE, Inc.<br>Wireless messaging systems<br>Debt<br>Common stock                 | 62.2 (b)                        | 800<br>2,500      |
| StoryFirst Communications, Inc.<br>Radio and television broadcasting<br>Common stock        | 5.3                             | 6,098             |
| Sun-Interbrew<br>Brewing and bottling facilities<br>Common stock                            | 1.5                             | 10,500            |
| Time<br>Women's clothing production<br>Common stock   | 8.0                             | 15                |
| Tsentralny Universalny Magazine<br>Retail department store<br>Common stock                  | 1.2                             | 387               |
| Vita Plus<br>Pharmaceutical distribution<br>Common stock                                    | 38.4 (b)                        | 5,000             |
| Total direct investments, at cost   |                                 | <u>111,901</u>    |
| Less-<br>Unrealized loss on investments   |                                 | 15,115            |
| Total direct investments, at carrying value   |                                 | <u>96,786</u>     |
| Small Business Lending Program,<br>net of allowance of \$2,402                              |                                 | 13,661            |
| Total investments, at carrying value  |                                 | <u>\$ 110,447</u> |

(a) Through DRB Holdings B.V. and affiliates, the Fund owns 100% of DeltaBank (Russian joint stock company).

(b) Ownership percentage interest represents fully diluted ownership assuming exercise of all Fund options and warrants.

*The accompanying notes are an integral part of this schedule.*

## SPOTLIGHT ON PEOPLE



### **Eva Baxter**

Eva develops projects in the telecommunications and media sectors and structured the Fund's investment in Pentacom, a Moscow-based broadband telecommunications company. She also energized a coalition of financial investors to invest in StoryFirst Communications, owner of CTC, Russia's fourth largest television network. Eva chairs the Board of both Pentacom and Lomonosov Porcelain and is a Board member of Independent Network Television Holdings. Before joining the Fund, she was an Investment Associate at Alfa Capital and CS First Boston in Moscow. She holds a degree in International Economics from the Moscow State Academy of Finance.



### **Vitaly Belik**

Vitaly is the Fund's technology specialist. He has been a key player in the Fund's investment in Cybiko, a wireless Internet platform developer, whose personal digital products are finding great success in the U.S. and European markets. In addition, Vitaly structured a major IT start-up based on proprietary technology developed by an entrepreneurial team of Russian engineers. Before joining the Fund two years ago, Vitaly headed the investment banking department at Alfa Capital, Ukraine. He holds an MA in Applied Mathematics from the Moscow Institute of Physics and Technology.



### **Igor Litvak**

One of the newest members of the Fund's staff, Igor is actively involved in the development of the SPAR retail format in Russia and participates in the management of two other Fund investments, Poligrafoformlenie and the Radisson SAS Royal. Igor joined the Fund from TDA Capital Partners, a \$350 million emerging market equity fund based in the U.S., where he was Senior Associate. Before that, he was an Associate with FleetBoston Financial's M&A Group. Igor holds a B.S. in Geophysics from St. Petersburg State University and an MBA in Finance from the Tuck School of Business at Dartmouth University.



### **Paul Price**

2001 was a landmark year for Paul, who saw the launch of two carefully cultivated investments. In August, the 20,000 sq. ft. EUROSPAR Moscow store, the flagship store for a SPAR supermarket chain, opened in Moscow. The Fund is the majority investor in SPAR Moscow, which operates under a franchise agreement with SPAR International. Summer 2001 also witnessed the opening of the Radisson SAS Royal in St. Petersburg, an investment effort led by Paul. The hotel has brought much-needed new capacity along with Radisson's high standards of service and quality to one of Europe's most important tourist destinations. Paul began working in Russia in 1993 and has held senior management positions with Tetra Pack and Coca-Cola.

## SPOTLIGHT ON PEOPLE



### **Lori Singer**

Lori has been with the Fund since inception in 1995, monitoring finances as the Fund developed into one of the leading private equity investors on the Russian market. Since 1998, she has been the Fund's U.S.-based Chief Financial Officer. Along with her responsibilities for financial reporting and treasury management, Lori has participated in monitoring several portfolio companies. Recently, she played a key role in the Fund's exit from MRCL. Prior to joining the Fund, Lori was associated with Ernst & Young and Chase Manhattan Bank.



### **Vadim Rulko**

Vadim concentrates on the IT sector and has developed proprietary portfolio management software for the Fund. He has recently focused on refining the software, with a view to licensing this product to third parties. Before pursuing graduate work in the U.S., he was an investment officer in the Daiwa Far East & Siberian Investment Fund in Khabarovsk. He holds an MBA from the University of California at Berkeley and a degree in Mechanical Engineering from Khabarovsk State University.



### **Yury Zolochovsky**

Yury joined the Fund in 2001 and is responsible for planning and control. His responsibilities include financial, operational and risk reviews; and enforcement of statutory and legal compliance. During the past year, he upgraded the Fund's internal control systems along with the control systems of the Delta Financial Group and several other portfolio companies. These upgrades enable the Fund to identify, assess and address operational risks and reduce the possibilities of errors. Before joining the Fund, Yury was a Vice President and Senior Financial Officer of Chase

Manhattan Bank, Moscow, and, before that, a Manager of KPMG, Russia.



### **Geoff Moskowitz**

Geoff joined the Fund in December 2000 from Lucent Technologies (Russia). In an active first year, Geoff negotiated the successful exits from three of the Fund's investments: Nizhny Newsprint, the TsUM department store and Bitech Petroleum. He actively participated in developing Pentacom and serves on that company's Board. In the future, Geoff will concentrate on new projects in the technology and telecommunications sectors. Geoff first came to Russia as a student in 1994 and speaks fluent Russian. He holds an MBA from New York University.

## BOARD & OFFICERS

**Patricia M. Cloherty**

Chairman — The U.S. Russia  
Investment Fund  
Former Co-Chairman and  
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*Patricof & Co. Ventures*

**Jenne K. Britell**

Former President  
*GE Capital, Central and Eastern  
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**Arthur DelVesco**

Co-Founder  
*Wind Point Partners*

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Former Vice Chairman  
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**David A. Jones**

President and  
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Chairman Emeritus  
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**J. Bruce Llewellyn**

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*Philadelphia Coca-Cola Bottling Co.*

**Steven L. Pease**

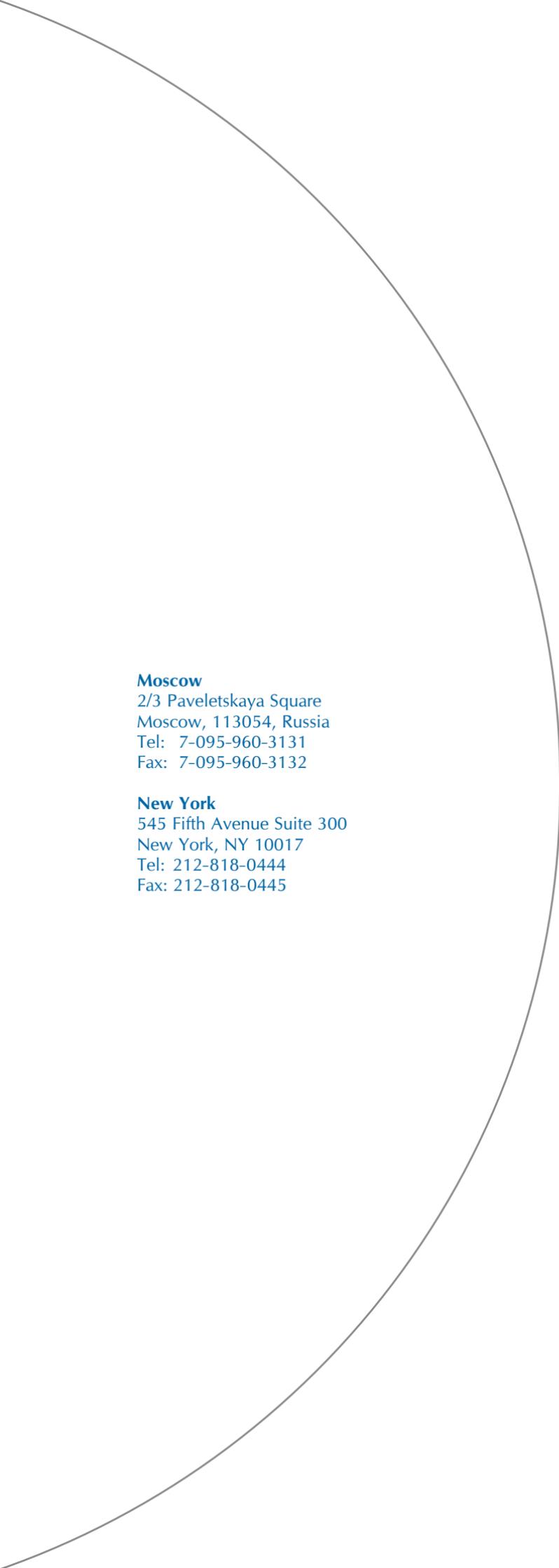
General Partner  
*Deucalion Venture Partners*

**Victor Sedov**

Vice President and Co-Founder  
*Enterprise Russia*

**Richard D. Turner**

Former Executive Vice President  
*South Shore Bank of Chicago*



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