EXCELLENCE PERSEVERANCE INNOVATION LEADERSHIP COMPETITIVENESS GOVERNANCE STRATEGIC FOCUS

USA UKRAINE MOLDOVA

WNISEF

ANNUAL REPORT

2003

EXCELLENCE PERSEVERANCE INNOVATION LEADERSHIP COMPETITIVENESS GOVERNANCE STRATEGIC FOCUS

Mission Statement

To build our portfolio companies into market leaders that attract capital as a result of their competitive advantages and their ability to set standards for small- and medium-sized businesses in the region.

Vision

We will be the leading private equity fund in Ukraine and Moldova.
We partner with entrepreneurs eager to build great companies.
Our team's expertise in strategy, operations, finance, brand development and recruitment makes us a valued business partner.
Our successful track record will prepare our companies to attract new investment in the region.
Our employees are proud to work for us because we make real and valuable contributions to business and society.

Values

- **Excellence**

Apply consistently best practices and strive for superior results in all we do.

- **Partnership**

Develop successful relationships based on teamwork, trust, transparency, and aligned interests.

- **People-focused**

Recognize that motivated and talented individuals working together can and will achieve extraordinary results.

- **Innovation**

Challenge continuously our team and our partners in all areas of business as a means of attaining and sustaining leadership.

- **Professionalism**

Serve as role models and encourage ethical and moral conduct at all times and in all our relationships.

Investment Strategy

WNISEF seeks to identify and invest in securities of private companies with outstanding growth potential and the ability to build competitive advantages in the marketplace. Working together with its partners, WNISEF strives to increase shareholder value by focusing on increasing company profitability, which in turn ensures the successful realization of WNISEF investments.

WNISEF's strategy is to:

1) Identify and invest in the most promising management teams operating in the fastest growing and most profitable sectors of the region's economies;
2) Create a responsible corporate environment within portfolio companies by focusing efforts on corporate governance, transparency, and developing efficient business policies, procedures and financial controls;
3) Recruit the most talented managers to supplement and broaden portfolio company management experience and expertise;
4) Build portfolio company competitiveness and maximize shareholder value by introducing best international standard business practices in all areas of management, including strategy, operations, marketing, sales, distribution, and human resource management;
5) Actively participate on portfolio company Boards of Directors and encourage the appointment of independent directors; and
6) Realize its investments through sale to another company, share repurchase, recapitalization, or a public offering of securities on a regional stock exchange.

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We continue to be impressed by the dynamic economic growth in the region. This is an important element that strengthens Western NIS Enterprise Fund's ability to successfully manage its high quality investment portfolio and identify prospective investment opportunities for capital growth. For both Ukraine and Moldova, 2003 marks the fourth consecutive year of consistent GDP growth. For the nine months ending September 30, 2003, Ukraine has witnessed real GDP growth of 7.8%, while Moldova enjoyed 6.5% growth during the same period, following growth in 2002 of 4.8% and 7.8%, respectively. Domestic consumer spending, manufacturing strength and increased exports are the primary drivers of this expansion, all accompanied by relatively low single digit inflation. The macroeconomic and fiscal stability in the region has given businesses the opportunity to develop new products and services, expand with confidence, as well as increase the wealth of employees, consumers and the state through taxes. All in all, through strength and consistency these economies are impressing domestic and foreign investors alike.

This dynamism was augmented during the past year by a number of reforms that deepen the sophistication of regional financial markets. In Ukraine, the adoption of an insightful mortgage law and a law on privatization of pension funds, opened an entirely new area for capital development, freeing up both substantial sums of capital locked up in real estate, and promising competitive alternatives for the investment of capital. Concurrently, the Ukrainian corporate bond market's rapid growth proves that investors are prepared to invest in new financial securities and are looking for means to diversify their portfolios while earning respectable returns. All this bodes well for the private equity market, where Western NIS Enterprise Fund leads in developing new financial mechanisms that take advantage of these improvements and further increase the value of our investment portfolio. Together with the Fund's constant focus on management professionalism, transparency and good corporate governance, the latest reforms create great promise for continued success in both developing a profitable portfolio and attracting the capital necessary to achieve the returns expected of a private equity fund in this region.

The Fund's sound investment strategy and its ability to take advantage of these improvements in the investment climate are best exhibited by WNISEF's exit from Vitanta Intravest, Moldova's leading brewery and soft-drink manufacturer. In January 2003, WNISEF concluded an agreement with Efes Beverage Group to sell its stake in the company with returns of 2.2 times cash on cash and 20% internal rate of return (IRR). This sale, in an otherwise complicated political environment, was concluded due to market recognition of WNISEF's success in transforming Vitanta into a highly profitable and well-managed company.

The culmination of the Vitanta-Intravest sale is important not only due to the returns achieved, but also due to the exemplary case set for the region. Vitanta-Intravest was a profitable, transparent, well-managed company that provided over 400 stable jobs in Chisinau and significant added-value through mutually beneficial relationships with suppliers, distributors and consumers. It came a long way from the illiquid and opaque company identified by WNISEF as a potential investment opportunity in 1998. The benefits from good corporate governance and sound management did not accrue solely to WNISEF, but to all Vitanta shareholders, which include a large number of individual pensioners, employees and other

Moldovan citizens. In a fully transparent sale conducted via the Chisinau Stock Exchange, minority shareholders were able to reap the gains from the value created by WNISEF's majority shareholding in the company.

Increased confidence in the market is being shown not only by foreign investors, but also by a growing maturity and excitement among domestic investors. During this fiscal year, WNISEF committed $12 million to three companies in fast growing sectors of the economy. In one of the three, WNISEF has partnered with XXI Century, a strong Kyiv real estate and restaurant holding company, to further develop Shvydko, a fast-growing quick service restaurant chain throughout Kyiv. In the second, WNISEF has partnered to develop the first private energy services company focused exclusively on providing energy efficient solutions to regional industry with far-sighted partners from the Hostomel Group and engineering experts at Turbo Spektr. Finally, with a new mortgage law and growing consumer purchasing power, WNISEF is developing a focused retail mortgage bank that will capitalize on consumer desires to improve their living conditions and the ability to commit to long-term loans. This is a very exciting development in the Ukrainian market and WNISEF plans to work closely with Fannie Mae, Delta Credit Bank, and other regional mortgage financial institutions on building a similarly successful venture in Ukraine.

The vitality of the past year's achievements has reinvigorated us and we look forward to another year of successful investing and value creation. The Fund's success is possible due to its professional teams in Ukraine, Moldova and the U.S., as well as committed members of the Board of Directors. We thank each of them for their drive and dedication.

DENNIS A. JOHNSON
Chairman of the Board

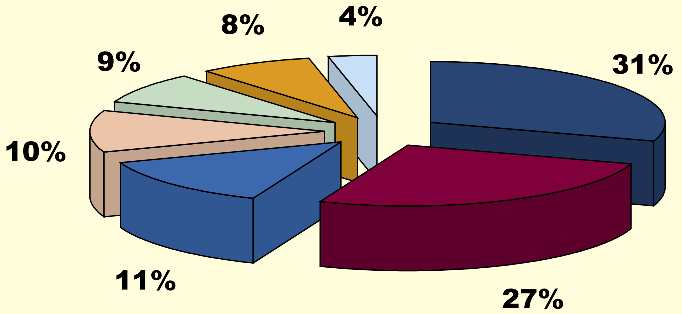
NATALIE A. JARESKO
President and Chief Executive Officer

Outstanding Investment Commitments through September 30, 2003 (in USD thousands)

Portfolio Companies	Commitment	Types of Investment
AVK	8,713	Equity
ProCredit Bank	7,525	Equity and Debt
International Mortgage Bank*	7,000	Equity
Slobozhanska Budivelna Keramika	5,460	Equity
Ecoprod	4,902	Equity
Glass Container Company	4,800	Equity
Troyanda	3,001	Equity
Shvydko	3,000	Equity
Prettl Kabel Ukraine	2,212	Equity
Energy Alliance	2,000	Equity
Moldova Agroindbank S.A.	1,651	Equity
Micro Enterprise Credit (MEC) din Moldova S.A.	1,000	Equity and Debt
Other Investments	9,981	Equity and Debt
Total:	**$61,245**	

* The IMB $7,000,000 investment commitment relates to a start up venture. As such, it does not meet the legal documentation requirements of commitments included in the audited financial statements because the company has not yet been registered. Management foresees expending these funds in the foreseeable future to establish the investment to the point of registration.

WNISEF Outstanding Portfolio Commitments by Sector



- Financial Services 31%
- Food Processing .27%
- Construction Materials. 11%
- Agriculture 10%
- Retail and Distribution 9%
- Packaging 8%
- Light Industry 4%

The Way We Do Business

WNISEF continues to invest, expand and turn around small- and medium-sized businesses, which today are becoming market leaders in their respective industries. These achievements are testimony to WNISEF's philosophy of conducting business in the region, which has proven that "best practices" do result in a company achieving competitive advantages in the market. Through sound corporate governance, investments in technology, innovation and education, WNISEF portfolio companies are uniquely positioned to reach the next level of business expansion and market growth. Herein, we've captured the essence of what WNISEF portfolio companies are accomplishing in the marketplace today:

- **STRATEGIC FOCUS** is a prerequisite for a WNISEF portfolio company's success. WNISEF seeks out those business shareholders and managers who have a common vision and aligned interests.

- In the region's emerging economy, WNISEF portfolio companies operate in and manage often unpredictable economic and political cycles, which require shareholder and management **PERSEVERANCE**.

- Ensuring product and service **COMPETITIVENESS** enables WNISEF portfolio companies to build solid customer bases, develop efficient sales channels, as well as effectively utilize the most advanced marketing and brand development techniques.

- **INNOVATION** assures WNISEF portfolio companies seek out the most current business practices, advanced management methods, and inspired product development methodologies.

- WNISEF portfolio companies recognize the value of operating successful and profitable businesses with transparent and effective corporate **GOVERNANCE** standards.

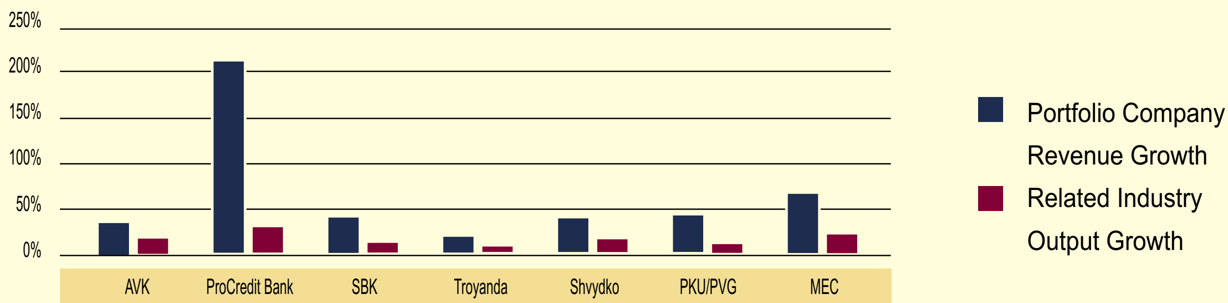
- International business practices, highly qualified management teams and outstanding financial results position WNISEF portfolio companies for undisputed market **LEADERSHIP**.

- Always striving for **EXCELLENCE** in all aspects of business activities, WNISEF portfolio companies are successful in attracting a wide array of financial and strategic investors.

Extraordinary Results of WNISEF Portfolio Companies

Economic indicators and industry sector analysis gathered from authoritative sources during the past three years demonstrate that WNISEF's portfolio companies consistently outperform the market.

Cumulative Growth Rates of Select WNISEF Portfolio Companies (2000 - 2003)

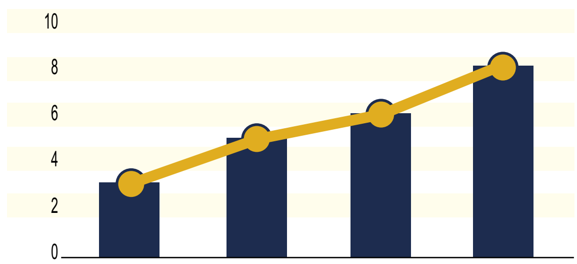


Closed Joint Stock Company Shvydko

Strategic Focus on…

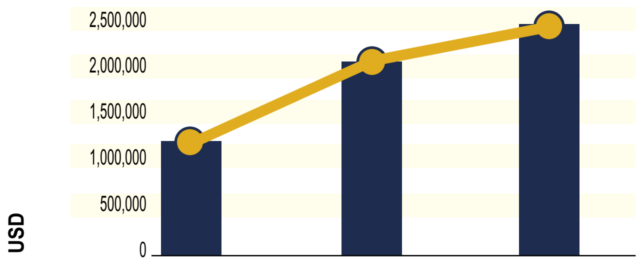
- Delivering the highest customer satisfaction through
  - Food Quality – products are prepared in corporate-owned commissary from locally sourced products, ensuring that every item served is fresh, natural, and delicious
  - Value – the best price/value proposition in the market
  - Service – fast and friendly service guarantees each and every customer is satisfied
  - Locations – restaurants are conveniently located throughout Kyiv, easily accessible by any customer with an appetite
  - A "Ukrainian" Experience – from food to décor, offers guests a truly unique Ukrainian dining experience
- Continuing to strengthen its market dominance through
  - Healthy Innovation – constantly developing new quality products that meet customer health concerns, anticipating and defining changes in eating habits
  - Strong Unit Economics – generating attractive returns on capital and internal cash flow to finance future expansion
  - Expansion/Expandability – aggressive yet controlled with attention to the most frequented locations
  - Focus on Company-owned Restaurants – ensuring control and consistency over its operations
  - High Brand Recognition – already known by more than 60% of Kyiv residents

NUMBER OF RESTAURANTS



Fiscal Year	2000	2001	2002	2003
Number of Restaurants	3	5	6	8

REVENUES



Revenues

Fiscal Year	2001	2002	2003*
USD	1,364,843	2,077,331	2,456,802

* Unaudited

GENERAL INFORMATION

Industry Sector	Quick-Service Restaurants
Headquarters Location	13 Pymonenko Street Building 7, 3rd Floor 04050, Kyiv, Ukraine
Restaurant Locations	Kyiv
Commitment	$3,000,000 (Equity)
Employment	300 employees

MANAGEMENT AND INVESTOR RELATIONS

Dzeljko Marcek, CEO

WEB SITE: http://www.shvydko.ua

WNISEF CONTACT

Natalie Best, Investment Manager
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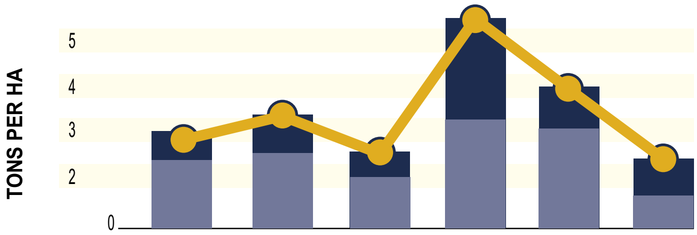
Closed Joint Stock Company Ecoprod

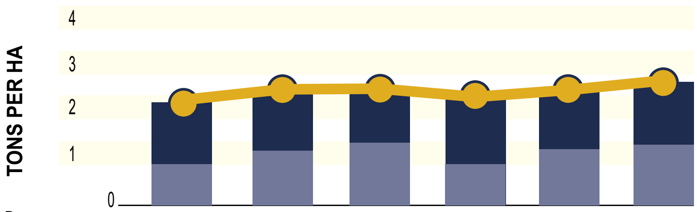
Perseverance in…

- Building a profitable company in the highly unpredictable and challenging agricultural sector
- Investing into a strong asset base to solidify the company's competitive platform that includes a modern MFS York grain elevator, a large well-maintained fleet of agricultural machinery, a spacious agricultural equipment storage facility, a number of agricultural processing facilities and livestock farms
- Combining high end modern inputs (western chemicals and agricultural equipment) and technology with local knowledge to successfully improve year on year company operational productivity indicators and to consistently outperform industry competitors
- Maintaining business flexibility and ingenuity in identifying new opportunities for business development. This allowed the company to successfully diversify business risks as Ecoprod evolved from an agricultural service company into a diversified agricultural company
- Achieving consistently high annual sales of $5-$6 million for the last five years notwithstanding volatile weather conditions
- Reacting promptly to changing market conditions and the economic environment, as Ecoprod plans to re-enter farming equipment distribution with new resources and energy in 2004

YIELDS

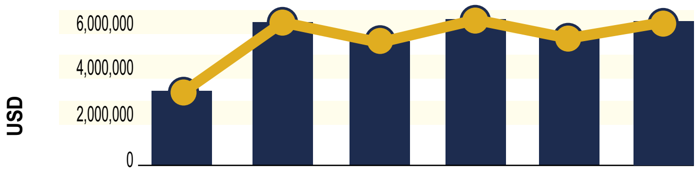


Fiscal Year	1998	1999	2000	2001	2002	2003
Wheat (Ukraine)	2.69	2.32	2.0	3.14	3.04	1.52
Wheat (Ecoprod)	2.96	3.04	2.47	5.48	3.92	2.30



Fiscal Year	1998	1999	2000	2001	2002	2003
Sunflower seeds (Ukraine)	0.93	1.00	1.22	0.94	1.05	1.12
Sunflower seeds (Ecoprod)	2.19	2.26	2.41	2.11	2.38	2.79

REVENUES



Fiscal Year	1998	1999	2000	2001	2002	2003
USD (,000)	3,481	6,098	5,104	6,092	5,717	6,044

GENERAL INFORMATION

Industry Sector	Agriculture
Headquarters Location	16 Vorovskoho Street, Volnovakha Donetsk Oblast, 85700, Ukraine
Manufacturing Facilities	Donetsk Oblast
Commitment	$4,901,785 (Equity)
Employment	1,000 employees
WNISEF's Stake	66%

MANAGEMENT AND INVESTOR RELATIONS

Ivan Melnyk, Director

WNISEF CONTACT

Oksana Strashna, Investment Manager
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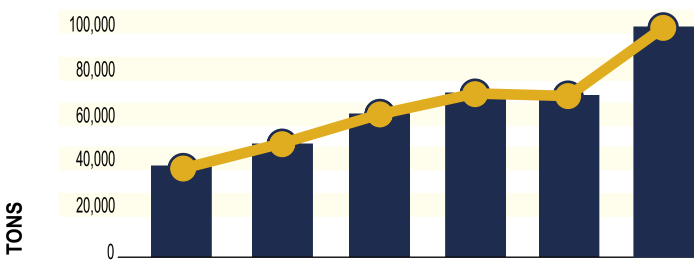
E-mail: ostrashna@wnisefk.com

Closed Joint Stock Company AVK

Competitiveness enhanced by…

- Reinforced market leadership in Ukraine's confectionery market
- Acquisition of Ukraine's fifth largest confectionary in Dnipropetrovsk, which allowed AVK to increase market share by 13%
- Constant focus on improving and rationalizing product portfolio with strategic focus on branded, premium quality confections
  - Clear dominance in chocolate covered candies and chocolate glaze markets
  - Widely recognized and popular brand names, e.g. Shedevr, Mix and Club Jelle
- Well-developed nationwide distribution network of 24 regional distributors and 476 exclusive sales agents allowing for availability of AVK products in over 36,000 retail points of sale
- Rapid growth and outstanding financial results
- Excellent credit history facilitating easy access to debt capital and public markets
- Transparency of reporting confirmed by international audits
- Quality control in compliance with EN ISO 9001:2000

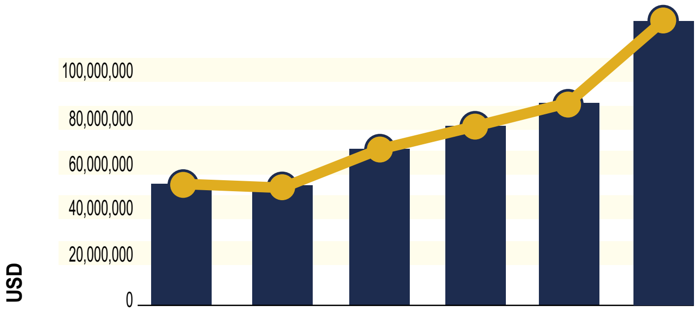
VOLUMES



Sales

Fiscal Year	1998	1999	2000	2001	2002	2003
Units (tons)	39,066	47,628	60,598	72,347	71,164	98,918

REVENUES



Revenues

Fiscal Year	1998	1999	2000	2001	2002	2003*
USD (,000)	58,725	52,860	67,502	76,440	85,537	120,998

* Unaudited

GENERAL INFORMATION

Industry Sector	Confectionary
Headquarters Location	82-a Mezhyhirska Street, Building B 04080, Kyiv, Ukraine
Manufacturing Facilities	Dnipropetrovsk, Donetsk, Luhansk and Transcarpathian Oblasts
Commitment	$8,712,951 (Equity)
Employment	7,054 employees
WNISEF's Stake	25.1%

MANAGEMENT AND INVESTOR RELATIONS

Iryna Starodubova, CEO

WEB SITE: http://www.avk.ua

WNISEF CONTACT

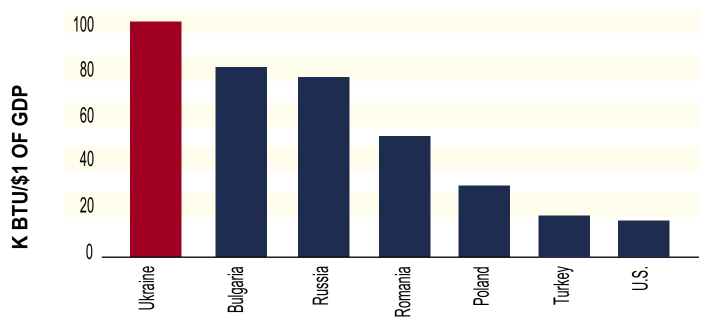
Peter Charchalis, Investment Manager
Phone: +380 (44) 490-55-80
E-mail: pcharchalis@wnisefk.com

Closed Joint Stock Company Energy Alliance

Innovation in...

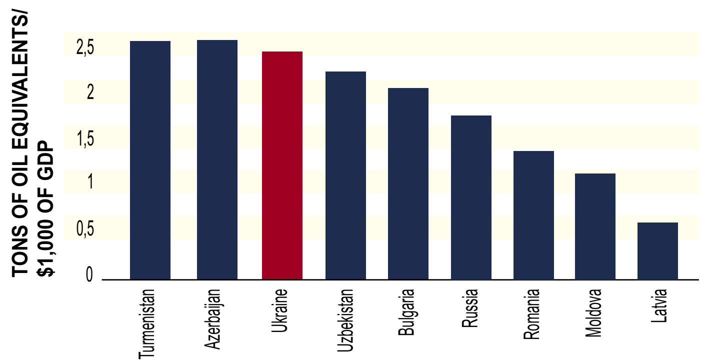
- Being the fist privately owned energy services company in Ukraine that specializes in providing energy efficient solutions to industrial companies
- Establishing synergies by developing a strategic partnership between WNISEF, Hostomel Glass Plant, the country's largest glass manufacturer, and Turbo-Spektr, an experienced engineering firm
- Pioneering a unique value proposition of designing, financing, and operating co-generation equipment that best fits client energy-saving needs
- Offering significant cost savings to Ukrainian companies that wish to enhance their productivity and competitiveness through the identification of reliable and cost-effective energy sources
- Attracting a $10 million syndicated credit facility from the European Bank for Reconstruction and Development (EBRD) after four months of operations, which enables the company to rapidly extend its outreach to customers

ENERGY INTENSITY OF SELECTED COUNTRIES



Source: Energy Information Agency (2000)

ENERGY INTENSITY IN CEE AND CIS



Source: EBRD (2001)

GENERAL INFORMATION

Industry Sector	Energy Services
Headquarters Location	2/6 Novozabarska vul. 04074, Kyiv, Ukraine
Commitment	$2,000,000 (Equity)
Employment	5 employees
WNISEF's Stake	59.9%

MANAGEMENT AND INVESTOR RELATIONS

Maxim Burtovy, CEO

WNISEF CONTACT

Natalie Best, Investment Manager
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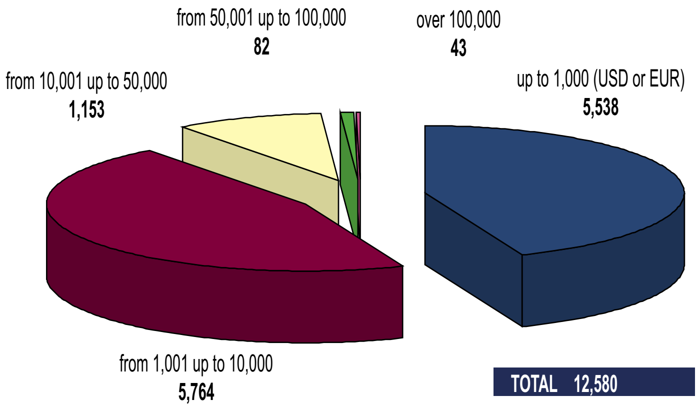
E-mail: nbest@wnisefk.com

ProCredit Bank

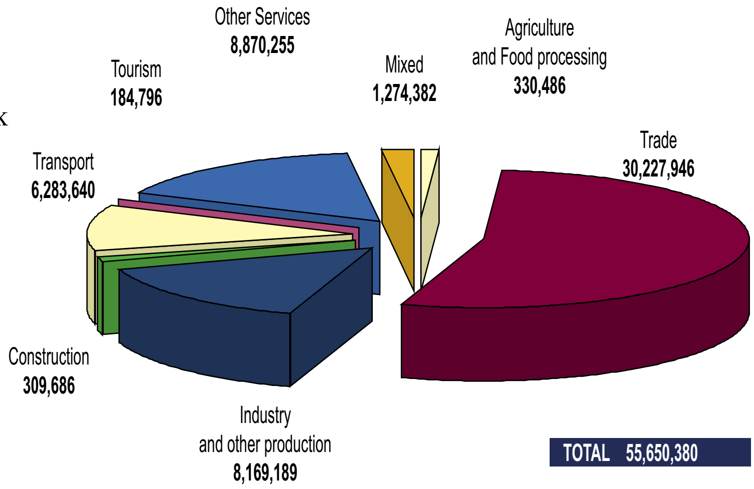
Effective governance through…

- Active participation of reputable international financial institutions as shareholders not only in the Bank's initial capitalization, but also in its development into a genuine nationwide "people's bank"
- Successful use of western corporate governance principles in the structuring and functioning of the Bank, ensuring sustainable growth, risk management, accountability to shareholders and building client trust, e.g. the Bank currently manages over 17,000 customer accounts and has nearly 10,000 borrowers; over 60% of ProCredit customers are repeat clients
- Supervisory Council's leading role in setting ambitious strategic development goals and closely monitoring their implementation. As a result, since its inception, the Bank has granted 25,000 loans totaling more than $133 million to micro-, small- and medium-sized businesses throughout Ukraine
- Bank's professional management in uniting and leading daily operations of a team of highly talented young staff (average age 27), devoted to assuring Bank customers receive friendly competent service
- Transparent activities and reporting, compliance with local and international banking regulations and norms, which inspire trust among investors, depositors and creditors

DISTRIBUTION OF LOAN PORTFOLIO BY LOAN SIZE (BY NUMBER OF LOANS)



DISTRIBUTION OF BUSINESS LOAN PORTFOLIO BY ECONOMIC SECTOR (BY USD VOLUME)



GENERAL INFORMATION

Industry Sector	Financial Services/Commercial Banking
Headquarters Location	86, Bozhenka Street 03150, Kyiv, Ukraine
Regional coverage	23 branches and representative offices
Commitment	$7,524,797 (Equity and Debt)
Employment	445 employees
WNISEF's Stake	20%

MANAGEMENT AND INVESTOR RELATIONS

Volker Renner, General Manager

WEB SITE: http://procreditbank.com.ua

WNISEF CONTACT

Alexandru Munteanu, Country Manager for Moldova
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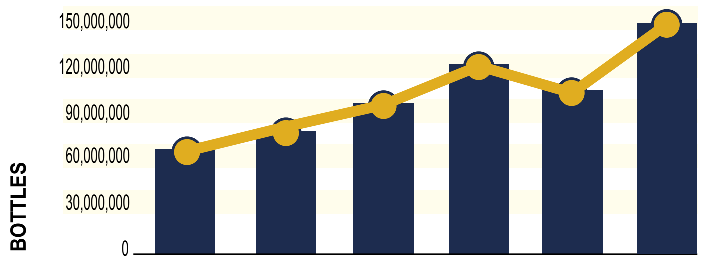
E-mail: amunteanu@wnisefk.com

Glass Container Company

Leadership in...

- Manufacturing and sales of high quality dark green glass containers for wine, sparkling wine, brandy and beer industry, commanding a 48% market share in 2003. "GCC's product quality and consistency make it one of the three best companies in the world", according to a leading international brewing company
- Substantial customer loyalty by providing clients with consistent high quality products and impeccable services
- Introducing in-house know-how improvement that achieve technological excellence, reflected by one of the highest production efficiency ratio in the global glass industry (pack-to melt ratio of over 90%)
- Promoting Good Corporate Citizenship – GCC received the 2003 Moldova "State Golden Award for Quality, Productivity and Competitiveness," and is consistently rated among the country's best taxpayers
- Managing a successful operational and financial company turn-around: from the verge of bankruptcy in 1997 to healthy profits of $2-3 million during the last four years
- Turning ambitious plans into reality – in 2004 GCC will rebuild its furnace with a $5 million investment from internally accumulated cash resources and implement a comprehensive capacity expansion project

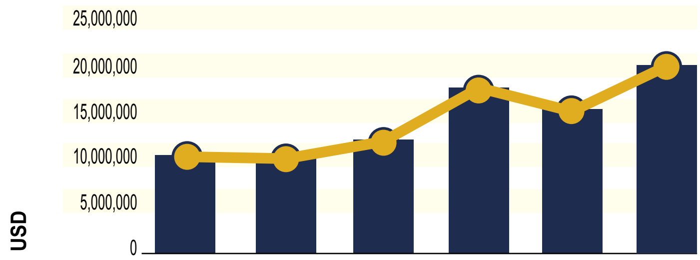
VOLUMES



Sales

Fiscal Year	1998	1999	2000	2001	2002	2003
Bottles	63,865,878	76,508,086	92,957,559	121,025,131	109,642,905	142,152,385

REVENUES



Revenues

Fiscal Year	1998	1999	2000	2001	2002	2003*
USD (,000)	10,667	9,456	12,914	17,966	15,274	19,873

* Unaudited

GENERAL INFORMATION

Industry Sector	Packaging/Glass containers manufacturing
Location	201 Uzinelor Street Chisinau 2014, Moldova
Commitment	$4,800,000 (Equity)
Employment	267 employees
WNISEF's Stake	25% of common stock

MANAGEMENT AND INVESTOR RELATIONS

Oleg Baban, Director

WNISEF CONTACT

Alexandru Munteanu, Country Manager for Moldova
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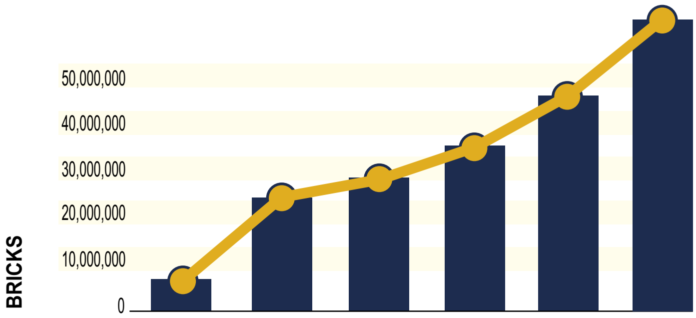
E-mail: amunteanu@wnisefk.com

Closed Joint Stock Company Slobozhanska Budivelna Keramika

Excellence as exhibited by…

- Dedicated management team — from technical expertise, to market knowledge, to proven operating partner
- Product quality — over 90% of production is of high quality façade bricks; produced in over 40 decorative shapes and four colors
- Brand name — one of Ukraine's most highly recognized and well trusted brand names in the construction materials industry, as recognized by the prestigious "Brand of Year" awarded in 2001, 2002, and 2003
- Nationwide distribution — the only brick manufacturer in Ukraine with a developed nationwide network
- Demand for export — nearly 10% of production is exported to neighboring countries
- High profitability — earnings margin (EBITDA) exceeded 36% during the past three years
- Commissioning a second factory in Kharkiv — proven expertise in identifying, acquiring, modernizing, and effectively commissioning multiple production facilities
- Market dominance — over 40% market share of ceramic façade bricks

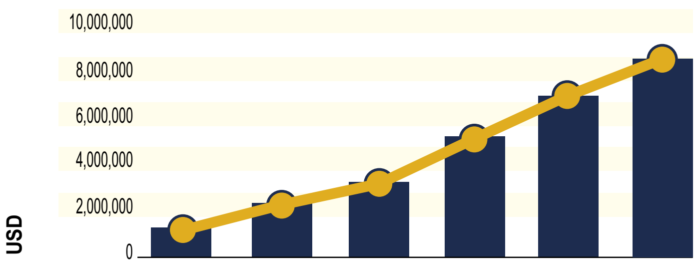
VOLUMES



Sales

Fiscal Year	1998	1999	2000	2001	2002	2003
Units (million bricks)	7.9	21	29	33	46	61

REVENUES



Revenues

Fiscal Year	1998	1999	2000	2001	2002	2003*
USD Millions	0.5	1.9	3.2	4.7	6.3	8.2
Net Profit (USD Millions)	0	0	0.5	0.8	1.0	1.2

GENERAL INFORMATION

Industry Sector	Construction Materials
Headquarters Location	9 Myru Street, Village of Plavynysche Romny Rayon, Sumy Oblast 42024, Ukraine
Manufacturing Facilities	Sumy and Kharkiv Oblasts
Commitment	$5,460,093 (Equity)
Employment	650 employees
WNISEF's Stake	93.625% (fully diluted)

MANAGEMENT AND INVESTOR RELATIONS

Ivan Telyuschenko, CEO

WEB SITE: http://www.sbk.com.ua

WNISEF CONTACT

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E-mail: apetriwsky@wnisefk.com

excellence

leadership

strategic
focus

governance

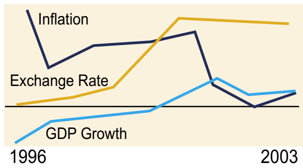
competitiveness

innovation

perseverance

UKRAINE

Ukraine, one of the largest markets in Eastern Europe, has demonstrated strong economic performance during the past four years. With rich natural resources and advanced production facilities, Ukraine is ideally positioned to benefit from the region's ongoing economic recovery. Market reforms created a substantial private economy that has begun to rapidly expand, enjoying effects of lasting macroeconomic stabilization and increasing external demand. Ukraine's outstanding economic performance is backed by strong expansion of industrial output and robust growth of external trade. This year Ukraine is forecast to continue outperforming its neighbors in terms of dynamic change and macroeconomic stability.



Ukraine's strong economic performance continues

- Real GDP growth at 8.5% in 2003 despite poor grain harvest
- Metallurgy, food industry and heavy machinery are the fastest growing industries
- Moderate inflation of 5.2%
- Current account surplus
- Fiscal budget surplus of 0.2% of GDP
- New 2004 tax law reduces corporate income tax to 25%
- Stable currency
- National Bank reserves at record $7 billion
- Gradual progress in privatization
- Oversubscribed placement of $800 million Eurobonds with 7.65% yield recognized as the best state financial transaction in the world by Emerging Market magazine
- Ukraine's sovereign debt rating upgraded by major credit rating agencies to B+ level
- WTO entry discussions actively underway

Socio-political tensions continue

- Constitutional change initiatives fuelled intense debates in Parliament
- President of Ukraine signed with reservations Single Economic Space agreement between Russia, Ukraine, Kazakhstan, and Belarus
- Bilateral dispute with Russia over bordering island threaten Ukraine-Russia relations
- Democratic opposition forces activated and preparing for 2004 presidential elections

Foreign investment is rising

- Net foreign direct investment in 2003 increased 58% and totaled $1.1 billion
- Food processing, machinery, construction, wholesale and retail trade attracted the highest volume of foreign investments
- Metro Cash & Carry GmbH (Germany), Leoni AG (Germany) and Yazaki (Japan) increased their capital investments

Competitive Macroeconomic Advantage

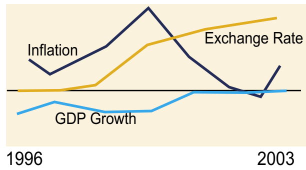
Country	Ukraine		Russia		Poland		Turkey	
	2002	2003	2002	2003	2002	2003	2002	2003
Real GDP Growth, %	4.8	8.5	3.2	7.3	1.0	3.7	7.8	5.0
Inflation, %	(0.6)	5.2	15.0	13.6	1.8	0.7	44.0	25.3
Current Acct, % of GDP	5.1	6.3	6.9	9.0	(3.5)	(1.8)	(2.6)	(2.4)
Fiscal Balance, % of GDP	0.6	-0.2	(0.4)	1.6	(3.9)	(4.1)	(10.0)	(10.4)

MOLDOVA

Since 2000, Moldova has enjoyed continuous economic expansion. This economic recovery is expected to continue and real GDP growth of 6.3% is forecast for the year 2003. Underlying the positive recent performance was the rapid expansion of industrial production and services, responding to a favorable growth of external and domestic demand.

Positive economic growth for four consecutive years

- Industrial output increased 17% annually
- Export growth of 25.1%
- Increased private consumption
- Upgrade of Moldova's long-term external obligations rating to "B-" (Fitch)
- Relatively stable currency
- Annual inflation forecast at 15.7%
- Central Bank reserves increased to $302 million



Steps toward European integration

- National Concept of European Integration under elaboration by government authorities
- Moldova Chairs the Council of Europe Committee of Ministers
- Progress achieved in the resolution of Trans-Dniester conflict
- Relatively free and fair local elections held for district and municipal councils

Investment promotion remains a priority

- Cumulative foreign direct investment in Moldova totaled over $730 million since independence
- Privatization strategy focused on energy, telecommunication and wine producing enterprises
- Significant export barriers removed by government
- New reformed Civil Code introduced

BELARUS

A landlocked nation of 10.5 million, Belarus is situated in the heart of Europe bordering Russia, Ukraine, Poland, Latvia, and Lithuania. Belarus, though rich in natural resources and possessing a highly skilled workforce, has underutilized its economic potential since gaining independence in 1991.

Belarus remains economically underdeveloped

- Steady economic decline led to deteriorating quality of life (an estimated 42% of the population live below the poverty line)
- Persistent wage arrears
- Clampdown on independent periodicals and nongovernmental organizations in Belarus continues
- Political opposition remains weak and divided
- Possibility of a referendum to change the constitution and allow President Lukashenka to run for a third consecutive term
- President Lukashenka's popularity apparently declining: 26.2% of Belarussians support Lukashenka in 2003, compared to some 80% in 1994, according to polls by the Independent Institute of Socioeconomic and Political Studies (NISEPD)

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Report of Independent Auditors

**To the Board of Directors
of The Western NIS Enterprise Fund**

We have audited the accompanying consolidated statements of assets and liabilities of The Western NIS Enterprise Fund (the “Fund”) and subsidiaries, including the consolidated condensed schedules of investments, as of September 30, 2003 and 2002, and the related consolidated statements of 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Western NIS Enterprise Fund and subsidiaries as of September 30, 2003 and 2002, and the results of their operations and changes in fund balance and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

January 29, 2004

Consolidated Statements of Assets and Liabilities
September 30, 2003 and 2002

Expressed in US Dollars

	2003	2002
Assets		
Investments, at fair value:		
Equity and debt securities (cost $49,660,106 and $55,049,632 as of September 30, 2003 and 2002)	$ 35,522,629	$ 43,156,929
Cash and cash equivalents	6,921,170	2,723,783
Restricted cash	1,543,100	–
Prepaid rent and other prepaid expenses	153,052	177,737
Accrued interest income	156,254	81,544
Fixed assets and leasehold improvements, net of accumulated depreciation and amortization	741,173	1,346,678
Other assets	311,445	236,410
Total assets	**$ 45,348,823**	**$ 47,723,081**
Liabilities and Fund balance		
Accounts payable and other accrued expenses	$ 446,822	$ 345,252
Exit-based incentive payable	1,759,618	365,038
Other liabilities	337,983	120,579
Total liabilities	2,544,423	830,869
Commitments (Note 9)	–	–
Fund balance	42,804,400	46,892,212
Total liabilities and Fund balance	**$ 45,348,823**	**$ 47,723,081**

See accompanying notes.

Consolidated Statements of Operations and Changes in Fund Balance Years Ended September 30, 2003 and 2002

Expressed in US Dollars

	2003	2002
Investment income		
Dividend income	$ 680,201	$ 1,237,092
Interest income	397,149	344,865
Other income	177,734	6,817
Total investment income	**1,255,084**	**1,588,774**
Expenses		
Employee compensation and benefits	2,544,445	2,772,835
Exit-based incentive expense	1,147,017	365,038
Professional fees	1,181,436	1,078,527
Business travel	408,589	493,348
Occupancy	311,576	335,429
Depreciation and amortization	173,982	245,500
Unreimbursed deal-related expenses	73,666	90,582
Other operating	495,017	500,069
Total expenses	**6,335,728**	**5,881,328**
Net investment loss	**(5,080,644)**	**(4,292,554)**
Net realized and change in unrealized (loss) gain on investments		
Net realized gain on investments	5,950,877	–
Realized loss from the write-off of investments	(2,001,879)	(4,899,373)
Net change in unrealized (loss) gain on investments	(2,244,775)	1,330,880
Net realized and change in unrealized gain (loss) on investments	**1,704,223**	**(3,568,493)**
Net decrease in Fund balance from operations	**(3,376,421)**	**(7,861,047)**
U.S. Government grants	–	7,732,066
Less: Deferred exit-based incentive	(711,391)	–
Net decrease in Fund balance	**(4,087,812)**	**(128,981)**
Fund balance, beginning of year	46,892,212	47,021,193
Total Fund balance, end of year	**$ 42,804,400**	**$ 46,892,212**

See accompanying notes.

Consolidated Statements of Cash Flows
Years Ended September 30, 2003 and 2002

Expressed in US Dollars

	2003	2002
Cash flows from operating activities:		
Net decrease in Fund balance from operations	$ (3,376,421)	$ (7,861,047)
Adjustments to reconcile net decrease in Fund balance to net cash provided by (used in) operating activities		
Disbursements for-		
Equity securities	(415,252)	(2,303,993)
Debt securities	(2,120,796)	(3,350,000)
Fixed assets	(187,946)	(54,662)
Proceeds from-		
Equity securities	4,749,223	64,406
Debt securities	1,150,000	–
Small business loans	24,474	318,250
Marketable securities	–	896,553
Fixed assets	592,752	117,766
Increase in restricted cash	(1,543,100)	–
Decrease in prepaid rent and other prepaid expenses	24,685	8,468
Increase in accrued interest income	(74,710)	(34,803)
(Increase) decrease in other assets	(75,035)	234,179
Increase in accounts payable and other accrued expenses	101,570	32,539
Increase in exit-based incentive payable	1,394,580	365,038
Increase in other liabilities	217,404	117,553
Net change in unrealized losses (gains) on investments	2,244,775	(1,330,880)
Realized loss from the write-off of investments	2,001,879	4,899,373
Loss on disposal of fixed assets	26,714	8,877
Deferred exit-based incentive	(711,391)	–
Depreciation and amortization	173,982	245,500
Net cash provided by (used in) operating activities	**4,197,387**	**(7,626,883)**
Cash flows from financing activities:		
Cash received from U.S. Government grants	–	7,732,066
Cash from financing activities	**–**	**7,732,066**
Net increase in cash and cash equivalents	**4,197,387**	**105,183**
Cash and cash equivalents, beginning of year	2,723,783	2,618,600
Cash and cash equivalents, end of year	**$ 6,921,170**	**$ 2,723,783**

See accompanying notes.

Consolidated Condensed Schedule of Investments
September 30, 2003

Expressed in US Dollars

Investments (83.0%)*	Principal/ Shares/Interest	Cost	Fair Value
Equity (67.3%)			
Ukraine (61.7%)			
Agribusiness (11.5%)			
CJSC Ecoprod A.T.	114		$ 4,901,785
Financial services (5.0%)			2,149,253
Food processing (25.6%)			
CJSC AVK	9,867,477		8,712,951
LLC Troyanda	74.90%		2,251,030
Manufacturing (19.6%)			
CJSC Slobozhanska Budivelna Keramika	34,659		5,460,093
Prettl Kabel Group	600		2,212,199
Other			743,491
Moldova (5.6%)			
Agribusiness (1.5%)			650,000
Financial services (4.1%)			1,751,031
Total Equity		**42,567,782**	**28,831,833**
Debt (15.6%)			
Ukraine (13.5%)			
Financial services (13.5%)			
CJSC ProCredit Bank	$ 5,790,796		5,790,796
Moldova (2.1%)			
Financial services (2.1%)			900,000
Total Debt		**7,092,324**	**6,690,796**
TOTAL INVESTMENTS		**$ 49,660,106**	**$ 35,522,629**

* Percentages indicated are based on Fund balance as of September 30, 2003. The Fund's investments are closed-end investments with no periodic liquidity.

See accompanying notes.

Consolidated Condensed Schedule of Investments
September 30, 2002

Expressed in US Dollars

Investments (92.0%)*	Principal/ Shares/Interest	Cost	Fair Value
Equity (80.0%)			
Ukraine (64.7%)			
Agribusiness (13.0%)			
CJSC Ecoprod A.T.	114		$ 6,019,302
Other			100,000
Financial services (3.7%)			1,734,001
Food processing (25.0%)			
CJSC AVK	9,867,477		8,712,951
LLC Troyanda	74.90%		3,001,374
Manufacturing (17.9%)			
CJSC Slobozhanska Budivelna Keramika	34,659		5,460,093
Prettl Kabel Group	600		2,212,199
Other			743,488
Retail distribution (5.1%)			
Ukrainian Distribution System Ltd.	48,600		2,400,000
Moldova (15.2%)			
Agribusiness (1.4%)			650,000
Brewery (10.1%)			
Intravest	1,239,237		4,749,123
Financial services (3.7%)			1,751,031
Total Equity		**48,671,137**	**37,533,562**
Debt (12.0%)			
Ukraine (10.1%)			
Financial services (7.9%)			
CJSC ProCredit Bank	$ 3,650,000		3,650,000
Other	$ 57,494		53,367
Food processing (2.2%)			1,020,000
Moldova (1.9%)			
Financial services (1.9%)			900,000
Total Debt		**6,378,495**	**5,623,367**
TOTAL INVESTMENTS		**$ 55,049,632**	**$ 43,156,929**

* Percentages indicated are based on Fund balance as of September 30, 2002. The Fund's investments are closed-end investments with no periodic liquidity.

See accompanying notes.

Notes to Consolidated Financial Statements
September 30, 2003 and 2002

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

The Western NIS (New Independent States) Enterprise Fund (the "Fund") is a not-for-profit corporation for tax purposes formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") and the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act (the "FREEDOM Support Act"). The Fund's primary purpose is promoting the development of the private sector and the policies and practices conducive to such development of the Western NIS region (the "Region"), which consists of Ukraine, Belarus and Moldova. The United States Congress has authorized appropriations of $150 million of which, $141.7 million has been committed by the United States Agency for International Development ("USAID") for Fund program purposes and administrative expenditures (the "Grant"). Grants received from USAID are conditioned upon the Fund's compliance with the requirements of the Grant agreement with USAID and the SEED and FREEDOM Support Acts, which impose certain U.S. policy objectives and reporting obligations. Under the terms of the Grant agreement with USAID, the Fund may hold funds in interest bearing accounts and may retain investment and realized gain income for program purposes.

The Fund is engaged in a broad private investment program in the Region, which through equity investments, loans, leases, technical assistance and other measures, emphasizes a commitment to small and medium sized private businesses. The Fund provides technical assistance to companies in which the Fund has invested. Through its direct role in investments in the Region's private sector, the Fund seeks to generate profits that will further support its activities and attract investment by others. As part of its investment operations, the Fund may obtain representation on management and supervisory councils of investee companies.

The Fund's management developed two investment programs, which operated autonomously but were the same legal entity. Typically, the Direct Investment Program provides financing and equity investments ranging from $1,000,000 to $10,000,000 to small and medium sized private businesses, and the Small Business Loan Fund provided various types of debt financing to small businesses and entrepreneurs ranging from $10,000 to $100,000.

As of September 30, 2000, the Fund ceased new small business loan lending activity, however it continues to operate to collect outstanding loans.

WNISEF Holding Company #1 (the "Holding Company #1"), a Delaware corporation, is a 100%-owned subsidiary of the Fund. Holding Company #1 was established on October 26, 1995 for the purpose of establishing the Western NIS Enterprise Fund Finance Company, Ltd. ("FINCO").

FINCO is a 99% owned subsidiary of the Fund, while the remaining 1% is owned by Holding Company #1. FINCO was established as a Ukrainian Limited Liability Company on April 8, 1996 for the sole purpose of engaging in small business lending on behalf of the Fund. FINCO currently does not engage in new lending activities and only receives payments from its outstanding loans.

Western NIS Enterprise Limited ("WNISEL") is a 99.9% owned subsidiary of the Fund. WNISEL was established in Cyprus on December 12, 1996 for the sole purpose of engaging in capital investments on behalf of the Fund. As of September 30, 2003, WNISEL had an equity investment in CJSC Slobozhanska Budivelna Keramika of $202,299 and maintained a bank balance.

2. BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States and include the accounts of the Fund and its wholly owned and majority owned subsidiaries which include Holding Company #1, FINCO and WNISEL. All significant intercompany transactions have been eliminated in the consolidation.

The Fund is an investment company and follows accounting policies contained in the American Institute of Certified Public Accountants ("AICPA") Audit and Accounting Guide - Audits of Investment Companies (the "Guide"), which requires investment companies to account for their investments at fair value and to consolidate other majority-owned investment companies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Management Estimates

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

Investments in Equity and Debt Securities

The Fund's investments, as set forth in Note 5, are not readily marketable and are not listed on an exchange or quoted in an open market. These investments are stated at fair value in accordance with the European Venture Capital Association valuation methodology and as determined in good faith by management and approved by the Board of Directors.

Cost is initially used to represent the fair value of unquoted venture investments unless this basis is untenable. Subsequent valuation is determined by evaluating the portfolio, current economic conditions and information about specific investment situations including third-party financing, net asset value, earnings, budget to actual results and other factors considered relevant by management. These factors are subject to change over time and are reviewed periodically. As adjustments become necessary, they are reported in the period in which they become known.

The carrying values assigned to the 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. Due to the inherent uncertainty of the valuation, those estimated carrying values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material. There is limited precedent for valuing such investments in the Region. Therefore, there is little experience upon which to base the estimate of risk and amount of possible losses.

Investment transactions are recorded on a trade date basis with the resulting realized and unrealized gains and losses recorded in the consolidated statements of operations and changes in Fund balance. For purposes of determining gains or losses on sales of investments, the cost of investments sold is determined on the specific identification basis.

Loans

The fair value of loans is based upon management's continuing review and evaluation of the loan portfolio and is intended to maintain a reserve adequate to absorb potential losses on loans outstanding. The level of the reserve, on specific loans, is based on an evaluation of the risk characteristics of the loan portfolio and considers such factors as past loss experience and expected future losses, sovereign and currency risk considerations, the average financial condition of the borrowers, current economic conditions in the Region, and other relevant factors. Management considers a loan impaired when, based on available information, it is probable that the Fund will be unable to collect principal and interest when due in accordance with the contractual terms of the agreement.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in bank accounts as well as any highly liquid financial instruments purchased with original maturities of three months or less. The Fund holds no material foreign currency balances.

Restricted cash includes cash held in escrowed bank accounts on behalf of financial participation rights holders and Long-Term Equity Incentive Plan participants.

Grant Funds Recognition

U.S. Government grant contributions are recorded as increases to the Fund balance. The accompanying consolidated financial statements include USAID grant contributions totaling $0 and $7,732,066 for the years ended September 30, 2003 and 2002, respectively.

Dividend Income

Due to the irregular nature of dividends on the Fund's investments, dividend income is recorded on the ex-dividend date, when possible, and on a cash basis when dividends that were not previously accrued for are received.

Interest Income

Interest on loans is accrued at the contractual rate based upon the principal amount outstanding and credited to income as earned. It is the policy of management to discontinue the accrual of interest and reverse previously accrued but unpaid interest in the event that the quality of the credit has deteriorated to the extent that collectibility of all or a portion of the interest and/or principal cannot be reasonably expected or when it is 90 days past due. Collections of interest and principal on loans, which are considered impaired and in non-accrual status, are generally applied as a reduction to interest first and then to principal.

Depreciation and Amortization

Apartments are depreciated on a straight-line basis over 31 years. Automobiles, computer equipment and software, furniture and other office equipment are depreciated on a straight-line basis over their estimated useful lives, principally 5-7 years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Translation of Foreign Currency

The Fund's functional currency is the U.S. dollar. Generally, the Fund's operating transactions are denominated in U.S. dollars, however on occasion transactions are contracted in foreign currencies.

Investments made by the Fund, which are denominated in foreign currencies, are initially recorded at the U.S. dollar equivalent on the date of the transaction and valued at September 30, 2003 and 2002 in accordance with the Fund's valuation policies. Liabilities related to the funding of investments, which are denominated in foreign currencies, are initially recorded at the U.S. dollar equivalent on the date of the transaction and translated into U.S. dollars at the prevailing exchange rates at September 30, 2003 and 2002, with the resulting gain or loss included in the accompanying consolidated statements of operations and changes in fund balance. Items of expense that are denominated in foreign currency are translated at the average rate for the month.

Technical Assistance

The Fund provides technical assistance to certain of its Portfolio Companies that includes making payment for expenses including management information systems implementation, business consulting services and industry training of the portfolio investment company personnel. Such amounts are expensed as incurred and included in professional fees in the accompanying consolidated statements of operations and changes in fund balance.

Financial Participation Rights

Financial Participation Rights agreements have been established with management of a number of the Fund's portfolio companies. Generally, such rights entitle certain members of portfolio company management to receive a percentage of the proceeds received by the Fund for dividends paid by the portfolio company or proceeds received from the sale of the portfolio company. As of September 30, 2003 and 2002, Financial Participation Rights of $790,630 and $365,038, respectively have been recorded as exit-based incentive expense with $759,967 and $365,038, respectively, recorded as exit-based incentive payable in the accompanying consolidated financial statements.

Escrowed amounts of $421,572 and $0 relating to these rights are included in restricted cash as of September 30, 2003 and 2002, respectively.

Long-Term Equity Incentive Plan

The Board of Directors of the Fund has established a Long-Term Equity Incentive Plan (the "LTEI Plan") with an effective date of October 1, 2002 for certain employees of the Fund. This LTEI Plan, as approved by Congress and USAID, awards an interest in the net realized gain upon sale or other disposition of the Fund's equity interest in a portfolio company. These interests are subject to a three-year vesting period and vest in one-third increments on each anniversary of the date of grant. A portion of all dividends, preferred returns and proceeds realized upon sale received by the Fund in respect of these interests are held in escrow on behalf of the participants. Escrowed amounts relating to these rights of $1,121,528 are included in restricted cash as of September 30, 2003.

For the year ended September 30, 2003, the Fund recorded a liability for future distributions to LTEI participants relating to the sale of Intravest Finance and Investment Company Limited ("Intravest"). In January 2003, sale proceeds were received in full and the share transfer completed. For the purposes of the LTEI Plan, the closing date of this transaction is deemed to be January 21, 2004, the expiry date of the Fund's potential liability for representations and warranties pursuant to the terms of the Investment Agreement (see note 12). As of September 30, 2003, $356,387 has been recorded as exit-based incentive expense, $999,651 as exit-based incentive payable and $711,391 as deferred exit-based incentive reducing Fund balance in the accompanying consolidated financial statements. The deferred exit-based incentive amount will be charged to expense over the remaining vesting period.

Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

4. U.S. GOVERNMENT GRANTS

For the years ended September 30, 2003 and 2002, USAID has committed, in a letter of credit, additional grant monies of $4.7 million and $8 million, respectively, to the Fund for program purposes, including administrative expenditures. Under the terms of the Grant, the Fund may hold funds in interest-bearing accounts and may retain investment and realized gain income for program purpose. As of September 30, 2003 and 2002, the status of the Grant was as follows:

	2003	2002
Planned grant funding	$ 150,000,000	$ 150,000,000
Total letter of credit commitment	$ 141,719,125	$ 137,000,000
Less- Amounts received	(113,600,000)	(113,600,000)
Balance available under letter of credit	$ 28,119,125	$ 23,400,000

5. INVESTMENTS

Equity and Debt Securities

In the accompanying consolidated statements of assets and liabilities, investments are stated at fair value. During the year ended September 30, 2003 investments were written off in an amount aggregating $2,151,879. This amount was partially offset by reversal of a previously written off loan in the amount of $150,000. During the year ended September 30, 2002, investments were written off in an amount aggregating $4,899,373.

The Fund's small business loans are repayable in U.S. dollars at fixed rates and have various maturities up to three years. The loans are collateralized by property and other assets of the borrower.

6. CONCENTRATION OF CREDIT RISK

By statute, all of the Fund's investments are in business activities conducted in the Region. As such, these investments are subject to the political and economic uncertainties associated with doing business in the Region.

At September 30, 2003 and 2002 the Fund held cash and cash equivalents (including restricted cash) of $8,135,160 and $2,288,044, respectively with one large United States commercial banking institution. Remaining cash balances were held in several local bank accounts.

7. FIXED ASSETS AND LEASEHOLD IMPROVEMENTS

As of September 30, 2003 and 2002, fixed assets consisted of:

	2003	2002
Apartments	$ 673,710	$ 1,348,442
Computer equipment and software	574,837	680,175
Furniture, fixtures and equipment	317,630	347,151
Automobiles	200,882	185,768
Leasehold improvements	125,985	272,248
Telephone equipment	100,186	111,195
	1,993,230	2,944,979
Accumulated depreciation and amortization	(1,252,057)	(1,598,301)
Fixed assets and leasehold improvements, net	$ 741,173	$ 1,346,678

8. RETIREMENT PLAN

The Fund has established a defined contribution retirement plan (the "Plan") designed to be qualified under Section 403(b) of the Internal Revenue Code (the "Code"). All eligible employees meeting certain age and service requirements may participate. Eligible employees may contribute amounts no more than $12,000 in calendar year 2003 and no more than the lesser of $11,000, in calendar year 2002. In addition, through December 31, 2002, the Fund makes monthly contributions to each eligible employee's account equal to 15% of the employee's base salary, as defined, plus 3% of the amount of salary in excess of the Social Security Taxable Wage Base ($84,900 as of January 1, 2002). As of January 1, 2003, the Fund makes monthly contributions to each eligible employee's account equal to 25% of the employee's base salary, as defined, plus 5.7% of the amount of salary in excess of the Social Security Taxable Wage Base ($87,000 as of January 1, 2003). Employees are eligible to participate in the Plan immediately and are fully vested in the employer's portion after two years of service.

Employer contributions to the Plan totaled approximately $193,000 and $162,300 for the years ended September 30, 2003 and 2002, respectively, and the related expense is included in employee compensation and benefits in the accompanying consolidated statements of operations and changes in fund balance.

9. COMMITMENTS

Leases

The Fund is committed to make rental payments under operating leases for all office space through 2005. Rent expense for the years ended September 30, 2003 and 2002 was $311,576 and $335,429, respectively. Minimum annual lease commitments for fiscal year 2004 and thereafter are as follows:

2004	$132,100
2005	9,500
	$141,600

Investments

In fiscal 2002, the Fund entered into installment sales contracts whereby it committed to sell its shares of CJSC Ecoprod A.T. ("Ecoprod") on or before December 31, 2006. Pursuant to these contracts, payments were to be made by Ecoprod management based on an agreed-upon payment schedule. The sale of such shares was contingent upon the receipt of the final installment payment under the respective contracts. To date, only $319,000 of the $1,331,000 due pursuant to these contracts was received from Ecoprod, with the last payment made in October 2002. As of September 30, 2003, Ecoprod is in default of their obligation with little likelihood of resuming payments. As such, the unrealized capital gain recorded in fiscal 2002 has been reversed in 2003 and payments received are included as a liability in the accompanying Consolidated Statements of Assets and Liabilities pending receipt of official notice of termination from management. Ecoprod management provided official notice of termination on October 28, 2003, subsequent to year-end (see Note 15).

As of September 30, 2003 and 2002, the Fund has committed to fund additional equity investments and loans totaling $4,585,000 and $2,884,000, respectively, to various current and prospective investees.

10. TAX STATUS

United States

The Fund is exempt from Federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code (the "Code"), and has been classified as an organization that is not a private foundation as defined in Section 509(a)(1) of the Code. In addition, the Fund is exempt from payment of state and local income taxes.

Western NIS Region

The registration of the Fund's accredited representative offices in Ukraine, Belarus and Moldova occurred on March 31, June 30 and July 28, 1995, respectively. Under a bilateral agreement between the Government of the United States of America and the Governments of Ukraine, Belarus and Moldova regarding cooperation to facilitate the provision of assistance, the Fund is exempt from taxation on income received in connection with implementation of the United States assistance programs.

11. RELATED PARTY TRANSACTIONS

The Fund pays certain costs on behalf of its portfolio companies for which the Fund seeks reimbursement. Amounts not ultimately reimbursed to the Fund are written off and included in unreimbursed deal related expense in the accompanying consolidated statements of operations and changes in Fund balance.

During the year ended September 30, 2002 the Fund paid $189,700 to UBS, a company specializing in the design and implementation of computerized management information systems for companies operating in Ukraine and Moldova as part of its technical assistance activities. The Fund invested in UBS as a start-up venture in 1995. The payments in fiscal year 2002 were for systems consulting and implementation services rendered to several investee companies in the Fund's Direct Investment Program. UBS was liquidated in 2002.

12. CONTINGENCIES

Pursuant to the Investment Agreement signed in December 2002 for the sale of the Fund's shareholding in Intravest for $10.7 million, the Fund is liable up to a maximum of $5.5 million for representations and warranties made. This potential liability remains in force for a 12-month period, expiring January 21, 2004. Given this potential liability, 51.5% of the amount payable to Intravest former management, pursuant to financial participation rights granted, was also held back upon receipt of proceeds until January 21, 2004. No provision has been included in the accompanying financial statements relating to the potential liability of $5.5 million relating to the sale of Intravest. Subsequent to year-end, this contingency expired with no claims made against the Fund.

In April 2000, the Fund commenced an arbitration to recover a loan receivable from one of its portfolio companies, CJSC Sonola. The claim was brought before the International Centre of the American Arbitration Association in New York City. On January 30, 2001 the arbitrator awarded that the loan agreement is enforceable and that the full amount of principal, interest, penalties claimed and reimbursement of legal and court fees totaling $3,769,839 is payable to the Fund. During 2002 and 2003 the Fund continued its efforts to enforce this award in Ukraine. In May 2002, the Ukrainian court refused to enforce the award on the grounds that the loan agreement had been declared invalid by the local courts.

In May 2003, the Supreme Court of Ukraine sustained the lower court's decision not to enforce the award. The Fund will continue to pursue this matter through international arbitration proceedings. The principal from this claim is included in the accompanying consolidated statement of assets and liabilities; however, the remaining amount payable to the Fund under this claim represents past due interest, penalties and reimbursement of legal and court fees and is not included in the accompanying consolidated financial statements as of September 30, 2003 and 2002 in accordance with the Fund's valuation policy and due to the uncertainty at period end of the Fund's ability to enforce the claim in Ukraine.

In the ordinary course of business, the Fund is involved in various claims and legal actions. In the opinion of management, the ultimate disposition of the matters will not have a material adverse effect on the Fund's financial position or changes in net assets and as a result, no provision has been included in the accompanying financial statements.

13. GUARANTEES

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Fund that have not yet occurred. However, based on experience, the Fund expects the risk of loss to be remote.

14. FINANCIAL HIGHLIGHTS

The following presents the financial highlights for the Fund for the years ending September 30, 2003 and 2002:

	2003	2002
Ratios to average Fund balance		
Net investment loss	(11.3)%	(9.1)%
Net realized gain on investments	13.3%	0.0%
Expenses, including exit-based incentive expense	14.1%	12.5%
Less: Exit-based incentive expense	(2.6)%	(0.8)%
Expenses, excluding exit based incentive expense	11.5%	11.7%
Total return, including exit based incentive expense	(8.7)%	(0.3)%
Less: Exit-based incentive expense	1.5%	-
Total return, excluding exit based incentive expense	(7.2)%	(0.3)%
Ratios to Committed Capital		
Net investment loss	(3.6)%	(3.1)%
Net realized gain on investments	4.2%	0.0%
Expenses, including exit-based incentive expense	4.5%	4.3%
Less: Exit-based incentive expense	(0.8)%	(0.3)%
Expenses, excluding exit based incentive expense	3.7%	4.0%

Ratios to average Fund balance are computed as year-end net investment income (loss) (total investment income less total expenses), net realized gain on investments (excluding realized losses from the write-off of investments) and expenses divided by the average Fund balance for the year. Total return represents a change in the value of an investment, measured by comparing the aggregate ending value of the Fund balance to the aggregate beginning value of the Fund balance, adjusted for grant contributions during the year. The total return and ratios have been presented before and after the effects of exit-based incentive expense, which includes expenses related to Financial Participation Rights and the LTEI Plan.

Ratios to Committed Capital are computed as year-end net investment income (loss) (total investment income less total expenses), net realized gain on investments (excluding realized losses from the write-off of investments) and expenses divided by Committed Capital. Committed Capital is the total letter of credit commitment from USAID. As of September 30, 2003 and 2002, this amount was $141,719,125 and $137,000,000, respectively.

15. SUBSEQUENT EVENTS

Subsequent to September 30, 2003, a short-term loan of $1,000,000 due from ProCredit Bank Ukraine was repaid in full and re-invested as an equity investment in the amount of $1,024,656. An additional loan was disbursed to ProCredit Bank Ukraine in the amount of $1,500,000 to fund the pilot-lending program on behalf of the mortgage bank. In addition, an investment of $3,000,000 was made by the Fund to purchase 49% of CJSC Shvydko, $100,000 to purchase 1.38% of the outstanding shares of CJSC Kharkiv Tile Plant and an additional equity contribution of $1,332,500 disbursed to CJSC Energy Alliance.

On November 30, 2003, the Fund accepted a tender offer made by a purchaser for 100% of the shares of Slobozhanska Budivelna Keramika ("SBK"). On December 1, 2003, a term sheet was signed between the parties specifying payment of a 10% deposit to the Fund within 7 banking days. This deposit of $1.35 million was received on December 9, 2003 and a binding sales-purchase agreement was signed on December 22, 2003. The remaining sales proceeds of $12.15 million were received in full by March 10, 2004.

In December 2003, the shareholders of Ukrainian Distribution Systems Ltd. ("UDS") signed a sales purchase agreement with a third party to sell 100% of the company for a nominal amount of $1. The Fund signed the sales purchase agreement on December 24, 2003; thereby, liquidating the Fund's 31.1% ownership interest in UDS. As of September 30, 2003, the Fund's $2.4 million investment in UDS was fully provided for in the financial statements.

As referred to in note 9, subsequent to year-end, CJSC Ecoprod provided official notice to the Fund of its intent to terminate the installment sales contracts entered into during fiscal 2002. Pursuant to the terms of these contracts, the Fund is entitled to keep 25% of the payments made under both contracts, late penalties of 0.0329% per day for all unpaid amounts outstanding under both contracts and 66% of the remaining balance in accordance with one of the contracts. As such, of the $318,833 received from Ecoprod, the Fund is entitled to keep $192,224 and have returned the remaining amount of $126,609.

In addition, on October 2, 2003, the Fund filed a request to institute arbitration proceedings between the country of Ukraine and the Fund in the International Centre for Settlement of Investment Disputes ("ICSID") in relation to the Sonola matter. This decision was based on Ukraine's breach of the Fund's Bilateral Investment Treaty rights. In October 2003, payments totaling $400,012 were received by the Fund from Sonola.

An effective and ultimately profitable investment process requires the combination of many skills, talents and experiences. WNISEF's team of professionals excel at sourcing new investment opportunities, structuring them, managing and developing credible relationships with partners and portfolio company management teams, as well as identifying new sources of capital and attracting additional investments into these companies.

UNIQUE EXPERIENCE AND EXPERTISE

- More than sixty combined years of investment experience in the region
- First hand experience across a wide range of industries:
  - Agribusiness and food processing
  - Energy conservation
  - Fast-food retail
  - FMCG
  - Finance and banking
  - Retail and distribution
- WNISEF expert opinions cited in 43 articles in 2003

OUTSTANDING BUSINESS SKILLS

- Financial reengineering
- Operational restructuring
- Turnarounds and debt restructuring
- Total Quality Management
- Negotiating

VALUE ENHANCING PARTNERS

- Incorporating best practices into corporate governance
- Active participation on portfolio company Board of Directors
- Focus on brand development and effective marketing
- Intense human resource development and recruiting
- Positioning of portfolio company with investors and consumers
- Successful networking with investors, financial intermediaries and suppliers

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ACKNOWLEDGEMENTS

WNISEF's Board of Directors and Senior Management would like to express its appreciation to the following individuals who made invaluable contributions to the professional development of our employees and portfolio companies during this past year.

WALLACE BRUCE
Memphis, Tennessee, USA

STEVEN FRANK
Potomac, Maryland, USA

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