Western NIS Enterprise Fund




| ANNUAL REPORT 2004

Who We Are

Western NIS Enterprise Fund (WNISEF) is the leading private equity fund in Ukraine and Moldova, with 10 years of successful experience investing in small- and medium-sized companies. Since its inception, WNISEF has invested more than $90 million in 26 companies in the region.

Mission

We build competitive market leaders who attract additional private capital to the region due to their outstanding results, strong growth prospects, and use of international best practices, corporate governance standards, and prudent environmental practices.

Vision

To continue to invest actively, knowledgeably and profitably throughout the region.

We partner with entrepreneurs and managers eager to build successful companies.

Our successful investments and realizations will position us to attract additional capital to the region.

Our team of dedicated professionals is intimately familiar with the local business environment (stemming from first-hand experience across a wide range of industries) and legal practices in the region, making us an invaluable business partner.

Our employees are proud to work for us because we make tangible contributions to business and society.

Strategy

Our investment strategy focuses on investment opportunities in Ukraine and Moldova. Working together with our partners, we strive to increase shareholder value by focusing on increasing company profitability and market share, which in turn ensures the successful realization of investments. The amount typically invested in a single company ranges from US $1 million to US $10 million. WNISEF's stake varies, but always includes active participation in corporate governance via representation on a portfolio company's Board of Directors.

Our Investments

We treat each investment individually, adapting strategic decisions in accordance with the company's long-term development plans, which are prepared together with our co-shareholders and the management team. Our investments are diverse in terms of size, sector and type. Our portfolio companies have evolved as market leaders with significant market shares, strong profitability, capable management teams, transparent accounting and effective corporate governance.


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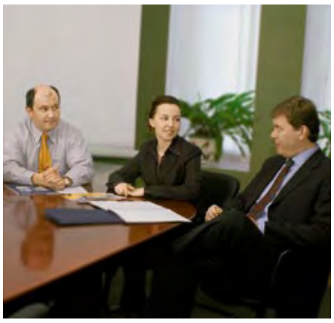
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Letter from Management

We are truly inspired and excited by changes in the region resulting from the Orange Revolution. Ten years ago, WNISEF entered the markets of Ukraine and Moldova, countries in the midst of hyperinflation, economic depression and facing an uncertain political future. Despite promising long-term economic prospects based on proximity to Europe and a well-educated, inexpensive labor force, the investment environment was fraught with high political risk and economic instability.

WNISEF was successful in many of its early investment activities and their realizations provided outstanding returns. Despite these individual successes, the macroeconomic achievements of the past five years, and outstanding economic growth in the region, the deeper institutional changes necessary to cement these successes were absent; and so, too, were the opportunities for rapid expansion of the private equity industry.

Today we witness more than the region's promise; we see for the first time the political will to implement the necessary reforms and to build the required institutions that will ensure ongoing economic growth. Moreover, we see extraordinary opportunities for private equity in these markets and are ready to meet these prospects with our dedicated and experienced team of investment professionals.

Why is this market now so exciting? Have the essential components required for successful investments and exits developed sufficiently? We believe they have. Quality management, sufficiently liquid markets, and overall market conditions in this region are very favorable to both investment and effective exit strategies.

The first, second and third requirements of private equity are management, management, and management. Over the past 10 years, we have witnessed a cardinal shift in the depth and quality of the managerial talent pool in the region. Government mass privatization programs conducted early in these countries transferred ownership of significant state assets to private owners – inexperienced, yet enthusiastic about the prospects of owning and managing capital. These owner-operators have had a sufficient period of time to test their skills, adapt to competition and develop solid track records. In addition, numerous multinational corporations entered the market early with long-term visions of market and brand development, training local professionals in fields as varied as marketing, sales, distribution, finance, logistics and operations. Our team excels at identifying good managers and enabling them to reach their potential by bringing them best business practices and attracting capital to supplement our own. The impressive results of those early WNISEF investments proved that superior management teams can turn young businesses into market leaders, offering even greater opportunities for additional investment and business growth in the future.

The growth and development of a cadre of competitive managers is but one precondition for the private equity business; a private equity fund needs to be able to realize the success of its investment and good management in an environment that enables effective exit strategies. The liquidity of the Ukrainian market has begun to improve dramatically. The political will exhibited by the people and leadership of the region to reduce corruption and untangle overlapping legislation has attracted the

Letter from Management

attention of a substantial number of both financial and strategic investors. Strong demand for listed securities has been unleashed, paving the road for initial public offerings (IPOs) of transparent, well-governed mid-sized companies. Moreover, numerous strategic investors, who earlier stood at the border watching, are now increasing substantially the level of merger and acquisition (M&A) activity, making trade sales an even more viable exit opportunity than before. The estimate of annual foreign direct investment over the next five to seven years is considerably higher than even the cumulative level of such investment to date.

Finally, unique circumstances of the market make private equity an interesting and attractive investment in this region. Historically low levels of per capita foreign direct investment to date and low levels of liquidity in the banking sector have given rise to a capital-starved environment. However, the transformation of the business environment coupled with rapidly expanding consumer purchasing power, the upcoming accession of Ukraine to WTO, and further integration of Ukraine and Moldova into Europe require substantial levels of new investment. Similar to Poland a decade ago, valuations are reasonably low, but capital has not yet filled the void. The opportunity is obvious.

After a decade of successful investing in Ukraine and Moldova, WNISEF's investment managers are best placed to work with new investors who wish to participate in the growth of these markets. Just over the past year, we have made new and substantial investments in the retail and financial services industry, while profitably realizing our investment in SBK, a facade brick manufacturer. Once again, our managers have proven their ability to select quality management teams in well-positioned companies, to create value for them and achieve profitable exits. Therefore, we are very pleased that our management team has formed Horizon Capital, a private equity fund manager, on the basis of the only investment team with a deep knowledge of the region and impressive ten year track record of attracting private capital to Ukraine and Moldova.

Ukraine and Moldova are clearly emerging markets; they do not possess all the characteristics of mature and established markets. Yet it is the region's unique history, its transition and integration into Europe, and prospects for growth that make Ukraine and Moldova an exciting investment opportunity.

We would like to warmly thank all the members of WNISEF's Board of Directors, our professional team, and our business partners for enabling another solid year of investment successes.

Dennis A. Johnson	Natalie A. Jaresko
DENNIS A. JOHNSON	**NATALIE A. JARESKO**
Chairman of the Board	President and Chief Executive Officer

Year in Brief

October 2003 – September 2004

WNISEF strengthened its leading position in the private equity markets of Ukraine and Moldova with an inspired performance in both investments and exits. We are pleased to present a summary of our portfolio highlights for this year.

• **OCTOBER** WNISEF co-founded Energy Alliance, a full-service provider of energy efficiency solutions to Ukrainian commercial industrial enterprises operating in one of the most energy intensive economies in the world. Energy Alliance offers significant cost savings to Ukrainian enterprises via turn-key installation of cogeneration systems and other advanced technologies.

• **NOVEMBER** WNISEF provided $3 million in expansion capital to Shvydko, a leading chain of quick-service restaurants in Ukraine, which serves traditional Ukrainian food, prepared from natural, locally-grown ingredients. WNISEF's equity capital injection financed the company's rapid market expansion, including the opening of numerous new restaurants in Kyiv and installation of an integrated MIS system.

• **DECEMBER** WNISEF portfolio company AVK, the second largest and one of the fastest growing confectionery groups in Ukraine, issued UAH 50 million ($9.6 million) five-year corporate bonds. The proceeds were used to purchase new production lines.

• **JANUARY** WNISEF launched the International Mortgage Program (IMP), a pilot mortgage-lending program. The product range of IMP included 10-year home acquisition and 5-year home equity loans of up to $100,000 at competitive interest rates. This program tested mortgage services, procedures and products in anticipation of full National Bank of Ukraine registration of International Mortgage Bank (IMB), completed in 2005. IMB is the first specialized residential mortgage bank in Ukraine.

• **FEBRUARY** Energy Alliance attracted a $10 million loan from the European Bank for Reconstruction and Development (EBRD) after just four months of operations. The loan assures the company's ability to expand services throughout Ukraine.

• **MARCH** WNISEF sold its 100% stake in Slobozhanska Budivelna Keramika (SBK) to Raiffeisen Investment AG of Austria (RIAG) along with MARA Beteiligungsverwaltungs GmbH (a holding company of RIAG). SBK is the leading facade ceramic brick manufacturer in Ukraine with one of the most recognized brand names in the construction materials industry. The equity was valued at $13.5 million, providing WNISEF with a 2.6 times cash-on-cash return. This transaction included a leveraged recapitalization, the first in Ukraine.

• **JUNE** WNISEF portfolio company ProCredit Bank, the leader in Ukraine's micro and small business loan segment, attracted $8.5 million in debt facilities from the International Finance Corporation and $2.5 million from the Black Sea Trade and Development Bank. Additionally, ProCredit Bank reached an agreement with the EBRD on an additional $4.5 million loan.

• **JULY** Energy Alliance completed a pilot cogeneration project at Hostomel Glass Plant (HGP), the largest glass container manufacturer in Ukraine, where energy costs made up 15% of the total cost of goods sold. Energy Alliance installed and financed a natural gas-fired cogeneration mini-power station on the factory premises. As a result of the project, Hostomel reduced total energy costs by 10%.

• **SEPTEMBER** WNISEF attracted $40 million in debt facilities from the U.S. Overseas Private Investment Corporation (OPIC) for two portfolio companies – ProCredit Bank and International Mortgage Bank. The long-term funds will enable ProCredit Bank to further expand its lending activities and open new branches across the country. International Mortgage Bank will use the OPIC capital to ensure continued rapid growth of its mortgage portfolio.

"International Mortgage Bank will be a leading mortgage lender and speed the development of Ukraine's mortgage industry, setting high standards for products and services..."

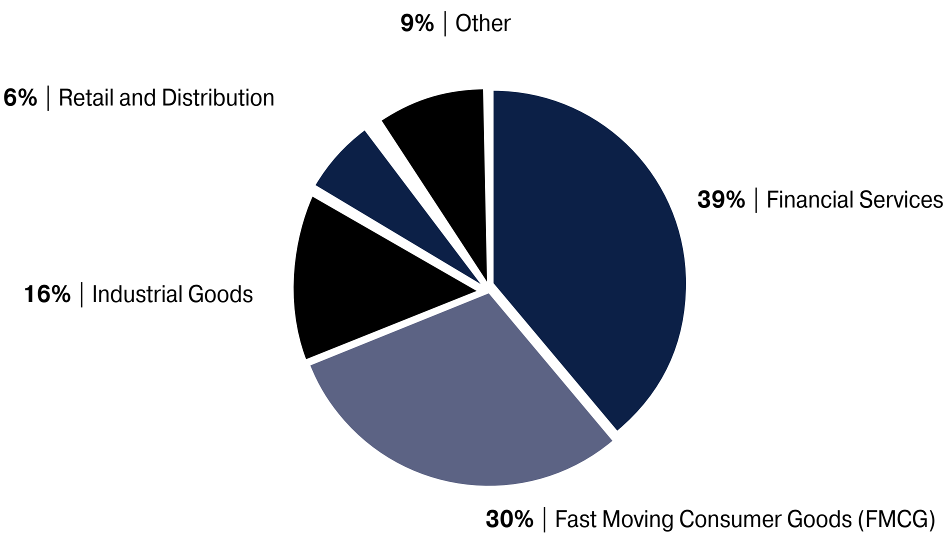
YURIY BLASHCHUK, Chairman, IMB

Investment Portfolio

Outstanding Investment Commitments through September 30, 2004 (in USD thousands)

Portfolio Companies	Commitment	Types of Investment
ProCredit Bank	9,049	Equity and Debt
AVK	8,713	Equity
International Mortgage Bank	7,000	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
ProCredit Moldova	1,000	Equity and Debt
Other Investments	6,231	Equity and Debt
Total:	**$53,559**	

WNISEF Outstanding Portfolio Commitments by Sector



Successful Track Record

Closed Joint Stock Company Shvydko

New and exciting investment in retail food-service

GENERAL INFORMATION

Industry Sector
Quick-Service Restaurants

Headquarters Location
13 Pymonenko Street
Building 7, 3rd Floor
04050, Kyiv, Ukraine

Restaurant Locations
Kyiv, Kyiv Region

Employment
420 employees

Commitment
$3,000,000 (Equity)

WNISEF's Stake
49%

Initial Date of Investment
January 2004

WEB SITE
http://www.shvydko.ua

MANAGEMENT AND INVESTOR RELATIONS
Dzeljko Marcek, CEO

WNISEF CONTACT
Natalie Best,
Investment Manager
Phone: +380(44)490-5580
E-mail:
nbest@wnisefk.com

WNISEF VALUE-ADDED ACTIVITIES

- Strategy development based on industry standard practices, including refining the business concept and market niche
- Recruitment of highly qualified and experienced management team
- Improvement of financial planning and controls, including evaluation of potential acquisitions, identification and negotiation of debt, and identification of MIS system needs and solutions
- Streamlining of legal structure and introduction of corporate governance principles, standard operating procedures and upgraded business processes

SHVYDKO POST-INVESTMENT ACHIEVEMENTS

- Three new restaurants opened, bringing the total to 11 – the second largest chain in Kyiv
- Total annual revenue growth of over 40%, outpacing overall industry growth by 15%
- Consistent double-digit growth in same-store sales, driven by an increase in transactions and average transaction size
- A highly recognized brand with 64% awareness among Kyiv residents
- Customers served since inception reached 5 million people, two-thirds of whom loyally visit the store one or more times each week

"WNISEF's investment has made Shvydko a leading chain of quick-service restaurants in Kyiv. Today's dynamic growth of the restaurant industry in Ukraine creates a platform for further expansion and strengthening of Shvydko's leadership position in the market."

LEV PARTSKHALADZE, Shareholder, Chairman of Investment Company «XXI Century»

Closed Joint Stock Company
Slobozhanska Budivelna Keramika (SBK)

One of the largest private equity realizations in Ukraine

Successful Track Record

SUCCESSFUL EXIT

WNISEF's sale of its stake in SBK to Raiffeisen Investment AG of Austria (RIAG) and MARA Beteiligungsverwaltungs GmbH (a holding company of RIAG) represents an exit multiple of 2.6 times capital invested. This superior return was achieved despite the effects of the regional financial crisis shortly after closing the investment and several early years of poor economic performance in Ukraine. With this profitable realization, WNISEF further enhanced its reputation as a leading value-added private equity investor able to successfully operate in various economic cycles.

WNISEF VALUE-ADDED ACTIVITIES

- Consistent focus on best business practices in management, corporate governance and transparency, successfully transitioning SBK from start-up through development, and on to market leadership
- Strategic transformation of a traditional manufacturer into a customer-driven marketing organization, as exemplified by its broad brand recognition and customer service standards
- Recruitment of mid-level management in the areas of sales, marketing, distribution and finance at SBK's two modern production facilities

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
Employment
650 employees
Commitment
$5,460,093 (Equity)
WNISEF's Stake
93.625% (fully diluted)
Initial Date of Investment
June 1997
Exit
March 2004

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

MANAGEMENT AND INVESTOR RELATIONS
Ivan Telyushchenko, CEO

WNISEF CONTACT
Mark Iwashko, CIO
Phone :
+380(44)490-5580
E-mail :
miwashko@wnisefk.com

"SBK has made outstanding progress in the marketplace over the past few years, achieving leadership in the facade brick segment. This is a tribute to the efforts made and value created by WNISEF and SBK highly qualified teams."

IVAN TELYUSCHENKO, SBK, CEO

Management Team

NATALIE A. JARESKO | President & CEO

Natalie A. Jaresko is responsible for managing WNISEF's strategic development, setting long-term business goals, attracting capital to expand investment opportunities, and managing stakeholder relations. During her tenure, WNISEF has invested more than $90 million into 26 companies in the region, with 12 full realizations, and 8 partial realizations. She has personally led transactions in the industrial goods sector and supervised transactions in the retail, FMCG, and financial services industries.

A former official with the U.S. State Department, Ms. Jaresko has developed expansive networks in business and government in the region which serve as a catalyst for both investment and realization opportunities. In addition, these strong relationships ensure WNISEF's active role in the ongoing business-to-government dialogue with regard to investment climate improvement. Ms. Jaresko's broad experience in both the private and public sectors enables WNISEF to successfully navigate complex business environments while maintaining focus on building profitable market leaders. Ms. Jaresko has worked in Ukraine since 1992 and in the region since 1989.

Ms. Jaresko, a U.S. citizen fluent in Ukrainian, received her Master's Degree in Public Policy from the Harvard University Kennedy School of Government in 1989. She received her Bachelor of Science Degree in Accounting from DePaul University in Chicago, Illinois in 1987 and is a Certified Public Accountant (CPA). She is Vice Chair of the International Management Institute (IMI) Kyiv Board of Directors.

E-mail: njaresko@wnisefk.com

MARK A. IWASHKO | Executive Vice President and Chief Investment Officer

Mr. Iwashko is responsible for WNISEF's investment portfolio, including establishing investment strategy and priorities and overseeing investment team transaction development and execution. When working with the investment teams to establish development plans for the portfolio companies post-investment, Mr. Iwashko draws on his past experiences and strategic development, reengineering, and operations improvement engagements as a former management consultant. He has managed private equity in Ukraine since 1996 and has sourced, closed and realized numerous investments in a variety of industries. Mr. Iwashko has also led efforts to establish a number of private equity industry "firsts" in Ukraine, including the leveraged recapitalization of a portfolio company in 2004.

Mr. Iwashko is a US citizen who speaks fluent Ukrainian and has made Ukraine his home since 1996. He received his Master's Degree in Business Administration from Harvard Business School in 1991, a graduate degree from the University of Illinois in Mechanical Engineering in 1984, and his undergraduate degree in Mechanical Engineering from the University of Colorado in 1983.

E-mail: miwashko@wnisefk.com

LENNA KOSZARNY | Chief Financial Officer

Ms. Koszarny supervises WNISEF's finance, human resource and administrative functions. She provides strategic, financial and tax advice to senior management and the investment team as well as analysis and monitoring of portfolio company performance. Her other responsibilities include converting business strategy into financial strategy, maintaining control over Fund assets and expenditures, ensuring compliance with internal policies and procedures, overseeing information systems that support the decision-making process, and providing accurate and timely reporting to key stakeholders. Ms. Koszarny has worked in Ukraine since 1993 and has five years of private equity experience.

Ms. Koszarny, a Canadian citizen fluent in Ukrainian, received her Honors Business Administration Degree at the Richard Ivey School of Business in London, Canada in 1991. She qualified as a Chartered Accountant with Coopers & Lybrand and has been a member of the Canadian Institute of Chartered Accountants since 1993. She is Vice Chair of the Board of Kyiv-Mohyla Business School.

E-mail: lkoszarny@wnisefk.com

Investment Team

The talents of this committed group drive WNISEF's success.

NATALIE BEST | Investment Manager | E-mail: nbest@wnisefk.com

Ms. Best began her career with WNISEF in 1998. She is responsible for developing the investment deal flow in TMT and light industry, as well as real estate and retail-related industries. Ms. Best successfully closed a $3 million equity deal in the first private provider of energy-saving services in Ukraine. She subsequently negotiated additional leverage of $10 million from the EBRD within a record four months of the company's establishment. Ms. Best leads efforts in adding value at the Fund's quick-service restaurant chain, providing strategic direction and financial acumen. Most recently, she structured the sale of WNISEF's stake in an automotive parts manufacturing company. During her tenure, Ms. Best has had first hand experience in turnaround situations, including debt restructuring, implementing management change, and settlement of shareholder disputes.

A native Ukrainian, Ms. Best received her Master's Degree in Business Administration from the Fisher Business School at Ohio State University in 1998, and a Bachelor's Degree in Finance and Accounting from West Texas A&M University in 1996. Since 2003, Natalie Best has served as Co-Chair of the Finance and Investment Committee of the American Chamber of Commerce in Ukraine.

ALEXANDRU MUNTEANU | Country Manager for Moldova and Investment Manager | E-mail: amunteanu@wnisefk.com

Mr. Munteanu joined WNISEF in 1997 to manage a diverse portfolio of Moldovan companies, Moldovan stakeholder relations, and administration of the Chisinau team and office. He brought extensive competencies in the financial services industry to WNISEF, enabling him to actively develop WNISEF's financial services portfolio in both Ukraine and Moldova. Mr. Munteanu has experience in buyouts, expansions, restructurings and realizations.

He has effectively directed capital expansions and financial restructuring efforts as a member of the Board of Directors of several portfolio companies. As a result of these changes, one portfolio company increased its sales by 120%, achieving $3 million in net income in just two years after posting a $2 million net loss. Mr. Munteanu led the largest private equity exit in the Moldovan market securing an excess of 2.2 times cash-on-cash return and an IRR of 20% for WNISEF.

A native Moldovan, Mr. Munteanu received his Master's Degree in Economic Policy Management from Columbia University. He also has a Master's Degree in Theoretical Physics from Moscow University.

OKSANA STRASHNA | Investment Manager | E-mail: ostrashna@wnisefk.com

Over the past nine years, Ms. Strashna has effectively participated in every stage of private equity portfolio development: identification of investment opportunities, due diligence, structuring and valuation, negotiation, relationship management, and monitoring. She has experience in a variety of industries, including financial services, FMCG, and light manufacturing. Most recently, Ms. Strashna closed a $7 million expansion investment in a high-growth FMCG sector. She successfully led another portfolio company through a brown-field acquisition which increased production capacity by an additional 50%. In addition, she managed WNISEF's investment into a fast-paced financial services niche, recruiting the core management team, overseeing registration and licensing, and managing relationships with follow-on financiers. As a result, the financial institution has attracted $30 million in long-term debt from the Overseas Private Investment Corporation (OPIC).

A native Ukrainian, Ms. Strashna received her Master's Degree in Business Administration from the Kellogg Graduate School of Management at Northwestern University in 1996. In 2001, she became one of the first Ukrainians to earn a Chartered Financial Analyst (CFA) designation.

PETER CHARCHALIS | Investment Manager | E-mail: pcharchalis@wnisefk.com

Mr. Charchalis brings deep knowledge and expertise in the FMCG, logistics and distribution industries to WNISEF. By leveraging past experience in these sectors, he successfully integrated a multimillion dollar confectionary acquisition and the rollout of a new sales and distribution system within a portfolio company. These improvements resulted in broadened retail coverage and growth in volume and value share yielding a $39 million increase in annual sales revenues and a 56% increase in net income. In addition, he has successfully advised portfolio companies in the use of innovative financial instruments, including one of the first and largest domestic corporate bond issuances. Applying best practices, Mr. Charchalis recently succeeded in guiding a portfolio company to profitability by assembling a new management team and leading them through a process of rigid cost control implementation, trade and supplier agreement amendments, operational restructuring, and new revenue source development. He has four years of experience in the Ukrainian market.

Mr. Charchalis, a US citizen fluent in Ukrainian, earned his Master's Degree in Business Administration from New York University's Stern School of Business in 1995. He received his Bachelor of Arts Degree in International Business from Ohio Wesleyan University in 1987.

Investment Climate

Since the beginning of its economic recovery in 2000, Ukraine has demonstrated truly impressive results. One of the fastest growing economies worldwide, Ukraine's continued double digit growth in 2004 underscored the investment attractiveness of one of Europe's largest markets. The 2004 Presidential elections underlined Ukraine's European choice and its willingness to introduce the necessary changes in domestic and foreign policies to provide a solid foundation for business expansion, market growth and investment.

UKRAINE

IMPRESSIVE ECONOMIC ACHIEVEMENTS

- The highest real GDP growth in Central and Eastern Europe
- Intensive (12.5%) growth of industry reinforced by improvements in labor productivity
- Nominal income of Ukrainian citizens increased by 22.5%
- Consumer spending grew by 15%, outpacing most neighboring economies
- Gross international reserves of the National Bank increased by 37%
- Ukraine's current account more than doubled in 2004
- Ukraine moved up 43 positions in the global rating of economic freedom

SOCIO-POLITICAL SITUATION IMPROVES

- A sense of responsible and participatory democracy emerged from active citizen participation in the Orange Revolution
- Freedom of the press a new priority for government
- New leadership takes concrete steps to reduce corruption

FDI IS INCREASING

- Foreign direct investment doubled in 2004 totaling $1.5 billion
- Most significant recipients of investment: financial services, retail and wholesale trade, and real estate sectors
- Global business community exhibiting strong new interest in Ukraine following international exposure of the peaceful Orange Revolution in late 2004
- New government estimates foreign direct investment to reach historic high of $10 billion in 2005

Indicators	2001	2002	2003	2004
Real GDP Growth, %	9.1	5.2	9.4	12.4
Average Inflation, %	6.1	-0.6	8.2	12.5
Exchange Rate, USD	5.37	5.33	5.33	5.32
Current Account Balance, % of GDP	3.7	7.7	5.8	10.4
Foreign Debt Stock, USD billions	7.98	8.08	8.55	8.81
FDI (USD billions, net)	0.77	0.70	1.41	1.50

Sources: ICPS, NBU

MOLDOVA

STABLE ECONOMIC GROWTH

- Industrial output increased by 6.4% and agricultural output by 23%
- Exports grew by 24.8%, imports by 26.4%
- Monthly average disposable income per capital increased 20%
- Consumer lending grew by 66%
- Foreign currency reserves of National Bank of Moldova increased by 56%
- Standard and Poor's rated profitability of Moldova's banking sector first among countries of the former Soviet Union

INTEGRATION WITH EUROPE REMAINS A KEY PRIORITY

- Within the framework of a newly adopted National Program for Implementation of the Moldova-EU Action Plan, Moldova will be provided with asymmetrical trade preferences that will open the European market for Moldovan goods
- An active regional player, Moldova continues its participation in the Balkan Stability Pact, which it joined in June 2001
- Parliament adopted the "guillotine principle" which enables it to quickly suspend legal provisions contradicting market economy principles
- 18% corporate income tax was introduced with the goal of substantially decreasing the size of the shadow economy

INVESTMENT CLIMATE IMPROVING

- Cumulative foreign direct investment totaled $839 million, or $186 per capita
- Most significant recipients of investment: energy, food processing, retail and wholesale trade, transportation and communications sectors
- Parliament adopted legislation guaranteeing equal treatment for local and foreign investors, and disallowing expropriation and nationalization of assets
- Moldova ranked one of the top 10 countries in the world demonstrating significant improvements in its business climate, according to World Bank 2004 survey

Indicators	2001	2002	2003	2004
Real GDP Growth, %	6.1	7.2	6.3	7.3
Average Inflation, %	9.6	5.2	15.7	12.5
Exchange Rate, USD	13.0	13.6	13.9	12.3
Current Account Balance, % of GDP	-4.6	-3.1	-7.3	-5.5
Foreign Debt Stock, USD billions	0.99	1.23	1.44	1.39
FDI Stock (USD millions, net)	147	117	71	88

Sources: World Bank, EIU , EBRD

Investment Climate

Moldova's economy continues to expand rapidly, fuelled by strong industry growth and increased consumer demand. Real GDP growth reached 7.3% in 2004, a 30% increase over 2000. Consumer purchasing power strength is largely fueled by increases in real wages and bank lending, as well as high level of remittances from Moldovans abroad. In addition, the recovery of Ukrainian and Russian demand for Moldova's exports greatly contributed to the country's economic expansion.

Portfolio Companies

PROCREDIT BANK
August 1999
Industry Sector
Financial Services/Ukraine
www.procreditbank.com.ua

AVK
September 1998
Industry Sector
Food Processing/Ukraine
www.avk.ua

INTERNATIONAL MORTGAGE BANK
August 2003
Industry Sector
Financial Services/Ukraine
www.ipoteka.com.ua

ECOPROD
December 1995
Industry Sector
Agriculture/Ukraine

GCC
April 1997
Industry Sector
Packaging/Moldova

TROYANDA
August 2000
Industry Sector
Food Processing/Ukraine
www.troianda.ua

Portfolio Companies

Швидко українська кухня

SHVYDKO
September 2003
Industry Sector
Quick-Service Restaurants/Ukraine
www.shvydko.ua

Prettl Kabel Ukraine

PRETTL KABEL UKRAINE
May 1997
Industry Sector
Light Industry/Ukraine
www.pku.com.ua

EA енергетичний Альянс

ENERGY ALLIANCE
July 2003
Industry Sector
Energy Services/Ukraine
www.energy-alliance.com.ua

Moldova Agroindbank

MOLDOVA AGROINDBANK
August 1999
Industry Sector
Financial Services/Moldova
www.maib.md

ProCredit

PROCREDIT MOLDOVA
August 1999
Industry Sector
Financial Services/Moldova

Consolidated Financial Statements

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Report of Independent Auditors

Consolidated Financial Statements

To the Board of Directors
of Western NIS Enterprise Fund

We have audited the accompanying consolidated statements of assets and liabilities of Western NIS Enterprise Fund (the “Fund”) and subsidiaries, including the consolidated condensed schedules of investments, as of September 30, 2004 and 2003, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Western NIS Enterprise Fund and subsidiaries as of September 30, 2004 and 2003, and the results of their consolidated 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.

January 12, 2005

Ernst + Young LLP

Consolidated Financial Statements

Consolidated Statements of Assets and Liabilities
September 30, 2004 and 2003

Expressed in US Dollars

	2004	2003
Assets		
Investments, at fair value:		
Equity and debt securities		
(cost $53,525,110 and $49,660,106		
as of September 30, 2004 and 2003, respectively)	$ 42,587,633	$ 35,522,629
Cash and cash equivalents	2,088,421	8,464,270
Prepaid rent and other prepaid expenses	157,586	153,052
Accrued interest, dividends and other income	332,132	156,254
Fixed assets, net of accumulated depreciation and amortization	432,037	741,173
Other assets	2,131,274	311,445
Total assets	**$ 47,729,083**	**$ 45,348,823**
Liabilities and fund balance		
Accounts payable and other accrued expenses	$ 392,198	$ 446,822
Exit-based incentive payable	1,872,549	1,759,618
Other liabilities	68,310	337,983
Total liabilities	2,333,057	2,544,423
Commitments *(Note 9)*	–	–
Fund balance	45,396,026	42,804,400
Total liabilities and fund balance	**$ 47,729,083**	**$ 45,348,823**

See accompanying notes.

Consolidated Statements of Operations and Changes in Fund Balance
Years ended September 30, 2004 and 2003

Consolidated Financial Statements

Expressed in US Dollars

	2004	2003
Investment income:		
Dividend income	$ 1,138,439	$ 680,201
Interest income	628,489	397,149
Other income	601,782	177,734
Total investment income	**2,368,710**	**1,255,084**
Expenses:		
Employee compensation and benefits	2,441,454	2,544,445
Exit-based incentive expense – equity incentive plan	1,282,782	356,387
Exit-based incentive expense – financial participation rights	478,195	790,630
Professional fees	1,737,054	1,255,102
Business travel	313,468	408,589
Occupancy	285,325	311,576
Depreciation and amortization	149,410	173,982
Other operating	364,520	495,017
Total expenses	**7,052,208**	**6,335,728**
Net investment loss	**(4,683,498)**	**(5,080,644)**
Net realized and change in unrealized gain on investments:		
Net realized gain on investments	4,389,907	4,950,977
Net realized loss from write-off of investments	-	(1,001,979)
Net change in unrealized loss on investments	3,200,000	(2,244,775)
Net realized and change in unrealized gain on investments	**7,589,907**	**1,704,223**
Net increase (decrease) in fund balance from operations	**2,906,409**	**(3,376,421)**
Deferred exit-based incentive	(314,783)	(711,391)
Net increase (decrease) in fund balance	**2,591,626**	**(4,087,812)**
Fund balance, beginning of year	42,804,400	46,892,212
Fund balance, end of year	**$ 45,396,026**	**$ 42,804,400**

See accompanying notes.

Consolidated Financial Statements

Consolidated Statements of Cash Flows
Years ended September 30, 2004 and 2003

Expressed in US Dollars

	2004	2003
Cash flows from operating activities:		
Net increase (decrease) in fund balance from operations	$ 2,906,409	$ (3,376,421)
Adjustments to reconcile net increase (decrease) in fund balance to net cash (used in) provided by operating activities:		
Disbursements for:		
Equity securities	(12,675,097)	(415,252)
Debt securities	(1,500,000)	(2,120,796)
Fixed assets	(98,614)	(187,946)
Proceeds from:		
Equity securities	13,684,410	10,700,100
Debt securities	1,000,000	1,150,000
Small business loans	–	24,474
Fixed assets	322,796	592,752
Net realized gain from sale of investments	(4,389,907)	(4,950,977)
Net change in unrealized losses on investments	(3,200,000)	2,244,775
Net realized loss from write-off of investments	–	1,001,979
(Gain) loss on disposal of fixed assets	(64,456)	26,714
Deferred exit-based incentive	(314,783)	(711,391)
Depreciation and amortization	149,410	173,982
(Increase) decrease in prepaid rent and other prepaid expenses	(4,534)	24,685
(Increase) in accrued interest, dividends and other income	(175,878)	(74,710)
(Increase) in other assets	(1,804,239)	(75,035)
(Decrease) increase in accounts payable and other accrued expenses	(54,624)	101,570
Increase in exit-based incentive payable	112,931	1,394,580
(Decrease) increase in other liabilities	(269,673)	217,404
Net cash (used in) provided by operating activities	**(6,375,849)**	**5,740,487**
Net (decrease) increase in cash and cash equivalents	**(6,375,849)**	**5,740,487**
Cash and cash equivalents, beginning of year	8,464,270	2,723,783
Cash and cash equivalents, end of year	**$ 2,088,421**	**$ 8,464,270**

See accompanying notes.

Consolidated Financial Statements

Consolidated Condensed Schedule of Investments
September 30, 2004

Expressed in US Dollars

Investments (93.8%)[1]	Principal/ Shares/Interest	Cost	Fair Value
Equity (78.0%)			
Ukraine (74.1%)			
Agribusiness (10.8%)			
CJSC Ecoprod A.T.	114		$ 4,901,785
Financial services (25.8%)			
CJSC International Mortgage Bank	37,167,201		6,965,693
CJSC ProCredit Bank Ukraine	31,461		2,758,657
CJSC Energy Alliance (note 9)	934,270,627[2]		2,000,000
	132,085,215[3]		
Food processing (30.8%)			
CJSC AVK	9,867,477		8,712,951
Shvydko	8,053,810		3,000,000
Other			2,251,030
Manufacturing (6.7%)			
Other			3,055,690
Moldova (3.9%)			
Financial services (3.9%)			1,751,031
Total Equity		**$ 45,932,786**	**35,396,837**
Debt (15.8%)			
Ukraine (13.8%)			
Financial services (13.8%)			
CJSC ProCredit Bank Ukraine	$ 6,290,796		6,290,796
Moldova (2.0%)			
Financial services (2.0%)			900,000
Total Debt		**7,592,324**	**7,190,796**
Total Investments		**$ 53,525,110**	**$ 42,587,633**

1 Percentages indicated are based on fund balance as of September 30, 2004. The Fund's investments are closed-end investments with no periodic liquidity.
2 Common shares.
3 Preferred shares.

See accompanying notes.

Consolidated Financial Statements

Consolidated Condensed Schedule of Investments
September 30, 2003

Expressed in US Dollars

Investments (83.0%)[1]	Principal/ Shares/Interest	Cost	Fair Value
Equity (67.4%)			
Ukraine (61.8%)			
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 (19.7%)			
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 Ukraine	$ 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**

[1] 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.

Notes to Consolidated Financial Statements
September 30, 2004 and 2003

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Western NIS 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 promotes the development of the private sector in the Western NIS region (the “Region”), which consists of Ukraine, Moldova and Belarus. The United States Congress has authorized appropriations of $150 million of which, $144 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 this Grant agreement, the Fund may hold funds in interest bearing accounts and may retain investment and realized gain income for program purposes. According to the Grant agreement, USAID may establish the date (the “Termination Commencement Date”) after which the Fund shall not make any new commitments or investments, and shall commence the winding up of its affairs and sale of its assets. The Termination Commencement Date will not occur earlier than ten years after the date of incorporation or later than fifteen years from such date of incorporation, except as may otherwise be agreed to by USAID and the Fund. The Fund was incorporated on August 26, 1994 and as of September 30, 2004 no termination plan has been developed.

The Fund is engaged in a broad private investment program in the Region, which through equity, debt investments, technical assistance and other measures, emphasizes a commitment to small and medium sized private businesses. 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.

WNISEF Holding Company #1 (the “Holding Company #1”), a Delaware corporation, is a 100%-owned subsidiary of the Fund. Holding Company #1 was incorporated 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 conducting small business lending on behalf of the Fund. FINCO does not engage in new lending, its operations are limited to collecting outstanding loans. Both FINCO and Holding Company #1 are considered dormant.

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, where a second shareholder is required by Ukrainian legislation. As of September 30, 2004, WNISEL held a nominal position in Closed Joint Stock Company (“CJSC”) International Mortgage Bank (“IMB”) valued at $709. The Fund, together with WNISEL, owns 100% of IMB. As of September 30, 2003, WNISEL held an equity investment in CJSC Slobozhanska Budivelna Keramika (“SBK”) of $202,299, which was divested in 2004.

Notes to Consolidated Financial Statements

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 "Investment Company 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 are not readily marketable and are not listed on an exchange or quoted in an open market. These investments are stated at fair value which is in accordance with the European Venture Capital Association valuation methodology and the AICPA Audit and Accounting Guide for Investment Companies, and as determined in good faith by management and approved by the Board of Directors. No material differences exist between the valuation methods.

Equity investments may be made in cash or with in-kind equipment contributions at cost. Cost is initially used to represent the fair value of unquoted venture investments unless this basis is not representative of fair value. 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. For debt securities, their fair values are based upon management's continuing review and evaluation of these investments with consideration of past experience, expected future losses, sovereign and currency risk, the financial condition of the borrowers, current economic conditions in the Region, and other relevant factors such as the non-collection of principal and interest when due in accordance with the contractual terms of the agreement.

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. Accordingly, the amounts realized could be different than their carrying value and the differences could be material.

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.

Notes to Consolidated Financial Statements

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. As of September 30, 2004, the Fund held foreign currency balances valued at $324,544.

Grant Funds Recognition

USAID grant funds received, when draw-downs are made against the USAID letter of credit commitment, are recognized in the consolidated statement of operations and changes in Fund balance. For the years ended September 30, 2004 and 2003, the Fund made $0 drawdowns of the USAID letter of credit commitment.

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 known are received.

Interest Income

Interest on debt securities 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 debt securities, 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, 2004 and 2003 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, 2004 and 2003, 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 may include, but is not limited to, transfer of used fixed assets, payment of expenses for portfolio company systems

Notes to Consolidated Financial Statements

implementations, consulting, training and other costs. 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, 2004 and 2003, Financial Participation Rights of $478,195 and $790,630, respectively, have been recorded as exit-based incentive expense with $0 and $759,967, respectively, recorded as exit-based incentive payable in the accompanying consolidated financial statements.

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 of the Fund's equity interest in a portfolio company. For LTEI plan purposes, the calculation of net realized gain includes proceeds from sale, as well as cumulative dividends and preferred returns received from the portfolio company, net of any applicable Financial Participation Rights. The interests are subject to a three-year vesting period and vest in one-third increments on each anniversary of the date of grant.

For the year ended September 30, 2004, the Fund recorded a liability for future distributions to LTEI participants relating to the sale of SBK. In March 2004, sale proceeds were received in full and the share transfer completed.

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 was deemed to be January 21, 2004, the expiration date of the Fund's potential liability for representations and warranties pursuant to the terms of the Investment Agreement.

As of September 30, 2004 and 2003 and for the years then ended, $1,282,782 and $356,387, respectively, have been recorded as exit-based incentive expense, $1,872,549 and $999,651, respectively, as exit-based incentive payable, $1,026,174 and $711,391, respectively, as deferred exit-based incentive reducing Fund balance in the accompanying consolidated financial statements. The exit-based incentive expense, exit-based incentive payable and deferred exit-based incentive amounts include the Fund's portion of related payroll taxes. The deferred exit-based incentive amount will be charged to expense over the remaining vesting period. As of September 30, 2004 and 2003, management's estimate of the future liability to LTEI Plan participants related to cumulative dividends and preferred returns received from existing portfolio companies is $310,054 and $70,120, respectively.

No liability has been recorded for dividends and preferred returns from existing portfolio companies as the liability is contingent upon the sale of the portfolio company at a gain.

Reclassification

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

Notes to Consolidated Financial Statements

4. U.S. GOVERNMENT GRANTS

For the years ended September 30, 2004 and 2003, USAID has committed, in a letter of credit, additional grant monies of $2.25 million and $4.7 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 purposes. As of September 30, 2004 and 2003, the status of the Grant was as follows:

	2004	2003
Planned grant funding	$ 150,000,000	$ 150,000,000
Total letter of credit commitment	$ 143,969,125	$ 141,719,125
Less amounts received	(113,600,000)	(113,600,000)
Balance available under letter of credit	$ 30,369,125	$ 28,119,125

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 $1,151,979. This amount was partially offset by reversal of a previously written off loan in the amount of $150,000.

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 and cash balances held in the Region's local banks are subject to the political and economic uncertainties associated with doing business in the Region.

At September 30, 2004 and 2003, the Fund held cash and cash equivalents of $797,348 and $8,135,160, respectively, with one large United States commercial banking institution. Remaining cash balances were held in several local bank accounts in the Region.

7. FIXED ASSETS

As of September 30, 2004 and 2003, fixed assets consisted of:

	2004	2003
Apartments	$ 253,146	$ 673,710
Computer equipment and software	531,361	574,837
Furniture, fixtures and equipment	305,743	317,630
Automobiles	214,624	200,882
Leasehold improvements	100,878	125,985
Telephone equipment	96,320	100,186
	1,502,072	1,993,230
Accumulated depreciation and amortization	(1,070,035)	(1,252,057)
Fixed assets, net	$ 432,037	$ 741,173

Notes to Consolidated Financial Statements

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 $13,000 in calendar year 2004 and $12,000 in calendar year 2003. 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). Beginning, 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 and $87,900 as of January 1, 2004). 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 $268,600 and $193,000 for the years ended September 30, 2004 and 2003, 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

During 2004, the Fund entered into various new lease agreements under which it is committed to make rental payments for office premises through 2009. Rent expense for the years ended September 30, 2004 and 2003 was $285,325 and $311,576, respectively. Minimum annual lease commitments for fiscal year 2005 and thereafter are as follows:

2005	$ 256,007
2006	217,776
2007	217,776
Thereafter	290,368
	$ 981,927

Investments

In September 2004, in accordance with the Share Pledge Agreement (the "Pledge Agreement") between the Fund and the European Bank for Reconstruction and Development ("EBRD"), the Fund has pledged 895,588,514 of common shares and 132,085,215 of preferred shares in Energy Alliance to EBRD as security for a $10,000,000 Loan (the "Loan") to this portfolio company. The pledge shall remain in effect as security until the loan obligations have been fully discharged. New shares issued to the Fund subsequent to the date of the Pledge Agreement of 38,682,113 are in process of being pledged. All shareholders of Energy Alliance bear joint and several liability for performance of the Loan obligations. If a default occurs, as defined in the Pledge Agreement, any dividends or amounts payable on the pledged shares will become payable to EBRD and applied against the outstanding Loan balance. The Fund is responsible for the lesser of the value of the pledged shares or the outstanding Loan balance. Additionally, if repayment of the Loan is made in a currency other than US dollars, the Fund is liable for any foreign currency loss realized upon conversion of this payment.

Notes to Consolidated Financial Statements

In addition, in September 2004, the Fund signed a Commitment Letter ("Letter") with the Overseas Private Investment Corporation ("OPIC") for OPIC to provide a credit facility to IMB of up to $30,000,000, subject to the Fund assuming joint and several liability for certain agreed-upon obligations, as defined in the Letter. It is anticipated that the Loan Agreement will be signed between OPIC and IMB in the second quarter of 2005.

As of September 30, 2003, the Fund had committed to fund additional investments totaling $4,585,000 to various current and prospective investees. The Fund's obligations under these commitments have been satisfied. In addition, 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. On October 28, 2003, Ecoprod provided official notice to the Fund of its intent to terminate these installment sales contracts. Pursuant to the terms of these contracts, the Fund retained 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, totaling $192,224. This amount is included in other income in the accompanying consolidated statements of operations and changes in fund balance for the year ended September 30, 2004.

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 and Moldova occurred on March 31 and July 28, 1995, respectively. Under a bilateral agreement between the Government of the United States of America and the Governments of Ukraine 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. During fiscal 2003, the Fund ceased activities of its representative office in Ukraine, electing to conduct its operations as an international technical assistance project, as defined by the Governments of the United States and Ukraine.

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 expensed in the accompanying consolidated statements of operations and changes in fund balance.

As of September 30, 2004 the Fund has incurred capital and operating expenditures related to the start-up of IMB totaling $1,934,885, which is included in other assets in the accompanying consolidated statements of assets and liabilities. This receivable will be collected based on a repayment schedule agreed to by the Fund and IMB.

During the year ended September 30, 2004, the Fund sold an apartment, including certain furniture and fixtures, for $186,946 to the spouse of a Director and officer of the Fund. The sale was concluded at market value, with the approval of the Board of Directors. The Fund recognized a realized gain of $37,980 on this transaction. This amount is included in other income in the accompanying consolidated statements of operations and changes in fund balance.

During the years ended September 30, 2004 and 2003, the Fund earned $93,888 and $170,090, respectively, of director's fees from its portfolio investments and transferred a fully depreciated automobile to a portfolio company.

Notes to Consolidated Financial Statements

12. CONTINGENCIES

In April 2000, the Fund commenced an arbitration to recover a loan receivable from one of its portfolio companies, CJSC Sonola ("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 ("Arbitration Award"). In addition, as a result of three separate decisions of various Ukrainian courts issued in April – June 2001, a number of Sonola share issuances were nullified and cancelled. As a result, Sonola became liable to return to the Fund any and all contributions related to these shares. Sonola has not proceeded with execution of the court's decision as this would require immediate payment of these contributions. Negotiations continue between the Fund and Sonola to agree on a mutually acceptable schedule to return these investments.

During 2002, 2003 and 2004 the Fund continued its efforts to enforce this Arbitration 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. As of September 30, 2004 and 2003, the carrying value in the accompanying consolidated financial statements is $0. Past due interest, penalties and reimbursement of legal and court fees payable to the Fund under this claim are not included in the accompanying consolidated financial statements in accordance with the Fund's valuation policy and the inherent uncertainty in enforcing this claim in Ukraine.

At present, the Fund continues to pursue this matter through international arbitration proceedings. In October 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"), based on Ukraine's breach of the Fund's Bilateral Investment Treaty rights in relation to the Sonola matter. The Fund is seeking damages in excess of $4 million. The Secretary-General of ICSID has registered the arbitration request and the Arbitration Tribunal held its first session in September 2004. During fiscal 2004, payments totaling $400,012 were received by the Fund from Sonola in connection with the loan default. Of this amount, $320,679 and $79,333 are included in other income and interest income, respectively in the accompanying consolidated statements of operations and changes in fund balance.

In the ordinary course of business, the Fund is involved in various claims and legal actions and may bear material legal costs relating to such matters. In the opinion of management, no provision has been included in the accompanying consolidated financial statements as the ultimate disposition of the various claims and legal actions, based on information currently available, may not be determined at this time and the loss, if any, will not have a material adverse effect on the Fund's consolidated financial position or changes in fund balance.

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.

Notes to Consolidated Financial Statements

14. FINANCIAL HIGHLIGHTS

The following presents the financial highlights for the Fund for the years ended September 30, 2004 and 2003:

	2004	2003
Ratios to average Fund balance		
Net investment loss	(10.6)%	(11.3)%
Net realized gain on investments	10.0%	11.0%
Expenses, including exit-based incentive expense - current	16.0%	14.1%
Less exit-based incentive expense - current	(4.0)%	(2.6)%
Expenses, excluding exit-based incentive expense – current	12.0%	11.5%
Total return, including exit based incentive expense – current and deferred	6.1%	(8.7)%
Less exit-based incentive expense – current and deferred	4.8%	3.9 %
Total return, excluding exit based incentive expense – current and deferred	10.9%	(4.8)%
Ratios to Committed Capital		
Net investment loss	(3.3)%	(3.6)%
Net realized gain on investments	3.0%	3.5%
Expenses, including exit-based incentive expense – current	4.9%	4.5%
Less exit-based incentive expense – current	(1.2)%	(0.8)%
Expenses, excluding exit based incentive expense – current	3.7%	3.7%

Ratios to average Fund balance are computed as year-end net investment 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 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, 2004 and 2003, these amounts were $143,969,125 and $141,719,125, respectively.

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15. SUBSEQUENT EVENTS

Subsequent to year-end, the Fund agreed to provide additional debt financing of $1,000,000 to ProCreditBank Ukraine to increase mortgage-lending disbursements on behalf of IMB, until such time as IMB receives its banking license. During the first quarter of fiscal 2005, the Fund also incurred additional operating and capital expenditures of $430,966 on behalf of IMB. On December 16, 2004, the National Bank of Ukraine approved the registration of IMB. It is anticipated that IMB will receive the final approvals necessary to obtain a banking license and commence full mortgage-lending activities in the second quarter of fiscal 2005.

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WNISEF Acknowledgments

ACKNOWLEDGEMENTS

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

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