ENABLING SUCCESS

Western NIS Enterprise Fund

ANNUAL REPORT 2007

About Us

Western NIS Enterprise Fund (WNISEF) is a pioneering regional private equity fund in Ukraine and Moldova with more than a decade of successful experience investing in small and medium-sized companies. Since its inception, WNISEF invested approximately $138 million in 33 companies ranging from fast-moving consumer goods, construction materials, packaging, retail, to financial services. In 2006, WNISEF became the cornerstone limited partner in Emerging Europe Growth Fund (EEGF), a $132 million private equity fund raised by Horizon Capital Associates, LLC (HCA). WNISEF is managed by HCA, a privately owned investment management company formed by former WNISEF management and employees.

The U. S. Congress established WNISEF and funded it through the U.S. Agency for International Development (USAID).

USAID
FROM THE AMERICAN PEOPLE

USAID promotes peace and stability by fostering economic growth, protecting human health, providing emergency humanitarian assistance, and nurturing democracy in developing countries. USAID's work in transformational countries enables these nations to build the capacity to sustain their own progress. Since 1992, the USAID has provided $1.6 billion worth of technical and humanitarian assistance to Ukraine to further the processes of democratic development, economic restructuring and social sector reform in the region. www.ukraine.usaid.gov

Mission

Our mission is to build competitive market leaders that attract additional private capital to the region. We serve as a catalyst for growth in our portfolio companies by utilizing international best practices, corporate governance standards, and prudent environmental practices.

Strategy

We have a strong growth strategy, which has been successfully utilized and honed during the past decade in Ukraine and Moldova. Working with our partners, we strive to increase shareholder value by focusing on increasing company profitability and market share, which in turn ensures successful realization of investments. The amount typically invested in a single company ranges from $1 million to $10 million. WNISEF's stake varies, but always includes active participation in corporate governance via representation on a portfolio company's Board of Directors.

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Letter From Management

In 2007, Ukraine and Moldova continued to offer excellent opportunities for emerging market investors, with strong GDP growth and an improving investment climate. We saw more expansion and buy-out opportunities in the region, as well as considerable improvement in liquidity. Both countries continued to attract strategic international investors and private equity players.

In 2007, Ukraine's economy grew 7.8%, well above the average growth rates in Western or Central Europe. This fast-paced growth was fueled by expansion in consumer-oriented industries, such as banking, financial services, manufacturing, retail and wholesale trade, as well as transport. The economy showed impressive resilience to price increases for imported energy – 2007 saw the price for Russian natural gas nearly double. Growth was similarly undaunted by early parliamentary elections and the changing political landscape. However, inflation has become a serious challenge in 2007, at an annual rate of almost 17% it was the highest since 2000.

Ukraine remained attractive to an ever-increasing number of foreign investors. Foreign direct investment in 2007 was $8.5 billion, Ukraine passed the legislation necessary for WTO accession in 2007 and completed all bilateral protocols necessary to clear the path to membership in 2008. As of April 4, 2008 Ukraine became the 152nd member of the WTO.

In 2007, Moldova moved forward with sound macroeconomic policies, spurred by a resolution to the Russian wine embargo and the approval of a trade agreement with the European Union. A prudent 2008 budget is in place, and the National Bank effectively re-established anti-inflation measures to counteract the impact of this year's drought. The country improved its export performance, finding new wine export markets to replace those lost to embargo. Growth was remarkably stout in the face of shocks, with increases in investment supported by growing FDI and strong remittances from abroad. The past year saw continued development of the financial sector, which still has huge growth potential.

More opportunities emerged for private equity players last year as the corporate environment continued to mature. Mid-cap companies, particularly in consumer-oriented industries, such as banking, retail and food increasingly considered private equity to finance business expansion and sustain high growth rates. Large business owners in Ukraine continued to focus on asset consolidation, selling off non-core assets.

Ukraine remained one of the top three growth countries in the CEE region in M&A activities. Almost $15.0 billion in M&A transactions were closed last year accompanied by a number of acquisitions by European financial groups and rising real estate investments. The upswing in M&A activity vastly improved the liquidity environment for private equity. Interest from global firms such as Warburg Pincus, Citi Venture Capital International, Advent International and Providence Equity Partners was a sign that Ukraine has finally made it on to the international private equity map.

Dennis A. Johnson
Chairman of the Board

Natalie A. Jaresko
President and Chief Executive Officer

Key Figures

UKRAINE

Ukraine's economy continued to perform very well in 2007 and the growth outlook for 2008 remains strong. Real GDP grew by 7.8% in 2007, driven by a boom in consumption, investment and exports. Despite the recent turbulence on global financial markets and continued political uncertainty within the country, Foreign Direct Investment (FDI) and other capital inflows remained strong. On February 5, 2008 the General Council paved the way for Ukraine's membership in the WTO by approving its accession terms. Ukraine ratified the deal on April 4, 2008 and became the 152nd member of the WTO.

Indicators	2001	2002	2003	2004	2005	2006	F2007
Real GDP Growth, %	9.2	5.2	9.6	12.1	2.6	6.6	7.8
Average Inflation, %	6.1	-0.6	8.2	12.3	10.3	11.6	16.6
Exchange Rate, USD	5.37	5.33	5.33	5.32	5.05	5.05	5.05
Current Account Balance, % of GDP	3.7	7.5	5.8	10.5	3.1	-1.1	-4.2
Foreign Debt Stock (USD billions)	20.4	21.6	23.8	30.6	38.8	44.9	13.9
FDI (USD billions, net)	0.7	0.7	1.4	1.7	7.3	4.5	8.5

Sources: ICPS, NBU, IMF, The World Bank

MOLDOVA

Moldova's economy is doing well in light of recent external shocks. Following the Russian embargo on Moldovan wine exports in 2006, exporters found other markets in 2007, and a better-than-expected deal for natural gas deliveries was struck with Russia. GDP has grown steadily over the past eight years, seeing 3% growth in 2007. FDI has also increased totaling 10% of GDP in 2007, compared to 7% in 2006. Moldova continued to harmonize its laws with those of its close neighbors in the EU, and is noted for its democratic local general elections in 2007.

Indicators	2001	2002	2003	2004	2005	2006	F2007
Real GDP Growth, %	6.1	7.8	6.6	7.4	7.5	4.0	3.0
Average Inflation, %	9.8	5.3	11.7	12.5	11.9	12.7	12.6
Exchange Rate, USD	12.4	12.9	13.6	13.9	12.3	12.6	13.1
Current Account Balance, % of GDP	-1.7	-4.0	-6.6	-2.3	-10.3	-12.0	-15.8
Foreign Debt Stock (USD millions)	1.3	1.4	1.5	1.4	1.4	1.7	2.3
FDI (USD millions, net)	103	84	74	151	197	242	459

Sources: The World Bank, EBRD, IMF

Year In Brief: Calendar of Events

2006

September

Energy Alliance launched a $3.5 million biomass fuel station installation project at one of Ukraine's largest sunflower oil extracting plants designed to help the company meet its energy savings targets.

www.energy-alliance.com.ua

2007

January

Shvydko – a leading quick-service Ukrainian cuisine restaurants chain demonstrated 22% CAGR in sales revenues over the period 2003 through 2007. In the last twelve months, Shvydko opened its 11th restaurant in one of the most popular Kyiv shopping centers, Karavan.

www.shvydko.ua

February - March

ProCredit Moldova improved conditions for its ProRapid loan for small businesses in Moldova increasing the loan maximum to $20,000, credit term to 48 months, and reducing issuance term to three days, with no collateral. This loan contributes to a portfolio of six types of business loans offered by ProCredit ranging from $5,000 to $50,000.

www.procredit.md

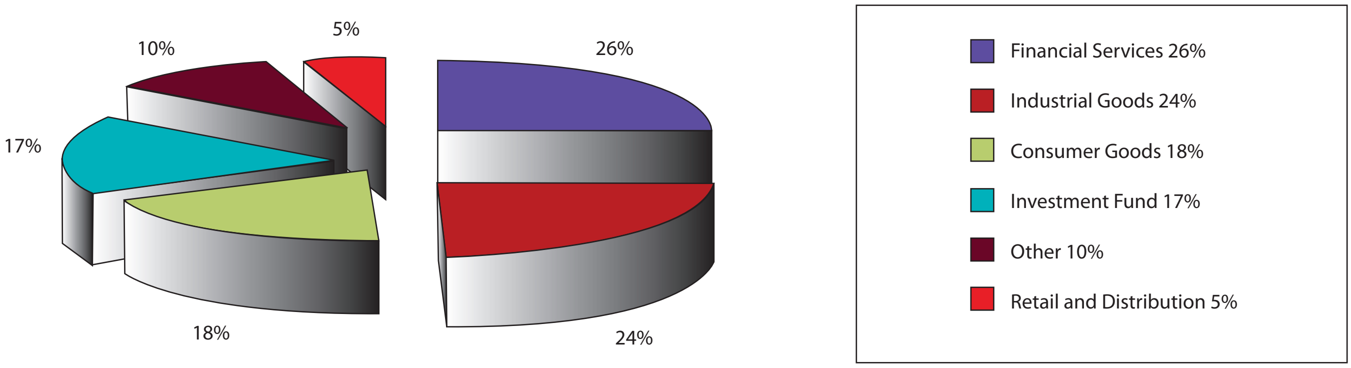
April – May - June

ProCredit Bank Ukraine, the only bank specializing in lending to small and medium-sized businesses in Ukraine, opened a new branch in Odessa. The new branch offers a full range of banking services including utility bills, payment services, deposits, debit cards, small loan and home improvement loans. This branch contributes to ProCredit Bank's network of 25 offices throughout Ukraine.

www.procreditbank.com.ua

Investment Portfolio

WNISEF Outstanding Investments by Sector



IMB GROUP

FinComBank
ÎNTR-UN PAS PE VIAȚĂ

July | August | September

IMBG completed a $100 million equity financing round. Leading global private equity firm Warburg Pincus invested $43.8 million alongside with existing shareholders: Horizon Capital, East Capital and a major US Investment Bank.

www.imbgroup.com.ua

An investment in **FinComBank**, a mid-size bank in Moldova, was finalized. The bank is led by a professional management team and has a strong market position in attractive high-growth segments, such as SME lending, cards and money transfers. FinComBank has been growing dynamically over the past several years (e.g. asset growth 52% per annum, lending growth – 59%, deposit growth – 66%), outperforming the industry on many efficiency metrics.

www.fincombank.md

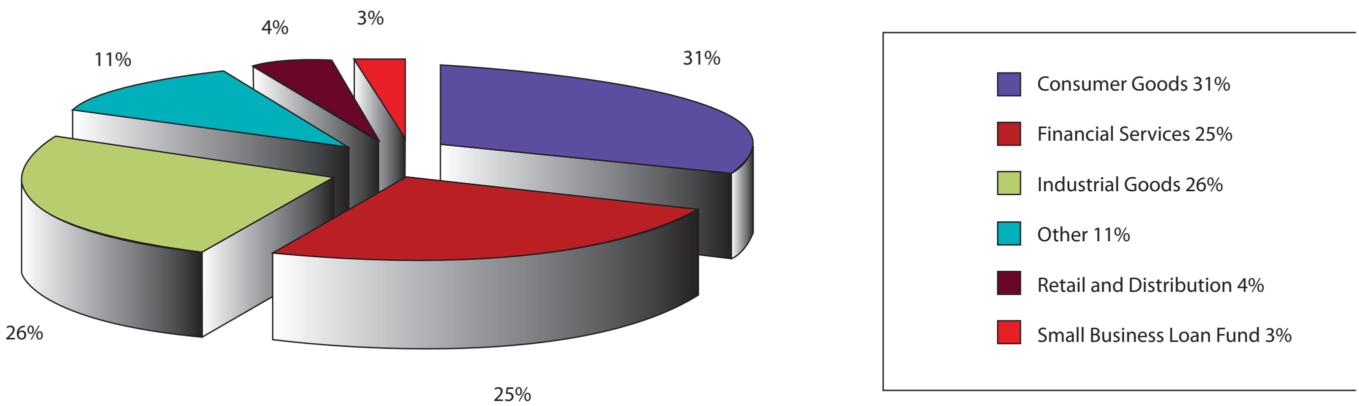
AVK launched a re-branding program to position itself as a premium chocolate brand in the upper price segment. The re-branding is a part of AVK's new business strategy, together with optimization of the brands portfolio, significant investments into manufacturing and re-engineering of its organizational structure. The company invested more than $30 million towards such expansionary goals during 2005-2007.

www.avk.ua

Glass Container Company (GCC) celebrated its 10th anniversary. The company's shareholders and management announced plans to more than double GCC's production capacity through an expansion project estimated to cost approximately $25 million. This will allow GCC to satisfy increasing demand in regional markets, and broaden its assortment. The launch of a new production facility is expected in early fall 2008.

www.gcc.md

WNISEF Cumulative Investments by Sector Since Inception



Highlight of the Year

CASE STUDY OF THE GCC COMPANY: LEADERSHIP. QUALITY. GROWTH.

COMPANY PROFILE

Business Area: Green Glass Packaging
Country: Moldova
Investor: WNISEF
Capital Invested: $4,800,000
Stake: 34.78%
Type of Deal: Acquisition through secondary purchase of shares
Initial Investment: 1997

COMPANY BACKGROUND

GCC started as a "greenfield" project in 1995. It was part of a larger Moldovan Wine Promotion Project, supported by significant credit resources from EBRD with a goal to revamp the Moldovan wine and packaging industries. GCC is a classic example of a turnaround – from a troubled, practically illiquid company to a dynamically developing and profitable enterprise.

INVESTMENT

In late 1997, **WNISEF** invested $4.8 million for a 25% equity stake in the company. Later in 2003, GCC retired some outstanding shares, thus increasing **WNISEF's** share in outstanding stock to 34.78%.

COMPANY PERFORMANCE

After the first year of operations, GCC was on the verge of insolvency due to weak management, a misdirected business model and an enormous debt load. **WNISEF** focused on turning the situation around, initiating comprehensive financial restructuring, and broadening EBRD's role from solely creditor to creditor and preferred shareholder. **WNISEF** worked hand in hand with GCC's new management and independent industry consultants (1) to develop a new marketing strategy focused on the Moldovan market and (2) to make quality control a valuable competitive advantage.

Today, the company is the leading manufacturer of dark green glass packaging in Moldova, producing over 92 different types of bottles, 60% of which are custom made by GCC. Modern glass production equipment enables GCC to produce over 100 million high-quality bottles annually. Its pack-to-melt ratio, used to measure glass production efficiency, is consistently above 90%, in line with the highest global standards. This production quality and the company's thoughtful management ensure the company's ability to quickly react to changes within the marketplace. In reaction to the Russian ban on Moldovan wine imports in 2006, for example, the company diversified and reestablished other export markets, increasing exports to 74% of sales.

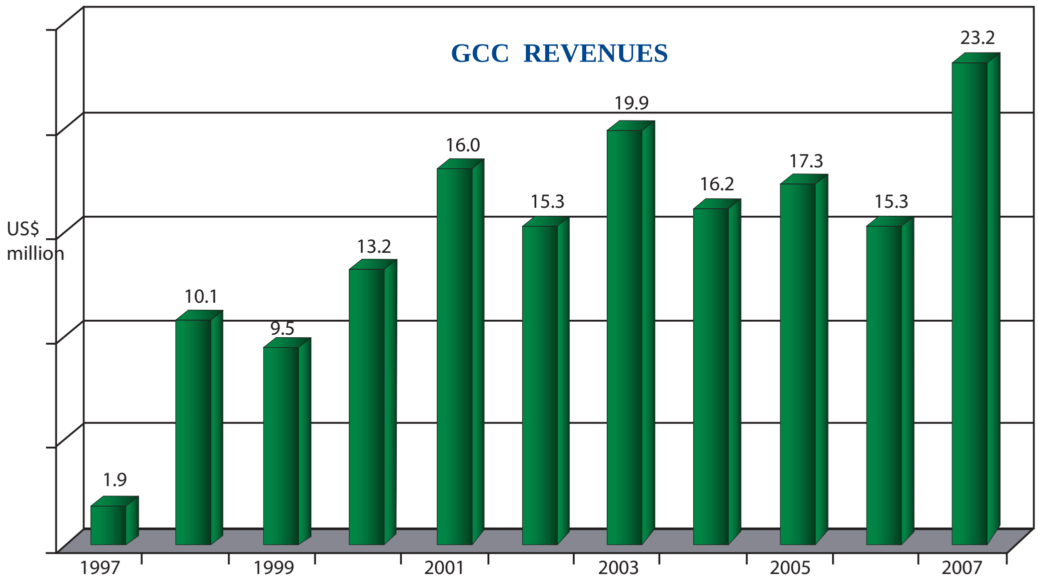
Domestic and export demand for GCC bottles is growing and now exceeds the company's capacity. GCC's management has maintained its growing customer base by subcontracting from other producers to satisfy demand. Moreover, in 2007 GCC launched a capital project to more than double GCC's production capacity and extend its assortment by producing different color glass. This Glass Container Prim (GC Prim) project will operate as a separate company, utilizing GCC's management offices. The launch of the new facility is expected in early fall of 2008. The project cost is estimated at $25 million.

VALUE ADDED

WNISEF came to the company at a crucial time, it led a turnaround by bringing on a new management team and guided financial restructuring. Thanks to continued efforts by **WNISEF** and GCC's new management team, the company achieved remarkable operational and financial results, as well as a higher level of quality. The company's sales grew from $1.9 million in 1997 to $23 million in 2007. **WNISEF** provided training, consulting and recruiting services to GCC, and served on its Board, which enabled success.

EXIT

WNISEF intends GCC and GC Prim to attract strategic investors in this sector. Several leading industry players have expressed their interest in the company, and the Fund expects to exit via trade sale within three years.



Enabling Success

Western NIS Enterprise Fund

Consolidated Financial Statements

Years ended September 30, 2007 and 2006

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KPMG Audit
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Independent Auditor's Report

To the Board of Directors
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 schedule of investments, as of September 30, 2007 and 2006, 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 the financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Fund'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, 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 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, 2007 and 2006, and the results of their operations and changes in their fund balances and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

CJSC KPMG Audit

CJSC KPMG Audit
December 24, 2007

Western NIS Enterprise Fund

Consolidated Statements of Assets and Liabilities

September 30, 2007 and 2006

Expressed in US Dollars

	2007	2006
Assets		
Investments, at fair value:		
Equity and debt securities (cost of $55,945,666 and $42,205,134 as of September 30, 2007 and 2006, respectively)	$ 79,921,579	$ 61,955,692
Emerging Europe Growth Fund, L.P. (cost of $11,575,683 and $10,788,781 as of September 30, 2007 and 2006, respectively)	19,583,956	13,343,305
Cash and cash equivalents (note 6)	24,296,746	26,773,984
Receivables:		
Equity securities sold (note 5)	-	874,679
Interest, dividends and other income	93,541	326,201
Fixed assets sold (note 12)	303,343	379,178
Prepaid expenses:		
Investment management fees (note 12)		
Other	781,250	787,671
	54,208	30,463
Fixed assets, net of accumulated depreciation and amortization (note 7)	46,206	140,359
Other assets	101,950	100,462
Total assets	$ 125,182,779	$ 104,711,994
Liabilities and fund balance		
Accounts payable and other accrued expenses	$ 104,692	$ 215,189
Exit-based incentive payable (note 9)	109,596	185,103
Other liabilities	14,512	26,258
Total liabilities	228,800	426,550
Commitments and contingencies (notes 10 and 13)		
Fund balance	124,953,979	104,285,444
Total liabilities and fund balance	$ 125,182,779	$ 104,711,994

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Changes in Fund Balance

Years ended September 30, 2007 and 2006

Expressed in US Dollars

	2007	2006
Investment income		
Interest income	$ 2,043,821	$ 1,439,013
Dividend income	2,543,381	99,345
Other income	1,375,642	181,990
Total investment income	5,962,844	1,720,348
Expenses		
Investment management fees (note 12)	3,131,421	1,832,192
Exit-based incentive expense – equity incentive plan (note 9)	217,633	1,218,551
Professional fees	396,159	1,748,741
Employee compensation and benefits	67,105	1,171,556
Business travel	143,683	386,181
Occupancy	50,360	136,855
Depreciation and amortization	22,648	58,168
Other operating	135,101	491,845
Total expenses	4,164,110	7,044,089
Net investment gain (loss)	1,798,734	(5,323,741)
Net realized and unrealized gain on investments		
Net realized gain on investments (note 5)	6,491,202	3,180,070
Net unrealized gain on investments (note 5)	9,679,106	28,636,577
Net realized and unrealized gain on investments	16,170,308	31,816,647
Net increase in fund balance from operations	17,969,042	26,492,906
U.S. Government grants (note 4)	2,555,875	13,744,125
Deferred exit-based incentive (note 9)	143,618	(31,102)
Net increase in fund balance	20,668,535	40,205,929
Fund balance, beginning of year	104,285,444	64,079,515
Fund balance, end of year	$ 124,953,979	$ 104,285,444

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

September 30, 2007 and 2006

Expressed in US Dollars

	2007	2006
Cash flows from operating activities		
Net increase in fund balance from operations	$ 17,969,042	$ 26,492,906
Adjustments to reconcile net increase in fund balance to net cash (used in) provided by operating activities:		
Disbursements for:		
EEGF Limited Partnership interest capital calls	(2,151,707)	(10,788,781)
Equity securities	(17,600,531)	(3,070,355)
Debt securities	(800,000)	(8,850,000)
Fixed assets	(10,416)	(272,267)
Proceeds from:		
EEGF Limited Partnership interest distributions	7,563,257	-
Equity securities – sale to EEGF	-	26,883,253
Equity securities – sale to third parties	1,367,430	5,931,102
Debt securities	4,460,000	2,360,000
Fixed assets	270,000	84,221
Depreciation and amortization	22,648	58,168
Loss (gain) on disposal of fixed assets	(188,079)	27,497
Net realized gain from sale of investments	(6,491,202)	(3,180,070)
Net change in unrealized gains and losses on investments	(9,679,106)	(28,636,577)
Deferred exit-based incentive	143,618	(31,102)
Decrease in receivables for investment securities sold	-	846,683
Decrease (increase) in interest, dividends and other receivables	232,660	(122,530)
Decrease in receivables for fixed assets sold	75,835	-
Decrease (increase) in prepaid investment management fees	6,421	(787,671)
Decrease (increase) in prepaid rent and other prepaid expenses	(23,745)	132,112
Decrease (increase) in other assets	(1,488)	84,588
Decrease in accounts payable and other accrued expenses	(110,497)	(258,385)
Decrease in exit-based incentive payable	(75,507)	(754,043)
Decrease in other liabilities	(11,746)	(88,904)
Net cash (used in) provided by operating activities	(5,033,113)	6,059,845
Cash flows from financing activities		
Cash received from U.S. Government grants	2,555,875	13,744,125
Net cash provided by financing activities	2,555,875	13,744,125
Net (decrease) increase in cash and cash equivalents	(2,477,238)	19,803,970
Cash and cash equivalents, beginning of year	26,773,984	6,970,014
Cash and cash equivalents, end of year	$ 24,296,746	$ 26,773,984
Non cash transactions		
Offset of investments with other liabilities	-	$ 2,000,000

See accompanying notes to consolidated financial statements.

Consolidated Condensed Schedule of Investments

September 30, 2007 Expressed in US Dollars

Investments (79.6%)[1]	Principal/ Shares/Interest	Cost	Fair Value
Limited Partnership Interest (15.7%)			
Emerging Europe Growth Fund, L.P.			$ 19,583,956
Total Limited Partnership Interest		$ 11,575,683	19,583,956
Equity (60.2%)			
Ukraine (51.7%)			
Food processing (23.2%)			
CJSC AVK	9,867,477		26,138,853
Other			2,861,686
Financial services (22.8%)			
CJSC ProCredit Bank Ukraine	62,922		21,483,795
Other			7,000,115
Agribusiness (3.9%)			4,901,785
Manufacturing (1.8%)			2,304,929
Moldova (8.5%)			
Manufacturing (6.1%)			
Glass Container Prim S.A.	83,221		7,100,676
Other			500,000
Financial services (2.4%)			
Banca de Finante si Comert S.A.	121,457[2]		2,999,740
Total Equity		51,315,666	75,291,579
Debt (3.7%)			
Ukraine (3.7%)			
Financial services (3.0%)	$ 3,730,000		3,730,000
Food processing (0.7%)	$ 900,000		900,000
Total Debt		4,630,000	4,630,000
TOTAL INVESTMENTS		$ 67,521,349	$ 99,505,535

[1] Percentages indicated are based on fund balance as of September 30, 2007. The Fund's investments are closed-end investments with no periodic liquidity.

[2] As disclosed in note 12, the Fund's interest totals 121,457 shares with an additional 202,440 shares held on behalf of EEGF pursuant to a purchase agreement.

See accompanying notes to consolidated financial statements.

Western NIS Enterprise Fund

Consolidated Condensed Schedule of Investments

September 30, 2006 Expressed in US Dollars

Investments (72.2%)[1]	Principal/ Shares/Interest	Cost	Fair Value
Limited Partnership Interest (12.8%)			
Emerging Europe Growth Fund, L.P.			$ 13,343,305
Total Limited Partnership Interest		$ 10,788,781	13,343,305
Equity (51.5%)			
Ukraine (51.3%)			
Food processing (32.0%)			
CJSC AVK	9,867,477		30,495,329
Other			2,873,372
Financial services (14.3%)			
CJSC ProCredit Bank Ukraine	62,922		12,890,277
CJSC Energy Alliance (note 9)	934,270,627[2]		2,000,000
	132,085,215[3]		
Agribusiness (4.7%)			
CJSC Ecoprod A.T.	114		4,901,785
Manufacturing (0.3%)			304,929
Moldova (0.2%)			
Financial services (0.2%)			200,000
Total Equity		33,915,134	53,665,692
Debt (7.9%)			
Ukraine (7.9%)			
Financial services (7.8%)			
CJSC International Mortgage Bank	$ 3,000,000		3,000,000
CJSC Energy Alliance	$ 3,000,000		3,000,000
CJSC ProCredit Bank Ukraine	$ 2,190,000		2,190,000
Food processing (0.1%)			100,000
Total Debt		8,290,000	8,290,000
TOTAL INVESTMENTS		$ 52,993,915	$ 75,298,997

[1] Percentages indicated are based on fund balance as of September 30, 2006. The Fund's investments are closed-end investments with no periodic liquidity.
[2] Common shares.
[3] Preferred shares.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

September 30, 2007 and 2006

1. Background

(a) 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 Newly Independent States region (the Region), which consists of Ukraine, Moldova and Belarus. The United States Government (USG) authorized appropriations of $150 million, which 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, 2007, no Termination Commencement Date has been set.

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 invest¬ments in the Region's private sector, the Fund seeks to generate profits that will further support its activities and attract investment by others.

Following the precedent of USAID financed Enterprise Funds in Central and Eastern Europe, the Fund actively pursued its mission of attracting significant private capital to the Region by supporting the establishment of a private management company, Horizon Capital Associates, LLC (HCA) and the launch of a private successor fund, Emerging Europe Growth Fund, L.P. (EEGF). Based on USAID and Congressional approval, in 2006, the Board of Directors of the Fund committed $25 million to EEGF and approved the warehousing of certain recent Fund investments for sale to EEGF in anticipation of its initial closing. EEGF organizational costs incurred by the Fund of $1 million were reimbursed by EEGF in 2007, after EEGF's final closing.

In February 2006, EEGF held an initial closing of $45 million in aggregate commitments, whereby both the Fund and EEGF entered into investment management agreements with HCA on the basis of pari passu terms. Subsequent closings raised an additional $87 million in commitments, resulting in EEGF aggregate commitments of $132 million as of September 30, 2007. As of the initial closing date of EEGF, sales-purchase agreements were signed between the Fund and EEGF for the sale of four investments, including OJSC Shostka City Milk Plant ("Shostka"), Natur Bravo S.A. ("Natur Bravo"), CJSC International Mortgage Bank ("IMB") and Favorit Capital, LLC ("Favorit Capital") as well as the sale of a Fund subsidiary, Western NIS Enterprise Limited (WNISEL) that held minority shares of Shostka and IMB as part of the sale of these entities. The sales price for these investments was based on valuations prepared by an independent audit firm that was not the auditor of either party. Another investment, Ergopack LLC ("Ergopack"), was sold to EEGF in May 2006. Finally, effective March 1, 2006, following the initial closing of EEGF, all employees, excluding employees based in the Fund's U.S. office, became employees of HCA's wholly-owned subsidiary, Horizon Capital Advisors, LLC (HCAD), resulting in the transfer of employee compensation, operating and other expenses from the Fund to HCA and HCAD.

The Fund's activities are conducted directly as well as through various subsidiaries. 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 former 99.9% owned subsidiary of the Fund sold to EEGF in February 2006. WNISEL was established in Cyprus on December 12, 1996 solely to make investments on behalf of the Fund where a second shareholder is required by Ukrainian legislation. Prior to its sale to EEGF, WNISEL held a nominal position in IMB valued at $846 and a nominal position in Shostka valued at $363.

(b) Business environment

The Region is experiencing political and economic change which has affected, and may continue to affect, the activities of entities operating in this environment. Consequently, operations in the Region involve risks that do not typically exist in other markets. These financial statements reflect management's assessment of the impact of the business environment in the Region on the operations and the financial position of the Fund. The future business environment may differ from management's assessment. The impact of such differences on the operations and the financial position of the Fund may be significant. The ability to assess the valuation of Fund's investments is also significantly influenced by the transition process and current economic conditions.

2. Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and include the accounts of the Fund and its wholly-owned and majority-owned subsidiaries, which include Holding Company #1, FINCO and WNISEL, prior to its sale to EEGF. All significant intercompany transactions are 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, Investment Companies (the Investment Company Guide), which requires investment companies to account for their investments at fair value, as opposed to consolidation or using the equity method, as such presentation provides more useful information to users of the financial statements regarding performance of an investment company. The American Institute of Certified Public Accountants issued a Statement of Position (SOP) 07-1 that redefined the criteria used to determine whether an entity is an investment company under the Investment Company Guide. Subsequently, the AICPA issued proposed SOP 07-1-a, which would indefinitely delay the effective date of SOP 07-1.

If the effective date of SOP 07-1 becomes effective in its current form, and if the Fund was determined not to meet the definition of an investment company, then it would be required to consolidate its subsidiaries and account for its associates using the equity method of accounting under US GAAP currently in effect.

In February 2007, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard 159 The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No.115. FAS 159 is effective for the Fund's financial year beginning October 1, 2008, and would allow the Fund to account for associates (but not subsidiaries) at fair value.

In September 2006, the FASB issued FAS 157 Fair Value Measurements, which requires significant additional disclosures about the use of fair value to measure assets and liabilities. FAS 157 is effective for the Fund's financial year beginning October 1, 2008.

3. Summary of Significant Accounting Policies

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. The most significant item subject to estimates and assumptions is the fair value of investments. Actual results could differ from those estimates.

Investments in Equity and Debt Securities

Investments, which includes both debt and equity components, are not readily marketable and are typically not listed on an exchange or quoted in an open market. These investments are stated at fair value by applying the guidance contained in the International Private Equity and Venture Capital Valuation Guidelines, which is consistent with the requirements of the Investment Company Guide, as determined in good faith by management and approved by the Board of Directors.

Equity investments may be made in cash or with in-kind equipment contributions and are initially reflected at cost. Subsequent valuation is determined by considering relevant available qualitative and quantitative information. This information may include the financial condition and operating results of each investee, current economic conditions affecting operations, recent purchase or sale of securities of the investee, any subsequent events or financing transactions that may indicate a change in fair value and available market comparables. These factors are subject to change over time and are reviewed periodically. Changes in fair value are reported in the period in which they become known. For debt securities, fair values are based upon management's continuing review and evaluation of these investments with consideration of current interest rates for similar loans, past experience, 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, and such 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.

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.

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. The Fund drew down $2,555,875 and $13,744,125 of the USAID letter of credit commitment for the years ended September 30, 2007 and 2006, respectively.

Dividend Income

Due to the irregular nature of dividends from 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.

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 functional currency is the U.S. dollar. Generally, operating transactions are denominated in U.S. dollars; however, on occasion transactions are contracted in foreign currencies. Investments, 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, 2007 and 2006 in accordance with the 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, 2007 and 2006, with the resulting gain or loss included in the accompanying consolidated statements of operations and changes in fund balance. Items of income or expense that are denominated in foreign currency are translated at the average rate for the month in which the transaction occurred.

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 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

Historically, Financial Participation Rights agreements have been established with management of a number of portfolio companies. Generally, such rights entitle certain management members of portfolio companies 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. No Financial Participation Rights expense was recognized for the years ended September 30, 2007 and 2006 as there were no such agreements in place.

Long-Term Equity Incentive Plan

The Board of Directors established a Long-Term Equity Incentive Plan (the LTEI Plan) with an effective date of October 1, 2002 for certain employees. This LTEI Plan, as approved by Congress and USAID, awards an interest in the net realized gain upon sale of the equity interest in a portfolio company. Interests are granted by the Board of Directors generally at the time of purchase of an investment. 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. Interests are subject to a three-year vesting period and vest in one-third increments on each anniversary of the date of grant. Under the terms of the LTEI Plan, the Board of Directors may, in its sole discretion, accelerate vesting, extend the term or period of exercisability, modify the exercise price or waive any terms of conditions applicable to any interests. Accordingly, no liability is recognized and no LTEI Plan expenses are recorded in the consolidated financial statements until a sale of an investment is realized.

In February 2006, the Board of Directors amended the LTEI Plan to enable continuation of LTEI Plan rights for eligible participants for so long as the LTEI Plan participant remains an officer and/or key employee of the Fund or of HCA, or its affiliate, and HCA is retained as investment manager to the Fund.

4. U.S. Government Grants

For the years ended September 30, 2007 and 2006, USAID committed, in a letter of credit, additional grant monies of $2,555,875 and $2,475,000, 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, 2007 and 2006, the status of the Grant was as follows:

	2007	2006
Planned grant funding	$ 150,000,000	$ 150,000,000
Total letter of credit commitment	$ 150,000,000	$ 147,444,125
Less amounts received	($ 150,000,000)	($ 147,444,125)
Balance available under letter of credit	$ -	$ 2,555,875

5. Investments

In the accompanying consolidated statements of assets and liabilities, investments are stated at fair value. During fiscal 2007, the Fund received distributions from EEGF of net realized gains totaling $6,198,452 and one of the Fund's equity investments was sold resulting in a total net realized gain of $292,750. During 2006, two of the Fund's equity investments were sold resulting in a net realized gain of $3,180,070. In addition, during the years ended September 30, 2007, and 2006 net unrealized gains on investments of $16,795,132 and $31,498,167, respectively were recognized. This amount was partially offset by reductions in the fair value of certain investments of $7,116,026 and $2,861,590, respectively, resulting in net unrealized gains on investments for the years ended September 30, 2007 and 2006 of $9,679,106 and $28,636,577, respectively.

In July 2005, a sale-purchase agreement was entered into with Prettl Kabelkonfektion GmbH (Prettl) to sell the shares of Prettl Kabel Ukraine for $2,238,856, and requiring Prettl to make five installment payments totaling $2,212,200, and to pay interest at a rate of 2% per annum of amounts outstanding subsequent to December 31, 2005. During the years ended September 30, 2007 and 2006, interest income totaled $19,098 and $55,977, respectively, and is included in interest income in the accompanying consolidated statement of operations and changes in fund balance.

6. Concentration of Credit Risk

By statute, all 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, 2007 and 2006, the Fund held cash and cash equivalents of $24,122,120 and $14,208,296, respectively, with one large United States commercial banking institution and deposits of $896 and $12,208,410, respectively, with a Ukrainian consumer lending institution, IMB, a portfolio company of both the Fund (equity and debt) and of EEGF (equity). As of September 30, 2007, the Fund held foreign currency balances totaling $144,729.

7. Fixed Assets

As of September 30, 2007 and 2006, fixed assets consisted of:

	2007	2006
Computer equipment and software	$ 217,726	$ 230,198
Automobiles	109,909	109,909
Telephone equipment	45,324	46,848
Furniture, fixtures and equipment	15,835	72,958
Apartments	3,519	129,164
Leasehold improvements	1,850	8,411
	394,163	597,488
Accumulated depreciation and amortization	(347,957)	(457,129)
Fixed assets, net	$ 46,206	$ 140,359

8. Retirement Plan

The Fund established a defined contribution retirement plan (the Plan) designed to be qualified under Section 403(b) of the Internal Revenue Code. All eligible employees meeting certain age and service requirements may participate. Eligible employees may contribute amounts up to $15,500 in calendar year 2007 and $15,000 in calendar year 2006. In addition, the Fund makes monthly contributions to each eligible employee's account equal to 25% of the employee's base monthly salary, as defined, plus 5.7% of the amount of salary in excess of the Social Security Taxable Wage Base ($97,500 as of January 1, 2007 and $94,200 as of January 1, 2006). Employees are eligible to participate in the Plan immediately and are fully vested in the employer's portion after two years of service. As of March 1, 2006, the Fund ceased contributing funds to the Plan on behalf of officers and employees transitioned to HCAD.

Employer contributions to the Plan totaled approximately $5,800 and $108,800 for the years ended September 30, 2007 and 2006, 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. Long-Term Equity Incentive Plan

Since inception of the LTEI Plan as of October 1, 2002, the Fund realized exits on six portfolio companies resulting in incentive awards to LTEI participants, including ProCredit S.A. and Prettl Kabel Ukraine during the year ended September 30, 2007, Moldova Agroindbank and Sonola during the year ended September 30, 2006, Slobozhanska Budivelna Keramika during the year ended September 30, 2004 and Intravest Finance and Investment Company Limited during the year ended September 30, 2003. As of September 30, 2007 and 2006 and for the years then ended, $217,633 and $1,218,551, respectively, were recorded as exit-based incentive expense, and $109,596 and $185,103, respectively, as exit-based incentive payable. As at September 30, 2007 and 2006, $41,485 and $185,103, respectively, were recorded as deferred exit-based incentive and will be recognized as an expense over the remaining vesting period. Deferred exit-based incentive is recorded as a reduction of fund balance and is charged to expense over the remaining vesting period. The exit-based incentive expense, exit-based incentive payable and deferred exit-based incentive amounts include related payroll taxes.

10. Commitments

Rent expense for the years ended September 30, 2007 and 2006 was $50,360 and $136,855, respectively. The Schaumburg, Illinois office lease expires on December 31, 2007 and the Chicago, Illinois office sublease was entered into as of January 1, 2007 and is in effect until January 31, 2008. Monthly rental payments are required under the lease and, as the Grant Agreement with USAID mandates that the Fund maintain a U.S. office, continue to be an obligation of the Fund. In addition, as of March 1, 2006, the lease obligations in Kyiv, Ukraine and Chisinau, Moldova were transferred to HCAD, except for a nominal portion of these office leases in order to maintain the Fund's status in the Region. These nominal rental payments are paid by the Fund and reimbursed by HCAD, in accordance with the investment management agreement between the Fund and HCA. Future lease payments under the Schaumburg, Illinois operating lease agreement and Chicago, Illinois sublease agreement as of September 30, 2007 are as follows:

2008	$ 16,039
2009	-
Total operating lease commitments	$ 16,039

Investments

As of September 30, 2007 and 2006, the Fund has outstanding investment commitments totaling $17,100,000 and $16,200,000, respectively, including $12,100,000 and $14,200,000, respectively, that is committed to EEGF. The Fund also guaranteed a $2,000,000 loan received by a portfolio company during 2006.

In accordance with the Share Pledge Agreement (the Pledge Agreement) between the Fund and the European Bank for Reconstruction and Development (EBRD) executed in September 2004, the Fund pledged 934,270,627 of common shares and 132,085,215 of preferred shares in Energy Alliance to the EBRD as security for a $10,000,000 Loan (the Loan) to this portfolio company. All loan obligations were fully discharged by Energy Alliance in 2006 and the pledge released against the Fund's shares in Energy Alliance by the EBRD.

11. 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.

12. Related Party Transactions

In February 2006, the Fund entered into an investment management agreement with HCA, approved by the Board of Directors, to manage the Fund's investments on the same terms as the investment management agreement between EEGF and HCA. Pursuant to both agreements, each entity pays HCA a fee of 2.5% of committed capital to manage its portfolio during the commitment period, payable semi-annually in advance on January 2 and July 1. The management fee expense from October 1, 2006 through September 30, 2007, totaled $3,131,421 and a prepaid balance of $781,250 is included in the consolidated statements of assets and liabilities as of September 30, 2007. The management fee expense from March 1 through September 30, 2006, totaled $1,832,192 and a prepaid balance of $787,671 is included in the consolidated statements of assets and liabilities as of September 30, 2006.

In 2006, the Fund sold investments, including Shostka, IMB, Natur Bravo, Favorit Capital and Ergopack, as well as a Cyprus holding company, WNISEL, to EEGF. Proceeds from the sale of these entities totaling $26,883,253 were received in full by the Fund from EEGF in 2006. In 2005, in relation to IMB, the Fund capitalized certain expenditures totaling $1,365,790 as part of its investment. These expenditures were fully recouped by the Fund upon receipt of the proceeds for the sale of IMB from EEGF.

The Fund also entered into the following co-investments, together with EEGF during the year ended September 30, 2007:

• In January 2007, the Fund co-invested $2,000,000 with EEGF in Kerameya LLC

• In May 2007, the Fund participated in a $100,000,000 new equity issue of IMB Group in the amount of $5,000,000 through its investment in Wychwood Overseas Limited, a holding company controlled by EEGF

• In June 2007, the Fund and EEGF formed a syndicate to acquire a 25% + 1 share stake totaling 323,897 shares in Banca de Finante si Comert S.A. (Fincombank) for $7,999,740. The Fund subscribed for these shares, as it had the necessary regulatory approvals in place, and then entered into a forward purchase agreement with EEGF whereby EEGF provided $5,000,000 to the Fund in return for the right to acquire 202,440 shares or 15.63% in the Fincombank investment, once it obtains regulatory approval. Until the shares are transferred to EEGF, any dividends received or proceeds from the sale of the Fincombank shares are to be allocated to the Fund and EEGF in proportion to the amount of investment made by each entity. For purposes of balance sheet presentation, the $5,000,000 provided by EEGF to the Fund, in relation to these 202,440 shares, is netted against the $7,999,740 acquisition cost for the full share stake.

Subsequent to the initial closing of EEGF, a majority of the Fund's personnel, administrative and operating expenses were transferred to HCAD. During fiscal 2007 and 2006, the Fund made payments to vendors on behalf of HCAD totaling $138,466 and $170,443, respectively and HCAD made payments to vendors on behalf of the Fund totaling $82,278 and $10,591, respectively. As of September 30, 2007, an outstanding balance of $9,452 was due to HCAD from the Fund and included in accounts payable in the accompanying consolidated statement of assets and liabilities. This balance was paid by the Fund to HCAD in full in October 2007.

As of September 30, 2006, an outstanding balance of $3,404 was due to the Fund from HCAD and included in accounts receivable in the accompanying consolidated statement of assets and liabilities. This balance was reimbursed in full in November 2006.

Based on approval of the Board of Directors, the Fund sold fixed assets located in the Ukraine and Moldova offices, to HCAD on the basis of an Asset Purchase Agreement executed by both parties as of March 1, 2006. The purchase price of these fixed assets was $379,178, the net book value as of February 28, 2006. HCAD issued a promissory note to the Fund obligating payment of this amount plus interest at 5% per annum, in ten equal installments beginning January 1, 2007 and concluding July 1, 2011.

Effective March 1, 2006, based on approval by the Board of Directors, the Fund entered into a five-year agreement to lease to HCAD certain vehicles and assets under temporary import status. The rental rate is $46.88 per day, the daily depreciation rate of these assets, payable on a quarterly basis. All expenses, including but not limited to insurance, repairs and maintenance, taxes and operating costs, are paid initially by the Fund as legal owner and reimbursed by HCAD. During the years ended September 30, 2007 and 2006, HCAD made lease payments to the Fund totaling $12,798 and $14,345. As of September 30, 2007 and 2006, no outstanding lease payments related to leased assets were due to the Fund from HCAD.

During fiscal 2007, the Fund and HCAD entered into two agreements for the provision of services. The first agreement took effect as of January 1, 2007 and enables usage of the Fund's Chicago office and services of personnel based in this office for a fee of $2,000 per month payable quarterly in advance. The second agreement took effect April 23, 2007 and relates to employment by HCAD of an individual based in Kyiv, Ukraine to perform work on behalf of the Fund and requires $1,500 per month payable quarterly in advance.

During the year ended September 30, 2006, the Fund sold an apartment, including certain furniture and fixtures, to an officer of the Fund. The purchase price of $80,000 was based on the average appraisal value of the property at $102,000 less $22,000 for reimbursement of leasehold improvements borne directly by the buyer. In addition, furniture and fixtures valued at $844 were sold at their net book value as of the sales date. The sale of this property and purchase price were approved by the Board of Directors. The Fund recognized a realized loss of $12,932 on this transaction due to the non-inclusion of leasehold improvements incurred by the buyer in the gross book value of the property. This realized loss is included in other operating expenses in the accompanying consolidated statement of operations and changes in fund balance.

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.

During the years ended September 30, 2007 and 2006, the Fund earned $107,359 and $108,867, respectively, of director's fees from its portfolio investments. In addition, fully-depreciated office equipment was transferred to portfolio companies during the year ended September 30, 2007 and 2006.

13. Contingencies

In the ordinary course of business, the Fund is involved in various other claims and legal actions and may bear material legal costs relating to such matters. In the opinion of management, no provision is included in the accompanying consolidated financial statements as the loss, if any, will not have a material adverse effect on the consolidated financial position or changes in fund balance.

14. 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 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, management expects the risk of loss to be remote.

As disclosed in note 10, the Fund guaranteed a loan received by a portfolio company in the amount of $2,000,000.

15. Financial Highlights

The following presents the financial highlights for the years ended September 30, 2007 and 2006:

	2007	2006
Ratios to average fund balance		
Net investment gain (loss)	1.6%	(6.3)%
Net realized gain on investments	5.7%	3.8%
Expenses, including exit-based incentive expense – current	3.6%	8.4%
Less exit-based incentive expense – current	(0.2)%	(1.5)%
Expenses, excluding exit-based incentive expense – current	3.4%	6.9%
Total return, including exit based incentive expense – current and deferred	17.3%	41.2%
Less exit-based incentive expense – current and deferred	0.1	1.5%
Total return, excluding exit based incentive expense – current and deferred	17.4%	42.7%
Ratios to committed capital		
Net investment gain (loss)	1.2%	(3.6)%
Net realized gain on investments	4.3%	2.2%
Expenses, including exit-based incentive expense – current	2.8%	4.8%
Less exit-based incentive expense – current	(0.1)%	(0.8)%
Expenses, excluding exit based incentive expense – current	2.7%	4.0%

Ratios to average fund balance are computed as 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 ended September 30. Total return represents a change in the value of an investment, measured by comparing the aggregate ending value of 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 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, 2007 and 2006, these amounts were $150,000,000 and $147,444,125, respectively.

16. Subsequent Events

Subsequent to September 30, 2007, the Fund received $3,000,000 as final principal repayment of a subordinated loan provided to IMB and $53,000 in related interest.

In November 2007, pursuant to a funding notice issued by EEGF, the Fund contributed $5,113,636 to EEGF, thereby reducing its outstanding commitments to $6,945,876.

In addition, in January 2008, the Fund entered into a two-year lease agreement directly with the landlord of the Chicago, Illinois premises that takes effect on February 1, 2008, upon expiration of the current sublease agreement. Pursuant to this lease agreement, future lease payments total $55,800 for the duration of the lease term from February 1, 2008 to January 31, 2010.

Finally, in February 2008, the Fund entered into a sale-purchase agreement to sell 100% of its stake in Troyanda LLC (Troyanda) for gross proceeds of $262,574 and negotiated release of a $2,000,000 guarantee provided by the Fund against a credit line opened by a bank for Troyanda. Gross sales proceeds were received in February and the bank released the Fund from the obligations under its guarantee in March.

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