

Western NIS Enterprise Fund Annual Report

2008



WNISEF

Legacy of Leadership



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 US\$ 151 million in 118 companies ranging from fast-moving consumer goods, construction materials, packaging, and retail to financial services. In 2006, WNISEF became the cornerstone limited partner in Emerging Europe Growth Fund (EEGF), a US\$ 132 million private equity fund raised by Horizon Capital Associates, LLC (HCA) in North America and Europe. WNISEF is managed by HCA.

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 US\$ 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 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.

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Legacy of leadership

Western NIS Enterprise Fund is currently in its 15th year of existence, and has invested \$151 million into 118 companies in Ukraine and Moldova both through a direct investment program and a small business loan program. More than likely, most people following the Fund's activities will focus on its business legacy in the region. However, with this annual report, we'd like to draw your attention to an often overlooked element of the Fund's success, its human legacy.

Of course, the immediate effect of the Fund's activities was a commitment of its own capital, as well as the attraction of over \$500 million in additional capital for its portfolio companies; ultimately attracting new investors to the region. Real jobs were created and personnel from various parts of the country and with varied experience were trained in the latest international management practices, international finance and accounting methods, as well as corporate governance standards. We have successfully inspired entrepreneurs, introduced new products to the market, and improved the quality of products and services in the market, among other initiatives. These are the lasting elements of WNISEF's business legacy in the region.

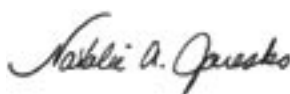
The Fund has done more, however, than invest in bricks and mortar; it has invested in people and this investment is certain to continue providing a very high return for years to come. WNISEF trained hundreds of managers in accounting, finance, management, sales and other business areas. Moreover, the Fund itself also served as an incubator for business management talent. Over 100 former Fund team members are working throughout the regional economy. Today these alumni are business and community leaders defining their own successful paths. The Fund's Board of Directors and its management are proud to have such an exemplary group of former employees. This is the human legacy WNISEF leaves behind in the region.

Altogether, no other foreign assistance program has accomplished as much in such a short time, and has leveraged the U.S. taxpayer's dollars to the extent that WNISEF has successfully done. In this light, we dedicate the 2008 WNISEF Annual Report to WNISEF employee alumni who have evolved into inspiring business leaders in the region. We were able to highlight only a handful, but there are so many more... We believe you will find these examples to be inspirational.

Sincerely,



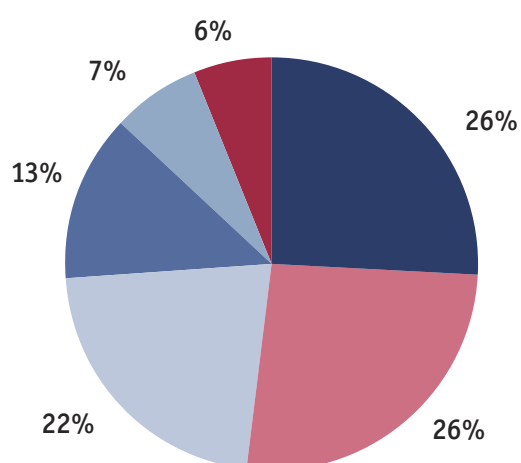
Dennis A. Johnson
Chairman of the Board



Natalie A. Jaresko
President and Chief Executive Officer

WNISEF Outstanding Investments

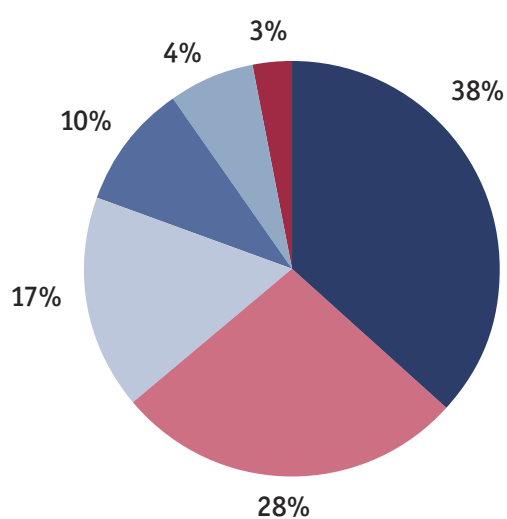
by Sector



Sector	USD, million*
Financial Services	\$ 18.7
Investment Fund	18.5
Industrial Goods	15.9
Consumer Goods	9.2
Other	4.9
Retail and Distribution	4.0
Total	\$ 71.2

WNISEF Cumulative Investments

since Inception



Sector	USD, million*
Consumer Goods	\$ 56.7
Financial Services	42.8
Industrial Goods	25.9
Other	15.7
Retail and Distribution	6.4
Small Business Loan Fund	3.8
Total	\$ 151.3

*On a cost basis as of Sep. 30, 2008

10 employee alumni of WNISEF are



The Team Player

1

Tatyana Petrouk

*Human Resources Director
of TNK-BP Ukraine*

Tatyana Petrouk, a WNISEF alumnus of 2003, heads the Human Resources department at TNK-BP Ukraine and is an active investor in human capital. Goal-oriented, hard working and systematic, she joined TNK-BP to lay out the company's strategic development and build a sophisticated human resources system. This, she says, alongside raising two daughters, is her life's biggest challenge.

The Energiser

2

Roman Radko

*New Business Director
of Sandora*

Having spent 13 years across various businesses, geographies and roles in the company, Roman Radko is proud to be a genuine PepsiCo person. Today the New Business Director of Sandora, PepsiCo's juice company, Roman started his career at WNISEF, as part of a highly committed and hard-working team with whom he had fun. Roman energizes people and drives for results. He values honesty above all.

The Individualist

3

Petro Radchuk

*Vice-President
of KDD Group*

Petro Radchuk's first full time position was at WNISEF, having joined in 1996. Today, he is Vice-President of KDD Group and the main spokesperson for the company's investors. Professionalism, leadership, charisma, good training and simply loving what he does are the building blocks to his success. Diversified experience at the Fund made him adaptable to any line of business and shaped his future career.

The Innovator

4

Orysyia Lutsevych

*Executive Director
of OpenUkraine*

Orysyia Lutsevych has dedicated over 10 years of her professional life to the non-profit sector. She heads OpenUkraine, inspires new philanthropic programs and promotes Ukraine's image abroad. Orysyia is happy she was given a chance to do meaningful things and uses every opportunity to do more; to do things in a better way and defend people's rights.

The Investor

5

Oksana Markarova

*President
of ITT Investment Group*

Oksana Markarova has made a superb career in investment business, combining it with a successful family life. Having worked at WNISEF for five years, she became President of ITT Investment Group in 2003. Ms. Markarova believes that true leaders are born, but in order to grow they need hard work and a credit of trust. She got hers from WNISEF.

now **business leaders** in the region



The Workaholic

6

Natalie Zarimba

*Finance Manager
of Efes Kazan plant*

Natalie Zarimba is a finance expert with over 12 years of experience. Having worked for PricewaterhouseCoopers, she spent seven years with WNISEF in Moldova, and later moved to Efes Russia to head the finance department of the group's brewery, first in Ufa then in Kazan. She says she owes her career in the brewery business to the Fund. Though a real workaholic, she is convinced that family is most important in life.



The Communicator

7

Natalie Polischuk

*Director
of Advent International*

Natalie Polischuk's spectacular career in private equity rests on 12 years of hard work and her investment in a Harvard degree. She started at WNISEF and became the Fund's youngest investment officer at 23. Today, Ms. Polischuk is the co-head of Advent International's Kyiv office. Her leadership is primarily about motivating the team to achieve set goals and taking responsibility for decisions made.



The Enthusiast

8

Maryna Mendzebrovska

*Chief Executive Officer
of OTP Capital*

Maryna Mendzebrovska is a strong investment finance professional. Her MBA degree and a 12-year work experience including WNISEF, Atlantic East, Raiffeisen Bank and Investore Group have shaped her professional capabilities. A light management style, wit and enthusiasm make her a pleasant boss, energetic business partner and a good mother and wife.



The Planner

9

Igor Syry

*Chief Executive Officer
of Metinvest Holding*

Igor Syry considers his experience at WNISEF from 1995-97, as a turning point in his career. Inspired by the Fund's Western business practices, Mr. Syry pursued an MBA from Cornell University and employment at PriceWaterhouseCoopers. Since 2002, he has been the face of Metinvest Holding, a business he considers to be an exemplary company in Ukraine. This job takes full-time commitment, quick decision-making, and being present in several places at once. My personal lifestyle today is an extension of the dynamic business I lead — I enjoy cars and airplanes, and move fast," comments Mr. Syry.



The Visionary

10

Dennis Sluchynskyy

*Chief Executive Officer
of Karavan Group*

Dennis Sluchynskyy is a born optimist; his pragmatic personality and keen intellect help him to stay focused and win. As the CEO of Karavan Group, Mr. Sluchynskyy manages the restructuring of the company's rapidly growing business, carefully tuning all processes to match best Western practices.

1

The Team Player

Tatyana Petrouk

Human Resources Director of TNK-BP Ukraine



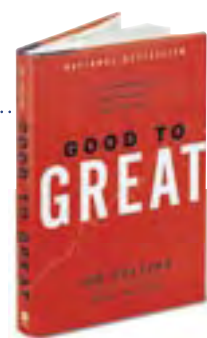
Tatyana Petrouk is a professional human resources strategist with over 10 years of experience. Ms. Petrouk joined WNISEF at the beginning of her career in 1996; enjoying organizational development and working with the Fund's portfolio companies until 2003 when she moved to TNK-BP. She is a remarkable executive managing to combine work and family. Determined, devoted and efficient, she returned to work only six months after her second daughter was born.

Ms. Petrouk has her own vision of leadership. She is certain that one has to be born a leader, while it is possible to advance skills by learning. "It is important to find the right place that will enable you to grow, like the one I was fortunate to have," she says. Ms. Petrouk became part of WNISEF early in her career. She says it was a 'school of life'; a unique time for personal development, which helped her to develop her life philosophy, confidence and strength, needed to become who she is today. As a result, she was able to inspire a team of top-managers at

TNK-BP to set the highest standards making her company one of the most transparent and open corporate agents in Ukraine and in one of the most desirable places to work.

Ms. Petrouk says that the values of corporate citizenship and transparency are no longer a fashion among Ukrainian companies, but are a 'must have' to succeed. Managing change is never easy. While companies strive to survive, cut costs and perhaps become less transparent in the process, the cooling down of the employment market presents opportunities to attract better talent. The crisis also provides a rationale to take a fresh look at infrastructure, improve efficiency and get rid of mediocrity. Ms. Petrouk believes that her company's human legacy in the investment in talented people, maintaining transparency as well as high corporate standards, will help to sustain key people and survive the crisis.

"Seek to get into a place that's right to unleash your full potential. When you're there, never rest on your laurels, and do not let difficulties stop you."



The Energiser

Roman Radko

New Business Director of Sandora



Having spent a year studying in the US, Roman Radko was eager to join WNISEF in 1995. "Working at WNISEF was so much fun," he says. "It got me involved in a variety of projects that defined my further career development. It also formed my personal integrity and commitment."

Mr. Radko mastered his skills at PepsiCo, where he was employed in various roles in finance, business development, and general management in Ukraine, Russia, Poland and the Baltics. Having been responsible for beverages and snacks before, he recently turned to juices.

"My employers always placed great value in people. The local business leaders put together people with diverse backgrounds and experiences and drive those teams to deliver results, while providing them with new and exciting opportunities," he explains. Mr. Radko is a believer in a team work. "A leader without a team is a one-man show. Such leadership is not sustainable, as it will not win you people's trust and will let you down at some point. Giving your people increased responsibility and more autonomy in decision-making really motivates them. In addition, a leader

has to create an environment, that tolerates mistakes, yet makes sure that people learn from them," he stresses. "And then, to move forward there is always a need to take decisions. Although sometimes it creates a feeling of discomfort, as you simply cannot count on getting all the supportive facts and rather have to rely on own experience, values and intuition."

According to Mr. Radko, good corporate citizenship does not play a big role in Ukraine yet. Corporate citizenship is thus far regarded as a public relations initiative to create a positive image and increase company value. Simply, it should be another way of doing business, which, while having no immediate benefits, has a long-lasting effect. By contrast, transparency is more widespread in Ukraine, as deemed necessary for access to the international source of capital. In particular, it proved beneficial to the banks' owners, as now almost half of the banking system has moved under foreign ownership. Mr. Radko is confident that corporate citizenship will eventually become an integral part of business in Ukraine, but it will require a new generation of leaders to make it happen.



"A leader is about being passionate in what you do and being able to energize your team with that passion. Integrity and trust are pre-requisites for being a true leader."





The Individualist

Petro Radchuk

Vice-President of KDD Group



Petro Radchuk serves as Vice-President of KDD Group, a Ukrainian real estate developer listed on the London Stock Exchange. He received his first training on the job in investment finance at WNISEF. The Fund's management was a unique source of professional wisdom and skill for young professionals at the Fund. Such transfer of skills and know-how to young talent was unprecedented at the time. "The senior investment officers of WNISEF had to dedicate time to train us in the venture capital business; there were no ready professionals available; and they taught me to always be informed," he says.

Mr. Radchuk combines his public service, business and life experiences to conclude that if a person is taught the right values and principles at the start of their career, these morals will stay throughout their life, by being a good citizen, creating jobs, keeping decent salaries during a time of crisis, or just by being honest with partners and the team. "Working for a public company, I know very well that good corporate standards serve to decrease risks for the company's business partners, creditors and employees," he explains.

For Mr. Radchuk, being a good leader in business or family means loving what he does and dedicating time to it. This helps him to be inspirational and simply successful. The role of a good business leader during a time of crisis is to adapt to change and withstand the test of corporate quality, particularly with product excellence, governance standards and good financial planning. Mr. Radchuk sees this come true in the real estate business. Many developers, who were successful in recent years when the market was 'easy', will face difficulty in trying to sell or rent out properties of inferior quality. He says that only those companies that aimed to provide a high-quality product at an efficient price will now be the winners and survivors; earning the investor's trust back and attracting financing for new projects, while those that didn't wisely construct their business, and its financing, are prone to suffer.



"Don't try to do something you don't really like – you will not be successful at it. Once you find a job you really love – know it perfectly. And always keep your focus – concentrate on just several projects at a time, this will help you to do it best, while still enjoying the process."



The Innovator

Orysya Lutsevych

Executive Director of OpenUkraine



Orysya Lutsevych is constantly making the world a better place. Having served with WNISEF in Lviv at the start of her career, she has become an outstanding leader in the non-profit sector in Ukraine. Ms. Lutsevych uses her work experience to implement best practices for non-profit organizations in Ukraine. She launched OpenUkraine, initiated by former Chairman of the Verkhovna Rada, Arseniy Yatseniuk, to promote Ukraine's image abroad and support public diplomacy. "I consider establishing OpenUkraine not a challenge, but a gift. I've always been true to myself and believed in what I was doing, and never stopped learning. Discovering new skills is so exciting!" she says.

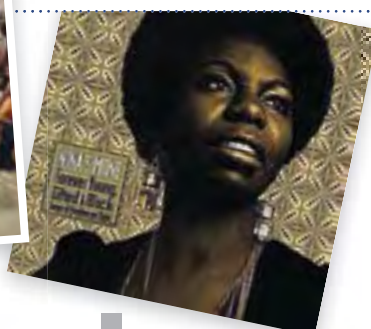
Ms. Lutsevych remembers WNISEF as having one goal: 'it's a business with a soul'. The Fund's managers believe in Ukraine and the opportunities it offers. Ms. Lutsevych explains, "Ukraine is a unique place in terms of people, opportunities, and the development of the NGO sector." No other Eastern European country has seen such strong

private foundations. Charitable work done by the Victor Pinchuk Foundation, the Rinat Akhmetov Foundation, businesses involved in Corporate Social Responsibility (CSR) and private organizations speak for themselves. The impact of such initiatives on the country's profile is tremendous.

Ms. Lutsevych believes that NGOs should create social capital, and push individuals and businesses to be socially responsible. "We try to encourage individual philanthropy: public awareness is relatively low and the role of non-profit foundations should be in generating interest to social initiatives and finding creative ways to fundraise. Above all, philanthropy is an indicator of the maturity of civil society," she states.



"Learning something new is my life motto. Doing what you believe in, to me, is the way to have internal freedom."



5

The Investor

Oksana Markarova

President of ITT Investment Group

Oksana Markarova started working at WNISEF as an economic policy advisor. Having graduated with an MPA degree from the Indiana University, she returned to WNISEF as an External and Corporate relations manager. She worked side-by-side with Natalie Jaresko, learning every day and was involved in the preparation for fundraising a follow-on private equity fund. "At WNISEF I got the best advice: believe that you can do it – and you will," says Ms. Markarova. Five years later she was invited to head ITT Invest, which has turned her into an even more practical leader.

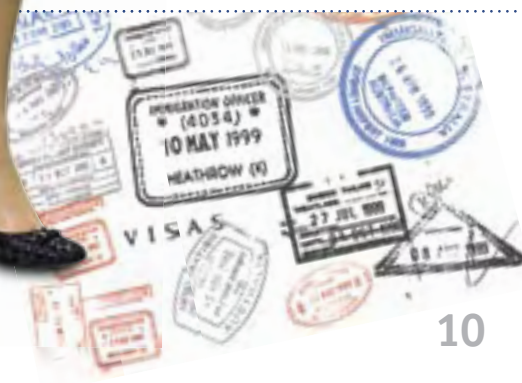
Ms. Markarova considers strong character as an inborn skill necessary to become a leader, alongside the

trainable abilities to forecast, analyze, learn, react quickly, and be work-oriented. She defines her move to ITT as a vital step in her career. "At first it was hard for me to accept that as a top manager you never really leave work anymore, even when you are at home. But this job shaped me into a leader." This job imposed a whole new set of responsibilities, and generally changed her approach to work.

Ms. Markarova utilizes a hands-on approach and believes that a good leader should know all the basics of the business before managing it. She thinks that the economic downturn is going to change the investment business philosophy, especially with regard to deal valuations and portfolio management. It will present a challenge for some companies and an opportunity for others. At the same time, personal ethical norms and high corporate standards will be even more important. "The companies may cut a number of expense items to reduce costs, but transparency is already a market requirement," Ms. Markarova says.



"In childhood we all believe that we can achieve whatever we dream about. When we grow up, we often lose focus in everyday working routine and meet too many obstacles. I think it is vital to always have your initial goal in mind, and to believe in yourself."



Natalie Zarimba

Finance Manager of Efes Kazan plant

Natalie Zarimba loves a challenge, which has been the main driver for the career choices she has made. Overcoming difficulties and applying effective problem-solving has been her way to success. This is why she chose to join WNISEF, when in 1996 it began to explore various investment opportunities in Moldova at the end of the Mass Privatization project. Ms. Zarimba identified and screened potential investment opportunities and management teams to fit with the Fund's strategies, worked on investment proposals, conducted due-diligence, and monitored financial performances of portfolio companies. While at the Fund, she enjoyed being part of a professional team that possessed expertise in a variety of fields.

More importantly, WNISEF demonstrated that when promoting good corporate values, social responsibility and transparency, one has to start by setting a personal example. "Start with yourself. Be a responsible person and an example for others. This means being honest, conducting a transparent business, and using international guidelines and

best practices. You can't overestimate the importance of good values, no matter what state or region you operate in," she explains. Working with portfolio investors like WNISEF and strategic investors like Efes, she also has learned that employees are a critical component to a company's success.

Ms. Zarimba regards the current global economic slowdown as her greatest challenge, and an incentive to improve and rationalize the use of resources. We saw the effect of the global downturn on our industry in the fall, although Efes beer brands have remained popular. In truth, this situation does not upset us, but on the contrary it gives us an opportunity to be more flexible with planning and our expenses, optimize our cost structure, and find new solutions. Doing business during a time of crisis requires the basic skills; the ability to make rational decisions under pressure and keeping a balanced approach at all times. My advice is the following, she says: "Take your time to think carefully before making an important decision. If you fail, regretting is a waste of time. Analyze your mistakes, learn from the lesson, and move forward."

"A key aspect of leadership is the ability to listen to people and persuade them to hear you. Never be a finger-pointer. If you slipped, admit it. Listen to what people say about you. If the door to your office doesn't open time and again, if your employees no longer seek your advice, then what you thought was your strength has become your weakness."





The Communicator

Natalie Polischuk

Director of Advent International



Natalie Polischuk considers herself an accomplished professional; proof that investment in education matters. Her successful career in private equity, which began at WNISEF in 1995, took her through 12 years of exciting opportunities. Ms. Polischuk received an MBA degree from Harvard, worked in the Moscow office of Delta Private Equity Partners and since 2007, has been the Director for the Kyiv office of Advent International, a global private equity firm. "I really enjoy this business. I like the idea of a partnership; a small team where each person's contribution is clearly visible and measurable. Seeing the business growing and improving is very exciting," she says.

As a manager, Ms. Polischuk masters communication and delegation techniques: "It's important to inspire your team and clearly communicate goals. When people are involved and share your enthusiasm, it is important

not to meddle but let them "own" the accomplishment, which is a great motivator". The private equity business is about taking calculated and measured risks, so Ms. Polischuk finds it necessary to listen to all the people involved in a project and gather their opinion prior to making the final decision.

Commenting on the global financial crisis, Ms. Polischuk observes that the bubble that has been growing in Ukraine in the past 3-4 years has now burst, and business owners and managers should face the new reality and go back to fundamentals. The times of sky-rocketing valuations for poorly-run companies with low corporate governance standards and no transparency are over. And while some business owners feel that maintaining high standards of corporate governance during a financial crisis is an unaffordable luxury, she disagrees. In Ms. Polischuk's opinion, the providers of scarce capital will be more selective in choosing investment targets and only transparent and well-run companies will be able to raise capital for further growth and development.



"I think that any successful person is in a way a role model – for young people, other citizens, and stakeholders in general, spreading very simple but fundamental messages. To me these are the value of education, integrity and responsibility. Leadership is about doing and having an impact on other people's lives, rather than appearing on podiums and giving speeches."



Maryna Mendzebrovska

Chief Executive Officer of OTP Capital

Maryna Mendzebrovska joined the WNISEF team in 1995 as a part of newly recruited group of young professionals who were working on the Fund's early investments. "We were young, inspired and absorbed with work; we knew every detail about portfolio businesses," Ms. Mendzebrovska remembers. Within a year, she was ready to set-up a WNISEF office in Lviv. They analyzed a range of industries and hand-picked investment portfolio companies. "This was so new to Ukraine. Business owners had to turn from old to new ways of doing business; we brought foreign consultants to fill gaps in their knowledge," she explains.

Ms. Mendzebrovska's expertise in asset management, securities and corporate risk management helps her to run OTP Capital. In addition, she actively cooperates with Ukraine's Securities and Stock Market Commission in capital market development.



"An executive simply has to do more than everybody else. Once your subordinates have reached their limit, you have to be there for them – finish the work, share losses and celebrate victories."



Ms. Mendzebrovska believes in hard work and reaching goals. She says, "I knew I wanted to be a 'director' at 10!" Apart from being an inborn skill, leadership is also a set of acquired qualities. It is rooted in good education and professionalism that wins credence, and takes high degree of responsibility. She observes that a new generation of young and energetic entrepreneurs gradually emerged since the mid-90s. New business leaders are realizing their dreams; they apply a fundamentally different approach and competences, do their research, weigh risks and plan carefully.

Having accomplished her goal by setting up an asset management unit within OTP Bank, Ms. Mendzebrovska has an optimistic outlook. "As a survivor of 1998 crisis, I am convinced that crisis is a cyclical phenomenon. The more the markets fall, the more rapidly they will rise," she says. "Once the markets bounce back, everyone will need capital; transparency and good standards will be crucial for companies interested in funding."





The Planner

Igor Syry

Chief Executive Officer of Metinvest Holding

Igor Syry is the Chief Executive Officer of Metinvest, a leading vertically-integrated mining and steel holding company. "Managing a company comprising more than 100,000 people in Ukraine and Western Europe requires quick-thinking, but also physical presence. I need to see things first-hand and just feel the situation," he notes. Mr. Syry remembers his work at WNISEF as being a step forward; a landmark for new corporate culture, values and organization, which was so precious at the time and defined his future career choices.

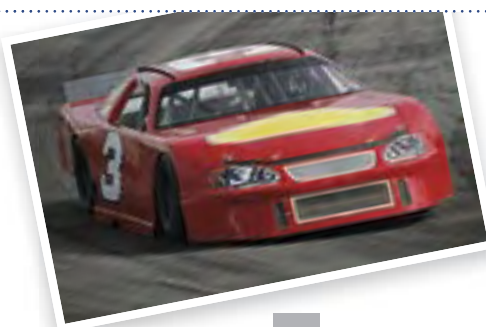
In his understanding, corporate social responsibility is a voluntary contribution of a business into society's development fulfilling its social, economic and ecological needs, which exceeds the company's formal obligations. Corporate responsibility implies action, but as importantly, it implies influencing the development of your industry. "Understanding this I try my best to be personally involved in public forums, conferences and exhibitions that take place in different parts of the world.

Being responsible and helping others is at the core of my personality and I greatly enjoy it," Mr. Syry explains.

The role of corporate and personal leadership is becoming increasingly important in a rapidly changing economic environment; as change happens fast and is difficult to predict. A recent deterioration of the global commodity market is a good illustration of that. Mr. Syry says, "I am not afraid of uncertainty; on the contrary, we try to focus on the opportunities that emerge to improve our core efficiencies and end up stronger." He is certain that modern leaders need a clear vision of goals and priorities, good communication skills, a dedicated team and the ability to promptly make informed decisions, based on good information.



"Become a leader. Believe in yourself and don't be afraid to take responsibility for finding a solution to something that seems impossible, after all, there are only a few such things left in the world. If something is known as 'doable', you can get it done already, while the 'impossible' is going to take you just a little bit more time."



Dennis Sluchynskyy

Chief Executive Officer of Karavan Group

Dennis Sluchynskyy seeks to be at the right place at the right time. He holds an MBA in Banking & Finance and has a broad business experience, having worked in Kyiv, New York, Chicago and Washington D.C. He joined WNISEF as an investment associate in 2000, and as he puts it: "I was able to put theory and practice together. WNISEF was a school of best business practices. We developed codes and systems of corporate governance for the Fund's portfolio companies and helped them to set-up or improve their internal business processes." This experience helped Mr. Sluchynskyy to reshape Karavan businesses into a well-structured group comprising real estate, retail and restaurant businesses, based on best international standards. Transparency in business operations and high corporate standards made the group stronger, which resulted in two successful private placements in the past two years.



Mr. Sluchynskyy is charismatic and an effective manager. Above all, he values good education, responsibility to the shareholders and employees, and the ability to always move forward, leaving past mistakes behind. Teamwork is very important to him: "I always try to understand what drives my team and keep them motivated."

The current crisis may cause some companies to lower their governance standards in an attempt to cut costs. Companies will need to make an effort to stay transparent and flexible. Mr. Sluchynskyy says, "I am thankful for our shareholders' support in being able to maintain a high level of corporate governance." While forced to make unpopular decisions, like cutting costs and salaries, companies should look out for non-monetary stimuli to help employees stay in the game. With an optimistic outlook, Mr. Sluchynskyy continues by saying, "There's always room for transparent companies with high work standards and they will win."

"I believe people should always stay motivated. It doesn't have to cost a lot of money; sometimes all they need to hear is that they did a good job. Be a charismatic leader, pick the people who match, and create a team spirit. These tips are crucial to your success."



CONSOLIDATED FINANCIAL STATEMENTS

Western NIS Enterprise Fund

Years ended September 30, 2008 and 2007
with Report of Independent Auditors

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Independent auditors' 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, 2008 and 2007, 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, 2008 and 2007, 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
February 4, 2009

CJSC KPMG Audit, a company registered under the Laws of Ukraine, is a member firm of KPMG International, a Swiss cooperative.

Consolidated Statements of Assets and Liabilities

September 30, 2008 and 2007

Expressed in US Dollars

	2008	2007
Assets		
Investments, at fair value:		
Equity and debt securities (cost of \$52,768,922 and \$55,945,666 as of September 30, 2008 and 2007, respectively)	\$ 76,211,360	\$ 79,921,579
Emerging Europe Growth Fund, L.P. (cost of \$18,531,004 and \$11,575,683 as of September 30, 2008 and 2007, respectively)	19,493,701	19,583,956
Cash and cash equivalents (<i>note 6</i>)	20,419,591	24,296,746
Receivables:		
Interest, dividends and other income	207,412	93,541
Fixed assets sold (<i>note 12</i>)	227,507	303,343
Prepaid expenses:		
Investment management fees (<i>note 12</i>)	781,250	781,250
Other	44,588	54,208
Fixed assets, net of accumulated depreciation and amortization (<i>note 7</i>)	24,059	46,206
Other assets	1,754	101,950
Total assets	117,411,222	125,182,779
Liabilities and fund balance		
Deposits received on sale (<i>note 5</i>)	\$ 4,310,860	\$ -
Accounts payable and other accrued expenses	165,414	104,692
Exit-based incentive payable (<i>note 9</i>)	15,147	109,596
Other liabilities	15,343	14,512
Total liabilities	4,506,764	228,800
Fund balance	112,904,458	124,953,979
Total liabilities and fund balance	\$ 117,411,222	\$ 125,182,779

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations and Changes in Fund Balance

Years ended September 30, 2008 and 2007

Expressed in US Dollars

	2008	2007
Investment income		
Dividend income	\$1,160,500	\$2,543,381
Interest income	899,243	2,043,821
Other income	278,814	1,375,642
Total investment income	<u>2,338,557</u>	<u>5,962,844</u>
Expenses		
Investment management fees (note 12)	3,125,000	3,131,421
Professional fees	282,264	396,159
Business travel	191,584	143,683
Employee compensation and benefits	101,374	67,105
Unreimbursed deal-related expenses	86,767	-
Exit-based incentive expense – equity incentive plan (note 9)	35,013	217,633
Depreciation and amortization	21,283	22,648
Occupancy	34,050	50,360
Other operating	136,816	135,101
Total expenses	<u>4,014,151</u>	<u>4,164,110</u>
Net investment (loss) gain	<u>(1,675,594)</u>	<u>1,798,734</u>
Net realized and unrealized (loss) gain on investments		
Net realized (loss) gain on investments (note 5)	(2,821,214)	6,491,202
Net unrealized (loss) gain on investments (note 5)	(7,579,051)	9,679,106
Net realized and unrealized (loss) gain on investments	<u>(10,400,265)</u>	<u>16,170,308</u>
Net (decrease) increase in fund balance from operations	<u>(12,075,859)</u>	<u>17,969,042</u>
U.S. Government grants (note 4)	-	2,555,875
Deferred exit-based incentive (note 9)	26,338	143,618
Net (decrease) increase in fund balance	<u>(12,049,521)</u>	<u>20,668,535</u>
Fund balance, beginning of year	124,953,979	104,285,444
Fund balance, end of year	<u>\$112,904,458</u>	<u>\$124,953,979</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended September 30, 2008 and 2007

Expressed in US Dollars

	2008	2007
Cash flows from operating activities		
Net (decrease) increase in fund balance from operations	\$ (12,075,859)	\$ 17,969,042
Adjustments to reconcile net decrease in fund balance to net cash used in operating activities:		
Disbursements for:		
EEGF Limited Partnership interest capital calls	(7,445,549)	(2,151,707)
Equity securities	-	(17,600,531)
Debt securities	(5,600,000)	(800,000)
Fixed assets	(1,412)	(10,416)
Proceeds from:		
EEGF Limited Partnership interest distributions	713,184	7,563,257
Equity securities – sale to third parties, net of advisory fees	2,002,574	1,367,430
Deposits received on sale	4,310,860	-
Debt securities	3,730,000	4,460,000
Fixed assets	2,233	270,000
Depreciation and amortization	21,283	22,648
Loss (gain) on disposal of fixed assets	43	(188,079)
Net realized loss (gain) from sale of investments	2,821,214	(6,491,202)
Net change in unrealized loss (gain) on investments	7,579,051	(9,679,106)
Deferred exit-based incentive	26,338	143,618
(Increase) decrease in interest, dividends and other receivables	(113,871)	232,660
Decrease in receivables for fixed assets sold	75,836	75,835
Decrease (increase) in prepaid rent and other prepaid expenses	9,620	(23,745)
Decrease (increase) in other assets	100,196	(1,488)
Increase (decrease) in accounts payable and other accrued expenses	60,722	(110,497)
Decrease in exit-based incentive payable	(94,449)	(75,507)
Increase (decrease) in other liabilities	831	(11,746)
Net cash used in operating activities	(3,877,155)	(5,033,113)
Cash flows from financing activities		
Cash received from U.S. Government grants	-	2,555,875
Net cash provided by financing activities	-	2,555,875
Net decrease in cash and cash equivalents	(3,877,155)	(2,477,238)
Cash and cash equivalents, beginning of year	24,296,746	26,773,984
Cash and cash equivalents, end of year	\$ 20,419,591	\$ 24,296,746

See accompanying notes to consolidated financial statements.

Consolidated Condensed Schedule of Investments

September 30, 2008

Expressed in US Dollars

Investments (84.8%) ¹	Principal/ Shares/ Interest	Cost	Fair Value
Limited Partnership Interest (17.3%)			
Emerging Europe Growth Fund, L.P.			\$ 19,493,701
Total Limited Partnership Interest		\$ 18,531,004	19,493,701
Equity (61.7%)			
Ukraine (52.2%)			
Food processing (25.0%)			
CJSC AVK	9,867,477		26,138,853
Other			2,100,000
Financial services (20.5%)			
CJSC ProCredit Bank Ukraine	62,922		20,912,000
Other			2,250,052
Agribusiness (4.4%)			
			5,000,000
Manufacturing (2.3%)			
			2,600,000
Moldova (9.5%)			
Manufacturing (7.2%)			
Glass Container Prim S.A.	83,221		7,100,676
Other			1,060,000
Financial services (2.3%)			
Banca de Finante si Comert S.A.	121,457 ²		2,549,779
Total Equity		46,268,922	69,711,360
Debt (5.8%)			
Moldova (4.5%)			
Financial services (4.5%)			
Banca de Finante si Comert S.A.	\$5,000,000		5,000,000
Ukraine (1.3%)			
Food processing (1.3%)			
	\$1,500,000		1,500,000
Total Debt		6,500,000	6,500,000
TOTAL INVESTMENTS		\$ 71,299,926	\$ 95,705,061

¹ Percentages indicated are based on fund balance as of September 30, 2008. 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.

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%)			
Manufacturing (1.8%)			
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.

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. The full amount of the Grant has been provided to the Fund by USAID, with the final tranche received in fiscal year 2007. 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, without the prior written consent of USAID, and shall commence the winding up of its affairs and sale of its assets. Under this authority, USAID has established the Fund's Termination Commencement Date as August 26, 2009. By the Termination Commencement Date, the Fund will propose to USAID a plan for the orderly liquidation of its assets over many years, including a date by which the process will be completed, and the Fund's proposal for establishment of a legacy foundation to be funded by proceeds derived from the sale of assets.

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.

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, 2008. 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 (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.

(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.

The ongoing global liquidity crisis resulted in, among other things a lower level of capital market funding, lower liquidity levels across the Ukrainian financial sector, and higher lending rates. The uncertainties in the global financial market also led to bank failures and bank rescues around the world.

The Fund's portfolio companies may be affected by the lower liquidity situation which could in turn impact their ability to repay the amounts owed. Deteriorating operating conditions for the portfolio companies may also have an impact on the Fund's cash flow forecasts and assessment of the impairment of financial and non-financial assets. Due to the potential for these economic uncertainties to continue in the foreseeable future, there is a possibility that the assets may not be recovered at their carrying amounts in the ordinary course of business, with a corresponding impact on profitability in the future periods. The Fund is currently assessing the potential impact of the economic uncertainties on revenues and profitability and, as a consequence, on the recoverability of its current and non-current assets.

Given the current uncertainties, the Fund is unable to reliably estimate the effects on the financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets.

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 and FINCO. 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 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 September 2006, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard 157, *Fair Value Measurements* (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective

beginning the first fiscal year that begins after November 15, 2007 and as such, is effective for the Fund as of October 1, 2008. Management expects that adoption of FAS 157 will not have a material effect on its financial statements, other than expanded disclosure about the fair value of investments and the methods used to estimate the fair value.

In February 2007, 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). FAS 159 is effective for the financial year beginning October 1, 2008, and would allow the Fund to account for affiliates, but not subsidiaries, at fair value.

3. Summary of Significant Accounting Policies

Management Estimates

The preparation of financial statements in conformity with US GAAP 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.

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

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, 2008 and 2007 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, 2008 and 2007, 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 from the sale of the portfolio company or from dividends paid by the portfolio company to the date of sale. No Financial Participation Rights expense was recognized for the years ended September 30, 2008 and 2007 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.

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

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

The Fund drew down the final \$2,555,875 of the USAID letter of credit commitment during the year ended September 30, 2007, resulting in full draw down of the \$150 million Grant. 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.

5. Investments

In the accompanying consolidated statements of assets and liabilities, investments are stated at fair value. During fiscal 2008, two of the Fund's equity investments were sold, one at cost and the other resulting in a realized loss of \$3,044,170. This realized loss was partially offset by distributions of net realized gains received by the Fund from EEGF totaling \$222,956, resulting in a net realized loss on investments of \$2,821,214. During fiscal 2007, the Fund reported a net realized gain of \$6,491,202, comprised of distributions received from EEGF of \$6,198,452 and a realized gain on the sale of an equity investment of \$292,750.

In addition, the Fund recorded a net unrealized loss on investments for the year ended September 30, 2008 of \$7,579,051 and a net unrealized gain on investments for the year ended September 30, 2007 of \$9,679,106 based on valuation of the investment portfolio at fair value as of September 30.

In April 2008, the Fund entered into a sale-purchase agreement enabling a management buy-out of its shares in an equity investment for the Ukrainian currency, the Hryvnia (UAH), equivalent of \$5,000,000. As of September 30, 2008, the

Fund received the UAH equivalent of \$4,110,860 and the final payment of the UAH equivalent of \$889,140 was received in October 2008. Shares of this portfolio company continue to be held by the Fund and will be transferred once the buyer satisfies an obligation to a third-party bank to repay an outstanding loan. In May 2008, a sale-purchase agreement was entered into to sell the shares of an equity investment for the UAH equivalent of \$600,000 to be paid in equal monthly installment payments with the last payment to be received in May 2009. As of September 30, 2008, the Fund received the UAH equivalent of \$200,000, in accordance with the agreed-upon payment schedule. In December 2008, the Fund agreed to amend repayment terms to allow for full repayment by July 15, 2009. Amounts relating to these transactions are included in deposits received on sale in the accompanying consolidated statement of assets and liabilities.

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, 2008 and 2007, the Fund held

cash and cash equivalents of \$16,880,581 and \$24,122,120, respectively, with a major commercial banking institution based in the United States. As of September 30, 2008 and 2007, the Fund held foreign currency balances, nearly all in UAH, totaling \$3,473,133 and \$144,729, respectively.

7. Fixed Assets

As of September 30, 2008 and 2007, fixed assets consisted of:

	2008	2007
Computer equipment and software	\$ 168,687	\$ 217,726
Automobiles	109,909	109,909
Telephone equipment	45,324	45,324
Furniture, fixtures and equipment	12,158	15,835
Leasehold improvements	1,850	1,850
Other	1,004	3,519
	338,932	394,163
Accumulated depreciation and amortization	(314,873)	(347,957)
Fixed assets, net	\$ 24,059	\$ 46,206

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 2008 and \$15,500 in calendar year 2007. 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 (\$102,000 as of January 1, 2008 and \$97,500 as of January

1, 2007). 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 \$15,500 and \$5,800 for the years ended September 30, 2008 and 2007, 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 has realized exits on six qualifying 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 Budivelnna 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, 2008 and 2007 and for the years then ended, \$35,013 and \$217,633, respectively,

were recorded as exit-based incentive expense, and \$15,147 and \$109,596, respectively, as exit-based incentive payable. As at September 30, 2008 and 2007, \$15,147 and \$41,485, 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

Investments

As of September 30, 2008 and 2007, the Fund has outstanding investment commitments totaling approximately \$4,600,000 and \$17,100,000, respectively, including \$4,600,000 and \$12,100,000, respectively that are committed to EEGF.

Operating Leases

Rent expense for the years ended September 30, 2008 and 2007 was \$34,050 and \$50,360, respectively. The Schaumburg, Illinois office lease expired on December 31, 2007 and a Chicago, Illinois office sublease was entered into as of January 1, 2007 and was in effect until January 31, 2008. In January 2008, the Fund entered into a two-year lease agreement directly with the landlord of the Chicago, Illinois premises that took effect on February 1, 2008 and is in effect until January 31, 2010. 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 lease agreements as of September 30, 2008 are as follows:

2009	\$ 28,000
2010	9,400
Total operating lease commitments	\$ 37,400

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, decreasing to 2.0% of funded commitments after the expiration of the commitment period. Given that EEGF is nearly fully invested, the commitment period will expire as of December 31, 2008, based on agreement of EEGF's Advisory Board. The management fee expense from October 1, 2007 through September 30, 2008, totaled \$3,125,000 and a prepaid balance of \$781,250 is included in the consolidated statements of assets and liabilities as of September 30, 2008. 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 Fund also entered into the following co-investments, together with EEGF in fiscal 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 \$5,000,115 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 2008 and 2007, the

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

Fund made payments on behalf of HCAD totaling \$242,822 and \$138,466, respectively and HCAD made payments on behalf of the Fund totaling \$115,023 and \$82,278, respectively. As of September 30, 2008, an outstanding balance of \$246 was due from HCAD to the Fund and is included in accounts receivable in the accompanying consolidated statement of assets and liabilities. This balance was reimbursed in full in October 2008. As of September 30, 2007, an outstanding balance of \$9,452 was due to HCAD from the Fund and was 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.

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. As of September 30, 2008 and 2007, a balance of \$227,507 and \$303,343, was due from HCAD to the Fund and included in receivables in the accompanying consolidated statement of assets and liabilities.

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, 2008 and 2007, HCAD made lease payments to the Fund totaling \$21,471 and \$12,798. As of September 30, 2008 and 2007, no outstanding lease payments 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. This second agreement was terminated as of July 25, 2008 upon completion of this individual's employment with HCAD.

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, 2008 and 2007, the Fund earned \$110,736 and \$107,359, 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.

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.

15. Financial Highlights

The financial highlights for the years ended September 30, 2008 and 2007 are as follows:

	2008	2007
Ratios to average fund balance		
Net investment gain (loss)	(1.4)%	1.6 %
Net realized gain (loss) on investments	(2.4)%	5.7 %
Expenses, including exit-based incentive expense – current	3.4 %	3.6 %
Less exit-based incentive expense – current	-	(0.2)%
Expenses, excluding exit-based incentive expense – current	3.4 %	3.4 %
Total return, including exit based incentive expense – current and deferred	(9.6)%	17.3 %
Less exit-based incentive expense – current and deferred	-	0.1 %
Total return, excluding exit based incentive expense – current and deferred	(9.6)%	17.4 %
Ratios to committed capital		
Net investment gain (loss)	(1.1)%	1.2 %
Net realized gain (loss) on investments	(1.9)%	4.3 %
Expenses, including exit-based incentive expense – current	2.7 %	2.8 %
Less exit-based incentive expense – current	-	(0.1)%
Expenses, excluding exit based incentive expense – current	2.7 %	2.7 %

Notes to Consolidated Financial Statements

September 30, 2008 and 2007

15. Financial Highlights (continued)

Ratios to average fund balance are computed as net investment gain or loss (total investment income less total expenses), net realized gain or loss 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 the change in the value of an investment, and is 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 gain or loss (total investment income less total expenses), net realized gain or loss 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, 2008 and 2007, these amounts were \$150,000,000 and \$150,000,000, respectively.

16. Subsequent Events

Subsequent to September 30, 2008, in October 2008, the Fund received the UAH equivalent of \$889,140 as final payment for the equity investment referred to in note 5 of these consolidated financial statements as well as, in October 2008 and November 2008, the UAH equivalent of \$100,000 in additional installment payments also referred to in note 5. Transfer of shares for the portfolio company for which full payment has been received is contingent upon their repayment of a third-party bank loan. It is anticipated that the share transfer will occur in the second quarter of 2009. In October 2008, upon receipt of approval to convert currency from the National Bank of Ukraine, the Fund converted 20,534,421 UAH held in its investment account in Ukraine, primarily proceeds from the sale of investments, to \$3,456,401 U.S. dollars and repatriated this amount to its account held with a United States commercial banking institution, realizing a currency exchange loss of \$767,828 during this process due to the devaluation of the UAH.

In addition, the Fund entered into a sale-purchase agreement in October 2008 to sell 100% of its stake in CJSC ProCreditBank Ukraine for an amount equal to its fair value. Receipt of the purchase price by the Fund and transfer of the Fund's shares is contingent upon the buyer obtaining certain NBU approvals and not exercising their right to withdraw given that the

UAH has devalued relative to the US dollar in excess of the ceiling set forth in the sale-purchase agreement. The buyer has advised the Fund that they reserve the right to withdraw from the sale-purchase agreement given the devaluation of the UAH; however, they have not yet formally done so. The ultimate timing and terms of the exit are not clear at this time.

In October 2008, pursuant to a funding notice issued by EEGF, the Fund contributed \$2,907,197 to EEGF, including recall of distributions relating to return of capital of \$1,634,196. In November 2008, the Fund received a distribution from EEGF of \$112,791 and made a capital contribution of \$946,970, thereby reducing its outstanding commitments to \$2,393,992.

In October 2008, the Fund also placed \$5,000,000 on deposit in U.S. dollars at a rate of 10% per annum with IMB, the Ukrainian banking subsidiary of IMB Group, a portfolio company of both the Fund and EEGF. In addition, in November 2008, together with EEGF, the Fund provided \$1,000,000, its pro-rata share of follow-on financing, in relation to its investment in Kerameya LLC as well as provided additional debt financing to its portfolio company, Glass Container Prim S. A. of \$2,600,000.

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UKRAINE

Ukraine's economy continued to grow in early 2008, registering 6.9% GDP growth through September 2008, with a slowing visible in the second half of the year. Growth was led by the metallurgy industry, machine building, agriculture and real wage growth. WTO accession in May and free trade area negotiations with the EU boosted long term competitiveness. However, the economy appeared to be overheating with high inflation, rapid credit growth and high levels of imports. This led to a high current account deficit which was covered by foreign direct investment and external borrowings until the global financial crisis.

The immediate effects of the global financial crisis were the drastic decline in metallurgy exports, devaluation of the local currency, a liquidity crisis in the banking sector, and limited availability to raise capital to cover the current account deficit. As a result, Ukraine turned to the IMF for a \$16.5 billion stabilization loan in October. As a part of the IMF agreement, Ukraine committed to prudent fiscal policy combined with tighter monetary policy and a more flexible exchange rate. However, the economy's return to normal growth requires a return to global demand for its steel products and liquidity in the global capital markets.

Indicators	2002	2003	2004	2005	2006	2007	2008
Real GDP Growth, %	5.2	9.6	12.1	2.7	7.3	7.6	2.1
Inflation End Of Year, %	-0.6	8.2	12.3	10.3	11.6	16.6	22.3
Average Exchange Rate, USD	5.33	5.33	5.32	5.12	5.05	5.05	5.27
Current Account Balance, % of GDP	7.5	5.8	10.6	2.9	-1.5	-3.7	-6.7
External Debt (USD billions)	12.8	23.8	30.6	39.8	54.5	84.5	105.0
FDI (USD billions, net)	0.7	1.4	1.7	7.5	5.7	9.2	10.1

Sources: IMF, NBU, The World Bank

MOLDOVA

Moldova's economy performed well in 2008 and appeared resilient to the effects of the global crisis to date. Inflationary pressures and an upcoming parliamentary election in 2009 led to monetary tightening in the second half of 2008. The banking system was forced to slow lending in an effort to accumulate necessary

reserves. As liquidity tightened globally, Moldova was able to loosen some of these requirements to improve the situation slightly. More importantly, the local currency appears to be overvalued as a result of these policies, having a serious effect on the competitiveness of Moldovan exports as global trade slows.

Indicators	2002	2003	2004	2005	2006	2007	F2008
Real GDP Growth, %	7.8	6.6	7.4	7.5	4.0	3.0	6.5
Inflation End Of Year, %	4.4	15.7	12.6	10.1	14.1	13.1	7.3
Average Exchange Rate, USD	13.6	13.9	12.3	12.6	13.1	12.1	10.4
Current Account Balance, % of GDP	-1.2	-6.6	-1.8	-7.6	-11.1	-15.8	-15.4
External Debt (USD billions)	1.8	1.9	1.9	2.1	2.5	3.3	4.1
FDI (USD millions, net)	132.0	71.0	145.7	198.9	242.6	447.3	679.6

Sources: IMF, The World Bank, EBRD

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