

**ZAO DELTALEASING**

**REPORT AND FINANCIAL STATEMENTS**

**31 December 2005 and 31 December 2004**

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## **Statement of Management Responsibilities**

Management has prepared and is responsible for the financial statements and related notes of the Closed Joint Stock Company "DeltaLeasing" (the Company). They have been prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP) and necessarily include amounts based on judgments and estimates by management.

The Company maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorization and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Company's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention of overriding controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

Oleg Rakitsky  
Chief Executive Officer

Stan Danysh  
Chief Financial Officer

**Report of the Independent Auditors to the Shareholder of  
Closed Joint Stock Company “DeltaLeasing”**

We have audited the accompanying balance sheets of Closed Joint Stock Company “DeltaLeasing” (the Company), as of 31 December 2005 and 31 December 2004 and the related statements of income, cash flows and changes in shareholder equity for the years then ended. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit so as to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements present fairly in all material respects the financial position of the Company as of 31 December 2005 and 31 December 2004 and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**MOORE STEPHENS VLADIVOSTOK LTD**

18 A Verkhneportovaya St.,  
Vladivostok, Russia

**ZAO DeltaLeasing**  
**Balance Sheets as at 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)

	Note	31.12.2005	31.12.2004
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	1,345,549	1,098,025
Net investment in direct financing leases	5	9,137,065	4,238,559
Advances paid to suppliers	6	919,655	371,821
VAT recoverable	7	2,462,803	1,069,928
Other assets	8	666,667	262,747
<b>Total current assets</b>		<b>14,531,739</b>	<b>7,041,080</b>
Net investment in direct financing leases, less current portion	5	13,821,382	5,757,594
Property and equipment, net	9	842,255	427,156
Deferred tax asset	10	33,995	16,951
Other assets	8	791,870	110,540
<b>Total assets</b>		<b>30,021,241</b>	<b>13,353,321</b>
<b>Liabilities and shareholder equity</b>			
<b>Current short-term liabilities</b>			
Loans – current portion	11	1,913,815	3,044,925
Finance liability	12	292,823	284,009
Advances received from lessees	13	1,014,096	672,304
Deferred tax liability	10	20,784	27,273
Other payables	14	624,443	108,352
<b>Total current liabilities</b>		<b>3,865,961</b>	<b>4,136,863</b>
Long-term loans, less current portion	11	13,175,821	2,250,000
Finance liability	12	11,399	240,024
<b>Total liabilities</b>		<b>17,053,181</b>	<b>6,626,887</b>
<b>Shareholder's equity</b>			
Share capital	15	12,296,538	6,200,625
Share options	23	45,384	-
Retained earnings	19	626,138	525,809
<b>Total shareholder's equity</b>		<b>12,968,060</b>	<b>6,726,434</b>
<b>Total liabilities and shareholder's equity</b>		<b>30,021,241</b>	<b>13,353,321</b>

Signed on behalf of the Board of Directors

Date: \_\_\_\_\_

\_\_\_\_\_  
Gregory Sundstrom, Chairman

The notes set out on pages 8-24 form an integral part of these financial statements

**ZAO DeltaLeasing****Statements of Income for the Years Ended 31 December 2005 and 31 December 2004**

(expressed in United States dollars)

	<b>Note</b>	<b>31.12.2005</b>	<b>31.12.2004</b>
Lease revenues - direct financing leases		3,894,588	1,820,312
<b>Total revenue</b>		<b>3,894,588</b>	<b>1,820,312</b>
Interest expense		(683,485)	(201,599)
Other operating expenses	16	(2,891,647)	(1,320,893)
<b>Operating income</b>		<b>319,456</b>	<b>297,820</b>
Net foreign exchange (loss)/ gain		(137,890)	135,366
<b>Income before depreciation and tax</b>		<b>181,566</b>	<b>433,186</b>
Depreciation expense	9	(86,660)	(58,656)
Income tax	10	5,423	(122,296)
<b>Net profit</b>		<b>100,329</b>	<b>252,234</b>

The notes set out on pages 8-24 form an integral part of these financial statements

**ZAO DeltaLeasing**  
**Statement of Cash Flows for the Years Ended 31 December 2005 and 2004**  
(expressed in United States dollars)

	Note	31.12.2005	31.12.2004
<b>Cash flows from operating activities</b>			
Lease payments received from customers		3,690,244	1,758,689
Cash paid to employees		(1,228,181)	(699,305)
Other operating cash payments		(1,615,521)	(562,318)
Interest paid		(453,046)	(166,229)
Income Tax paid		(38,007)	(95,850)
<b>Net cash received from operating activities</b>	18	<b>355,489</b>	<b>234,987</b>
<b>Cash flows from investing activities</b>			
Principal payments received under direct financing leases		6,736,507	3,422,345
Investment in direct financing leases		(21,290,770)	(8,194,989)
Loans to related parties		(51,236)	(45,366)
Loan payments from related parties		47,785	45,407
Receipts from sale of property		32,437	-
Purchase of property and equipment		(564,767)	(121,767)
<b>Net cash used in investing activities</b>		<b>(15,090,044)</b>	<b>(4,894,370)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		6,095,913	5,020,862
Borrowings received		12,216,461	5,257,115
Borrowings repaid		(3,330,295)	(5,251,513)
<b>Net cash received from financing activities</b>		<b>14,982,079</b>	<b>5,026,464</b>
<b>Net increase in cash and cash equivalents</b>		<b>247,524</b>	<b>367,081</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,098,025</b>	<b>730,944</b>
<b>Cash and cash equivalents at end of the year</b>	4	<b>1,345,549</b>	<b>1,098,025</b>

The notes set out on pages 8-24 form an integral part of these financial statements

**ZAO DeltaLeasing****Statements of Changes in Shareholder Equity for the Years Ended 31 December 2005 and 31 December 2004**

(expressed in United States dollars)

	Share capital	Additional paid in capital	Employee Share Options	Retained Profits	Total shareholder equity
<b>Balance at 31 December 2003</b>	<b>1,179,763</b>	-	-	<b>273,575</b>	<b>1,453,338</b>
Net profit for the year	-	-	-	252,234	252,234
Issue of shares	173,133	4,847,729	-	-	5,020,862
<b>Balance at 31 December 2004</b>	<b>1,352,896</b>	<b>4,847,729</b>	-	<b>525,809</b>	<b>6,726,434</b>
Issue of shares	177,475	5,918,438	-	-	6,095,913
Issue of options	-	-	45,384	-	45,384
Net profit for the year	-	-	-	100,329	100,329
<b>Balance at 31 December 2005</b>	<b>1,530,371</b>	<b>10,766,167</b>	<b>45,384</b>	<b>626,138</b>	<b>12,968,060</b>

The notes set out on pages 8-24 form an integral part of these financial statements

## **ZAO DeltaLeasing**

### **Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004** (expressed in United States dollars)

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#### **1. Principal Activities**

ZAO DeltaLeasing (DL) is a leasing company 100%-owned by The U.S. Russia Investment Fund through its Cypriot holding company DL Holdings Ltd. The Fund has operated in Russia and the Russian Far East since 1995.

DL began operations in May of 2000 under the name of DeltaLease-Far East and its sole business is the provision of leasing services to registered businesses, including sole proprietors, in its geographic market. On August 5, 2004, the Company officially adopted a new name – DeltaLeasing.

The Company maintains its headquarters in Vladivostok (Primorsky Krai) and full-time offices in the cities of Khabarovsk (Khabarovsk Krai), Yuzhno-Sakhalinsk (Sakhalin Oblast), Novosibirsk (Novosibirskiy Oblast), Omsk (Omsk Oblast), Krasnoyarsk (Krasnoyarskiy Krai) and Irkutsk (Irkutsk Oblast). In the first quarter of 2006, DL opened full-time offices in the cities of Tomsk (Tomsk Oblast) and Barnaul (Altayskiy Krai), which are managed through the Novosibirsk hub. The Company now considers leasing projects in all major Siberian and Russian Far East cities.

DL targets medium and small sized businesses for its leasing services. Generally speaking, it searches for companies with no less than one year of business experience, well educated and experienced management, well-defined business strategies, clear competitive advantages and strong cash flow. It advertises a minimum deal size of USD20,000 and maximum term of 60 months. In 2005, the Company's average portfolio deal size was USD178,000 for an average term of 39 months. DL transfers title to the lessees at lease expiration. No residual value has been recorded on any leases at the time of this restatement. None of DL's leases so far qualify for operating lease treatment by the lessor.

DL is a universal leasing company. As such, it seeks to develop a portfolio that is broadly diversified by equipment types and businesses. At the time of this restatement, it had supplied equipment to lessees primarily active in food processing (13%), construction (13%), printing (12%), wood processing (9%). Also at the time of these statements delinquent payments were approximately 1.4% of total outstanding amounts.

The Company's registered address is Okeansky 12/13, Vladivostok, Russian Federation.

The average number of the Company's employees during 2005 was 59 (2004 – 41), and the number of employees as of 31 December 2005 was 79.

#### **2. Operating Environment of the Company**

Initially, leasing was included in the list of business activities requiring mandatory registration in the Russian Federation. As such, DL applied for and on 28 December 1999 was issued a three-year license. However, the Russian government eliminated its licensing requirements for leasing in 2002, thereby eliminating the need to renew its license.

DL is active only in the Russian Federation, which continues to display the characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country, extensive currency control and high inflation.

### **3. Basis of Presentation and Significant Accounting Policies**

The Company is domiciled in Russia and prepares its statutory accounting reports in accordance with the Regulations on Accounting and Reporting in the Russian Federation. The accompanying financial statements are based on the statutory records, which are maintained in Russian Rubles (Rubles or RR), the official currency of the Russian Federation and are recorded under the historical cost convention. They have been adjusted in order to present the financial position and the results of operations in U.S. Dollars (USD), the principal functional currency of the Company, and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

#### **(a) Use of estimates**

The preparation of the financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. The most significant estimates relate to realizability and depreciable lives of property and equipment, amortization and loss allowance for net investment in direct financing leases. Actual results may differ from those estimates.

#### **(b) Translation methodology**

The accompanying financial statements have been prepared using the U.S. Dollar as the unit of measurement, as this is the functional currency of the Company (both loans and leases are effectively denominated in Dollars). Since Russian accounting regulations require transactions and balances to be measured in Rubles, all transactions and balances recorded in the Company's statutory records have been remeasured into USD in accordance with the relevant provisions of Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation". The USD is the currency used for financial reporting purposes.

Under SFAS No. 52, revenues, costs, capital and non-monetary assets and liabilities are translated at historical exchange rates prevailing on the transaction dates. Monetary assets and liabilities not denominated in USD are translated at exchange rates prevailing on the balance sheet date. Translation gains and losses from remeasurement of monetary assets and liabilities that are not denominated in USD are credited or charged to the statement of income.

Any distributions will be paid in Rubles. Exchange restrictions and controls exist within Russia on the ability to freely convert Rubles to USD.

The Ruble to USD exchange rate will not necessarily reflect the relative inflation levels of the Russian and U.S. economies. Future movements in the exchange rate between the Ruble and the USD will affect the carrying value of the Company's Ruble denominated monetary assets and liabilities. Such movements may also affect the Company's ability to realize non-monetary assets represented in USD in these financial statements. Accordingly, any translation of Ruble amounts to USD should not be construed as a representation that such Ruble amounts have been, could be, or will in the future be converted into USD at the exchange rate shown or at any other exchange rate. The exchange rate for 1 USD was 28.7825 Rubles at 31 December 2005 (27.7487 Rubles - at 31 December 2004).

### **3. Basis of Presentation and Significant Accounting Policies (Continued)**

#### **(c) Revenue recognition**

The Company is the lessor in a number of leasing transactions and these are accounted for in accordance with SFAS No. 13, "Accounting for Leases". Each lease is classified as either a direct financing lease or operating lease, as appropriate. During the year the Company engaged only in direct financing leases.

Under the direct financing lease method, the Company records the net investment in leases, which consists of the sum of the minimum lease term payments, initial direct costs, and unguaranteed residual value (gross investment) less the unearned income. Net investment in direct finance leases is equal to the leasing company's principal investment, net of VAT, in equipment.

The difference between the gross investment and the cost of the leased equipment for direct financing leases is recorded as unearned income at the inception of the lease. The unearned income is amortized over the life of the lease using the constant interest rate method.

Lease revenues consist of earned income on direct financing leases.

#### **(d) Allowance for credit losses**

The allowance for credit losses (the "allowance") is maintained at a level believed by Management to be adequate to absorb potential losses inherent in the Company's lease and accounts receivable portfolio. Management's determination of the adequacy of the allowance is based on an evaluation of historical credit loss experience, current and projected economic conditions, volume, growth, the composition of the lease portfolio, and other relevant factors. The allowance is increased by provisions for potential credit losses charged against income. Accounts are either written off or written down when the loss is both probable and determinable, after giving consideration to the customer's financial condition and the value of the underlying collateral.

Since 2004, the Company has an automated allowance system based on the "specific identification" method of calculating the allowance for lease losses. The allowance is based on three risk scores for each individual lease: (1) technical risk score, which reflects leased property's condition and liquidity, (2) financial risk score, which reflects the financial strength of the lessee company, and (3) payment discipline score, which reflects the timeliness of lessee's payments.

#### **(e) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and short term deposits with banks.

#### **(f) Borrowing costs**

Loan origination and commitment fees are deferred and amortized over the lives of the related loans on a straight-line basis.

Interest costs are charged to the statement of income as incurred.

#### **(g) Property and equipment**

Property and equipment are stated at cost, less accumulated depreciation. In 2005, the Company established a threshold of USD2,000 for fixed asset recognition.

#### **(h) Depreciation**

Depreciation is applied on a straight-line basis over the estimated useful lives of the related assets:

- Equipment - from 3 to 5 years
- Buildings - over 16 years

### **3. Basis of Presentation and Significant Accounting Policies (Continued)**

#### **(i) Dividends**

Dividends payable are not accounted for until they have been ratified at the Company's Annual General Meeting.

#### **(j) Fair value of financial instruments**

The fair market value of financial instruments, consisting of cash and cash equivalents, net investment in direct finance leases, accounts receivable, accounts payable, advances and finance liabilities approximate their carrying value.

#### **(k) Income taxes**

Current tax charge is accrued based on profit computed under Russian accounting regulations. Non-profit based taxes are included within operating expenses.

Provision is made for all foreseeable taxation liabilities. However, the Russian legal and taxation systems are currently in a period of rapid development in response to recent economic and social changes in the country. Consequently, legislation may be subject to varying interpretations and retrospective amendments. Penalties for minor errors and omissions or late payments may be significant.

Deferred income tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements' carrying amounts of existing assets and liabilities and their respective tax bases in accordance with SFAS No.109. Deferred tax assets and liabilities are measured using enacted tax rates in the years in which these temporary differences are expected to reverse. Valuation allowances in respect of deferred tax assets are recorded when it is considered more likely than not that such deferred tax assets will not be realized.

#### **(l) Pensions**

The Company, in the normal course of business, makes payments of social tax to the Federal Budget. This tax includes elements for pensions, medical and social insurances for the benefit of its employees. All of these payments are expensed when incurred and included within staff costs. The Company has no obligation to provide pensions to any of its Management or staff and, accordingly, no provision for future pension costs is recorded.

#### **(m) Value added tax**

Value added taxes related to lease revenues are payable to the Federal Budget upon collection of the receivables from customers. VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis.

#### **(n) Advertising expenses**

Advertising expenses represent non direct advertising and have been expensed as incurred.

#### **(o) Share-based payments**

The Employee Stock Option Plan (ESOP) was approved by the Board of Directors on May 17, 2005, granting employees stock options on shares in DL Holdings Ltd. Compensation expense related to share-based payments is accounted for in accordance with SFAS 123 ("Share-based Payments"). The expense is recognized over the requisite service life using the intrinsic value method. SFAS 123 requires that share-based payments awarded to an employee of the reporting entity (DeltaLeasing) by a related party (DL Holdings Ltd.) or other holder of an economic interest in the entity as compensation for services provided to the entity are to be accounted for by the reporting entity.

**3. Basis of Presentation and Significant Accounting Policies (Continued)****(p) Comprehensive income**

SFAS No.130 requires disclosure of all changes in equity during a period except those resulting from investments by and distributions to the Company's shareholders. The Company's total comprehensive profit for 2005 did not differ from net income.

**4. Cash and Cash Equivalents**

	<b>31.12.2005</b>	<b>31.12.2004</b>
Cash and cash equivalents with banks		
Denominated in RR	831,246	284,377
Denominated in USD	514,303	813,648
<b>Total cash and cash equivalents</b>	<b>1,345,549</b>	<b>1,098,025</b>

The Company uses multiple banking institutions in order to diversify its bank-related risk and has never incurred losses in any such accounts. Given a general strengthening of the Russian banking sector and the fact that the Company constantly monitors its banking partners, it does not believe that it is exposed to significant risk on cash.

**5. Net Investment in Direct Financing Leases**

	<b>31.12.2005</b>	<b>31.12.2004</b>
Total minimum lease payments to be received (including VAT)	37,098,388	15,645,251
Total minimum lease payments to be received (excluding VAT)	31,439,312	13,258,688
Less: amounts representing executory costs (such as taxes and insurance) included in total lease payments	(1,169,563)	(550,884)
Minimum lease payments receivable	30,269,749	12,707,804
Less: Unearned finance lease income	(6,961,681)	(2,559,425)
Total net investments in direct leases	23,308,068	10,148,379
Less: allowance for losses	(349,621)	(152,226)
Less: non-current investment in direct financing leases	(13,821,382)	(5,757,594)
<b>Current net investment in direct financing leases</b>	<b>9,137,065</b>	<b>4,238,559</b>

**5. Net Investment in Direct Financing Leases (continued)**

As at 31 December 2005 there were 333 direct financing leases expiring over the next five years. The Company normally structures its direct financing lease contracts so that the lessee makes a prepayment, or security advance, equal to 15% to 25% of equipment purchase price at the beginning of lease term. The Company holds title to equipment during the lease term and, for the majority of direct financing leases, has signed either a buyback agreement or remarketing agreement with the seller of equipment according to which in case of lessee's default the seller commits itself to either repurchase or assist in remarketing of equipment repossessed by the Company.

For all lease transactions, the Company uses a combination of its own equipment monitoring specialists and independent appraisers to define the value, quality, likely service life and secondary market liquidity of all leased assets.

Apart from assessing equipment-related risks for all transactions, the Company's credit division assesses the financial quality of all lessees, both historically and over the entire term of the proposed lease. Following delivery of equipment and on a regular basis, the Company rates all lessees using technical, financial and payment discipline ratings, which are directly linked to the Company's system for calculating allowances for lease losses. Finally, risks related to leased equipment (i.e. damage, theft, etc.) are insured, with the Company acting as the sole beneficiary under all policies. Thus, Management believe that credit risk related to the Company leasing operations is wholly acceptable (refer to Note 20).

The Company reviews individual leases, and where a lease has an estimated recoverable value less than the net investment, the lease is written down to its estimated recoverable value. As at 31 December 2005, an allowance for credit losses was recorded in the amount of USD 349,621. This amount is composed of a 1.26% allowance applicable to every lease on the Company's books per its internal provisioning system, plus 0.24% required for the Company to comply with financial covenants of its loan agreements, which establish a minimum effective allowance rate of 1.5%.

Effective annual interest rates for direct financing leases as at 31 December 2005 were in the range 14% to 22%.

The amount of executory costs (exclusive of VAT) incurred in the period ended 31 December 2005 and reimbursed by lessees was USD 260,104 (2004 – 167,505). The Company has not capitalized initial direct costs for the period ended 31 December 2005, as they are not considered material.

There was no unguaranteed residual value related to lease contracts existing as at 31 December 2005 (2004– no unguaranteed residual value).

Future minimum lease payments to be received for the next four years:

	<b>For the year ended 31 December</b>				<b>Total</b>
	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	
Total minimum lease payments to be received (including VAT)	16,089,374	11,877,797	6,028,013	3,103,204	37,098,388
Total minimum lease payments to be received (excluding VAT)	13,635,063	10,065,930	5,108,486	2,629,833	31,439,312
Less: amounts representing executory cost	(604,595)	(287,359)	(132,038)	(145,571)	(1,169,563)
<b>Minimum lease payments receivable</b>	<b>13,030,468</b>	<b>9,778,571</b>	<b>4,976,448</b>	<b>2,484,262</b>	<b>30,269,749</b>

**6. Advances Paid to Suppliers**

Advances paid to suppliers represent payments for equipment that will subsequently be transferred to lessees for use. Company policy calls for lessees to make advance payments generally equal to 15% to 25% of the value of purchase agreements closed between the Company and its suppliers. For the great majority of contracts, the leasing company limits initial payments to equipment suppliers so that they are either equal to or less than the amounts received as advances. Further payments to suppliers are made according to the suppliers' fulfillment of benchmarks related to the manufacture, shipment and installation of the equipment. In accordance with the Russian Civil Code, the lessor is not liable to the lessee if the supplier fails to fulfill its obligations under purchase agreements. From time to time, clients are permitted to reduce advances, but they have never been lower than 15% of the value of purchase agreements (except for autoleases that permit advances as low as 0% for lease terms of 6 months). Management estimated credit risk related to these advances and concluded that no provision was necessary for prepayments as at 31 December 2005.

**7. VAT Recoverable**

VAT recoverable is principally comprised of VAT paid on the acquisition of fixed assets for direct financing leases. VAT is recoverable from the government either via (1) an offset in future years against (a) VAT payable on finance lease payments received, and (b) federal portion of taxes due (such as income tax, Unified Social Tax, etc) or (2) by requesting a cash reimbursement.

	31.12.2005	31.12.2004
VAT recoverable – current	8,602,273	2,143,777
VAT recoverable – non current	3,204,764	1,317,122
VAT payable – current	(6,139,470)	(1,073,849)
VAT payable – non current	(3,204,764)	(1,317,122)
<b>VAT recoverable</b>	<b>2,462,803</b>	<b>1,069,928</b>

The Company received two cash reimbursements of VAT in 2005, totaling RUR 10.8 million (approximately USD380,000). Additionally, the Company regularly offsets its federal taxes payable with VAT recoverable.

**8. Other Assets**

	Note	31.12.2005	31.12.2004
Prepayments		324,319	128,842
Loans to employees – current		25,220	40,697
Loans to employees – non-current		45,468	26,540
Loan fees capitalized – current	11	153,413	22,056
Loan fees capitalized – non-current	11	746,402	71,500
Profit tax receivable		16,412	-
Other taxes receivable		389	18,446
Other		146,914	65,206
<b>Total other assets</b>		<b>1,458,537</b>	<b>373,287</b>

On August 2, 2005, the Board of Directors approved an Employee Loan Program for the company employees. Subject to certain qualification criteria and strict underwriting, employees may apply for secured loans to purchase real estate for up to 60 months with an interest rate slightly below market. Total principal amount of employee loans outstanding may not exceed 2.5% of the company's equity.

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**

(expressed in United States dollars)

**8. Other Assets (continued)**

Employee Loan Program is administered by CEO and CFO of the Company, both of whom for reasons of internal control may not participate in the Program, and each loan is reviewed by the Chairman, who has veto power.

The Company also grants small short-term soft loans to employees for up to 6 months in accordance with the terms of the Human Resources Policy approved by the Board.

	<b>31.12.2005</b>	<b>31.12.2004</b>
Current – less than 1 year	25,220	40,697
Non Current – 1 to 2 years	18,658	21,764
Non Current – 2 to 3 years	12,175	4,776
Non Current – 3 and more	14,635	-
<b>Total loans to employees</b>	<b>70,688</b>	<b>67,237</b>

**9. Property and Equipment, Net**

	<b>Buildings and Structures</b>	<b>Machinery and Equipment</b>	<b>Assets under Construction</b>	<b>Total</b>
<b>Cost</b>				
1 January 2005	359,577	159,719	-	519,296
Additions	-	238,440	326,328	564,768
Disposals	-	(123,502)	-	(123,502)
<b>31 December 2005</b>	<b>359,577</b>	<b>274,657</b>	<b>326,328</b>	<b>960,562</b>
<b>Depreciation</b>				
1 January 2005	25,215	66,925	-	92,140
Charge for the year	23,920	62,740	-	86,660
Disposals	-	(60,493)	-	(60,493)
<b>31 December 2005</b>	<b>49,135</b>	<b>69,172</b>	<b>-</b>	<b>118,307</b>
<b>Net Book Value</b>				
<b>31 December 2004</b>	<b>334,362</b>	<b>92,794</b>	<b>-</b>	<b>427,156</b>
<b>31 December 2005</b>	<b>310,442</b>	<b>205,485</b>	<b>326,328</b>	<b>842,255</b>

**10. Income Taxes**

Profit tax is calculated at an average rate of 24%, based on profit as computed under Russian accounting regulations and adjusted for fiscal purposes.

	<b>31.12.2005</b>	<b>31.12.2004</b>
Tax charge	18,110	77,257
Deferred tax (release)/charge	(23,533)	45,039
<b>Income tax for the year</b>	<b>(5,423)</b>	<b>122,296</b>

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)**10. Income Taxes (Continued)**

The Company's accounting profit can be reconciled to taxable profit as follows:

	<b>31.12.2005</b>	<b>31.12.2004</b>
Accounting profit before tax	90,261	374,530
Adjustments to comply with GAAP	(131,476)	(151,516)
Accounting (loss)/ profits in accordance with Russian standards	(41,215)	223,014
Adjustments for disallowable items/allowable deductions	116,673	98,890
Russian taxable profits	75,458	321,904
<b>Income tax liability at 24%</b>	<b>18,110</b>	<b>77,257</b>

Differences between US GAAP and Russian statutory taxation regulations give rise to temporary differences between the carrying value of certain assets and liabilities for financial reporting purposes and for profits tax purposes.

	<b>31.12.2005</b>	<b>31.12.2004</b>
Net deferred tax /(asset)/ liability at beginning of the year	(10,322)	30,003
Movement during the year attributed to temporary differences	23,533	(40,325)
<b>Deferred tax asset / (liability) at the end of the year</b>	<b>13,211</b>	<b>(10,322)</b>

Temporary differences that gave rise to deferred tax assets and liabilities include the following:

	<b>31.12.2005</b>		<b>31.12.2004</b>	
	Deferred tax Assets	Liabilities	Deferred tax Assets	Liabilities
Lease transactions		43,495	-	8,302
Capitalized loan costs		45,997	-	22,453
Depreciation and amortization	33,995	-	16,951	-
Creditors	68,708	-	3,482	-
<b>Total deferred taxes</b>	<b>102,703</b>	<b>89,492</b>	<b>20,433</b>	<b>30,755</b>
<b>Net deferred tax asset/( liability)</b>	<b>13,211</b>	<b>-</b>	<b>-</b>	<b>(10,322)</b>

Deferred tax detail above is included in the balance sheet as follows:

	<b>31.12.2005</b>	<b>31.12.2004</b>
Current deferred tax liability	(20,784)	(27,273)
Non-current deferred tax assets	33,995	16,951
<b>Total</b>	<b>13,211</b>	<b>(10,322)</b>

**ZAO DeltaLeasing**  
**Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)

**11. Loans**

	<b>31.12.2005</b>	<b>31.12.2004</b>
<b>Loans payable</b>	<b>15,089,636</b>	<b>5,294,925</b>
Less current portion	(1,913,815)	(3,044,925)
<b>Loans, net of current portion</b>	<b>13,175,821</b>	<b>2,250,000</b>

As at 31 December 2005, outstanding loans comprise as follows:

- i) a loan of USD 3,000,000 pursuant to IFC Loan Agreement dated April 2004;
- ii) a loan of USD 5,000,000 pursuant to EBRD Loan Agreement dated December 2004;
- iii) a loan of USD 5,870,000 pursuant to WBC Loan Agreement dated August 2005;
- iv) two loans with a combined outstanding balance of USD 1,219,636 pursuant to UPS Loan Agreements dated August 2005.

Long term loans were provided to finance the leasing transactions of the Company. Interest rates of the loans to the Company range from 6% to 9%. The security on the loans consists of the rights under the lease agreements and equipment. The repayment terms of these loans ranges from 5 to 7 years, with certain of them having grace periods of up to 18 months. As at 31 December 2005, undrawn committed borrowing facilities in respect of which all conditions precedent have been met amounts to USD 4,130,000.

Loan costs and fees of USD 873,175 (2004: USD 104,617) were incurred at the commencement of loans, these initial costs have been capitalized and are amortized over the term of the loan (refer note 8).

Principal payment requirements on loans payable (by calendar year) are as follows. For maturity analysis see Note 20.

	<b>31.12.2005</b>	<b>31.12.2004</b>
2005	-	3,044,925
2006	1,913,815	750,000
2007	3,340,070	750,000
2008	3,607,155	750,000
2009	2,607,155	-
2010	3,621,441	-
<b>Total loans</b>	<b>15,089,636</b>	<b>5,294,925</b>

**12. Finance Liabilities**

The finance liability represents a trade finance agreement between the Company, CAT Finance (Russia) and authorized CAT dealers in the Russian Far East. The finance liabilities carry interest between 6.2% and 7.0% per annum. The liabilities are secured over the leased machinery and equipment.

	<b>31.12.2005</b>	<b>31.12.2004</b>
Current finance liability	292,823	284,009
Non current finance liability	11,399	240,024
<b>Net finance liability</b>	<b>304,222</b>	<b>524,033</b>

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)**12. Finance Liabilities (continued)**

The following is a schedule by years of future minimum payments required under the finance liability as at 31 December 2005:

	<b>31 December</b>
2006	298,163
2007	11,399
	<b>309,562</b>
Less amount representing interest	(5,340)
<b>Total</b>	<b>304,222</b>

**13. Advances from Lessees**

	<b>31.12.2005</b>	<b>31.12.2004</b>
Initial security advance	492,333	354,375
Lease payment advances	521,763	317,929
<b>Total advances from lessees</b>	<b>1,014,096</b>	<b>672,304</b>

**14. Other Payables**

	<b>31.12.2005</b>	<b>31.12.2004</b>
Interest payable	192,251	35,371
Payables to leased equipment suppliers	213,028	40,076
Other payables	90,193	3,789
Employee profit-sharing plan accrual (note 22)	128,971	-
Profit taxes payable	-	3,485
Other taxes payable	-	25,631
<b>Total other liabilities</b>	<b>624,443</b>	<b>108,352</b>

**15. Share Capital**

The Company has authorized share capital of 700,000 ordinary shares of par value RR 100. There were 465,273 shares issued and fully paid as at 31 December 2005, with a nominal value of RR 46,527,300 (USD 1,534,817) per the charter documents, including 48,762 shares that were issued in the first quarter of 2005 (placement proceeds of USD 6,095,913)

Under Russian law, the term authorized shares means shares that can be issued in addition to the outstanding shares. Issuance of new shares automatically reduces the number of authorized shares. Therefore, maximum number of shares that DeltaLeasing can have outstanding according to the current Charter documents equals the sum of (a) 700,000 authorized shares, and (b) 465,273 outstanding shares.

The share capital in the financial statements has been recorded using the exchange rate on the date the initial share issue filing was made with the Federal Securities Commission.

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)**16. Other operating expenses**

	<b>31.12.2005</b>	<b>31.12.2004</b>
Staff costs	1,228,181	699,305
Employee profit-sharing plan (note 22)	126,627	-
Employee share option plan (note 23)	45,384	-
Rent	94,828	54,765
Insurance (Leasing equipment)	260,104	167,505
Insurance (Operating assets)	13,277	6,512
Professional services	492,794	131,071
Other taxes	35,539	28,584
Communication expenses	54,435	28,356
Business trip expenses	167,481	36,469
Office maintenance	88,373	68,307
Bank commissions	16,102	8,380
Bad debt expense	-	113,629
Fixed assets written off	63,009	-
Gain on sale of repossessed lease asset	(32,437)	-
Provision for losses on leases to customers	197,396	(38,706)
Other expenses	40,554	16,716
<b>Total other operating expenses</b>	<b>2,891,647</b>	<b>1,320,893</b>

**17. Dividends**

No dividends were declared in either the year ended 31 December 2005 or the year ended 31 December 2004.

**18. Reconciliation of Net Profit to Net Cash Used in Operating Activities**

	<b>31.12.2005</b>	<b>31.12.2004</b>
Net profit	100,329	252,234
<b>Adjustments to reconcile net profit to net cash provided by operating activities</b>		
Depreciation	86,660	58,656
Employee share scheme provision	45,384	-
Bad debts expense	-	113,629
Provision for losses on leases to customers	197,396	(38,706)
Disposals of fixed assets	30,572	-
Accrued lease revenues	(204,345)	(61,623)
Provision for deferred income taxes	(23,533)	40,325
<b>Changes in assets and liabilities</b>		
Increase in operating receivables	(173,254)	(176,448)
Increase in other payables	296,280	46,920
<b>Net cash received from / (used in) operating activities</b>	<b>355,489</b>	<b>234,987</b>

**19. Retained earnings**

The availability of distributable reserves is determined by the Company's Charter and by Russian legal and fiscal regulations and does not correspond to the figures shown in these financial statements.

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**

(expressed in United States dollars)

**20. Currency, Interest Rate, Liquidity and Credit Risk****Currency Risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. At the period end the Company had balances in Russian Rubles and US dollars. The major foreign currency in which balances are denominated is the US dollar.

	RR	USD	Total
<b>Assets</b>			
Cash and cash equivalents	831,246	514,303	1,345,549
Net investments in direct finance leases	-	22,958,447	22,958,447
Advances paid to suppliers	-	919,655	919,655
VAT recoverable	2,462,803	-	2,462,803
Property, plant and equipment	842,255	-	842,255
Deferred tax	33,995	-	33,995
Other assets	1,458,537	-	1,458,537
<b>Total assets</b>	<b>5,628,836</b>	<b>24,392,405</b>	<b>30,021,241</b>
<b>Liabilities</b>			
Loans	-	15,089,636	15,089,636
Advances received from lessees	-	1,014,096	1,014,096
Other payables	624,443	-	624,443
Deferred tax	20,784	-	20,784
Finance liability	-	304,222	304,222
<b>Total liabilities</b>	<b>645,227</b>	<b>16,407,954</b>	<b>17,053,181</b>
<b>Net balance sheet position</b>	<b>4,983,609</b>	<b>7,984,451</b>	<b>12,968,060</b>

Since 1 January 2005 the Russian Ruble has weakened against the U.S. dollar from RR 27.7487 per U.S. dollar to RR 28.7825 as of 31 December 2005, representing a depreciation of 4% over the year.

**Interest Rate Risk**

The Company receives all of its funding at commercial interest rates. At this time, the majority of financing is provided at fixed rates. Total exposure to floating rate obligations is USD1.2 million, which represents two loan facilities from UPS Capital. The Company is currently in the process of disbursing a USD10m credit facility from WorldBusiness Capital, and these obligations carry a floating rate as well. However, the Company has an option to switch to fixed rate instrument once the WBC facility is fully disbursed (1Q 2006). Outstanding principal balance of disbursed portion of WBC loan as of 31 December 2005 was USD5.87 million.

Fluctuations in the financial market rate may increase the future cost of new financing attracted by the Company. Leases sold by the Company carry an interest rate for the term of the lease fixed at lease signing. The Company is also subject to repricing risk.

**Liquidity Risk**

Liquidity risk is defined as the risk that the maturity of assets and liabilities does not match. Liquidity risk is managed by the management of the Company. The table below shows assets and liabilities as at 31 December 2005 by their remaining contractual maturity.

The matching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Company. It is unusual for leasing companies ever to be completely matched since business transacted is often of an uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)**20. Currency, Interest Rate, Liquidity and Credit Risk (continued)**

The liquidity position of the Company as at 31 December 2005 is set out below:

	<b>Demand and less than 90 days</b>	<b>91 - 365 days</b>	<b>2 years</b>	<b>3 years</b>	<b>4 years and more</b>	<b>No stated maturity</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	1,345,549	-	-	-	-	-	1,345,549
Net investments in direct finance leases	2,212,911	6,924,154	7,577,033	4,082,574	2,161,775	-	22,958,447
Advances paid to suppliers	919,655	-	-	-	-	-	919,655
VAT recoverable	2,462,803	-	-	-	-	-	2,462,803
Property, plant and equipment	-	-	-	-	-	842,255	842,255
Deferred tax	-	-	-	-	-	33,995	33,995
Other assets	513,345	153,322	202,926	171,849	417,095	-	1,458,537
<b>Total assets</b>	<b>7,454,263</b>	<b>7,077,476</b>	<b>7,779,959</b>	<b>4,254,423</b>	<b>2,578,870</b>	<b>876,250</b>	<b>30,021,241</b>
<b>Liabilities</b>							
Loans	64,376	1,849,439	3,340,070	3,607,155	6,228,596	-	15,089,636
Advances received from lessees	1,014,096	-	-	-	-	-	1,014,096
Deferred tax liability	20,784	-	-	-	-	-	20,784
Other payables	624,443	-	-	-	-	-	624,443
Finance liability	132,818	160,005	11,399	-	-	-	304,222
<b>Total liabilities</b>	<b>1,856,517</b>	<b>2,009,444</b>	<b>3,351,469</b>	<b>3,607,155</b>	<b>6,228,596</b>	<b>-</b>	<b>17,053,181</b>
<b>Net liquidity position</b>	<b>5,597,746</b>	<b>5,068,032</b>	<b>4,428,490</b>	<b>647,268</b>	<b>(3,649,726)</b>	<b>876,250</b>	<b>12,968,060</b>
<b>Cumulative liquidity position</b>	<b>5,597,746</b>	<b>10,665,778</b>	<b>15,094,268</b>	<b>15,741,536</b>	<b>12,091,810</b>	<b>12,968,060</b>	

**Credit Risk**

The Company takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The Company manages its credit risk by limiting exposure to single borrowers, economic groups, industry segments and equipment types. Such risks are monitored on a continuous basis and subject to an ongoing review.

**20. Currency, Interest Rate, Liquidity and Credit Risk (continued)**

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations, and by changing these lending limits where appropriate. Exposure to credit risk is also managed, in part, by obtaining additional collateral, corporate and personal guarantees and supplier buyback and remarketing agreements tied to leased assets.

The Company's maximum exposure to credit risk is generally reflected in the carrying amounts of financial assets on the balance sheet. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

**21. Related party transactions**

The Company obtains some of its finance from the sole shareholder. At the end of the reporting period, the Company has fully extinguished all of its liabilities to the shareholder. Details of transactions with the sole shareholder during the year are as follows:

- i) Receipt from share issue totaling USD 6,095,913
- ii) Repayments of borrowings totaling USD 2,330,295.

There were no other transactions with the shareholder during the year. The Company is no longer financially dependent of its shareholder.

Key management staffs participate in the Employee Profit-Sharing Plan under bonus pool 1 as well as the Employee Share Option Plans. Details of these plans are disclosed in note 22 and note 23 below.

**22. Employee Profit-Sharing Plan**

On November 23, 2004, the Board approved an Employee Profit-Sharing Plan (PSP). The following principles form the basis of the PSP:

- The profit sharing plan ensures alignment of shareholders' and employees' financial interests.
- Plan implementation is subject to DeltaLeasing achieving its budget plan for annual disbursements, which equaled USD22M, and budgeted net income, which equaled USD146,335. Net income for PSP purposes shall be calculated on the basis of US GAAP prior to PSP and ESOP charges but after FX gains/losses.
- Outstanding financial performance (i.e. exceeding budgeted net income) is split between the Company shareholders and employees in 65% / 35% proportion.
- Appropriate internal controls exist to ensure that shareholder interests are protected.

Total after-tax compensation expense related to PSP for 2005 is recorded in the financial accounts as USD 126,627.

The Company's performance in 2005 against PSP targets:

<i>Criterion</i>	<i>2005 PSP Target</i>	<i>2005 Actual</i>	<i>Variance</i>
<i>Lease Disbursements</i>	<i>22,000,000</i>	<i>23,377,185</i>	<i>+ 6%</i>
<i>Net Income prior to PSP &amp; ESOP</i>	<i>146,335</i>	<i>274,684</i>	<i>+ 88%</i>

**ZAO DeltaLeasing****Notes to the Financial Statements for the Years Ended 31 December 2005 and 31 December 2004**  
(expressed in United States dollars)**22. Employee Profit-Sharing Plan (continued)**

Accrual is composed of three bonus pools per PSP: (1) Optionees, (2) Non-Optionees, and (3) 35% of excess of net income over PSP target.

Bonus pools 1 and 2 are determined based on the recommendations from budget chiefs and the CEO and are capped at USD60,000 and USD62,000 correspondingly per PSP terms and conditions. The Board reviewed the recommendations from the Company and approved PSP payouts of USD49,988 and USD56,558 for bonus pools 1 and 2 correspondingly. Determination of bonus pool 3 and total PSP compensation expense is shown below.

	<b>Bonus Pool 3 Accrual</b>
<i>Net Income prior to PSP &amp; ESOP</i>	274,684
<i>PSP budgeted net income</i>	146,335
<i>Excess of net income over PSP target</i>	128,349
<i>35% of excess subject to PSP Bonus Pool 3</i>	44,922
	<b>PSP Compensation Expense</b>
<i>Bonus Pool 1 (Optionees)</i>	49,988
<i>Bonus Pool 2 (Non-Optionees)</i>	56,558
<i>Bonus Pool 3 (Excess Net Income)</i>	44,922
	<i>Subtotal:</i> 151,468
<i>Accrue Unified Social Tax (10% average rate)</i>	15,147
<i>Profit Tax Shield</i>	(39,988)
<i>Total PSP Compensation Expense</i>	<b>126,627</b>

**23. Employee Share Option Plan**

The Employee Share Option Plan (ESOP) was established on May 17, 2005 by Board of Directors of DL Holdings Ltd. The purpose of the ESOP is to attract and retain the best available personnel; to provide additional incentives to persons who provide services to the Company or its affiliates; and to promote the success of the Company's business.

The options are written on shares in DL Holdings Ltd., a Cypriot company that owns 100% of the shares of DeltaLeasing. The aggregate number of shares that may be issued under the plan (upon exercise of options) may not exceed 15% of the issued and outstanding shares, inclusive of such shares issued under the ESOP.

FASB Statement 123 (as amended) stipulates that share-based payments awarded to an employee of the reporting entity by a related party or other holder of an economic interest in the entity as compensation for services provided to the entity are to be accounted for by the reporting entity. The substance of such a transaction is that the economic interest holder makes a capital contribution to the reporting entity, and that entity makes a share-based payment to its employee in exchange for services rendered. This constitutes the basis for DeltaLeasing reporting share-based compensation in its financial statements.

**23. Employee Share Option Plan (continued)**

FASB 123 requires all public companies to apply fair value measurement approach to share-based compensation. However, for an equity instrument issued by a non-public company (such as DeltaLeasing) for which it is not possible to reasonably estimate fair value at the grant date shall be accounted for based on its intrinsic value, remeasured at each reporting date through the date of exercise or other settlement (FASB 123, Par 25). Compensation cost for each period until settlement shall be based on the change (or a portion of change, depending on the percentage of the requisite service that has been rendered at the reporting date) in the intrinsic value of the instrument in each reporting period. The entity shall continue to use the intrinsic value method for those instruments even if it subsequently concludes that it is possible to reasonably estimate their fair value.

In applying methodology consistent with Board's intent and provisions of APB Opinion 25, DeltaLeasing for financial reporting purposes adopts a "book value times an adjustment factor" approach. The "factor" shall mean a management's estimate of the potential market value of the Company, defined as excess of the share sale price over share book value at such future time when The U.S. Russia Investment Fund may exit the Company.

For the 2005 valuation of share options, management of the Company considers that a factor of 1.10 to book value is the best estimate for the exit price. This factor was arrived at after considering the Company's shareholders experience with divestitures and shall be used for financial reporting purposes until such time as reliable evidence appears which may indicate a change in the fair market value. Such evidence may be in the form of preliminary or firm negotiations of the sale of all or a portion of shares owned by The U.S. Russia Investment Fund in DL Holdings Ltd or DeltaLeasing, as the case may be.

The requisite service period over which compensation expense should be recognized is equal to 4 years, from January 1, 2005 to March 31, 2009.

Compensation expense is recognized for the number of share options that are cumulatively vested as of the reporting date, in other words, over the periods of requisite service during which each tranche of the share options is earned for services rendered.

There are no allowable deductions in Russian Federation for share-based payments to employees. The ESOP is subject to corporate taxation in Republic of Cyprus.

The total number of options granted is 38,296 and the exercise price is USD26.3943 per share option. The number of share options fully vested at December 31, 2005 was 13,288. Options have been granted on January 1, 2005 to the Chairman, CEO, CFO, COO, and 5 other senior managers of the Company.

Vesting schedule for all share options granted and outstanding is as follows:

<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
13,288	10,951	6,258	6,240	1,559

The total compensation expense related to share-based payments to employees in 2005 is USD45,384.