

ZAO DELTALEASING

REPORT AND FINANCIAL STATEMENTS

30 September 2006

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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



ZAO DeltaLeasing
Balance Sheets as at 30 September 2006
(expressed in United States dollars)



	Note	30.09.2006	31.12.2005
Assets			
Current assets			
Cash and cash equivalents	4	3,837,752	1,345,549
Net investment in direct financing leases	5	14,524,439	9,137,065
Advances paid to suppliers	6	1,113,551	919,655
VAT recoverable	7	2,070,287	2,462,803
Other assets	8	1,198,974	666,667
Deferred tax asset	10	142,433	-
Total current assets		22,887,436	14,531,739
Net investment in direct financing leases, less current portion	5	27,352,646	13,821,382
VAT recoverable, less current portion	7	2,000,000	
Property and equipment, net	9	1,251,703	842,255
Deferred tax asset	10	82,572	74,722
Other assets	8	1,378,219	791,870
Total assets		54,952,576	30,061,968
Liabilities and shareholder equity			
Current short-term liabilities			
Loans – current portion	11	7,948,815	1,913,815
Finance liability	12	51,092	292,823
Advances received from lessees	13	1,417,268	1,014,096
Deferred tax liability	10	231,721	20,784
Other payables	14	909,207	665,170
Total current liabilities		10,558,103	3,865,961
Long-term loans, less current portion	11	30,942,524	13,175,821
Finance liability	12	-	11,399
Total liabilities		41,500,627	17,053,181
Shareholder's equity			
Share capital	15	12,296,538	12,296,538
Share options	22	125,995	45,384
Retained earnings	18	1,029,416	626,138
Total shareholder's equity		13,451,949	12,968,060
Total liabilities and shareholder's equity		54,952,576	30,061,968

Signed on behalf of the Board of Directors

Date: 30 November 2006

Gregory Sundstrom, Chairman

The notes set out on pages 7-22 form an integral part of these financial statements

**ZAO DeltaLeasing****Statements of Income for the Nine-month Period Ended 30 September 2006**

(expressed in United States dollars)

	Note	30.09.2006 (9 months)	30.09.2005 (9 months)	31.12.2005 (1 year)
Lease revenues - direct financing leases		5,656,971	2,534,768	3,894,588
Total revenue		5,656,971	2,534,768	3,894,588
Executory expenses (Insurance & taxes on leased equipment)		608,167	178,431	260,104
Operating expenses				
Staff salaries & wages, benefits		1,390,726	953,051	1,228,181
Compensation costs – Profit Sharing Plan (PSP) gross pre-tax		207,454	-	169,699
Compensation costs – Employee Share Option Plan (ESOP)		80,611	-	45,384
Rent & Utilities		325,575	63,440	96,657
Insurance (Operating assets)		20,772	8,521	13,277
Professional services (leasing operations)		75,159	26,784	148,172
Office equipment and furniture (non-capitalizable)		78,720	32,697	48,841
Marketing		165,393	103,026	173,467
Training		69,414	33,607	86,636
Communication expenses		86,714	37,277	54,435
Business trip expenses		89,550	76,630	127,345
General & administrative		110,072	30,575	39,532
Bank commissions		46,826	16,260	16,102
Fixed assets written off		-	-	63,009
Loss / (gain) on sale of repossessed lease assets		(31,597)	(27,657)	(32,437)
Provision for losses on leases to customers		289,049	139,548	197,396
Provision for non-recoverable VAT		49,692	-	-
Other taxes		19,455	9,209	-
Other expenses / (income)		41,885	77,555	196,574
Subtotal executory & operating expenses		3,723,637	1,758,955	2,932,374
EBITDA		1,933,334	775,813	962,214
Interest expense		1,612,911	404,228	683,485
Operating Income		320,423	371,585	278,729
Depreciation expense	9	86,185	62,578	86,660
Net foreign exchange loss/ (gain)		(229,695)	58,571	137,890
Income tax charge / (release)	10	60,655	101,144	(46,150)
Net profit		403,278	149,292	100,329

The notes set out on pages 7-22 form an integral part of these financial statements



ZAO DeltaLeasing

Statement of Cash Flows for the Nine-month Period Ended 30 September 2006

(expressed in United States dollars)

	Note	30.09.2006	30.09.2005	31.12.2005
		(9 months)	(9 months)	(1 year)
Cash flows from operating activities				
Lease payments (interest) received from customers		5,339,846	2,400,742	3,690,243
Cash paid to employees		(1,380,169)	(923,304)	(1,228,181)
Other operating cash payments		(2,874,266)	(864,410)	(1,615,521)
VAT received		926,327	-	380,000
Interest paid		(1,319,825)	(284,281)	(453,046)
Taxes paid		(78,734)	(40,089)	(38,007)
Net cash received from operating activities	17	613,179	288,658	735,489
Cash flows from investing activities				
Principal payments received under direct financing leases		8,944,056	3,903,233	6,394,716
Investment in direct financing leases		(29,579,609)	(14,313,285)	(21,122,936)
Advances received from lessees		403,172	(51,495)	341,792
Loan payments from / (loans to) related parties		(125,705)	57,862	(3,451)
Advances paid to suppliers		(193,896)	27,657	(547,834)
Purchase of property and equipment		(464,036)	(400,018)	(532,331)
Net cash used in investing activities		(21,016,018)	(10,776,046)	(15,470,044)
Cash flows from financing activities				
Issue of shares		-	6,095,913	6,095,913
Borrowings received		25,471,806	14,639,907	12,216,461
Borrowings repaid		(2,576,764)	(8,958,693)	(3,330,295)
Net cash received from financing activities		22,895,042	11,777,127	14,982,079
Net change in cash and cash equivalents		2,492,203	1,289,739	247,524
Cash and cash equivalents at beginning of the quarter / year		1,345,549	1,098,025	1,098,025
Cash and cash equivalents at end of the period	4	3,837,752	2,387,764	1,345,549

The notes set out on pages 7-22 form an integral part of these financial statements

**ZAO DeltaLeasing****Statements of Changes in Shareholder Equity for the Nine-month Period Ended 30 September 2006**

(expressed in United States dollars)

	Share capital	Additional paid in capital	Employee Share Options	Retained Profits	Total shareholder equity
Balance at 31 December 2003	1,179,763	-	-	273,575	1,453,338
Net profit for the year	-	-	-	252,234	252,234
Issue of shares	173,133	4,847,729	-	-	5,020,862
Balance at 31 December 2004	1,352,896	4,847,729	-	525,809	6,726,434
Issue of shares	177,475	5,918,438	-	-	6,095,913
Valuation of stock options	-	-	45,384	-	45,384
Net profit for the year	-	-	-	100,329	100,329
Balance at 31 December 2005	1,530,371	10,766,167	45,384	626,138	12,968,060
Valuation of stock options	-	-	80,611	-	80,611
Net profit for the year	-	-	-	403,278	403,278
Balance at 30 September 2006	1,530,371	10,766,167	125,995	1,029,416	13,451,949

The notes set out on pages 7-22 form an integral part of these financial statements



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-service offices in the cities of Khabarovsk, Yuzhno-Sakhalinsk, Novosibirsk, Omsk, Krasnoyarsk, Irkutsk, Tomsk, Barnaul, Kemerovo and Ekaterinburg. The latter four locations were opened during 2006 and the Ekaterinburg office represents DeltaLeasing's entrance to the Urals market, where it is currently considering further expansion possibilities. DL now considers leasing projects in all major Far Eastern, Siberian and Urals 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 84 months. In 3Q 2006, the Company's average deal size was USD 141,000. Average financing term was 40 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 construction (14%), retail trade (12%), printing (12%), PVC windows (10%), cargo transportation (9%), forestry (7%), wood processing (5%) etc. At the time of these statements delinquent payments were approximately 0.25% of total outstanding amounts.

The Company's registered address is Svetlanskaya 66 B, Vladivostok, Russian Federation.

The average number of the Company's employees during nine months of 2006 was 98 (3Q 2005 – 60), and the number of professional staff as of 30 September 2006 was 107.

2. Operating Environment of the Company

Initially, leasing was included in the list of business activities requiring mandatory licensing 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 licensing requirements for the leasing industry in 2002, thereby eliminating the need for license renewal.

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 26.7799 Rubles at 30 September 2006 (28.7825 Rubles - at 31 December 2005).



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 USD 2,000 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. Refer to Notes 7 and 23.

(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 and the first nine-month period of 2006 did not differ from net income.

4. Cash and Cash Equivalents

	30.09.2006	31.12.2005
Cash and cash equivalents with banks		
Denominated in RR	872,199	284,377
Denominated in USD	2,965,553	813,648
Total cash and cash equivalents	3,837,752	1,098,025

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.

It is customary for the Company to finish each reporting period with high cash balances due to the fact that the majority of lease payments from lessees are scheduled for month-end. In addition, the Company received a \$3 million loan tranche on September 28, 2006.

5. Net Investment in Direct Financing Leases

	30.09.2006	31.12.2005
Total minimum lease payments to be received (including VAT)	70,163,232	37,098,388
Total minimum lease payments to be received (excluding VAT)	59,460,366	31,439,312
Less: amounts representing executory costs (such as taxes and insurance) included in total lease payments	(2,870,111)	(1,169,563)
Minimum lease payments receivable	56,590,255	30,269,749
Less: Unearned finance lease income	(14,077,332)	(6,961,681)
Total net investments in direct leases	42,512,923	23,308,068
Less: allowance for losses	(635,838)	(349,621)
Less: non-current investment in direct financing leases	(27,352,646)	(13,821,382)
Current net investment in direct financing leases	14,524,439	9,137,065



5. Net Investment in Direct Financing Leases (continued)

As at 30 September 2006 there were 748 direct financing leases expiring over the next seven years. The Company normally structures its direct financing lease contracts so that the lessee makes a prepayment, or security advance of between 15% and 25% of equipment purchase price at the beginning of lease term. The Company holds title to equipment during the lease term. For the majority of direct financing leases (with exception for leaseback transactions where the lessee, itself, acts as the supplier), it enjoys either buyback or remarketing agreements with equipment suppliers, which obligate them to repurchase or assist in the remarketing of leased assets in the case of lessee default.

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

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 believes that credit risk related to leasing operations is wholly acceptable (refer to Note 19).

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 30 September 2006, an allowance for credit losses was recorded in the amount of USD 635,838. This amount is composed of a 1.36% allowance applicable to every lease on the Company's books per its internal provisioning system, plus 0.14% 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 30 September 2006 ranged between 14% and 22%.

The Company has not capitalized initial direct costs for the period ended 30 September 2006, as they are not considered material.

There was no unguaranteed residual value related to lease contracts existing as at 30 September 2006 (2005: no unguaranteed residual value).

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

	For the year ended 30 September				
	2007	2008	2009	2010-2013	Total
Total minimum lease payments to be received (including VAT)	27,712,531	23,190,776	12,541,818	6,718,107	70,163,232
Total minimum lease payments to be received (excluding VAT)	23,485,196	19,653,200	10,628,659	5,693,311	59,460,366
Less: amounts representing executory cost	1,200,869	777,498	424,770	466,974	2,870,111
Minimum lease payments receivable	22,284,327	18,875,702	10,203,889	5,226,337	56,590,255



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 between 15% and 25% of the value of purchase agreements closed between the Company and its suppliers. For the 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 30 September 2006.

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 time periods 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.

	30.09.2006	31.12.2005
VAT recoverable – current	15,880,342	8,602,273
VAT recoverable – non current	6,475,531	3,204,764
VAT payable – current	(11,810,055)	(6,139,470)
VAT payable – non current	(6,475,531)	(3,204,764)
VAT recoverable	4,070,287	2,462,803

The Company received two cash reimbursements of VAT in 2005, totaling RUR 10.8 million (approximately USD380,000). During nine-month period of 2006, the Company received three cash reimbursement in the amount of RUR 25 million (approximately USD 926,000). Additionally, the Company regularly offsets its federal taxes payable with VAT recoverable.

Tax authorities dispute the recoverability of RUR 1,332,186 (at September 30, 2005 exchange rate: USD 49,692). A first-level court ruled in favor of the tax inspectorate and the Company is planning an appeal in the Court system. Given the uncertainty of Court rulings related to VAT disputes (which generally tend to favor the tax authorities), the Company has created an allowance for possible losses in the amount of USD 49,692. For more information on VAT, see Note 23, "Post-Balance Sheet Events".

8. Other Assets

	Note	30.09.2006	31.12.2005
Prepayments		542,440	324,319
Loans to employees – current		62,244	25,220
Loans to employees – non-current		134,149	45,468
Loan fees capitalized – current	11	309,276	153,413
Loan fees capitalized – non-current	11	1,244,070	746,402
Profit tax receivable		95,146	16,412
Other taxes receivable		-	389
Other		189,868	146,914
Total other assets		2,577,193	1,458,537



ZAO DeltaLeasing
Notes to the Financial Statements - 30 September 2006
(expressed in United States dollars)

8. Other Assets (continued)

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.

The 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 (except through direct review and vote by the Board), 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. See Note #20, "Related Party Transactions" for further information on employee loans.

	30.09.2006	31.12.2005
Current – less than 1 year	62,244	25,220
Non Current – 1 to 2 years	35,525	18,658
Non Current – 2 to 3 years	38,166	12,175
Non Current – 3 to 4 years	34,372	14,635
Non Current – 4 to 5 years	26,086	-
Total loans to employees	196,393	70,688

9. Property and Equipment, Net

	Buildings and Structures	Machinery and Equipment	Assets under Construction	Total
Cost				
1 January 2006	359,577	274,657	326,328	960,562
Additions	351,459	145,335	324,871	821,665
Disposals	-	-	(326,328)	(326,328)
30 September 2006	711,036	419,992	324,871	1,455,899
Depreciation				
1 January 2006	49,135	68,876	-	118,011
Charge for the period	33,798	52,387	-	86,185
Disposals	-	-	-	-
30 September 2006	82,933	121,263	-	204,196
Net Book Value				
31 December 2005	310,442	205,781	326,328	842,551
30 September 2006	628,103	298,729	324,871	1,251,703



ZAO DeltaLeasing
Notes to the Financial Statements - 30 September 2006
(expressed in United States dollars)

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.

	30.09.2006	30.09.2005	31.12.2005
Tax charge	-	-	18,110
Deferred tax (release)/charge	60,655	101,144	(64,260)
Income tax for the year	60,655	101,144	(46,150)

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

	30.09.2006	30.09.2005	31.12.2005
Accounting profit before tax	550,118	250,436	90,261
Adjustments to comply with GAAP	(564,917)	(360,002)	(131,476)
Accounting (loss)/ profits in accordance with Russian standards	(14,799)	(109,566)	(41,215)
Adjustments for disallowable items/allowable deductions	-	-	116,673
Russian taxable profits	(14,799)	(109,566)	75,458
Income tax liability at 24%	-	-	18,110

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.

	30.09.2006	31.12.2005
Net deferred tax /(asset)/ liability at beginning of the year	53,939	(10,322)
Movement during the year attributed to temporary differences	(60,655)	64,260
Deferred tax asset / (liability) at the end of the period	(6,716)	53,938

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

	30.09.2006		31.12.2005	
	Deferred tax Assets	Liabilities	Deferred tax Assets	Liabilities
Lease transactions		172,166		43,495
Capitalized loan costs		59,555		45,997
Depreciation and amortization	82,572		33,995	-
Creditors	142,433		109,435	-
Total deferred taxes	225,005	231,721	143,430	89,492
Net deferred tax asset/(liability)		(6,716)	53,938	-

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

	30.09.2006	31.12.2005
Current deferred tax (liability)/assets	(89,288)	(20,784)
Non-current deferred tax assets	82,572	74,722
Total	(6,716)	53,938



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11. Loans

	30.09.2006	31.12.2005
Loans payable	38,891,339	15,089,636
Less current portion	(7,948,815)	(1,913,815)
Loans, net of current portion	30,942,524	13,175,821

As at 30 September 2006, outstanding loan balances comprise as follows:

- a loan of USD 2,500,000 pursuant to IFC Loan Agreement dated April 2004;
- a loan of USD 5,000,000 pursuant to EBRD Loan Agreement dated December 2004;
- a loan of USD 10,000,000 pursuant to WBC Loan Agreement dated August 2005;
- two loans with a combined outstanding balance of USD 1,010,853 pursuant to UPS Loan Agreements dated July 2005;
- a loan of USD 8,000,000 pursuant to DEG Loan Agreement dated March 2006;
- a loan of RUR 60,000,000 (equivalent USD: 2,240,486) pursuant to IFC Loan Agreement dated June 2006;
- a loan of USD 4,500,000 pursuant to TUSRIF Loan Agreement dated July 2006;
- a loan of USD 5,000,000 pursuant to EBRD Loan Agreement dated August 2006;
- a loan of USD 640,000 pursuant to International Moscow Bank Loan Agreement dated September 2006

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 9.5%. 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 30 September 2006, undrawn committed borrowing facilities amounted to RUR 108,000,000 and USD 13,860,000.

In August 2006, the Company successfully closed on its first syndicated facility organized by EBRD. Syndicated partners include ING Bank N.V., HSH Nordbank A.G., Anglo-Romanian Bank Limited, and Investkredit A.G. The syndication amount is USD 18,000,000, which was oversubscribed from an initial offer of USD 15,000,000. According to Company information, this was only the second syndicated facility in the history of the Russian leasing industry and the first for a leasing company located outside of Moscow.

Additionally, the Company utilizes a short-term overdraft facility from local PrimSotsBank (floating limit of approximately RUR 15,000,000) and it established a new overdraft facility from International Moscow Bank with a borrowing limit of RUR 30,000,000.

Loan costs and fees of USD 826,324 (2005: USD 873,175) were incurred at the commencement of loans, these initial costs have been capitalized and are amortized over the term of the respective loans (refer Note 8).

Principal payment requirements on loans payable (by calendar year) are as follows. For maturity analysis see Note 19.

	30.09.2006	31.12.2005
2006	1,080,032	1,913,815
2007	7,903,815	3,340,070
2008	10,766,230	3,607,155
2009	7,446,311	2,607,155
2010	6,581,871	3,621,441
2011	3,758,081	-
2012	1,355,000	-
Total loans	38,891,339	15,089,636



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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.

	30.09.2006	31.12.2005
Current finance liability	51,092	292,823
Non current finance liability	-	11,399
Net finance liability	51,092	304,222

13. Advances from Lessees

	30.09.2006	31.12.2005
Initial security advance	570,005	492,333
Lease payment advances	847,263	521,763
Total advances from lessees	1,417,268	1,014,096

14. Other Payables

	30.09.2006	31.12.2005
Interest payable	485,338	192,251
Payables to leased equipment suppliers	46,559	213,028
Other payables	123,006	90,193
PSP payable	139,528	169,699
Other taxes payable	114,776	-
Total other liabilities	909,207	665,170

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 30 September 2006, 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.



16. Dividends

No dividends were declared in either the quarter ended 30 September 2006 or the year ended 31 December 2005.

17. Reconciliation of Net Profit to Net Cash Used in Operating Activities

	30.09.2006	31.12.2005
Net profit	403,278	100,329
Adjustments to reconcile net profit to net cash provided by operating activities		
Depreciation	86,185	86,660
Employee share options provision	80,611	45,384
Provision for losses on leases to customers	289,049	197,396
Lease assets disposal adjustments	(31,597)	30,572
Accrued lease revenues	(317,125)	(204,345)
Provision for deferred income taxes	60,655	(23,533)
Provision for possible losses on VAT recovery	49,692	
Amortization of loan costs included in interest expense	172,793	64,205
Changes in assets and liabilities		
(Increase) / Decrease in operating receivables	(465,125)	107,170
Increase / (Decrease) in operating payables	284,763	296,280
Net cash received from / (used in) operating activities	613,179	700,118

18. 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.

19. 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.



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19. Currency, Interest Rate, Liquidity and Credit Risk

Currency Risk (continued)

	RR	USD	Total
Assets			
Cash and cash equivalents	872,199	2,965,553	3,837,752
Net investments in direct finance leases	440,491	41,436,594	41,877,085
Advances paid to suppliers	-	1,113,551	1,113,551
VAT recoverable	4,070,287	-	4,070,287
Property, plant and equipment	1,251,703	-	1,251,703
Deferred tax	225,005	-	225,005
Other assets	1,023,847	1,553,346	2,577,193
Total assets	7,883,532	47,069,044	54,952,576
Liabilities			
Loans	2,240,486	36,650,853	38,891,339
Advances received from lessees	17,812	1,399,456	1,417,268
Other payables	862,648	46,559	909,207
Deferred tax	231,721	-	231,721
Finance liability	-	51,092	51,092
Total liabilities	3,352,667	38,147,960	41,500,627
Net balance sheet position	4,530,865	8,921,084	13,451,949

Since 1 January 2006 the Russian Ruble has strengthened against the U.S. dollar from RR 28.7825 per U.S. dollar to RR 26.7799 as of 30 September 2006, representing an appreciation of 7.5 % over the nine-month period.

Interest Rate Risk

The Company receives all of its funding at commercial interest rates. At this time, approximately 30% of financing is provided at fixed rates. Total exposure to floating rate obligations is USD 26.9 million. The Company has an option to switch to fixed rate instrument on the WBC and DEG facilities (aggregate principal USD 18,000,000).

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 30 September 2006 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.



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

The liquidity position of the Company as at 30 September 2006 is set out below:

	Demand and less than 90 days	91 - 365 days	2 years	3 years	4 years and more	No stated maturity	Total
Assets							
Cash and cash equivalents	3,837,752	-	-	-	-	-	3,837,752
Net investments in direct finance leases	4,214,748	12,554,855	13,406,245	7,728,096	3,973,141	-	41,877,085
Advances paid to suppliers	1,113,551	-	-	-	-	-	1,113,551
VAT recoverable	888,889	1,181,398	2,000,000	-	-	-	4,070,287
Property, plant and equipment	-	-	-	-	-	1,251,703	1,251,703
Deferred tax	-	142,433	82,572	-	-	-	225,005
Other assets	936,151	262,823	343,132	337,429	697,658	-	2,577,193
Total assets	10,991,091	14,141,509	15,831,949	8,065,525	4,670,799	1,251,703	54,952,576
Liabilities							
Loans	1,080,032	6,868,783	10,392,815	8,401,311	12,148,398	-	38,891,339
Advances received from lessees	1,417,268	-	-	-	-	-	1,417,268
Deferred tax liability	231,721	-	-	-	-	-	231,721
Other payables	909,207	-	-	-	-	-	909,207
Finance liability	39,693	11,399	-	-	-	-	51,092
Total liabilities	3,677,921	6,880,182	10,392,815	8,401,311	12,148,398	-	41,500,625
Net liquidity position	7,313,170	7,261,327	5,439,134	(335,786)	(7,477,599)	1,251,703	13,451,949
Cumulative liquidity position	7,313,170	14,574,497	20,013,631	19,677,845	12,200,246	13,451,949	



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

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. Limits for these risks are established not only in the Company's internal policies and procedures, but are also present in loan agreements with Company creditors. Such risks are monitored on a continuous basis, are subject to an ongoing review and the Company is wholly in compliance with the risk factors measured by its creditors.

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.

20. Related party transactions

On July 10, 2006, The U.S. Russia Investment Fund provided the Company with a short-term unsecured revolving facility of up to USD 4,500,000. This is a pre-lease facility that assists the company in bridging temporary shortfalls in perfected security required for pledge to secured creditors. Under Russian Law, a leased asset cannot be defined as perfected security (and, therefore, pledged) until such time as it has been delivered, installed and transferred into an official lease arrangement by agreement of the lessee and lessor. The Company experiences an average period between initial investment and perfection of security of approximately 3 months, while rapid growth continues to drive demand for capital. Such unsecured facilities allow the Company to finance asset purchases during the security perfection period. Following perfection, assets are immediately pledged to secured creditors and unsecured facilities are paid down. The Fund's facility has a term of 1 year and carries a commercial rate of interest. The Company is currently working to identify further sources of unsecured finance to replace the Fund's facility. Along these lines, it is conducting final-stage negotiations for an unsecured facility valued at USD 8,000,000 and mid-stage negotiations for a second unsecured facility of USD 10,000,000.

There were no other transactions with the shareholder or directors during the nine-month period.

With some limitations by position, Company employees participate in a Board-approved Profit Sharing Plan. Apart from this, several senior managers participate in an Employee Share Option Plan. Details of these plans are disclosed in note 21 and note 22 below.

On August 5, 2006, Board of Directors approved a mortgage loan to the Company's CEO, Mr. Oleg Rakitsky. The loan is granted for 5 years in the principal amount of USD 115,000 (outstanding loan principal at 30 September 2006 was USD 90,549). The loan is secured by (1) pledge of property, (2) right to withhold any proceeds from exercise of the Company's stock options, held by the borrower, and (3) surety from Mr. Rakitsky's father.



21. Employee Profit-Sharing Plan

Total after-tax compensation expense related to the 2005 Employee Profit Sharing Plan (PSP) was recorded in the 2005 financial accounts as USD 128,971 (gross accrual USD 169,699 less tax shield of USD 40,727). During 1H 2006, the Company fully paid out the 2005 PSP liability (cash paid to employees net of income tax and Unified Social Tax was USD 92,695).

On December 5, 2005, the Board approved a 2006 PSP on the basis of the following principles:

- 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 (i.e. USD 38,000,000) in 2006 and maintaining superior portfolio quality.
- Appropriate internal controls exist to ensure that shareholder interests are protected.

An after-tax amount of USD 157,665 was accrued during first nine months of 2006 under the 2006 PSP (gross accrual USD 207,454 less tax shield of USD 49,789). In 3Q 2006, the Company paid out one-third of the projected 2006 PSP liability (cash paid to employees net of income tax and Unified Social Tax was USD 51,624) in accordance with approved PSP terms that allow for up to 1/3 of PSP to be paid after 1H'06 if company targets are either met or exceeded.

22. 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.

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, the instrument 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 management's estimate of the potential market value of the Company, defined as the 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.



22. Employee Share Option Plan (continued)

For 3Q 2006, the Company believes that a factor of 1.12 to book value (2005: 1.10) represents an appropriate valuation of current exit price. This factor takes into account the Company's current level of development, an absence of existing offers that would assist in better defining this value and its unique presence in markets currently defined by low penetration and little competition. To the Company's knowledge, no sales of analogous regionally-based leasing companies have occurred that would allow for more accurate benchmarking. This value 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 67,303 and the exercise price is USD 26.3943 per share option. The number of share options fully vested at September 30, 2006 was 35,018. Options have been granted to a total of 12 individuals since plan inception on January 1, 2005. Participants include the Chairman, CEO, CFO, COO, 7 senior managers and one former senior manager who has departed the company. The vesting schedule for all share options granted and outstanding is as follows:

2005	2006	2007	2008	2009
13,288	24,963	12,924	12,904	3,224

The total compensation expense related to share-based payments to employees for a nine-month period ending 30 September, 2006 is USD 80,611 (2005: USD 45,384).

23. Post Balance Sheet Events

In late November 2006, the Company's city district-level tax inspection delivered a preliminary finding, which indicates a VAT liability of RUR 7.7 million (USD 288,000). This amount is related to VAT that was fully and appropriately paid by the Company to equipment suppliers for six separate equipment purchase transactions. During a regular audit of Company VAT activity between 1 June 2005 and 30 May 2006, the inspectorate found reason to believe that, while paid by the Company, VAT was not later remitted to the Government by suppliers. In fact, the inspectorate found that failure to remit VAT occurred at the level not of our direct suppliers, but at the level of our suppliers' suppliers (who are oftentimes not visible to DeltaLeasing). Therefore, the inspectorate is attempting to collect VAT from the Company regardless of the fact that it has been paid in full, in accordance with the law, with appropriate diligence and in good faith to equipment suppliers.

The Company disagrees with the inspectorate's preliminary finding and has filed counter arguments. A final report will be issued during December with the inspectorate's conclusions. The Company fully believes that it should not and cannot be held liable for alleged tax mishandlings by its suppliers (or their suppliers in the equipment delivery chain).

Management views the situation as deserving of the utmost attention, but believes that this will not materially adversely affect the Company or its operations. This is primarily due to the fact that the company's VAT receivable asset (i.e. VAT overpayment to the budget), greatly exceeds the inspectorate's claim and a judgement against the Company should result in a reduction of that balance and will have no impact on operations or cash flows. The Company will appeal any unfavorable judgment I the Court system.



23. Post Balance Sheet Events (continued)

The Russian Federation has witnessed material worsening in its administration of VAT during 2006 and forecasts further worsening in future years as VAT reimbursements are nearly equal to VAT receipts (essentially nullifying the logic of the tax). This situation has been the subject of Government announcements and has received significant press attention. As a result, the Ministry of Finance is tightening VAT collection efforts and regional tax inspectorates (subjugated to the Ministry) are placing increased pressure on organizations that legally request VAT reimbursements. This is not a problem specific to DeltaLeasing, but one that impacts the entire leasing industry. Court cases have occurred in Western Russia and the issue is now present in the regions.

The management estimates at the time of publishing these financial statements, that the probability of an unfavorable outcome in VAT dispute is reasonably possible. However, due to the absence of an actual Decision (i.e. making of an official claim) from the tax inspectorate and to the fact that the situation is unlikely to be immediately resolved at lower court levels, no allowance for losses has been established at this time. This issue will be revisited following issuance of the final report and will be appropriately updated in year-end reporting.