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CAGA & SLOVAK AMERICAN Enterprise Fund

1994 Annual Report

Purpose and Description

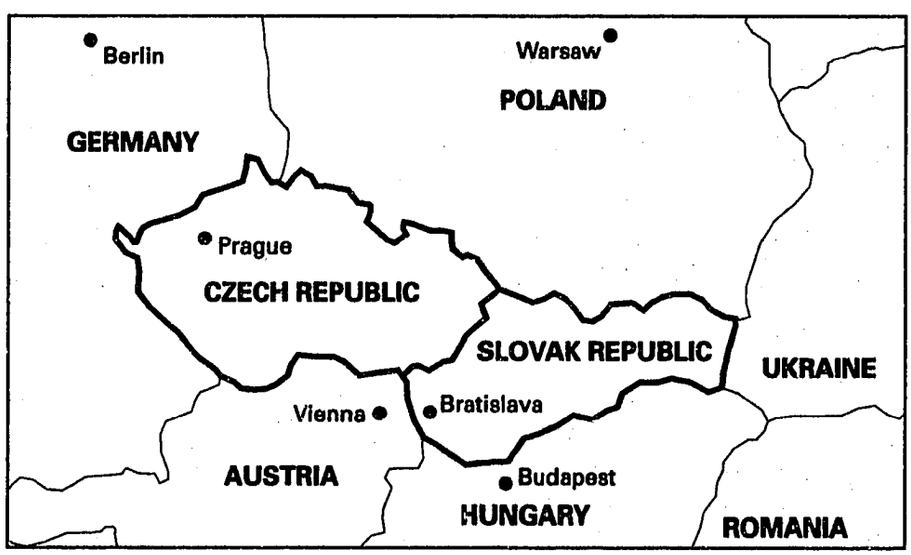
The Czech and Slovak American Enterprise Fund (the "Fund" or "CSAEF") was established by the U.S. government in March, 1991 to promote the development of small and medium-sized private enterprises in the Czech and Slovak Federal Republic ("CSFR") which have the likelihood of becoming commercially viable in a free-market environment. Formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act"), the Fund is similar to other American Enterprise Funds presently operating throughout Central and Eastern Europe.

Following the dissolution of the CSFR on January 1, 1993, the Board of Directors of the CSAEF acted to create two separate subsidiary Funds through which it pursues its activities: the Czech American Enterprise Fund (CAEF) and the Slovak American Enterprise Fund (SAEF).

U.S. taxpayers have provided the money for the CSAEF through appropriations by the U.S. Congress. The Fund is privately managed by a Board of Directors (the "Board") consisting of U.S. and Czech and Slovak private citizens. Offices are located in Prague, Bratislava, and Washington D.C.

The CSAEF receives its funds from the U.S. Agency for International Development ("AID"). Sixty-five million dollars has been appropriated, including five million dollars for Technical Assistance.

The Fund invests in Czech and Slovak enterprises through loans and the provision of equity capital. Technical Assistance grants are also available. The Fund charges interest and fees and takes collateral on loans. For equity investments, the Fund takes an ownership interest relative to the amount invested. Joint investment with U.S. direct investors is especially encouraged.



Czech and Slovak American Enterprise Fund Fourth Annual Report

For the Year October 1, 1993 to September 30, 1994

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Letter from the Board of Directors

Post communist economic reform teaches that "fortune favors the brave." The achievements of the Czech Republic support this view. The Slovak Republic has been more measured in implementing policy initiatives. Still, each provides a fertile and promising investment environment.

Now, five years since liberation, we are able to appreciate the magnitude of the political and economic transition in these two Republics. Open societies are well established and democracy and its representative institutions are building. In Slovakia the new practices are already being tested, a development the international investment community is watching with great interest.

Communist centralism has disappeared with the Czech Republic leading the way in the degree of privatization. Indeed, economic pluralism—so supportive of the democratic system—is well established, multiplying the people's choices.

While the Czech Republic's progress is well recognized (assisted immeasurably by consistent political leadership and a well defined economic program), the Slovak Republic's emergence is proceeding at a slower pace. Nevertheless, Slovakia's economic achievements are considerable.

A bureaucratic legacy continues to encumber the transition. Institution building, training in business skills, and heightened responsiveness to the preferences of the consumer continue to require in-depth focus. A sense of corporate ethics has yet to take hold. In the marketplace what is not forbidden is allowed. Still, the economic environment is conducive to further advancement and enterprises are moving decidedly in the direction of greater public accommodation.

The capital needs of small (employing under 75) and medium-sized (employing under 500) businesses, the special focus of the CSAEF, are obscured in the macro numbers of the Republics. While the entrepreneurial spirit is vibrant in both countries, their access to capital is still inadequate. Savings are beginning to accumulate and this augurs well for future developments in the capital markets. However, capital market mechanisms, prevalent in Western economies, have not yet developed sufficiently to make private equity sources available to young businesses needing equity to grow. These small businesses always need more capital if their growth is to be fostered. It is important to provide an equity alternative in order to avoid the tendency toward excessive debt.

Private equity (venture capital) funds seek only to maximize profits. Enterprise Funds share the profit making motive, but with the additional priority of sponsoring the growth of entrepreneurism. We mean to be innovative: a change agent fostering the economic transformation.

Perhaps what most distinguishes the Enterprise Funds is their assignment of early risk taking. There would be no point in creating an Enterprise Fund with taxpayers' dollars to provide financing that is available elsewhere. Therefore, taking investment risks in advance of the market is our mandate. The presumption is that, as the transformation of these economies progresses, more traditional forms of capital will be directed to these companies. But this does not occur over night.

Recognizing the promise of emerging markets in Eastern Europe, private placement equity funds have been created. These are the market's version of the Enterprise Funds. They have raised an amount of money for early-stage investment many times that of our Enterprise Fund. This is not only a tribute to the international capital market, but also to the success of the transformation of the region and especially the Czech Republic. Nonetheless, the CSAEF has made more direct investments in the Czech and the Slovak Republics than all of the private equity funds combined. This speaks specifically to the nature of the investment risk toward which the enabling SEED Act legislation pointed us, and it demonstrates that investing "a step ahead of the market" fills a need.

Venture capital firms typically make their profits by having the gains on the few most successful investments

outweigh the losses in the portfolio. The focus is not on losses but on gains. Three years into its life, the CSAEF has reached the stage where early problems, particularly with start-up ventures, can be measured, while the long term gains from the anticipated winners lie ahead. The increase in reserves this year reflects this reality. In the last analysis, ten years of Enterprise Fund operations could well satisfy the legislative mandate while not reaching a return appealing to private investors. Only time will tell, but the intensive monitoring and nurturing program of the CSAEF should help more entrepreneurs become commercially viable.

The initial three-year term of the Board of Directors expired this year. Mrs. Julia Walsh did not stand for reelection, as her health has denied her the opportunity to attend our meetings. David Maxwell regretted that the demands on his time are such that he can not continue to commit to the level of service that he feels membership on the Board deserves.

David and Julia participated fully in the CSAEF in its formative stages, helping to establish the policies which have been key to all of our subsequent activities. Their sensitivity to our mission, their dedication to sound business practices, and an appreciation of the unique role we were given in these transforming economies has greatly heightened the relevance of our work.

Reelected in October as U.S. Directors for a new three-year term were John Petty, Milan Ondrus, and Charles Vanik. Additionally, three new Directors, Lawrence C. McQuade, Robert M. Rubin, and Joseph S. Fichera were elected. As local Directors, Jan Tauber of the Czech Republic and Milan Tomašović of the Slovak Republic were also reelected.

Paul Gibian continues to provide leadership as President of the CSAEF and also, presently, as acting President of the CAEF. We appreciate his dedication, hard work and guidance. Leighton Klevana, with the Fund since June 1991, continues as President of the SAEF in Bratislava where he serves with vigor and commitment. The staff in all three offices provides the outreach, supervision and administrative activity essential to our operations. Each investment requires continued care which our team, with a growing number of local nationals, ably provides.

CSAEF Directors

John R. Petty

Charles A. Vanik

David O. Maxwell

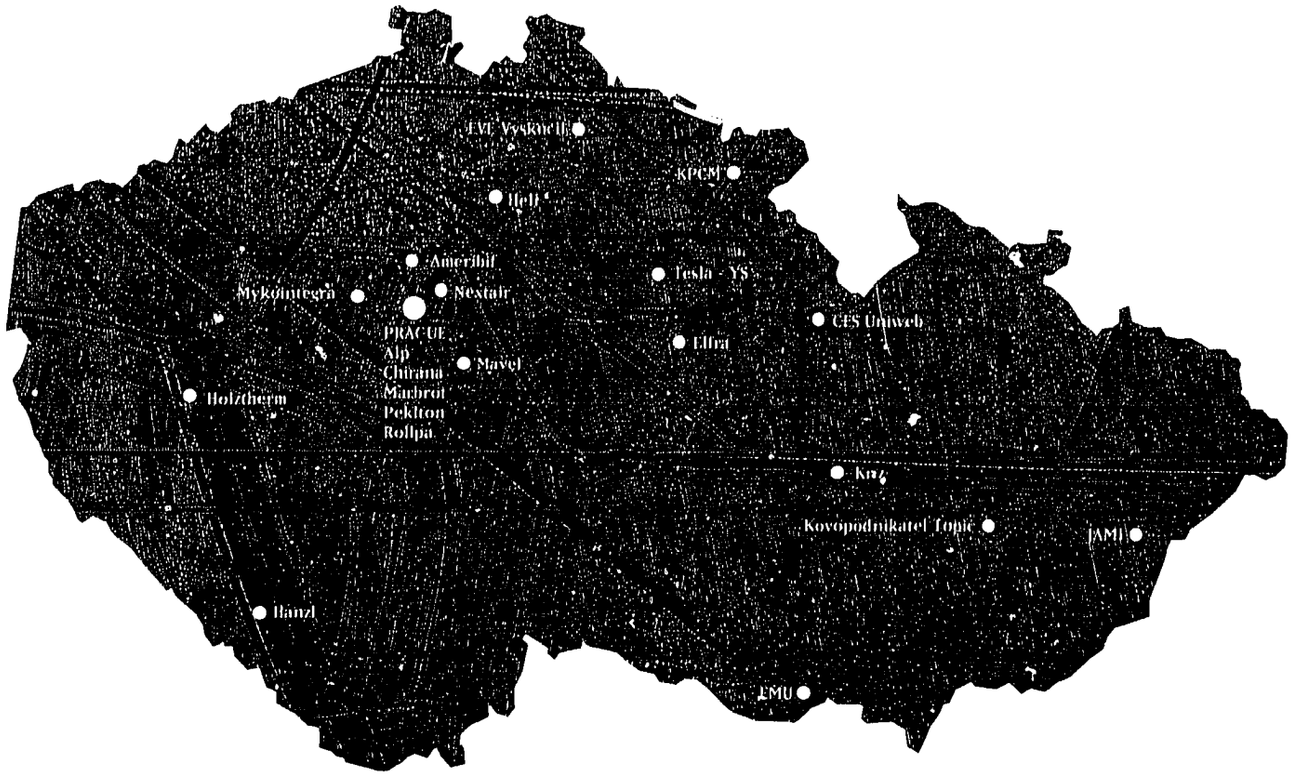
Milan Ondrus

Julia M. Walsh

Jan Tauber

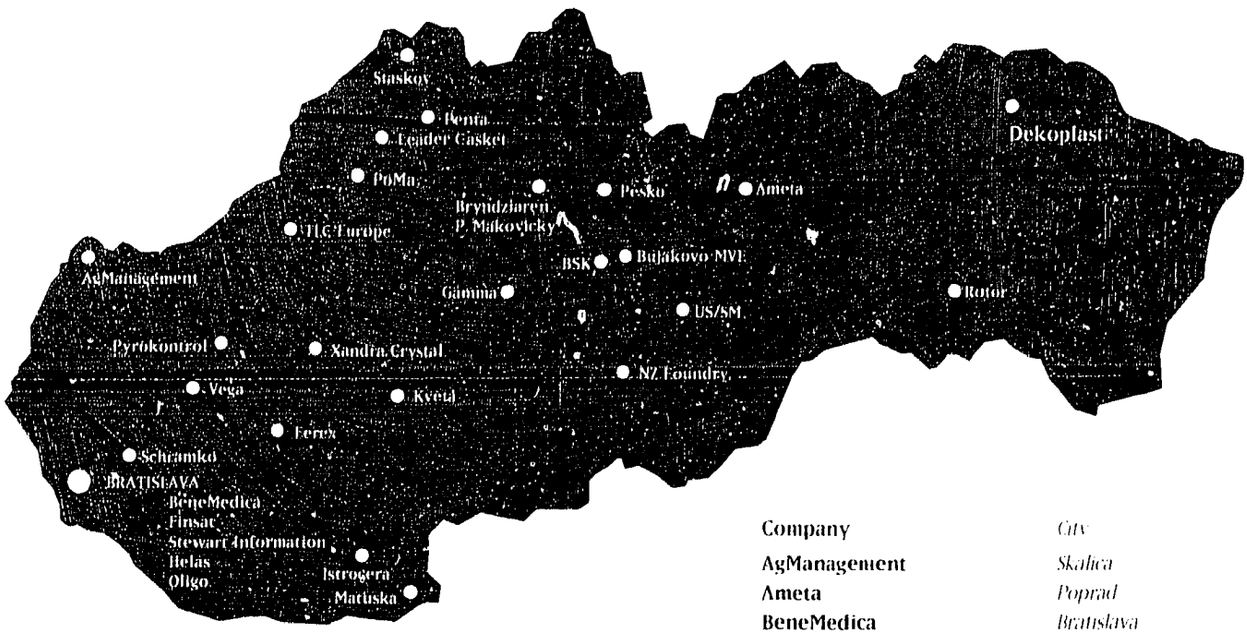
Milan Tomašović

Czech Republic

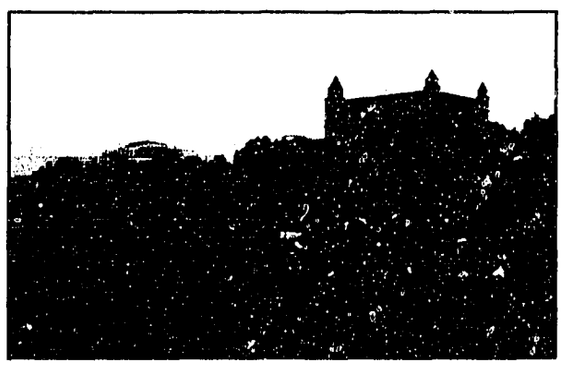


Company	City
Alp	*Písnice*
Ameribif	*Prague and Větrušice*
CES Uniweb	*Letohrad*
Chirana	*Prague*
Elfra	*Chrudim*
EMU	*Brno*
EVE Vyskočil	*Jeseniny*
Hanzl	*Vimperk*
Heli	*Mlada Boleslav*
Holztherm	*Plzeň*
JAMI	*Vsetín*
Kovopodnikatel Topič	*Kojetín*
KPCM	*Batňovice*
Kříž	*Letovice*
Marbrot	*Prague - Nebušice*
Mavel	*Benešov*
Mykointegra	*Jeneč*
Nextair	*Letňany*
Pekiton	*Šutrín*
Rollpa	*Pitkovice and Přerov*
Tesla - YS	*Hradec Králové*

Slovak Republic



Company	City
AgManagement	*Skalica*
Ameta	*Poprad*
BeneMedica	*Bratislava*
Bryndziaren - P. Makovický	*Ružomberok*
BSK	*Banska Bystrica*
Bujakovo MVE	*Brezno*
Dekoplast	*Svidnik*
Ferex	*Nitra*
Finsat	*Bratislava*
Gamma	*Banska Bystrica*
Helas	*Bratislava*
Istrocera	*Svaty Peter*
Kveta	*Nova Bania*
Leader Gasket	*Bytča*
Matuška	*Šturovo*
NZ Foundry	*Cinobania*
Oligo	*Bratislava*
Penta	*Kysucke Nove Mesto*
Peśko	*Liptovský Mikuláš*
PoMa	*Považská Bystrica*
Pyrokontrol	*Pobedim*
Rotor	*Košice*
Schramko	*Senec*
Stewart Information	*Bratislava*
TLC Europe	*Nove Mesto nad Vahom*
US/SM	*Tisovec*
Včelárstvo Dedinský	*Bratislava*
Vega	*Malženice*
Xandra Crystal	*Partizánske*



President's Report

The legislation that gave birth to the Enterprise Fund concept, the SEED Act of 1989, charged Enterprise Funds to "promote the development of the private sector, including small businesses — and policies and practices conducive to private sector development — through loans, grants, equity investments, technical assistance [and related methods]." In its three-plus years of operations, the CSAEF has furthered this mission in several key ways:

- by lending to or investing in over 80 smaller businesses, including those made through the CSAEF's joint lending programs with local banks;
- by providing business training for over 2,000 bank lenders and entrepreneurs;
- by bringing U.S. technology and know-how to the Republics through investment in ten joint ventures between Czech or Slovak entrepreneurs and U.S. businesses;
- by developing programs that encourage discrete systemic change in business practices to benefit small companies;
- by creating or preserving 3,000 jobs, not including the indirect multiplier effect throughout the economy of those jobs and businesses;
- by strengthening businesses expected to ship over $10 million worth of exports in 1995, mostly to Western Europe. Every dollar invested by the CSAEF is yielding about $.50 in exports per year;
- by demonstrating the enabling role investors play in a market economy.

The CSAEF Board has described the Fund's mission as "a step ahead of the market," which refers in part to the risk propensity of the Fund in making investments. More than that, it reflects the Fund's desire to be a market leader, and to help guide the market towards making investments in small and medium-sized business. The 100% business-managed Enterprise Funds are unique among U.S.-sponsored foreign assistance efforts. In addition to providing technical advice and service, the Fund teaches by putting money at risk. The CSAEF backs many entrepreneurs by investing in their businesses, and by sharing the risk and reward of their activity. Fund staff — American, Czech and Slovak — encourage, teach, and empower Czech and Slovak entrepreneurs. One of the key requirements for Fund investment is that Czechs or Slovaks own a significant portion of the business. The Fund also encourages other investors to participate in the Czech and Slovak markets, further strengthening the private sector of the Republics.

The CSAEF has received a great deal of help and support from numerous groups and individuals, both public and private, during this past year. The Fund has accomplished much during the past three years, and has become increasingly effective in carrying out its mission. The CSAEF's objectives for FY95 are:

- Continue the primary mission of the Fund: to foster development of the private sector in the Republics through investing, training, and nurturing the entrepreneurs.
- Commit the remaining resources during FY95, funding additional U.S. joint venture investments remains a priority.
- Respond to the paucity of venture capital in the Czech Republic by focusing on equity investments, and by cooperating with private investment funds operating in the Republic. In Slovakia, both debt and equity financing will continue since banks face liquidity limitations for business lending.
- Expand efforts to involve other investors in the Republics.
- Expand joint lending: the CSAEF will continue to work with its partners to keep the program at the leading edge of small-business banking, and will look for additional partners and programs to expand services to Czech and Slovak entrepreneurs.
- Expand investment monitoring with even deeper

involvement of both CSAEE staff and outside expert assistance, nurture growing companies in their drive to maturity

- Continue entrepreneur training
- Foster additional Technical Assistance projects that support discrete systemic change to benefit the small and medium sized business community
- Continue to hire and train local staff while expanding their professional responsibilities within the Fund
- Seek to exit profitable investments

With the continued dedication of the CSAEE staff, I am confident that we will serve well our objectives for FY95. Over time the small entrepreneur will be stronger and more viable because of our involvement.

Paul Gibian
President

Business Developments in the Republics

Since the peaceful split of the country on January 1, 1993, the macro-economic development of each Republic has been driven mainly by its own dynamics.

Current Statistics	Czech Republic	Slovak Republic
Population	10,333,000	5,355,000
GDP per capita	$3,065	$2,703
GDP change 2094 vs. 2093	2.2%	4.4%
Unemployment	3.2%	14.5%
Inflation	10.5%	13.2%
Foreign Currency Reserves	$7.8 billion	$1.5 billion
Budget Surplus (Deficit)	$910 million	($400 million)
Percent of GDP Accounted for by Private Sector	65%	55%

Note: Figures in US dollars as of September 30, 1994

The divergence in economic progress and assistance needs between the Republics will require a flexible response from the CSAEF.

Czech Republic:

The Czech Republic has been a leader in Eastern Europe on the road to a market economy. Its government has instituted many reforms necessary to assure that progress will continue. Confident of this momentum, the U.S. AID announced that it would phase out its assistance activities in the Republic during 1995 and 1996.

Notwithstanding this overall progress, the entrepreneur seeking to build a small or medium-sized business faces a paucity of equity capital and financial institutions not oriented toward the needs of the small business owner. Indeed, this is why the CAEF has played — and continues to play — a unique role in the economy.

Slovak Republic:

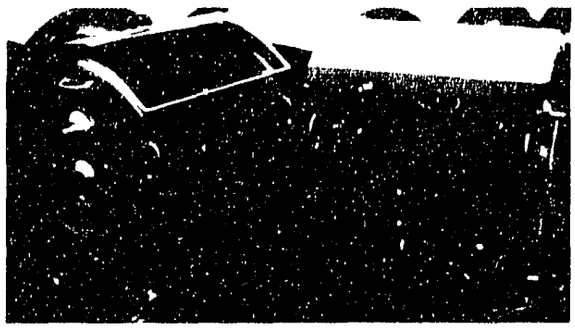
Slovakia has the same fundamentals for success as the Czech Republic: a skilled, well-educated labor force; a pivotal location for developing business both further West and East; and a solid industrial and agricultural base.

Consider:

- Bratislava ranked first in terms of site quality for industrial production among 404 West and East European regions. The ranking, made by the German consulting firm Empirica, was based upon favorable ratings in research and development, labor costs, and labor supply.
- Bratislava is located only 39 miles from Vienna. Košice, Slovakia's second largest city, is only 58 miles from Ukraine. With its good road and rail links, Slovakia is a bridge between East and West, not to mention its North-South connections to Poland, Hungary, and Romania.
- Foreign investors, especially from neighboring Austria, are already exploiting the benefits of Slovakia with hundreds of small joint ventures and investments.
- At under $200 a month, industrial wages are lower than in many countries in Eastern Europe and are a substantial comparative advantage over producing in Austria or Germany.
- Slovakia's GDP is ahead of many of its East European neighbors.

The SAEF commenced investing as privatization began, and through its continued investment activity will continue to be an example of the constructive role of investment capital in business development and job creation.

CES Uniweb is a joint venture combining Czech manufacturing with Swiss technology and marketing, assisted by British and CSAEF equity and European Bank for Reconstruction & Development (EBRD) loans.



With a $130,000 loan, the SAEF has enabled **Forex,** a manufacturer of trash bins, to double its sales.

CSAEF Activities

Stimulating Change

The CSAEF's loans and investments not only benefit individual entrepreneurs, but also related businesses and their customers, distributors, and neighbors. One small example: during the communist period, many Slovaks became part-time beekeepers, one of the few permitted private activities. Two of the SAEF's smaller investments, Dedinsky and Istrocera, provide a vital distribution network for hundreds of beekeepers.

The CSAEF has also seen how 40 years of Communism stifled two key elements of entrepreneurial activity: marketing and accounting.

In the communist system, production was the focus, and managers needed to pay little attention to marketing a product or understanding its true costs. Now in Eastern Europe entrepreneurs must make a fundamental adjustment: all elements of production and sales must be reoriented to the marketing effort and the disciplines of a free economy.

Many of the Fund-provided consultants and experts working with investees have focused their efforts on marketing: how to assess the buyer's need, how to close a deal, and whether to shift from reliance on third-party trading companies to an in-house sales force.

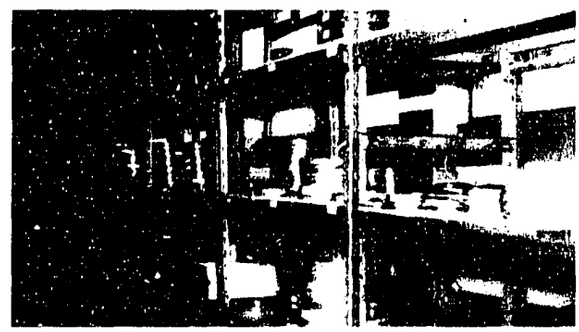
Financial analysis is equally key. One of our bakeries did not realize that it was selling bread below cost until the CSAEF staff conducted a thorough review of the company's costs and financial statements. At the beginning, it was difficult to get entrepreneurs to develop meaningful financial information. Having managers make financial forecasts, appreciate their value, and manage by the numbers, has been a new and challenging experience for them.

The Fund's loans and investments are an effective way of establishing these and other disciplines. The Fund is a partner with these businesses and encourages them to succeed.

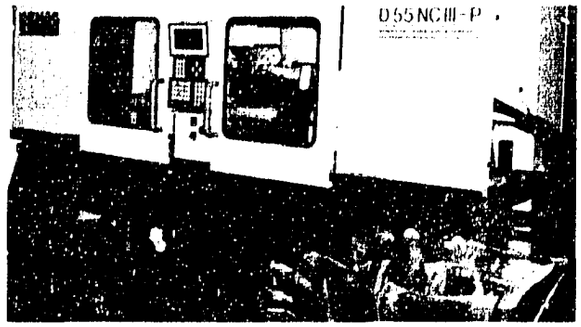
Joint Lending: The Fund's small-business joint lending programs are proving to be an effective component of its activities. Among the important tasks they accomplish are:

- Developing lending skills at local banks — a change from the days when banks just recorded transactions directed by the central planners.
- Providing a prudent means for the Fund to extend credit to smaller companies at lower collateralization thresholds.
- Encouraging Czech and Slovak banks to give priority to smaller businesses in both Republics.

Although the CSAEF pursued this activity from the Fund's inception, substantial time was required to structure a program acceptable to all parties. Only two loans were outstanding at September 30, 1993. The Fund's joint lending programs grew to 34 loans outstanding at September 30, 1994. By the end of FY95 there will be more loans extended



Leader Gasket of Slovakia (LGS), a joint venture with a US producer of gaskets for the oil and gas industry, provides a low-cost gasket line for the European market, replacing the traditional asbestos product.



Founded in 1952, **Kveta** is a manufacturing cooperative which employs handicapped workers who produce waxed paper flowers and plastic consumer products. The CSAEF's loan has enabled the company to purchase modern equipment and expand the business.

through joint lending than the total of loans and investments in the CSAEF's direct portfolio.

This program also stimulates the local banks' efforts to improve service to small businesses. When the Fund was negotiating the program with the banks in 1992, a characteristic in bank lending to small businesses was the banking community's excessive collateral requirements. In economies with little "mattress money," few potential entrepreneurs could meet the hurdle. The CSAEF offered training to bank lending officers and to loan applicants, placing the focus of the bank loan decision on the general creditworthiness of the borrower and the prospects of the business, while not ignoring collateral. To back this commitment, the Fund agreed to provide half of the loan alongside the bank, with Fund staff participating in the loan approval process. The programs are proving successful and are gaining momentum. They may ultimately provide candidates for CSAEF equity financing.

Another major hurdle for the banking community is providing medium-term loans to small businesses. The CSAEF and its bank partners are now, on a selected basis, granting loans with longer maturities. Loans under the program can range in size from about $25,000 to $250,000, with the average size to date being about $75,000. Half of each loan is provided by the CAEF or the SAEF and half by the respective bank.

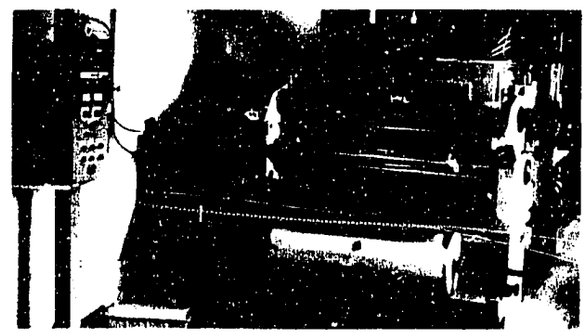
Technical Assistance

Training

In refining the Enterprise Fund concept, the U.S. government designated a special allocation for Technical Assistance. These funds provide the CSAEF with an added opportunity to serve entrepreneurs through special training and advisory services to its customers.

The main components of the CSAEF's training and advisory services include:

- Expert Advice: The CSAEF makes a variety of volunteer consultants available to its investees through the International Executive Service Corps. These experienced, recently retired, U.S. executives donate 2-3 weeks and longer to spend on location with CSAEF investees to perform specific assignments: technical advice on products, marketing advice, manufacturing and operating skills. They offer an invaluable resource beyond those normally available from the CSAEF staff. The CSAEF also places volunteers from the MBA Enterprise Corps with a company for a one-year assignment. For a few more specialized businesses, the Fund contracts with consulting firms or individual experts. These groups have provided this direct, operations-focused advice to over half of the Fund's investees.
- Accounting Support: The CSAEF provides a variety of



Tesla Y.S. a.s. combines a division of a previously state-owned enterprise with state-of-the-art technology to produce ceramic substrates for semi-conductor chips. CSAEF brought the parties together: Tesla Hradec Králové; Y.S., a Japanese substrate manufacturer; Japan Industrial Development Organization (JAIDO); and the EBRD which funded a loan.

programs to help investees develop better financial reporting, and to employ that information in managing their businesses. Part of the purpose of this support is to show the managers that financial accounting is a manager's asset, not a bureaucratic requirement. The CSAEF has provided accounting software and related training to about one-fourth of its investees. Limited scope audits have been performed on about 15% of the investees to better help identify specific areas of weakness, or to help improve overall financial control. Reflecting the increased awareness by the entrepreneurs of the value of such financial data, we now are able to require such audits for all prospective Fund investments into existing companies.

- CSAEF Staff. Much of the staff's time is spent with investee managers, encouraging them to provide and use financial reports, discussing how best to develop new markets, and confronting the issues that all small businesses face. This nurturing and monitoring function is a key component of the CSAEF's program and has significant budget impact. Venture capitalists have long known that their work just begins once an investment is selected.
- Joint Lending Training. The CSAEF began the joint lending training with the recognition that it was important not only to train bankers, but entrepreneurs as well. Several hundred bankers have received a week of training through the CSAEF program. With its success demonstrated, the Slovak bank now picks up half the cost of the on-going training, and provides input into refinements in the program.

Over 2,000 entrepreneurs have attended the two-day loan applicant training. Many of these entrepreneurs, or would-be entrepreneurs, have little idea of what goes into forming a business. Through developing the kind of business program an investor will need to make a financing decision, the entrepreneur gains a critical perspective on his or her own business. Several entrepreneurs have told us that the program made them realize the flaws in their plans, and may have helped them avert early business failures. One training participant wrote:

> *Organizing of such training was a great idea. I tried to grasp its subject for a long time before I attended the training. I did not find literature that was as clearly and simply explanatory as your participant's handbook.*
>
> *When I look at that training now, I think that most of all we were impressed by the attitude of the instructors. We were able to sense young enthusiasts carrying out your mission who did not do this only for business reasons, but also because they really want to help Slovakia. And that somehow jumped onto us and made us enthusiastic.*
>
> *Even though you cannot help me with funding, I am glad that I attended the training. It is a pity, there are not more such programs, especially on weekends.*

INZAT was able to purchase diagnostic equipment for auto repairs with a loan through the CAEF's small-business joint lending program with Komercní Banka. The INZAT entrepreneurs sell American made PVC pipe in their hardware stores.

As a result of the enthusiasm of the participants, the CSAEF has expanded the training program to the direct portfolio as well. More of the entrepreneurs seeking investments from the Fund are encouraged, and in some cases required, to participate in an expanded version of these training programs. The CSAEF is also in the process of making a more advanced program available to entrepreneurs in whom it has made an investment.

The U.S. company, Thermal Laminates Corporation, a joint venture with **TLC-Europe,** manufactures sailboards for windsurfing. Founded in 1993, the company expects to sell over 3,000 sail boards this year.

Programs for Discrete Systemic Change

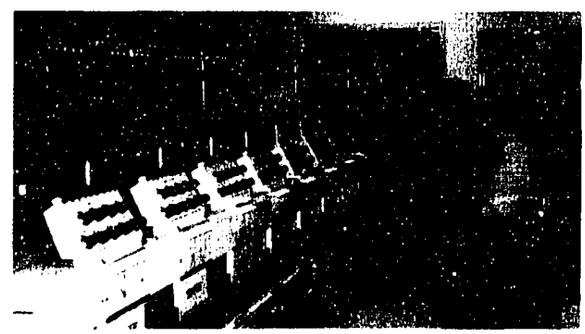
The CSAEF also seeks to utilize its Technical Assistance funds to support programs and companies that can improve the business infrastructure of the Republics. Some of these programs include:

- Land Registration: The SAEF has provided technical assistance to develop, for the town of Brezno, an automated land record system. It facilitates municipal tracking of land for tax purposes and encourages real estate activity, and ultimately mortgage financing, by making it easier for creditors to take liens, and for interested parties to check the market. The Board of Directors has approved a U.S. joint venture investment in Stewart Information Slovakia (SIS) that will provide this system on a commercial basis throughout Slovakia.
- Lien Registration: A central registry for equipment liens is under development, a potential boon to asset-based lending.
- Waste Management: The SAEF provided technical assistance funds for a study of the waste management needs of Puchov, Slovakia, to assist the town and a prospective entrepreneur in developing private sector alternatives for a portion of the town's waste management function. The study was completed in mid-1994 and the SAEF is working with the parties to move the project forward on a commercial basis. It is intended to serve as a demonstration project for communities throughout Slovakia.
- Model Documentation: The CAEF is working with the Czech Bar Association to develop standard short forms for small business lending and incorporation. Providing such standard documentation will lower the transaction costs for small business loans, making such loans easier to obtain.
- Venture Capital Association: The CAEF is an early sponsor of the Czech Venture Capital Association. The Association will facilitate the professional development of venture capital firms operating in the Czech Republic.

Supporting U.S. Business

In addition to helping local entrepreneurs, another important element of the CSAEF's mission is to encourage U.S. businesses to become active in the Republics and, in particular, to help finance joint ventures between U.S. and Czech or Slovak businesses. To date, eight such joint ventures have been undertaken, representing 22% of the total amount the CSAEF has invested in the Republics. Additionally, two joint ventures, which have been approved by the Board of Directors, are awaiting funding.

The SAEF is responsible for more U.S. businesses in Slovakia than any other institution and is the second largest



The CAEF's small-business joint lending program with the Komerční Banka provided a loan to **RAGGIO** to purchase embroidery machinery. Running three shifts, the company has exceed its sales projections.

U.S. investor after K-Mart. In the Czech Republic, though our dollar volume falls below that of major direct investors, the CAEF is proportionally the most prolific investor in small and medium-sized businesses.

The CSAEF interests U.S business by providing counsel and information about the Republics to American companies. The CSAEF also works with the U.S. Chamber of Commerce and its local chapters in the Republics.

Rollpa produces a wide variety of modular furniture from recycled waste paper. Following rapid growth at home, export markets are also being pursued.

Joint ventures strengthen U.S. businesses by fostering American exports of components and parts, and by making the companies more competitive when penetrating the European markets.

Next Steps

A major task is providing follow through to each investment in order to assist the entrepreneur to develop and to become more profitable and competitive. This is the traditional role for a venture capital investor, but in Eastern Europe the process is more intensive and time consuming.

Staff

Two-thirds of the CSAEF's staff members are Czech or Slovak. Most of the investment work in both the Prague and Bratislava offices is handled by a team consisting of an American and a national. To date, the American has generally been the senior member of the team, although the local professionals are taking on greater responsibility. The Fund is making a natural and desirable progression, in hiring and training, to upgrade the Czech and Slovak staff so they can assume more of the direct investment function.

Reserves

Accounting standards require recognizing potential reduced values of a given investment by assessing the value of the investment today. Such treatment frequently occasions marking down the carried value of an investment portfolio by establishing a "Reserve."

The Fund is a long-term investor in an environment with no tradition of valuing long-term investments. As such, the ultimate value of the portfolio is impossible to quantify. Nevertheless, as an operational matter, management concerns itself constantly with the performance of the individual investments. Some start-up investments may have been ill advised. Others may not yet be in full stride. Still others are addressing adversities they expect to overcome. Two CSAEF investments have discontinued operations and are in liquidation.

This pattern is normal for any small-business portfolio and is part of the "creative destruction" that is a hallmark of capitalism.

A June 1994 Ernst & Young assessment of private equity investment firms in France provides an interesting comparison and highlights the risk inherent in venture capital:

- The study examined results for 35 French investment firms, comprising about 38% of all investments made by the private equity industry in France, from 1978-1992. Results were for 1,353 investees.
- Early stage investments, those most likely to be comparable to the CSAEF's target, showed a negative overall return, while the IRR for all investments was 19% (leveraged buyouts showed the highest returns).
- 31% of all investments generated a negative IRR. The best one-fourth of all investments generated an IRR of 25-30%.
- 15% of the investment firms generated returns in excess of 40%, while 15% generated losses.

Portfolio Review

Investment Summary *(In millions of U.S. Dollars)*

Amount Authorized by the Board	Czech Republic			Slovak Republic			Total		
	9/30/92	9/30/93	9/30/94	9/30/92	9/30/93	9/30/94	9/30/92	9/30/93	9/30/94
Number of Investments	16	19	22	19	28	30	35	47	52
Debt	$ 4.2	$ 4.8	$ 5.6	$ 7.4	$ 8.1	$ 11.4	$ 11.6	$ 12.9	$ 17.0
Equity	$ 1.7	$ 2.8	$ 5.5	$ 3.0	$ 6.5	$ 8.8	$ 4.7	$ 9.3	$ 14.3
Joint Lending	-	$ 5.0	$ 5.0	-	$ 3.0	$ 3.0	-	$ 8.0	$ 8.0
Total	$ 5.9	$ 12.6	$ 16.1	$ 10.4	$ 17.6	$ 23.2	$ 16.3	$ 30.2	$ 39.3

Amount Funded (net of payments)	Czech Republic			Slovak Republic			Total		
	9/30/92	9/30/93	9/30/94	9/30/92	9/30/93	9/30/94	9/30/92	9/30/93	9/30/94
Number of Investments	14	18	20	14	24	27	28	42	47
Debt	$ 2.0	$ 3.2	$ 2.9	$ 3.0	$ 6.3	$ 6.6	$ 5.0	$ 9.5	$ 9.5
Equity	$ 0.02	$ 2.1	$ 4.1	$ 2.1	$ 3.4	$ 5.5	$ 2.1	$ 5.5	$ 9.6
Joint Lending	-	$ 0.04	$ 0.7	-	$ 0.05	$ 0.6	-	$ 0.1	$ 1.3
Total	$ 2.0	$ 5.3	$ 7.7	$ 5.1	$ 9.7	$ 12.7	$ 7.1	$ 15.1	$ 20.4

The pace of new business activity slowed in FY94, largely as a result of staff focusing more effort on the monitoring and nurturing of the existing portfolio. FY94 fundings are here shown net of principal repayments of $565,000 in the Czech Republic and $366,000 in Slovakia. In addition, $242,000 of commitments shown as debt in FY93 were reallocated to increase an equity investment in FY94.

Loans and Investments

As of September 30, 1994, fifty-two investments totaling $31 million had been authorized by the Board. Of this amount, funding had been initiated on forty-seven investments, with $19 million disbursed and an additional $5.5 million remaining to fund on those investments. This last figure is net of the $931,000 in cumulative principal repayments made on existing loans.

Geographic Diversification

The Fund is committed to investing in promising companies throughout the two Republics, notwithstanding the increased cost in terms of travel and communications. The Fund seeks to invest where the multiplier effect can be the greatest. In the Czech Republic, the Fund is increasing its activity in regions distant from Prague that have benefited less from the overall economic improvement. In Slovakia, the Fund seeks investment in areas of high unemployment. The location of the investment is particularly important since, in the aftermath of the Communist housing policies, labor mobility remains difficult in the Republics. The geographic spread of the Fund's activities is evident on the maps on pages 4 and 5.

Industry

The Fund remains diversified by industry as shown below (all amounts are based upon current Board approvals):

CZECH REPUBLIC

Area	Number of Investments	Amount	Percent of Investment
Manufacturing	11	$ 8,029,000	72
Food Related	6	1,689,000	15
Energy Related	4	1,076,000	10
Services	1	328,000	3
Total	22	$ 11,122,000	100

SLOVAK REPUBLIC

Area	Number of Investments	Amount	Percent of Investment
Manufacturing	18	$ 14,495,000	72
Food Related	8	3,655,000	18
Energy Related	2	723,000	4
Services	2	1,298,000	6
Total	30	$ 20,171,000	100

Manufacturing includes a wide range of companies, such as metal products (gaskets, gasoline cans), plastics and fire extinguishers. Food related investments include the introduction of new cattle breeds as well as bakeries and other food processors. Investments related to energy include several low-head hydroelectric power transactions, where entrepreneurs are rebuilding sites that were operating before the facilities were nationalized and closed by the Communists.

The Fund finds that the most attractive businesses are in industries in which the Czechs and Slovaks have traditionally excelled — machinery, fabrication, food processing — where there is a high skilled-labor content relative to the capital or technology required.

The average Fund investment is approximately $12,000 for every job supported by the business. Approximately 2,200 employees work or manage the fifty-two companies where the Board has authorized investment, and several hundred more are employed by companies participating in the joint lending programs. The effect of the Fund on employment in the Republics is reflected not only in the number of people employed directly in companies where the Fund has an investment, but also in the jobs of their suppliers, distributors, and services.

Size

In fulfilling its mandate to meet the needs of small and medium-sized businesses, the average number of employees in each of the companies where the Fund has authorized an investment is 43 (similar for each Republic), with only 6 authorized investments exceeding 100 employees.

Excluding canceled transactions, the average size of Board authorized amounts for new investments in FY94 was $1,036,000, up from $565,000 in FY93 and $470,000 in FY92.

The Fund focused its investment actions during its first two years of operations on the type of transaction most readily available—start-ups or expansion of very young enterprises. Now that much of the economy is in private hands and many businesses started after the Velvet Revolution are ready to expand, the Fund's average investment can be expected to increase. Additionally, smaller investments can now be made through the joint lending programs.

Summary of CAEF Commitments Amounts Authorized By the Board as of September 30, 1994

Investments

Alp - Martin Hanuš, *Písnice*

ALP is a 100% Czech-owned and managed firm. Started in 1988 in the entrepreneur's home, the company produces backpacks for sale primarily in the Czech Republic (65%) and Western Europe (35%). 29 employees.

Date of Approval:	04/08/92
Loan	$ 69,000
Total	$ 69,000

Ameribif, *Prague and Větrušice*

A Czech-American joint venture, Ameribif was to use a patented U.S. bio-fermenting technology to produce fertilizer (called BioGanic) and cattle feed. The company was not successful and is undergoing liquidation. 7 employees.

Date of Approval:	02/09/92
Loan	$ 412,000
Equity (33%)	69,000
Total	$ 481,000

CES Uniweb, *Letohrad*

CES Uniweb is a joint venture between Uniweb AG, a Swiss textile conglomerate and Primona, a Czech textile firm. The venture weaves cotton fabric to Swiss standards and re-employs laid-off textile workers in the region. CAEF is an equity co-investor with Flemings (CZIC Fund), Česká Spořitelna and Spořitelna Investiční Fund. The EBRD has commited to provide over $4 million through ING Bank. 163 employees.

Date of Approval:	12/10/92
Loan	$ 700,000
Equity (16.7%)	1,250,000
Total	$ 1,950,000

Chirana, *Prague*

A privatized Czech company, Chirana specializes in the production of dental and X-ray equipment. Chirana is marketing its dental equipment to Eastern Europe and developing countries. 250 employees.

Date of Approval:	01/28/92
Loan	$ 862,000
Total	$ 862,000

Elfra, *Chrudim*

Elfra is a start-up, 100% Czech-managed assembler of electronic circuit boards. It is now starting to produce high-tech circuit boards using U.S. surface mounting technology. 25 employees.

Date of Approval:	10/14/92
Loan	$ 345,000
Equity (55%)	124,000
Total	$ 469,000

EMU, *Brno*

Owned and managed since mid-1992 by a Czech entrepreneur and engineer, EMU operates a small 727,000 KWh per year hydroelectric plant on the banks of the Svitava River, and sells to the local municipal net. 1 employee.

Date of Approval:	10/31/91
Loan	$ 22,000
Total	$ 22,000

EVE Vyskočil, *Jesenný*

Vyskočil operates a small 940,000 KWh per year hydroelectric plant on the banks of the Kamenice River. 1 employee.

Date of Approval:	02/19/92
Loan	$ 69,000
Total	$ 69,000

Hanžl, *Vimperk*

Hanžl bakery started operation in November 1992. Hanžl markets its products to the local community and to the large tourist market destined for the Šumava National Park.
7 employees.

Date of Approval:	10/17/91
Loan	$ 150,000
Equity (30%)	5,000
Total	$ 155,000

Heli, *Mladá Boleslav*

Heli is a helicopter service company. It patrols the transnational pipeline that connects Russia with Germany. It also operates a helicopter pilot school, provides transportation and is a distributor for the U.S.-made Robinson helicopters. 6 employees.

Date of Approval:	02/16/92
Loan	$ 328,000
Total	$ 328,000

Holztherm, *Plzeň*

Holztherm converts wood waste, principally sawdust, into briquettes for residential heating. The compressed briquette product is a cleaner burning, more convenient and more environmentally friendly fuel source than coal. Holztherm was awarded the contract for disposing of the old Czech currency notes. 47 employees.

Date of Approval:	10/14/92
Equity (16%)	$ 328,000
Total	$ 328,000

JAMI - Jaromír Misař, *Vsetín*

JAMI manufactures and markets a small, multi-purpose agricultural machine. With attachments, the machine can be utilized as a brush cutter, plough, and cultivator. 10 employees.

Date of Approval:	04/08/92
Loan	$ 116,000
Total	$ 116,000

Kovopodnikatel Topić, *Kojetín*

Kovo Topić primarily produces gas cans, car roof racks, tissue dispensers and other sheet metal products for export to Western Europe. The company is 100% owned by the Czech entrepreneur. 43 employees.

Date of Approval:	02/19/92
Loan	$ 276,000
Total	$ 276,000

KPCM, *Batňovice*

KPCM is a start-up, 100% Czech-managed slaughtering and meat production facility, which began operation in early 1993. The company produces raw and processed meat for restaurants, hotels, and butchers. 25 employees.

Date of Approval:	10/14/92
Loan	$ 517,000
Equity (44%)	241,000
Total	$ 758,000

Kříž, *Letovice*

CAEF financed the early 1992 start-up of this 100% family-owned and managed company. Kříž produces a wide variety of embroidered products for the domestic market. To facilitate growth, Kříž has also borrowed about $51,000 under the CAEF's joint lending program with Komerční Banka. 16 employees.

Date of Approval:	02/19/92
Loan	$ 193,000
Total	$ 193,000

Marbrot, *Prague - Nebušice*

The Fund's first financing, Marbrot bakery provides baked goods to establishments in the Prague area, including the Prague airport and selected hotels and grocery stores. Marbrot Pekařstvi started operation in May 1991. 6 employees.

Date of Approval:	09/09/91
Loan	$ 69,000
Total	$ 69,000

Mavel, *Benešov*

Founded in 1990, Mavel provides turnkey products and services to small hydroelectric plants. These range from feasibility studies to the design and manufacture of low-head hydroelectric turbines and related products. Funding is subject to final negotiations. 33 employees.

Date of Approval:	02/02/94
Equity	$ 657,000
Total	$ 657,000

Mykointegra, *Jenec*

Mykointegra is a 100% Czech-owned and managed firm that produces compost for mushrooms from straw and other forms of bio-waste. Compost is packaged in 10-kilo bags and sold to domestic commercial mushroom growers. 20 employees.

Date of Approval:	08/06/92
Loan	$ 107,000
Total	$ 107,000

Nextair, *Letriany*

Founded in 1993, Nextair manufacturers kit aircraft. The CAEF's investment will enable Nextair to significantly expand production so that it can manufacture these small planes for several U.S. kit aircraft companies, for sales in both Europe and the U.S. Funding is subject to final negotiation. 75 employees.

Date of Approval:	07/12/94
Loan	$ 300,000
Equity	300,000
Total	$ 600,000

Pekiton, *Stirin*

Pekiton Bakery has closed due to difficulties in penetrating the market, and the Fund is negotiating a settlement. 24 employees.

Date of Approval:	01/28/92
Loan	$ 668,000
Equity (30%)	106,000
Total	$ 774,000

Rollpa, *Pitkovice and Prerov*

Rollpa produces and markets modular furniture made primarily from pressed, rolled (recycled) paper tubes. The company headquarters, architectural studio and store/showroom are located in Prague. 75 employees.

Date of Approval:	07/27/93
Loan	$ 352,000
Equity (40%)	834,000
Total	$ 1,186,000

Svanda, *Liberec*

The Švanda bakery has closed due to difficulties in penetrating the market. The Fund liquidated its position, resulting in a small loss on the investment.

Date of Approval:	08/06/92
Loan	$ 73,000
Equity (23%)	30,000
Total	$ 103,000

Tesla - YS j.v., *Hradec Králové*

This joint venture will produce electronic ceramics for integrated circuits and potentiometers, with 100% of the product being exported to Europe. The equity partners include the CAEF, Tesla Hradec Králové and Y.S. Inc., a Japanese producer of electronic substrates, and JAIDO, the Japan International Development Organization. The EBRD is providing a loan of over $7 million to the project. 140 employees.

Date of Approval:	10/14/93
Equity (19%)	$ 1,550,000
Total	$ 1,550,000

TOTALS

Debt	$ 5,628,000
Equity	$ 5,494,000
Grand Total	$ 11,122,000

Note: Authorized amounts are shown before repayments of $565,000 and include capitalized interest of $69,000. They may also differ from amounts shown in the Financial Statements due to exchange rate changes.

Summary of SAEF Commitments Amounts Authorized By the Board as of September 30, 1994

Investments

AgManagement, *Skalica*

AgManagement, Skalica, is a start-up beef cattle breeding farm. It is a joint-venture between AgManagement of Kansas City, a livestock genetics company, and Skalica (Slovakia) Farm Cooperative. The goal is to breed world-class quality Charolais and Simmental beef herds in Slovakia. 5 employees.

Date of Approval:	09/09/91
Loan	$ 572,000
Total	$ 572,000

Ameta, *Poprad*

Ameta is a start-up manufacturer of corrugated plastic hoses for automatic washing machines, initially for the American/Slovak joint-venture, Whirlpool Tatramat. The company has a potential to become the premier supplier of such hoses in Central and Eastern Europe. 6 employees.

Date of Approval:	10/14/92
Loan	$ 394,000
Equity (60%)	138,000
Total	$ 532,000

BeneMedica, *Bratislava*

BeneMedica is a joint venture between the SAEF, Wheelsport International, (a U.S. wheelchair maker), and Helas (one of SAEF's first borrowers three years ago). The venture will manufacture and sell wheelchairs in West and East European markets. 18 employees.

Date of Approval:	10/14/93
Loan	$ 300,000
Equity (58%)	300,000
Total	$ 600,000

Bryndziareň - P. Makovický , *Ružomberok*

The entrepreneur successfully continues a family tradition of producing "bryndza," a specialty sheep cheese. 8 employees.

Date of Approval:	05/06/92
Loan	$ 10,000
Total	$ 10,000

BSK, *Banská Bystrica*

BSK is a start-up manufacturer of concrete roof tiles that began production in March 1993. Concrete roof tiles are a popular substitute for clay and asbestos roof tiles. 25 employees.

Date of Approval:	09/09/91
Loan	$ 482,000
Equity (60%)	552,000
Total	$ 1,034,000

Bujakovo MVE, *Brezno*

Bujakovo is a small-scale 360,000 KWh per year hydroelectric power generation facility on the Hron River near Brezno. Construction began in August 1993 and involves modifications to an existing dam. 1 employee.

Date of Approval:	12/10/92
Loan	$ 206,000
Equity (24%)	45,000
Total	$ 251,000

Dekoplast, *Svidník*

Dekoplast was an ongoing thermoplastics injection molding business for which the SAEF provided expansion capital. The company's principal product is a plastic box used by the German automotive industry for first aid kits. 35 employees.

Date of Approval:	12/04/91
Loan	$ 238,000
Equity (31%)	95,000
Total	$ 333,000

Ferex, *Nitra*

Ferex manufactures 1100 liter metal trash dumpsters and 110 liter metal trash cans. It is currently the only producer of these products in Slovakia, and sells them in both the Czech and Slovak Republics. 70 employees.

Date of Approval:	01/27/93
Loan	$ 131,000
Total	$ 131,000

Finsat, *Bratislava*

Finsat is a start-up information service provider of real time financial news and market data for the Czech and Slovak Republics. Information will be distributed via satellite to guarantee quality transmission. 10 employees.

Date of Approval:	03/30/93
Loan	$ 100,000
Equity (70%)	250,000
Total	$ 350,000

Gamma, *Banská Bystrica*

Gamma is a start-up assembler and distributor of push-pull cables. They have a licensing agreement with Cablecraft, a subsidiary of the American company Tuthill. Gamma is the exclusive Cablecraft assembler in the Czech and Slovak Republics. 9 employees.

Date of Approval:	01/27/93
Loan	$ 112,000
Equity (45%)	34,000
Total	$ 146,000

Helas, *Bratislava*

Helas is a metalworking company specializing in mobility aids such as crutches, walkers, and handgrips. In its two-and-a-half years of existence, the company has expanded to produce tables and environmental monitoring trailers and in July, 1994 joined with a U.S. company to form the BeneMedica joint venture. 28 employees.

Date of Approval:	10/17/91
Loan	$ 138,000
Total	$ 138,000

Istrocera, *Svätý Peter*

Istrocera processes beeswax for use in cosmetics, polishes, creams, and pharmaceutical applications. The primary market is Western Europe. 18 employees.

Date of Approval:	12/04/91
Loan	$ 308,000
Equity (31%)	9,000
Total	$ 317,000

Kveta, *Nová Baňa*

Kveta, a manufacturing cooperative for the disabled, started as a producer of decorative paper flowers. The injection molding division produces kitchen products, toys, plastic components, and Christmas trees. Fund investment was for addition of larger capacity molding machines to serve the appliance and auto markets. 375 employees.

Date of Approval:	10/14/92
Loan	$ 552,000
Total	$ 552,000

Leader Gasket of Slovakia, *Bytča*

Leader Gasket is a U.S.-Slovak joint venture to produce specialized gaskets for the petroleum and chemical industries. Leader Gasket of Slovakia is now entering the broader market of industrial gasket and sealing product distribution. 75 employees.

Date of Approval:	02/19/92
Loan	$ 500,000
Equity (49%)	489,000
Total	$ 989,000

Matuška, *Štúrovo*

Matuška has a modern, automated wooden EUROPOOL pallet manufacturing line with capacity of 60-80,000 pieces per month. The company is located on the Danube river enabling materials and pallets to be shipped along Europe's river network. 30 employees.

Date of Approval:	02/19/92
Loan	$ 621,000
Equity (40%)	345,000
Total	$ 966,000

NZ Foundry, *Cinobaňa*

As is the case with many companies going through the coupon-voucher privitization process, NZ Foundry emerged with insufficient capital to expand and modernize. The SAEF negotiated its participation in the newly privatized foundry with the investment funds. 320 employees.

Date of Approval:	02/02/94
Loan	$ 597,000
Equity (38%)	597,000
Total	$ 1,194,000

Oligo, *Bratislava*

OLIGO Dvory is a start-up company that will extract xylose, a low-calorie sweetener, from corncobs and sell it on the international market. 24 employees.

Date of Approval:	04/08/92
Loan	$ 940,000
Equity (30%)	242,000
Total	$ 1,182,000

Penta, *Kysucké Nové Mesto*

Penta is a start-up manufacturer of 50cc and 125cc motorcycles whose Slovak owner-managers garnered extensive experience on the motorcycle racing circuit. 70 employees.

Date of Approval:	02/19/92
Loan	$ 714,000
Equity (32%)	614,000
Total	$ 1,328,000

Peško, *Liptovský Mikuláš*

Peško operates a small retail bakery in Liptovský Mikuláš.
18 employees.

Date of Approval:	1/28/92
Loan	$ 85,000
Equity (31%)	17,000
Total	$ 102,000

PoMa, *Považská Bystrica*

Marian Podoláк is a Slovak entrepreneur who constructed and began a bakery and sweet shop. The business is located within a 5,000 unit apartment complex and is the only bakery within a kilometer. 20 employees.

Date of Approval:	1/28/92
Loan	$ 303,000
Equity (31%)	83,000
Total	$ 386,000

Privatization of a Diesel Facility

The SAEF is supporting the management of a state-owned diesel manufacturer in its effort to privatize the company, with the planned expansion of the business through a licensing arrangement with a top foreign diesel engine manufacturer. Funding is subject to successful conclusion of the privatization bid, and final negotiations with the SAEF. 440 employees.

Date of Approval:	10/14/93
Loan	$ 625,000
Equity	1,250,000
Total	$ 1,875,000

Pyrokontrol, *Pobedim*

Pyrokontrol is a joint venture between Slovak entrepreneurs and Powsus, a U.S. company, to manufacture and sell fire extinguishers and related products. The joint venture uses U.S fire extinguisher technology to produce several sizes and types of extinguishers. 21 employees.

Date of Approval:	01/28/92
Loan	$ 950,000
Equity (18%)	360,000
Total	$ 1,310,000

Rotor, *Košice*

Rotor is a small-scale hydroelectric power generation facility on the Hornád River in Košice. It is anticipated that 3.5 million KWh of electricity per year will be produced. 1 employee.

Date of Approval:	12/04/91
Loan	$ 440,000
Equity (20%)	32,000
Total	$ 472,000

Schramko, *Senec*

Schramko is a manufacturer of loading ramps (to facilitate loading of trucks and containers), industrial tables (to adjust the height of machines and heavy objects), and agricultural trailers with unique 3-way unloading capability. 74 employees.

Date of Approval:	04/21/93
Loan	$ 206,000
Equity (35%)	621,000
Total	$ 827,000

Stewart Information Slovakia (SIS), *Bratislava*

SIS is a joint venture between a U.S. information services company, the SAEF, and three Slovak agencies with expertise in land registry, taxation and finance. SIS will offer to Slovak municipalities a real estate information system that will facilitate establishing clear title to properties. The joint venture is the outcome of the pilot project using the SAEF's Technical Assistance Funds to provide the system to Brezno, Slovakia. Funds will be recouped through royalties on sales. Funding is subject to final negotiations. 8 employees.

Date of Approval:	10/12/94
Loan	$ 600,000
Equity	348,000
Total	$ 948,000

Thermal Laminates Corp - Europe, *Nové Mesto nad Váhom*

This is a start-up joint venture consisting of the SAEF, Thermal Laminates Corporation of Stevenson, Washington (USA) and three Slovak partners. TLC is the largest manufacturer of sailboards (for windsurfing) in the U. S. The joint venture supplies the Western European markets. 45 employees.

Date of Approval:	01/27/93
Loan	$ 450,000
Equity (50%)	200,000
Total	$ 650,000

US/SM - *Tisovec*

US/SM is a joint venture between Gradall, a U.S.-based manufacturer of construction machinery, and Cestné a Stavebné Mechanizmy, a Slovak constuction machinery company. CSM and Gradall have been working together selling machines in Eastern Europe for 2 years. The joint venture expands that effort by allowing CSM to produce more modern machines while providing Gradall with a more cost competitive product for the European market. 6 employees.

Date of Approval:	04/18/94
Loan	$ 400,000
Equity (20%)	200,000
Total	$ 600,000

Včelárstvo Dedinský , *Bratislava*

Dušan Dedinský is a private beekeeper in a long family tradition that produces honey and other bee products. Mr. Dedinský also acts as a broker, buying honey from other Slovak beekeepers, for export to Germany. 3 employees.

Date of Approval:	04/08/92
Loan	$ 86,000
Total	$ 86,000

Vega, *Malženice*

VEGA is a modern, state-of-the-art hydroponic greenhouse with heat supplied by effluent from an electric generating plant. The main products are tomatoes and poinsettias, with other vegetables and flowers grown as well. 37 employees.

Date of Approval:	10/14/93
Equity (60%)	$ 1,000,000
Total	$ 1,000,000

Xandra Crystal, *Partizánske*

Founded in 1990, Xandra is a world-wide exporter of crystal made in both the Czech and Slovak Republics. The SAEF's funds would be used primarily to enable Xandra to purchase, in a tender offering, a portion of the Poltár Slovak crystal works. Funding is subject to final negotiation. 250 employees.

Date of Approval:	10/12/94
Loan	$ 323,000
Equity	967,000
Total	$ 1,290,000

TOTALS

Debt	$ 11,383,000
Equity	$8,788,000
Grand Total	$ 20,171,000

Note: Authorized amounts are shown before repayments of $366,000 and include capitalized interest of $301,000. They may also differ from amounts shown in the Financial Statements due to exchange rate changes.

Total CSAEF Technical Assistance Funds
Authorized Through September 30, 1994

Czech Republic

To provide training for both the lenders and entrepreneurs in the Small-Business Lending Program with Komerční Banka, and to cover development costs for the program.	$ 452,000
To develop model loan (and related) documentation for small business transactions, in conjunction with the Czech Bar Association.	70,000
To provide training for new CAEF staff on developing business proposals.	15,000
To provide startup costs for the Czech Venture Capital Association	10,000
To promote commercialization of technologies developed in the Czech Republic	9,000
To expose East European faculty to Western business practice, in conjunction with East European Foundation for Entrepreneurship Research.	4,000
To furnish outside experts (IESC, independent consultants, et. al.) for half of the CAEF's investments.	48,000
SUB TOTAL	$ 608,000

Slovak Republic

To train both the lenders and entrepreneurs in the Small-Business Lending Program with Slovenská Poľnohospodárska Banka (renamed Poľnobanka).	$ 250,000
To develop an automated land-record system for Brezno, Slovakia.	239,000
To develop an automated central registry for recording liens on moveable property.	140,000
To develop a waste-management program for Púchov, Slovakia. A portion of the total cost of the study was shared with the U.S. Trade and Development Agency.	115,000
To train likely candidates for SAEF financing in business planning and presentation procedures for funding requests to Western firms.	30,000
To review environment, fire code, and worker health and safety practices at SAEF investments.	7,000
To furnish outside experts (IESC, independent consultants, et. al.) for two thirds of the SAEF's investments.	380,000
SUB TOTAL	$ 1,161,000

Both Republics

To support the work of the MBA Enterprise Corps, an organization that trains graduates of top U.S. business schools who wish to live in Central and Eastern Europe while working for companies there (receiving local salary and benefits). The CSAEF is a long-standing beneficiary of the Corps, with several Corps members having worked (and working) in both the Prague and Bratislava offices, and with several more working for the companies where the CSAEF has an investment.	$ 700,000
To develop a program to train Czech and Slovak accountants in Western accounting practices.	100,000
To support small-business advisory centers under the auspices of the Central Europe Institute.	115,000
TOTAL - CZECH AND SLOVAK REPUBLICS	$ 915,000
GRAND TOTAL - ALL PROJECTS	$ 2,684,000

Czech and Slovak American Enterprise Fund Consolidated Financial Statements

and Report of Independent Accountants Thereon For the Years Ended September 30, 1994 and 1993

Coopers
&Lybrand

Coopers & Lybrand L.L.P.

a professional services firm

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors
Czech and Slovak American Enterprise Fund

We have audited the accompanying consolidated balance sheets of the Czech and Slovak American Enterprise Fund and subsidiaries (the "Fund") as of September 30, 1994 and 1993, and the related consolidated statements of revenues, expenses and changes in fund balance and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included verification of investments owned as of September 30, 1994 and 1993, by examination and by correspondence with the investees. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Czech and Slovak American Enterprise Fund and subsidiaries as of September 30, 1994 and 1993, and the consolidated results of their operations, changes in fund balance, and their cash flows for the years then ended, in conformity with generally accepted accounting principles.

As explained in Note 2, the consolidated financial statements include investments valued at $16,033,674 (61% of total assets) and $13,524,683 (60% of total assets) at September 30, 1994 and 1993, respectively, whose values have been estimated by the Board of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by the Board of Directors in estimating the fair values of such investments and have inspected underlying documentation, and, in the circumstances, we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Coopers & Lybrand L.L.P.

Washington, DC
November 21, 1994

Coopers & Lybrand L.L.P., a registered limited liability partnership, is a member firm of Coopers & Lybrand (International).

Czech and Slovak American Enterprise Fund
Consolidated Balance Sheets
September 30, 1994 and 1993

ASSETS	1994	1993
Investments:		
Investments, cost	$ 20,361,613	$15,124,683
Reserve for potential losses	(4,327,939)	(1,600,000)
Investments, net	16,033,674	13,524,683
Cash and cash equivalents	2,823,534	1,365,275
Central Bank deposit facility	7,000,000	7,000,000
Accrued interest receivable, net	222,217	256,663
Prepaid expenses and other assets	107,737	75,436
Fixed assets, net	404,072	322,648
Total assets	$ 26,591,234	$ 22,544,705
LIABILITIES AND FUND BALANCE		
Liabilities:		
Revolving credit facility	$ 2,125,437	$ 1,249,609
Accounts payable and accrued expenses	359,933	337,921
Deferred origination fees	79,928	146,883
Deferred grant revenue	4,935,804	5,327,387
Total liabilities	7,501,102	7,061,800
Commitments and contingencies		
Fund balance:		
Cumulative translation adjustment	1,747	(30,861)
Fund balance	19,088,385	15,513,766
Total fund balance	19,090,132	15,482,905
Total liabilities and fund balance	$ 26,591,234	$ 22,544,705

The accompanying notes are an integral part of these consolidated financial statements.

Czech and Slovak American Enterprise Fund

Consolidated Statements of Revenues, Expenses and Changes in Fund Balance
For the Years Ended September 30, 1994 and 1993

	1994	1993
INVESTMENT INCOME		
Investment interest and fees	$ 1,036,939	$ 579,882
Interest on bank deposits	604,929	227,623
Investment income	1,641,868	807,505
Interest expense	508,275	40,777
Net investment income	1,133,593	766,728
Provision for losses on investments	2,750,000	1,400,000
Net investment loss after provision for investment losses	(1,616,407)	(633,272)
EXPENSES		
Employee compensation & benefits	1,310,661	1,291,995
Program development	187,741	159,325
Legal and professional fees	226,367	277,637
Depreciation and amortization	98,592	72,211
Occupancy	234,264	183,375
Other operating expenses	426,384	317,546
Total expenses	2,484,009	2,302,089
Technical assistance grants	686,547	972,011
U.S. Federal grant revenue	8,361,582	12,078,200
Excess of revenues over expenses	3,574,619	8,170,828
Fund balance, beginning of year	15,513,766	7,342,938
Fund balance, end of year	$ 19,088,385	$ 15,513,766

The accompanying notes are an integral part of these consolidated financial statements.

Czech and Slovak American Enterprise Fund
Consolidated Statements of Cash Flows
For the Years Ended September 30, 1994 and 1993

	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenues over expenses	$ 3,574,619	$ 8,170,828
Adjustments to reconcile excess of revenues over expenses to net cash provided by operating activities:		
Technical assistance included in investing activities	686,547	972,011
Provision for losses on investments	2,750,000	1,400,000
Depreciation and amortization	119,330	72,211
Changes in operating assets & liabilities:		
Restricted cash	-	310,000
Accrued interest receivable	172,551	(383,578)
Prepaid expenses and other assets	(32,301)	6,200
Accounts payable and accrued expenses	22,012	150,105
Deferred origination fees	(66,955)	47,950
Deferred grant revenue	(391,583)	3,781,798
NET CASH PROVIDED BY OPERATING ACTIVITIES	6,834,220	14,527,525
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments made	(5,776,795)	(8,709,855)
Central Bank deposit facility	-	(7,000,000)
Technical assistance granted	(686,547)	(972,011)
Purchases of fixed assets	(200,755)	(165,071)
Loan repayments	621,451	494,256
NET CASH USED IN INVESTING ACTIVITIES	(6,042,646)	(16,352,681)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in revolving credit facility, net	666,685	1,357,239
NET CASH PROVIDED BY FINANCING ACTIVITIES	666,685	1,357,239
Net increase (decrease) in cash and cash equivalents	1,458,259	(467,917)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,365,275	1,833,192
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,823,534	$ 1,365,275

The accompanying notes are an integral part of these consolidated financial statements.

Czech and Slovak American Enterprise Fund
Notes to Consolidated Financial Statements

1. Organization of Fund

The Czech and Slovak American Enterprise Fund ("the Enterprise Fund") is a not-for-profit corporation formed pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act"). The Enterprise Fund and its wholly-owned subsidiaries, Czech American Enterprise Fund, spol. s r.o. and Slovak American Enterprise Fund, spol. s r.o. (collectively, the "Fund" or "CSAEF"), promotes the development of the Czech Republic ("CR") and the Slovak Republic ("SR") private sectors and policies and practices conducive to such development. It is similar to Funds now operating elsewhere in Central and Eastern Europe. Grants are received from the United States Agency for International Development ("AID") and are conditioned on the Fund's compliance with the requirements of the SEED Act, which imposes certain U.S. policy objectives and reporting obligations. Under the terms of the grant agreement with AID, the Fund may hold funds in interest bearing accounts and may retain interest, investment income and investment profits for program purposes. Effective October 1, 1993, the U.S. Congress has appropriated a total of $65 million to the Fund through AID.

The Fund is engaged in a broad private investment program in the CR and SR which, through equity investments, loans, grants, technical cooperation and other measures, emphasizes a commitment to small and medium-sized businesses. The Fund provides technical assistance to businesses in the CR and SR private sectors, including those in which the Fund has invested, and to the CR and SR governments to assist them in developing their private sectors and market economies. Through its direct role in investments in the CR and SR private sectors, the Fund seeks to generate profits that will further support its activities and attract investments by others. As part of its investment operations, the Fund may obtain representation on supervisory and management boards of investee companies. Entities in which the Fund invests may enter into business transactions with each other in the normal course of business.

2. Summary of Significant Accounting Policies

The significant accounting policies are as follows:

Basis of presentation

The consolidated financial statements include the financial position and the results of operations of the Enterprise Fund and its majority-owned operating subsidiaries. Intercompany accounts and transactions are eliminated in consolidation. Investments in portfolio companies are carried on the balance sheet as investments and are not consolidated.

Investment valuation

The Fund's investments, as set forth in Note 3, are not readily marketable and are not listed on an exchange or quoted in an open market. These investments are stated at fair value as determined by management. In determining fair value, management considers relevant qualitative and quantitative information available. In general, the Fund's policy is to carry investments at cost except where a change in the investee company's circumstances warrants a lower or higher valuation. No unrealized gains have been reflected in the portfolio valuation. The values assigned to investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future developments inherent in long-term investments. Investment valuation is recommended by management and adopted by the Board of Directors (the "Board") annually, and more often if deemed necessary by management or the Board. The valuation is made after evaluating the portfolio, current economic conditions, information about specific investment situations, including payment history, collateral value, cash flows, earnings, and other factors considered relevant by management. These factors are subject to change over time and are reviewed periodically. As adjustments become necessary, they are reported in the period in which they become known. There is limited precedent for valuing such investments in the CR or SR. Therefore, there is little experience

upon which to base the estimate of risk and amount of possible losses. The Fund obtains collateral in investee company assets where possible.

Cash equivalents

For purposes of the statements of cash flows, the Fund considers all highly liquid financial instruments purchased with a maturity of three months or less to be cash equivalents. Cash held in banking accounts in excess of FDIC insurance limits is collateralized by securities of the U.S. Government or its agencies.

Fixed assets

Fixed assets and leasehold improvements are stated at cost net of accumulated depreciation and amortization. Computer hardware, furniture and equipment are depreciated on a straight-line basis over their estimated useful lives, principally five years. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Revenue recognition

Grants from AID are recognized as revenue when funds are invested or expended consistently with the purpose of the Fund set forth in the SEED Act. Amounts received but not yet invested or expended are reported as Deferred Grant Revenue. Loan fees charged to borrowers are recognized as an adjustment of yield over the life of the loan. Fees charged for business advisory services are recognized to income as services are rendered.

Translation of foreign currency

The Subsidiaries use the local currency as the functional currency and translate all assets and liabilities at year end exchange rates, and income and expense accounts at average exchange rates. Net exchange gains or losses resulting from the translation of assets and liabilities of foreign subsidiaries are accumulated in a separate section of fund balance titled "Cumulative Translation Adjustment". Gains and losses resulting from investment transactions of the Fund which are made in currencies other than the U.S. dollar are included in investment income as they occur, and were not material for either period presented.

Program development

Expenses directly attributable to the Fund's operating activities, such as consulting and travel, are recorded as program development expenses. Included herein are directors' travel of $56,961 and $43,500 and CR and SR directors' fees of $10,000 and $10,000 for the years ended September 30, 1994 and 1993, respectively.

Donated services

Members of the Fund's Board of Directors donate significant amounts of their time to the Fund's program. No amounts have been reflected in the accompanying financial statements for such donated services.

3. Investments

The following summarizes the U.S. dollar equivalent value of investments of the Fund as of September 30, 1994:

Investment	Description	Cost	Type	% Owned	Republic
AgManagement	Cattle Breeding, j.v.	$553,363	Loan		Slovak
ALP - Martin Hanuš	Backpacks	58,534	Loan		Czech
Ameribif	Biofermentation, j.v.	413,302 68,799	Loan Equity	 33%	Czech
Ameta	Plastic molding	294,582 128,123	Loan Equity	 60%	Slovak
BeneMedica	Orthopedic devices	85,000 92,889	Loan Equity	 58%	Slovak
Bryndziareň - P. Makovický	Cheese manufacturer	5,625	Loan		Slovak
BSK	Cement roof tile	491,338 512,492	Loan Equity	 60%	Slovak
Bujakovo MVE	Low-head hydro	145,506 44,843	Loan Equity	 24%	Slovak
CES Uniweb	Textile, j.v.	1,262,807	Equity	16.7%	Czech
Chirana	Dental instruments	223,374	Loan		Czech
Dekoplast	Plastic molder	257,510 88,085	Loan Equity	 31%	Slovak
Elfra	Electronic assembly - surface mount	145,279 128,663	Loan Equity	 55%	Czech
EMU	Low-head hydro	19,746	Loan		Czech
EVE - Vyskočil	Low-head hydro	1,976	Loan		Czech
Ferex	Waste disposal containers	102,242	Loan		Slovak
Finsat	Financial information	26,445 246,503	Loan Equity	 70%	Slovak
Gamma	Push-pull cable	46,567 32,031	Loan Equity	 45%	Slovak
Hanžl	Bakery	174,939 5,361	Loan Equity	 30%	Czech
Helas	Walking aids	133,737	Loan		Slovak
Heli	Helicopter patrolling	209,895	Loan		Czech
Holztherm	Wood briquette manufacturer	340,457	Equity	16%	Czech
Istrocera	Beeswax processor	289,216 7,463	Loan Equity	 31%	Slovak
JAMI - Jaromir Misař	Small agricultural equipment	33,417	Loan		Czech
Kovopodnikatel Topič	Metal products	256,092	Loan		Czech
KPCM	Meat production	531,222 250,179	Loan Equity	 44%	Czech
Kříž	Embroidery production	106,530	Loan		Czech

Investment	Description	Cost	Type	% Owned	Republic
Kveta	Plastics molding	$ 461,243	Loan		Slovak
Leader Gasket of Slovakia	Gasket manufacturer j.v.	455,755 489,153	Loan Equity	 49%	Slovak
Marbrot	Bakery	46,828	Loan		Czech
Matuška	Wooden pallets	455,952 320,308	Loan Equity	 40%	Slovak
Mykointegra	Biofermentation	37,344	Loan		Czech
NZ Foundry	Foundry	640,615	Equity	38%	Slovak
Oligo	Corn-based sweetener	420,185 224,215	Loan Equity	 30%	Slovak
Peklton	Bakery	562,651 107,219	Loan Equity	 30%	Czech
Penta	Motorcycle manufacturer	427,258 384,356	Loan Equity	 32%	Slovak
Peško	Bakery	91,759 16,015	Loan Equity	 31%	Slovak
PoMa	Bakery	279,325 76,874	Loan Equity	 31%	Slovak
Pyrokontrol	Fire extinguishers, j.v.	743,152 359,946	Loan Equity	 18%	Slovak
Rollpa	Furniture	833,928	Equity	40%	Czech
Rotor	Low-head hydro	426,470 32,031	Loan Equity	 20%	Slovak
Schramko	Hydraulic equipment, trailers	576,554	Equity	35%	Slovak
Tesla	Ceramic substrates	1,110,901	Equity	19%	Czech
Thermal Laminates Corp. - Europe	Surfboards, j.v.	350,955 189,067	Loan Equity	 50%	Slovak
US/SM	Construction equipment	60,596	Equity	20%	Slovak
Včelárstvo Dedinský	Bee products	80,346	Loan		Slovak
Vega	Greenhouse	983,613	Equity	60%	Slovak
Subtotal - direct investments		19,058,746			
Joint lending programs		732,708 570,159			Czech Slovak
		20,361,613			
Less reserve for losses on investments		4,327,939			
Net investment balance		$ 16,033,674			

4. Commitments and Contingencies

Investments

In addition to the investments described in Note 3, the Board has authorized management to commit to investments and technical assistance of up to $12.3 million to complete funding of existing investments. The Board has also authorized management to commit up to an additional $ 6.2 million to investments and technical assistance which are dependent upon the completion of investment negotiations and the signing of closing documents, to the satisfaction of all parties.

Contingency

The Fund has guaranteed a lease obligation through October 31, 1995 on behalf of one of its investees in the cumulative amount of $285,000 based on September 30, 1994 exchange rates.

Leases

The Fund is obligated under noncancelable operating leases for its Washington, Prague and Bratislava offices. The Prague lease is payable in German Deutsche marks, the Bratislava lease is payable in US dollars. Future minimum payments under noncancelable leases are as follows:

Fiscal Year	
1995	$ 224,511
1996	85,673
Total	$ 310,184

The leases are subject to annual escalation based on increases in the consumer price index.

5. Central Bank Deposit Facility

The Fund has a five-year revolving credit facility (the "Facility") with a Commercial Bank in Slovakia which expires May 1, 1998. The total amount available under the Facility is $7 million. Interest on the Facility is at the National Bank of Slovakia discount rate plus a premium (12.5% at September 30, 1994), and is payable quarterly in arrears. Total interest paid for the year ended September 30, 1994 was $508,275. The Facility is collateralized by a $7 million deposit with the National Bank of Slovakia which will revert to the Fund upon the expiration and liquidation of the Facility.

6. Fixed Assets

At September 30, 1994 and 1993, fixed assets consist of:

	1994	1993
Computer hardware/software	$ 329,266	$ 208,247
Furniture and equipment	256,131	187,123
Leasehold improvements	61,211	61,211
	646,608	456,581
Less: accumulated depreciation and amortization	(242,536)	(133,933)
	$ 404,072	$ 322,648

7. Tax Status

United States

The Fund is exempt from federal income tax under Internal Revenue Code section 501(c)(3) and from District of Columbia franchise and income taxes.

Czech Republic and Slovak Republic

The Fund was exempt from income taxes in the CSFR, retroactively from the date of incorporation until December 31, 1992. The Fund expects to retain the exemptions under the new CR and SR tax laws which took effect January 1, 1993.

8. Concentration of Credit Risk

By statute, all of the Fund's investments are in business activities conducted in the CR and SR. As such, these investments are subject to the political and economic uncertainties associated with doing business in the CR and the SR.

Czech and Slovak American Enterprise Fund
Board of Directors

John R. Petty, Chairman,
retired Chairman and CEO of the Marine Midland Bank

Charles A. Vanik, Vice Chairman,
former member of Congress
Attorney with the law firm of Squire, Sanders and Dempsey

David O. Maxwell,
retired Chairman and CEO of
Federal National Mortgage Association

Milan Ondrus,
International Business Advisor

Julia M. Walsh,
Managing Director of Tucker/Anthony, Inc.

Mr. Jan Tauber,
former advisor to the Federal Minister of Finance

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