

FUND FOR LARGE
ENTERPRISES IN RUSSIA

FLER

ФОНД КРУПНЫХ
ПРЕДПРИЯТИЙ В РОССИИ

1994 Annual Report

FUND FOR LARGE ENTERPRISES IN RUSSIA

The Fund for Large Enterprises in Russia is a private corporation with an independent Board of Directors authorized to receive \$100 million in initial capital from the United States Government.

The Fund for Large Enterprises in Russia has been at work since April of 1994 to carry out its mission of encouraging private sector development through equity investment, loans and technical and management assistance for private businesses in Russia.

1994 ANNUAL REPORT

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FUND FOR LARGE ENTERPRISES IN RUSSIA

"I was very glad to learn about FLER's first investment in Russia in the UNOC joint venture. I am particularly pleased that FLER is successfully collaborating with Uralmash, one of the pillars of the mass privatization program, as well as Caterpillar and National-Oilwell, prime US corporations.

"I am much impressed with how quickly you managed to set up your operations and closed your first substantial transaction."

-Letter from Anatolyi Chubais, First Deputy Prime Minister of the Russian Federation to Chairman W. Michael Blumenthal
November 3, 1994

"FLER support for the UNOC venture represents effective U.S. government assistance for private sector development in Russia's emerging market economy. UNOC is an important element of Caterpillar's strategy to be a fully integrated business leader in Russia."

-Vito H. Baumgartner, Vice President Caterpillar, Inc.
September 1994

"The U.S.-sponsored Fund for Large Enterprises in Russia, headed by former Treasury Secretary Blumenthal, signed its first investment deal last week. It's investing \$13.5 million in a Russian joint venture that will produce oil well rigs equipped with U.S. diesel engines. That will help Russia and create jobs in the U.S. at the same time."

-From remarks made by Treasury Secretary Lloyd Bentsen, Washington, D.C.
September 26, 1994

"CPHS is pleased that FLER has chosen....to join us as a partner in this exciting new venture. We bring to Russia the model of an American medical group practice to provide care to American expatriates, Russians and others living in or traveling to Moscow. USGH is further strengthened by its affiliations with our Russian medical colleagues in the polyclinic Medincentre, the former Kremlin hospital known as Kuntsevo and the Moscow Medical Academy."

-Dr. Bruce A. Barron, President Columbia-Presbyterian Health Services, Inc.
October 1994

FUND FOR LARGE ENTERPRISES IN RUSSIA

January 31, 1995

We are pleased to report that in the six short months since we were organized by the U.S. Government in March of 1994, we have made progress in our mission to assist the development of the Russian private sector. We have put in place a foundation for continued progress while also ensuring we act in a fiscally prudent manner with both our operating and investment resources.

LETTER FROM
MANAGEMENT

When our fiscal year ended on September 30, 1994, we had achieved our goals for the year:

- Assemble a team of experienced investment professionals to manage the fund;
- Complete all of the legal, regulatory and other logistical tasks to begin actual investment operations;
- Develop good working relationships in the private and public sector;
- Begin to invest our capital sensibly; and
- Establish sound practices for the monitoring and providing of management assistance to companies in which we invest.

Through the achievement of these goals, FLER is rapidly becoming known as an effective provider of capital and management resources to the private sector in Russia.

Investing in a marketplace undergoing vast transformation, as Russia is, presents substantial challenges. While we are encouraged by the growth of private sector initiatives in Russia, there continue to be many barriers which impede progress. The prospects for continued reform in Russia are uncertain, although we are encouraged by the ongoing efforts to create economic stability and the appropriate legal, financial and administrative systems to support a market economy.

We are committed to working with our Russian business colleagues and in supporting the Russian government's efforts to develop new policies and programs for reform. In many instances, however, government cannot provide the solution. It is in these areas where FLER can perhaps make the greatest impact. We will apply our resources to help create commercially viable, private sector examples of how business works in a market economy. Over the long term, this will help provide concrete support for reform in Russia.

We are grateful for all of the support we have received in our efforts. We have received bi-partisan backing in Washington. We have a strong, involved Board of Directors who are leaders in business and finance. Last, but not least, we have a fine staff of dedicated professionals working at FLER. On behalf of all of us at FLER, we appreciate the trust that has been placed in us and look forward to reporting our continued progress.



W. Michael Blumenthal
Chairman of the Board



Austin M. Beutner
President and Chief Executive Officer

FUND FOR LARGE ENTERPRISES IN RUSSIA

OVERVIEW OF THE FUND

The Fund for Large Enterprises in Russia (the "Fund" or "FLER") was established in March of 1994 to stimulate investment and economic development and, as a consequence, the development of a market economy in Russia. The Fund is the United States' contribution to the Special Privatization and Restructuring Program which originated from the Tokyo G-7 meetings in July 1993.

FLER receives its funding from Congressional appropriations to the United States Agency for International Development (USAID). In establishing FLER, USAID agreed to provide an initial grant of \$100 million and OPIC agreed to act as a co-sponsor.

The primary objectives of the Fund are:

- To provide capital to Russian businesses, including newly-privatized entities as well as greenfield projects;
- To create commercially viable institutions that can attract additional private sector capital, including joint ventures with U.S. and other companies; and
- To assist in the development of management techniques and corporate governance practices appropriate for the efficient functioning of private enterprises.

The Fund provides investment capital and related management and technical assistance to medium and large sized projects and enterprises in Russia. FLER invests with and in Russian and/or Western owned enterprises with specific focus as follows:

- Investment in existing medium and large enterprises, including privatized Russian enterprises;
- Investment in new businesses, projects, or joint ventures established by medium and large enterprises; and
- Investment in businesses which provide a significant service or stimulus to medium and large enterprises.

FUND FOR LARGE ENTERPRISES IN RUSSIA

The Fund is governed by a Board of Directors of six prominent United States citizens with extensive backgrounds in business, finance and government.

Chairman of the Board *W. Michael Blumenthal*
Senior Advisor of Lazard Frères & Co., former U.S. Secretary of the Treasury and formerly Chairman and Chief Executive Officer of Unisys and Bendix Corporations.

Director *Austin M. Beutner*
President and Chief Executive Officer of FLER and formerly a General Partner of the Blackstone Group.

Director *Robert Cizik*
Chairman and Chief Executive Officer of Cooper Industries, Inc., former Chairman of the National Association of Manufacturers and member of the Policy Committee of the Business Roundtable.

Director *Patricia M. Cloherty*
President and General Partner of Patricof & Co. Ventures, Inc. and President of National Venture Capital Association; former Deputy Administrator, U.S. Small Business Administration and Chairman of the Investment Advisory Council to revamp the Small Business Investment Company program of the U.S. Small Business Administration.

Director *J. Bruce Llewellyn*
Chairman of Philadelphia Coca-Cola Bottling Co. and Chairman of the U.S. Small Business Administration Advisory Council of Small Business; member of the President's Advisory Committee for Trade Policy and Negotiation; former President of Overseas Private Investment Corporation.

Director *Wilbur L. Ross, Jr.*
Senior Managing Director of Rothschild, Inc., Director of the American Bankruptcy Institute and Chairman of the National Board of the Smithsonian Institution.

FLER has approximately 20 employees operating out of offices in Russia and New York.

FUND FOR LARGE ENTERPRISES IN RUSSIA

INVESTMENT ACTIVITIES

The following summarizes the Fund's investment commitments as of September 30, 1994.

U. S. Global Health
FLER Investment: \$3.75 million

Moscow

USGH provides medical treatment in Russia under the medical direction of Columbia Presbyterian Health Services, Inc. (CPHS), a for-profit company owned by the Presbyterian Hospital in the City of New York. USGH is owned equally by CPHS, PepsiCo, an international beverage, snack food and restaurant concern, and FLER.

USGH recently opened the Moscow operation for the medical treatment of local and foreign residents as well as travelers and tourists. The USGH facility operates according to the highest standards of American medicine. It features American board-certified physicians, state-of-the-art diagnostic equipment, comprehensive outpatient care, hospital referrals, medical evacuation assistance and a fully-stocked pharmacy.

USGH addresses a critical need in Russia where healthcare services are characterized by outdated facilities and medical procedures. USGH will help modernize existing facilities, alleviate shortages of medicine, and train Russian health professionals in Western medical practices.

FLER funds will be used to assist in developing the Moscow facility and to expand USGH operations into other cities in Russia.

UNOC Equipment and Supply
FLER Investment: \$13.5 million

Yekaterinburg

UNOC provides dependable, technologically advanced drilling rigs for use in oil and gas exploration in Russia and the N.I.S. UNOC is a joint venture between AO Uralmash, one of the leading industrial companies in Russia, National-Oilwell, the world's leading supplier of oil field drilling equipment and Caterpillar Inc., the world's largest manufacturer of construction and earth moving equipment and the leading supplier of engines and generator sets to the oil industry.

UNOC addresses a critical need of the petroleum and natural gas production industry in Russia. The availability of dependable, technologically advanced drilling rigs will help alleviate existing exploration and production inefficiencies and increase Russia's generation of hard currency through the accelerated production of petroleum and natural gas exports.

FLER funds will be used to finance the working capital of UNOC.

FUND FOR LARGE ENTERPRISES IN RUSSIA

ASSETS

Cash & cash equivalents	\$1,758,703
Fixed assets, net	424,950
Reimbursement due from landlord for leasehold improvements	169,249
Prepaid expenses	47,070
Deposits & other assets	<u>28,137</u>
Total assets	<u>\$2,428,109</u>

BALANCE SHEET
As of September 30, 1994

LIABILITIES AND FUND BALANCE

Accounts payable	\$ 76,476
Accrued rent	81,225
Other accrued expenses	364,183
U.S. Government grants received, held for future program purposes	<u>1,741,426</u>
Total liabilities	2,263,310
Fund balance	<u>164,799</u>
Total liabilities & fund balance	<u>\$2,428,109</u>

The accompanying notes are an integral part of this balance sheet.

FUND FOR LARGE ENTERPRISES IN RUSSIA

STATEMENT OF
INVESTMENT
OPERATIONS

For the period from
April 1, 1994
(commencement
of operations)
to September 30, 1994

INVESTMENT INCOME

Interest on cash and cash equivalents	\$ 17,277
Gain on foreign exchange	<u>1,019</u>
Total investment income	<u>18,296</u>

EXPENSES

Salaries, payroll taxes and benefits	423,753
Occupancy costs	168,356
Professional services	216,913
Recruiting and relocation	254,586
Travel and lodging	275,331
Other operating expenses	<u>73,132</u>
Total operating expenses	<u>1,412,071</u>
Net decrease in fund balance resulting from operations	<u><u>\$(1,393,775)</u></u>

The accompanying notes are an integral part of this statement.

FUND FOR LARGE ENTERPRISES IN RUSSIA

STATEMENT OF ACTIVITIES

For the period from
April 1, 1994
(commencement of
operations) to
September 30, 1994

U.S. Government grants utilized for program purposes	\$ 1,558,574
Net decrease in fund balance resulting from operations	<u>(1,393,775)</u>
Net change in fund balance	164,799
Fund balance, beginning of period	<u>0</u>
Fund balance, end of period	<u>\$ 164,799</u>

The accompanying notes are an integral part of this statement.

FUND FOR LARGE ENTERPRISES IN RUSSIA

STATEMENT OF
CASH FLOWS
For the period from
April 1, 1994
(commencement
of operations)
to September 30, 1994

CASH FLOW FROM OPERATING ACTIVITIES

Net decrease in fund balance resulting from operations	\$(1,393,775)
Adjustments to reconcile net change in fund balance to net cash provided by operating activities:	
Depreciation and amortization	14,604
Cash received from U.S. government grant	3,300,000
Changes in operating assets and liabilities:	
Increase in reimbursement due from landlord for leasehold improvements	(169,249)
Increase in prepaid expenses	(47,070)
Increase in deposits and other assets	(28,137)
Increase in accounts payable	76,476
Increase in accrued rent	81,225
Increase in other accrued expenses	<u>364,183</u>
Net cash provided by operating activities	<u>2,198,257</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	<u>(439,554)</u>
Net cash used in investment activities	<u>(439,554)</u>
Net increase in cash and cash equivalents	1,758,703
Cash and cash equivalents, beginning of period	<u>0</u>
Cash and cash equivalents, end of period	<u>\$ 1,758,703</u>

The accompanying notes are an integral part of this statement.

FUND FOR LARGE ENTERPRISES IN RUSSIA

NOTES TO
FINANCIAL
STATEMENTS
As of September 30, 1994

1. Organization and Description of Business

The Fund for Large Enterprises in Russia ("FLER" or the "Fund") is a not-for-profit corporation established pursuant to authority contained in the Foreign Assistance Act of 1961, as amended, and the Support for East European Democracy Act of 1989, as amended, (the "SEED Act") for the primary purpose of promoting the development of the Russian private sector and policies and practices conducive to such development. FLER was incorporated in Delaware on February 4, 1994 and commenced operations on April 1, 1994. It currently has offices in New York and Moscow. Funding for FLER comes from a \$100 million grant administered by the U.S. Agency for International Development ("USAID") to be utilized for program purposes and administrative expenditures of FLER (the "Grant"). Grants received from USAID are conditioned upon FLER's compliance with the requirements of the SEED Act, which imposes certain U.S. policy objectives and reporting obligations. Subject to the terms of the grant agreement with USAID, FLER may hold funds in interest bearing accounts and may retain investment and interest income for program purposes. As of September 30, 1994, the Fund has received \$3.3 million pursuant to the Grant.

The Overseas Private Investment Corporation ("OPIC") is a co-sponsor of the Fund's Program. It is anticipated that OPIC will work with the Fund in an effort to develop and provide funding for investment transactions which qualify for OPIC-supported financing.

FLER is engaged in a broad private investment program in Russia which emphasizes a commitment to medium and large-sized businesses. Through its direct role in investments in the Russian private sector, FLER seeks to generate profits that will further support its activities and attract investments by others. FLER also seeks to provide training and managerial and technical assistance to business enterprises directly connected to the investments made by the Fund.

2. Basis of Presentation

The Fund's financial statements are presented under U.S. generally accepted accounting principles. Revenues and expenses are accounted for using the accrual method of accounting which calls for recognition of income and expenses in the period earned and incurred, respectively.

3. Summary of Significant Accounting Policies

Functional Currency

The functional currency for all locations is the U.S. dollar, even though a substantial number of transactions may be conducted in Russian rubles. Income earned and expenses incurred in rubles are translated at the actual rates in effect at the time of the transaction or at average rates in effect during the period if an actual rate cannot be determined. Assets and

FUND FOR LARGE ENTERPRISES IN RUSSIA

NOTES TO FINANCIAL STATEMENTS *(Continued)*

liabilities denominated in rubles are translated at the year-end exchange rate. The resulting translation gains/losses are reflected in the accompanying Statement of Investment Operations.

Grant Funds Recognition

Grant funds received are recognized in the Statement of Activities when funds are disbursed consistent with the purposes of the Fund set forth in the SEED Act. Amounts received but not disbursed are reported as U.S. Government grants received, held for future program purposes.

Depreciation and Amortization

Equipment, furniture and fixtures are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease.

Cash Equivalents

For purposes of the statement of cash flows, the Fund considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents.

Donated Services

Members of the Fund's Board of Directors donate significant amounts of their time to the Fund's programs. The Fund's American directors receive no compensation or fees for serving as directors. No amounts have been reflected in the accompanying financial statements for such donated services, inasmuch as no objective basis is available to measure the value of such services.

4. Cash and cash equivalents

As of September 30, 1994, the Fund's cash was deposited in two accounts at Morgan Guaranty Trust Company of New York: \$123,537 in the Fund's operating (checking) account and \$1,634,777 in an interest-bearing money market account. The Fund also maintains a small, petty cash balance at each location.

FUND FOR LARGE ENTERPRISES IN RUSSIA

5. Fixed assets

As of September 30, 1994, fixed assets consist of:

	Cost	Accumulated Depreciation\ Amortization	Net Book Value
Equipment	\$114,512	\$ 9,216	\$105,296
Furniture and fixtures	150,700	5,388	145,312
Leasehold improvements	<u>174,342</u>	<u>0</u>	<u>174,342</u>
Total fixed assets	<u>\$439,554</u>	<u>\$14,604</u>	<u>\$424,950</u>

NOTES TO
FINANCIAL
STATEMENTS
(Continued)

Equipment is primarily office equipment and computers.

No amortization has been taken on leasehold improvements, since FLER did not occupy its offices until the end of the fiscal year.

In addition to the fixed assets above, FLER had paid \$169,249 for leasehold improvements which are to be reimbursed by the landlord under the terms of the lease. This reimbursement was received in October 1994, as anticipated.

6. Commitments

Investment Commitments

As of September 30, 1994, FLER had two investment commitments.

FLER will provide a \$13,500,000 revolving line of credit to UNOC Equipment and Supply ("UNOC"), of which \$4,125,000 will be guaranteed by UNOC shareholders. In connection with this financing, FLER will also receive an equity purchase option.

In addition to the revolving line of credit, FLER will provide technical assistance by contributing \$100,000 per year for three years to fund training of UNOC's staff in the areas of sales, marketing and finance.

The second commitment is for \$3,750,000 for the purchase of the common stock of U.S. Global Health ("USGH") and redeemable preferred stock. The common stock to be received will constitute a 33.3% ownership in USGH.

In addition to the \$3,750,000 commitment, FLER will provide a grant of \$50,000 per year for two years to train Russian physicians from three affiliated medical facilities in Moscow at Columbia Presbyterian facilities in New York.

FUND FOR LARGE ENTERPRISES IN RUSSIA

NOTES TO FINANCIAL STATEMENTS *(Continued)*

Lease Commitment

The Fund has entered into a ten-year lease as a joint tenant with the Russian American Enterprise Fund, ("RAEF") sharing rent, leasehold improvements and some related expenditures on a 50/50 basis. The lease provides for a 16 month rent free period, followed by a five year (60 month), non-cancelable period. For accounting purposes, the \$185,000 annual rent due during the 5 year, non-cancelable period, plus a mandatory cancellation charge imposed if the lease is terminated during this period, is being amortized over 76 months, resulting in a monthly rental accrual of \$18,000. As of September 30, 1994, \$81,225 has been accrued for future rental payments.

Minimum lease commitment under the existing arrangement for the remaining lease term is \$1,292,000.

The Fund has been subleasing, on a month-to-month basis, a portion of its Moscow office space from the Russian American Enterprise Fund. Included in accounts payable is \$35,000 representing amounts due RAEF under the arrangement.

7. Restricted Cash

In lieu of cash security deposit, FLER has provided the landlord a letter of credit issued by Morgan Guaranty Trust Company, which in turn, is secured by \$367,500 in cash and cash equivalents on deposit with Morgan Guaranty Trust Company.

8. Tax Status

United States

The Fund has filed for tax exempt status from Federal income taxes under Section 501 (c) (3) of the U.S. Internal Revenue Code (the "Code"), and expects to be classified as an organization that is not a private foundation as defined in Section 509 (a) (1) of the Code. Although the Fund has not received a determination letter, it is management's opinion that the Fund meets all IRS requirements and, therefore, is tax exempt. In addition, the Fund is also exempt from payment of state and local income taxes.

Russia

The Fund's Russian office is registered in Russia as an accredited representative office of the Fund. As such, the Moscow office does not conduct trade in Russia and is not subject to Russian income taxes.

FUND FOR LARGE ENTERPRISES IN RUSSIA

To the Board of Directors
Fund for Large Enterprises in Russia

We have audited the accompanying balance sheet of the Fund for Large Enterprises in Russia (the "Fund"), a Delaware not-for-profit corporation, as of September 30, 1994, and the related statements of investment operations, activities and cash flows for the period from April 1, 1994 (commencement of operations) to September 30, 1994. 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 audit.

We conducted our audit 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. 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund for Large Enterprises in Russia as of September 30, 1994, and the results of its investment operations, activities, and its cash flows for the period from April 1, 1994 (commencement of operations) to September 30, 1994, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

New York, New York
December 13, 1994

REPORT OF
INDEPENDENT
PUBLIC
ACCOUNTANTS

FUND FOR LARGE ENTERPRISES IN RUSSIA

BOARD OF DIRECTORS AND OFFICERS

Board Of Directors

W. Michael Blumenthal, Chairman
Senior Advisor
Lazard Frères & Co.

Austin M. Beutner
President and Chief Executive Officer
Fund for Large Enterprises in Russia

Robert Cizik
Chairman and Chief Executive Officer
Cooper Industries, Inc.

Patricia M. Cloherty
President
Patricof & Co. Ventures, Inc.

J. Bruce Llewellyn
Chairman
The Philadelphia Coca-Cola Bottling Company

Wilbur L. Ross, Jr.
Senior Managing Director
Rothschild, Inc.

Officers

Austin M. Beutner
President and Chief Executive Officer

Boris Bakal
Vice President

Walter M. Denekas
Vice President and Chief Financial Officer

Laura G. Hoffman
Vice President and Director of Operations

Philippe de Lapérouse
Vice President

Ilya Oshman
Vice President

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