RUSSIAN-AMERICAN ENTERPRISE FUND

РОССИЙСКО-АМЕРИКАНСКИЙ ФОНД ПРЕДПРИНИМАТЕЛЬСТВА
PURPOSE AND DESCRIPTION

As part of the U.S. Government’s efforts to assist Russia in its transition to a market economy, President Clinton announced his intention to create the Russian-American Enterprise Fund (RAEF) in July 1993. Modeled on similar Funds that were established in Eastern Europe beginning in 1990, the Fund’s mission is:

“...to invest in the creation and expansion of privately owned and controlled small and medium-sized enterprises in Russia. The Fund will examine a wide array of enterprises in many industries and will promote and disseminate western business expertise and practices and work to create an atmosphere that will encourage private sector investment in Russia.”

The Fund implements its mission through a unique partnership of the public and private sectors. Funded by the U.S. Government with grants totaling $340 million from the U.S. Agency for International Development (AID), and with the strong backing of both the U.S. and Russian Governments, the Fund is a private corporation. Management is recruited from the business community and reports to a Board of Directors of private citizens, both American and Russian. The U.S. Government and the Fund together set the Corporation’s basic policies and goals, while the Board and its management have maximum flexibility in structuring the Fund’s strategic objectives, making investments and setting operating policy.

As a matter of operating philosophy, the Fund is run as an investment company and is expected to make a reasonable return over time on its investments, after expenses. During the life of the Fund, all profits will be retained and reinvested in new projects to support the Russian private sector.

The Fund is designed to stimulate private sector development in Russia by applying business logic and the fundamentals of market economics to investment proposals. This approach will give the Fund the capacity to stimulate and guide private sector development in Russia relatively quickly and efficiently and on a largely self-sustaining basis while complementing and reinforcing other market-oriented assistance programs of the United States, the G-7 and others. Through cooperative efforts and joint ventures, the Fund hopes to mobilize substantial additional financing and technical assistance from other investors and institutions, both for specific investments and joint programs.

By making loans and taking carefully selected equity positions, the Fund can disseminate western business skills and practices, while demonstrating to other investors — both Russian and foreign — that investment activities can be undertaken successfully in Russia.
Russian-American Enterprise Fund Activities in 1994

RAEF Office
Outreach Seminars

Small Business Lending Program Site
Investment Closed or Agreed

Moscow
Podolsk
Volgograd
Cheboksary
Yekaterinburg
Omsk
Khabarovsk
Vladivostok

St. Petersburg
Archangel
Yoshkar-Ola

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MANAGEMENT REPORT

The Russian-American Enterprise Fund has completed its first year with a solid presence throughout the Russian Federation, and a clear and well grounded strategy to accomplish its mission. The Fund has implemented a basic set of financing programs to meet the needs of Russian entrepreneurs from the smallest through medium-sized companies, and has completed its initial portfolio of investments and loans.

The environment in which the Fund operates in Russia is one that poses well-known difficulties. The macroeconomic environment, while improving in many respects, remains volatile. The institutional framework for doing business and making investments is also improving but remains difficult.

Nevertheless, we have taken great encouragement from visible signs of progress, particularly at the grass roots level of the economy. We are impressed with the vitality and quality of the entrepreneurs and workers we have met — our potential clients and partners. Their energy and commitment are equal to those of their counterparts in any other country in the world. We are also moved by the resilience of many sectors of the Russian economy. While dislocations have been severe and have not run their course, and the hardships faced by significant portions of the population cannot be minimized, the fact remains that this is an immensely wealthy country in terms of natural resources and technological capability, and boasts a highly educated workforce.

As 1994 began, the Fund faced three major challenges, all of which were central to the ultimate objective of beginning the flow of loans and investments into business entities in Russia. These inter-related tasks were:

- assembling the professional staff, office space, equipment and other facilities — especially in Russia — needed to achieve "going concern" status as quickly as possible;
- developing the policies and procedures needed to guide the lending and investing decision-making with special emphasis on the extraordinarily difficult task of putting in place workable approaches to financial and managerial due diligence;
- adopting a strategic design for the lending and investment programs in a setting in which a very high degree of flexibility and adaptability will always be needed.
By late spring, progress in each of these distinct but closely coordinated efforts had laid a basis for the Fund to begin the work of making loans and investments. The approach that emerged has two major thrusts: first, making direct, individual investments that have high profile and high impact, and should be able to mobilize other investors; and second, through the Small Business Lending Program, developing financing mechanisms and disciplines that are relatively easy and inexpensive to replicate and can spread the Fund’s impact widely throughout the country.

Through the balance of the year, the Fund began to make loans and investments of both types. We believe that the composition of the portfolio which is beginning to emerge reflects a balance of all the Fund’s various objectives: small companies and medium-sized ones; fully Russian-owned firms and joint ventures; new, untried financial structures and lower risk companies; sophisticated technologies and basic consumer goods.

In pursuing our initial goals, the Fund has maintained a commitment to establishing a nation-wide presence and avoided limiting its scope to the major centers in the western part of Russia. While there were compelling reasons relating to transportation and communications to locate one of the Fund’s Russian offices in Moscow, the Fund has from the start made extraordinary efforts to project its presence throughout the country and solicit proposals from all regions. This effort has been undeniably costly in terms of the time and energy of our staff. But it was essential for the Fund to locate the very best entrepreneurs and projects in which to invest, as well as to show that the Fund’s investment capital was widely available in the Russian Federation. This effort has been rewarded by a healthy flow of proposals from all parts of the country.

The Fund made a particular effort in the Russian Far East. This is a region of enormous vitality and potential. The Fund’s outreach efforts in the Far East of Russia and with the business community on the West Coast of the United States have borne fruit in the number of promising transactions located in that region. The Fund has committed itself to investing $40 million in this region and, on the basis of our experience to date, we feel confident that this goal can be achieved or exceeded.

As the year ends, we are working to build on and strengthen these accomplishments. We continue to strengthen our staff’s productivity and look for ways of working with other investors and entities to maximize our impact and contain operating costs. We are moving to place our Small Business Lending Program in a separate, dedicated subsidiary to give it the
stature and visibility it deserves. Finally, we continue to develop a network of contacts and a base of experience.

We have been very fortunate in having the support during this first year of an outstanding Board of Americans and Russians. We would like to thank two members of the Board who, because of other commitments, left us in 1994: Delano Lewis and Ambassador Robert S. Strauss. Their presence on our Board will be missed. We would also like to note the exceptional bi-partisan support which we have enjoyed during our first year from the Administration and Congress.

In the initial stages of the Russian-American Enterprise Fund, innumerable people and institutions were called upon for assistance ranging from simple logistics to critical advice and counsel. The success of our first year owes a great deal to the generosity, helpfulness, and expertise of these groups and individuals.

December 31, 1994

E. Gerald Corrigan
Chairman of the Board

A. Robert Towbin
President and Chief Executive Officer
INVESTMENT ENVIRONMENT

“The Fund is a very important practical step in the further development of the Russian-United States partnership.... American assistance to Russia is alive and well and moving ahead.”


Russia is undergoing a major economic and institutional transformation, on a scale and scope and at a speed unprecedented in history. The Russian people are in the process of moving from a highly centralized system to a free market economy, building a private business sector and a financial infrastructure. This is an enormous undertaking, but the progress to date has been noteworthy, and as 1994 unfolded, there were proliferating signs of increased availability of consumer goods and of greater activity, confidence and dynamism in the Russian private sector.

The Fund believes that Russia offers all the ingredients for successful long-term investing. With a population of 150 million, and an appetite for high quality goods and services, Russia’s potential consumer market is impressive. Meanwhile, the nascent Russian business community has evidenced a strong entrepreneurial spirit. Russia has a highly educated work force, substantial technological capacity, and plentiful natural resources.

Nevertheless, substantial risks — in addition to the business risk inherent in any direct investment — face potential investors in Russia. The uncertain outlook for macroeconomic and financial stability are important obstacles to private investment. Further complicating the picture is the ebb and flow of concerns relating to the evolution of the political situation. Against this background, inflation rose again late this year and the ruble has depreciated — at times sharply — relative to the dollar. Moreover, legal and regulatory uncertainties and ambiguities plague the investment climate.

In an environment like this, there is no blueprint for how the private sector will develop. The transition underway in Russia is difficult enough to conceive, but is an even more formidable task to execute. The Fund brings two important elements to the process: first, external investment capital for small and medium-sized private sector businesses, and second, the business know-how to assist small companies in the development of their financial and management skills. Foreign investment was central to the development of the U.S. economy, and still is today, and it will play an important role in the Russian transformation as well. Ultimately, however, the key to success in Russia will be implementing and holding to a strong economic policy which can provide a fertile context for the exercise of the energy and resourcefulness of the Russian people, complemented by individuals and companies from abroad that are willing to invest.

Through the Fund, the United States has committed to a long-term investment process to assist Russian businessmen and women in adapting to an
economy in which market factors and individual initiative play a key role. With $340 million of funds committed by the U.S. Government, the Fund is currently the largest pool of U.S. capital available for private direct investment in projects in Russia. The corporation is required under its by-laws to make investments and loans to companies on sound economic principles — that is, investments must be made in companies that have a reasonable chance of succeeding in the “new” Russia. The investments are not grants, gifts or any form of government subsidy — if the Fund were to view its activities in that way, it would fail to meet the very specific mandate under which it was created, but more importantly it would fail to impart the business fundamentals of risk and reward that are essential for long-term success.

At the same time, it is clear that the Fund is operating in an environment in which standard Western investment criteria are not easily satisfied, and the criteria for investment decisions must reflect the extremely difficult conditions under which the Russian managers, investors and owners are operating. The well-known list of issues facing investors in Russia today — lack of a clear legal and regulatory environment, lack of the full range of banking capabilities, limited enforceability of contracts — is precisely the reason why the Fund can play a constructive role in this period. The Russian-American Enterprise Fund exists to take a level of risk that typically would not be acceptable to other western financial institutions and, through the demonstration effect of these investments, encourage the development of a stronger and healthier private sector.

It is the Fund's intention to be an example to other investors, including the handful of other private investment pools of capital that have considered investing in Russia. Some of the experiences of the Fund’s management can be passed on to these investors as an aid in their initial forays into this immense country and her economy. In order to do this, however, we have recognized two things. We must approach our investments with a long-term view of their prospects and of the prospects for the private sector generally. Second, we must continue to take care to develop standards and criteria that we feel are appropriate to the unique Russian environment, and not try to impose what we are accustomed to in the West for its own sake. This approach to our task we hope will succeed in making our investments worthwhile and stand the test of time. They should also serve as a constructive example to other investors, both Russian and foreign.
Following agreement in principle at the Vancouver Summit meeting between President Clinton and President Yeltsin to establish an Enterprise Fund in Russia, President Clinton announced on July 9, 1993 the intention of the U.S. Government to create the Russian-American Enterprise Fund (RAEF) and named E. Gerald Corrigan, former President of the Federal Reserve Bank of New York, as its Chairman. On September 27, 1993, the Russian-American Enterprise Fund was incorporated under Delaware law as a not-for-profit corporation.

The start-up process was complex, and at times frustrating. The initial focus was on a number of key organizational and start-up tasks to lay the groundwork for the Fund’s investment activities. The basic scope of activity and legal structure was agreed with the U.S. Government and a wide range of contacts were initiated with relevant Russian Government entities to clear the way for the Fund to initiate operations there. The Board began the process of sketching out how the Fund would pursue its goals and the attributes and responsibilities of key staff, and the search for a president and other senior officers got underway. Personnel policies, benefits packages and the search for office space were begun, and a large volume of inquiries and proposals were acknowledged and recorded.

In January 1994, A. Robert Towbin was named as President and Chief Executive Officer. Mr. Towbin came to the Fund from Lehman Brothers, where he had served as a Managing Director since 1987. Prior to that time he was senior managing partner and Vice Chairman and Director of L.F. Rothschild,
Unterberg, Towbin Holdings, Inc.

With Mr. Towbin’s appointment, the Fund’s organizational efforts accelerated and intensified. Temporary offices were opened in Moscow and New York. A core staff of Russians and Americans — almost entirely Russian-speaking — was assembled. In mid-January, the Fund began the work of explaining its mission to Russian and American entrepreneurs and potential partners.

Over the spring and summer, the final pieces of the Fund’s basic infrastructure were put into place. A Moscow office was officially opened on April 15. As part of the Fund’s efforts to coordinate with other entities and U.S. Agency for International Development (AID) grantees, the office is shared with the Financial Services Volunteer Corps (FSVC) and the Fund for Large Enterprises in Russia (FLER).

The Fund opened its office in the Russian Far East in Khabarovsk on August 1. Finally, the permanent New York office was opened September 5 and is also shared with FLER. As 1994 ended, the Fund had a full-time staff of 53 people of which about 40 percent — both professional and support staff — are Russian nationals. The great majority of the workforce — about 70 percent — lives and works in Russia, and most of the New York-based professional staff and executives spend at least half of their time in Russia.

**Outreach**

While the core of the Fund’s mission is the creation of a viable, self-sustaining investment vehicle, the goals of the U.S. and Russian Governments
in promoting the Fund go well beyond that. Specifically, it is intended that the Fund will serve to multiply the impact of its $340 million in initial capital by demonstrating to others how to invest successfully in Russian private companies. This effort requires the Fund to reach out to Russian entrepreneurs and explain the potential role of outside capital and expertise — from the Fund or other sources — in helping to realize their plans and strengthen their companies. In the Fund’s view, this is the first step in the type of partnership it hopes to build with Russian investees.

The Fund began this process as its first initiative. During January and February, Mr. Towbin and Fund staff undertook six weeks of intensive travel to cities all over Russia. Public seminars for entrepreneurs and local officials were held in five cities: Volgograd, Omsk, Khabarovsk, St. Petersburg and Yekaterinberg. The two-day sessions introduced the Fund, its objectives, capabilities, and application procedures, and provided a mini-course in how to prepare and use a business plan. Contacts with technical assistance providers were established which have evolved into an extensive informal network. Interviews were given to local press, generating ample coverage in local business papers, as well as on radio and television.

In addition to full-scale seminars, Fund staff visited a large number of other cities during this period. In every case, the key message was the same: The Russian-American Enterprise Fund was open for business, and was willing and able to invest in promising, well-managed projects and companies.

**Lending and Investment Policies and Procedures**

The Fund’s primary activity is investing in small and medium-sized Russian private enterprises through loans, equity, or a combination of both. These Russian companies may have as many as 2,500 workers, although most loans and investments are aimed at firms that are considerably smaller than this threshold. The Fund seeks to focus primarily on projects involved in the production and distribution of consumer goods, both durable and non-durable.

With this universe of potential investments, the Fund has received a steady stream of project proposals, from firms of all sizes, in all industries, and all over the Russian Federation. The Fund’s first programmatic task was to develop a strategy for turning this pool of potential projects into a manageable array of actual, viable investments, and then to translate this strategy into workable procedures for achieving the Fund’s ambitious goals of supporting the private sector, demonstrating attractive approaches to other investors, and earning a reasonable return on its capital. It was essential that the proposal review process be fair, accessible and rigorous while minimizing bureaucracy and delay.
RUSSIAN-AMERICAN ENTERPRISE FUND (RAEF)
CHRONOLOGY OF CREATION AND START-UP

March 1993  Agreement in principle reached at the Vancouver Summit to create an Enterprise Fund for Russia.

July 1993  President Clinton announces intention to create RAEF and names E. Gerald Corrigan as Chairman of the Board.

August 1993  Initial Board of Directors named.

September 1993  RAEF incorporated.

October - December 1993  Interim administrative structure put in place.
Search for key executives.

January 1994  Key executives named.
Temporary offices opened in Moscow and New York.

February - March 1994  Outreach program begun in Russian cities.
Initial staff put in place in Moscow and New York.
Initial reviews of business proposals commenced.

April 1994  Permanent Moscow office opened.
Core internal lending and investing policies adopted by the Board.

May - August 1994  First transactions under direct investment and small business lending programs approved and disbursed.
Khabarovsk office opened and staffed.

September - November 1994  Permanent Small Business Lending Program staff put in place.
The critical element of this task was developing means of conducting the rigorous due diligence necessary in the context of the unique investment climate in Russia today: standard sources of industry and company data are lacking; financial data which are available are often not helpful in assessing a firm’s prospects in the emerging, profit-oriented environment; the process of privatization of assets has led to difficulties in ascertaining ownership in some cases; and the rapidly changing legal and regulatory environment has made the line between legitimate and illegitimate activities sometimes difficult to discern.

The approach developed by the Fund attempts to maintain suitable standards of due diligence while preserving the Fund’s ability to move quickly and flexibly in the Russian environment, and to make good loans and investments at a cost consistent with the Fund’s goals of earning reasonable returns. This approach combines three elements: maintaining the spirit, but flexibly adapting the letter of a typical due diligence process to the current Russian environment; rigorous, iterative review of projects both before and after investment to maintain high standards and identify and learn from mistakes; and aggressively seeking out partners — Russian and foreign — who can help the Fund identify promising projects, contribute to the due diligence process and in some cases share the risk of the transaction. In all of this, however, the Fund recognizes that it must be prepared to accept a higher level of risk than might normally be the case in a private investment fund. Given the current business environment in Russia, drawing a line as to acceptable levels of risk is very difficult.

In practice, this approach has led the Fund to develop two distinct ways of identifying projects and undertaking the due diligence process: direct investments and the Small Business Lending Program. Each implements the basic elements of the Fund’s approach in somewhat different combinations in order to pursue the Fund’s overall mandate from different directions.
Direct Investments

The Fund's direct investments respond to our responsibility to play an advance, catalytic role for private investors. While commercial viability remains a key consideration in the Fund's investment decisions, another important aspect of our investment philosophy is a focus on transactions that have the potential for visible and constructive demonstration effects. RAEP recognizes that more than the usual risk of loss on investments is necessary if we are to play this catalytic role in Russia for small and medium-sized investing.

The Fund has no limitations on the type of financial instruments it may use to invest and considers equity, debt, guarantees and other types of transactions. The Fund also does not focus on the few, more popular sectors of the Russian economy traditionally attracting the bulk of foreign investment, but instead will invest in a broad spectrum of companies across the Russian economy.

The Fund will finance companies that produce solely for the domestic market without any export revenues. This applies to companies owned solely by Russian entities or individuals as well as those with foreign participation. The Fund appreciates the difficulty of maintaining this degree of openness to such a wide range of proposals, particularly in the context of the current unsettled monetary, regulatory and legal environment in Russia. Nevertheless the Fund sees its ability to operate and make viable investments of diverse types, without waiting for the local investment climate to accommodate all the needs of foreign investors, as an important part of its mandate in Russia.

An important strategy that helps the Fund in pursuing this highly flexible approach to its direct investments is to invest in joint ventures with other investors, particularly other American firms. In this way, the Russian partner receives much-needed technical and managerial expertise, and the co-investor gets — with the Fund's participation — a financially viable partner. The Fund, of course, gets valuable assistance from corporate partners in one or more critical areas, including due diligence, technical assistance, and project oversight, as well as being able to share the risk.

Toward the end of 1994, the Fund intensified its efforts to seek out other U.S. firms that, with the Fund's participation, would be interested in pursuing investment opportunities in Russia.
Implementation of the Fund’s approach to direct investments revolves around a rigorous but efficient review process. An investment team reviews the commercial viability of the proposed project based on the description presented. If recommended for further consideration, the investment team reviews the applicant enterprise’s detailed business plan and makes a recommendation to senior management. If management decides to proceed, an investment team visits the company, considers potential joint-venture partners and begins to structure a transaction. Management again meets with the investment team and decides whether or not to proceed. The project then undergoes further due diligence and results are presented to senior management, the Investment Committee, or the Board for final review and approval. Funds are then disbursed and the enterprise’s performance is monitored on an ongoing basis.

This methodology involves both Russia and New York-based staff, and ensures that proposals adhere to suitable standards and due diligence requirements. At the same time, with the bulk of the Fund’s investment staff based in Russia, the investment process never becomes disengaged from the realities of Russia, and is responsive to the needs of the Russian entrepreneur-partners.

Through September 30, 1994 the Fund approved and closed two investments, which are discussed below. A list of investments closed or conditionally approved through year-end 1994 is included on page 17.

**TIME**

On July 26, 1994, the Russian-American Enterprise Fund made its first equity investment, taking a 25 percent ownership stake in AOZT TIME, a small enterprise producing women’s skirts. At the time of investment, the Fund committed to providing TIME with a total of $280,000 in the form of a combination of debt and equity financing. The first tranche, in the summer of 1994, included the equity purchase as well as a three-year, fixed-rate loan with an initial six month grace period on principal repayment. Proceeds were used by TIME to purchase a few key pieces of equipment, refinance existing debt and add to working capital. A second tranche of financing is planned for disbursement in 1995 once the company has successfully stabilized at higher production levels and is ready for another major expansion. With this investment, the Fund provided critical financial support to a young
entrepreneurial company, allowing TIME to increase production levels and improve product quality through the purchase of new equipment and alleviation of a working capital crunch stemming from burdensome interest expenses. This transaction also demonstrated the Fund’s ability and willingness to structure innovative transactions with Russian-owned companies operating in the domestic market.

ZAPSIBINVEST

On September 19, 1994, the Fund provided a DM 1,500,000 (approximately $1,000,000) loan to a wood processing company, Zapsibinvest, that needed additional funds for new production capabilities. The project originated with the European Bank for Reconstruction and Development which approached the Fund and a group of international banks and investment funds to participate in a DM 14,800,000 debt financing for the company. This co-financing arrangement by an international financial consortium became a unique model of a successfully completed western-standard project financing of a Russian managed company.
Small Business Lending Program

The second major thrust of the Fund’s efforts to date focuses on generally very small scale businesses and small transaction amounts. The Small Business Lending Program (SBLP) represents a different approach to balancing the need for suitable due diligence with the need for responsiveness, flexibility and fairness, and the desire to maximize the impact of the Fund’s capital through demonstration and multiplier effects. Through the SBLP, the Fund establishes relationships with selected Russian banks, which act as partners with the Fund, helping to identify potential borrowers, perform due diligence, and share in the risks and returns on credits extended.

In contrast to the direct investment approach, which is driven by individual — and often vastly dissimilar — transactions, the SBLP is centered on developing relationships with a set of partners. Through these partnerships, the Fund pursues multiple objectives: processing relatively large numbers of applications at low cost while maintaining suitable standards of due diligence; providing effective, on-the-job training to substantial numbers of Russian bankers; and demonstrating the viability of new financing vehicles or types of businesses.

The program lends itself — although it is not restricted to — transactions that are “replicable”, such as financing of franchisers, or loans for particular types of agricultural or manufacturing equipment, and it is hoped that the program will effectively demonstrate new types of financing, and spread the impact of the Fund widely throughout Russia.

The SBLP finances medium-term loans to small entrepreneurial Russian enterprises, while at the same time affording the Russian banks valuable lending experience. The Fund offers participating Russian commercial banks financing for approved loans, servicing fees in return for administering loans and sharing the risk, staff support, and training to enhance their small business lending capabilities. The program offers loans of $5,000 to $100,000 for firms with up to a few dozen employees. Loan maturities are from six to 24 months.

The Fund assigns members of its own program staff, composed of experienced small business bankers, to participating banks. Fund
and bank staff then work together in identifying borrowers, structuring loans, and monitoring performance. Once staff has identified a borrower and structured a loan, it is submitted for approval to a “credit committee” composed of representatives of RAEF and the participating bank. Once a loan is approved by the committee and finalized with the borrower, the Fund provides funding for the loan. The program provides for the Fund and the participating bank to share the income from the loans as well as any losses.

Aside from providing direct support to small and start-up private enterprises, the program helps demonstrate to Russian banks how to structure small business loans appropriately, setting maturities, interest rates and repayment schedules that are consistent with the cash flows of the clients and profitable to the banks. It also provides a vehicle through which the Fund can quickly provide support to new types of businesses and work to reinforce efforts of other entities involved in small business development.

The Fund has committed an initial $10 million to the program. It is currently working in four cities with eight banks and will gradually expand the program over the coming months as initial training is completed.

Technical Assistance

The Fund has found that in many of the investment projects it has reviewed, investment in human capital is as important as its prospective financial investment. The entrepreneurs with whom the Fund is working may need help with internal financial management, marketing, design and even corporate restructuring if the project is to begin to realize its potential.

In many cases, the Fund endeavors to enlist the participation of co-investors, such as U.S. companies, who can help to provide some or all of these skills and training as part of their contribution to the project. In other cases, the Fund works closely with other U.S. Government-funded organizations that specialize in providing management and technical support to private Russian businesses and entrepreneurs.

The Fund has found that there is a wide array of technical assistance available on the ground in Russia, and is working with the U.S. Department of State, the U.S. Agency for International Development, the U.S. Department of Commerce and other U.S. and international entities to coordinate these initiatives with its own financing. By doing so, the Fund can increase the performance of its investee companies in a cost effective manner and also increase the impact of the full range of U.S. private sector support efforts.
LOOKING FORWARD

After one year in full operation the Fund has demonstrated that obstacles to investment in the Russian private sector are surmountable and that the Fund can help provide a foundation for private investment in emerging Russian businesses. The Fund today has in place experienced management, a skilled staff and a meaningful presence in Russia. There are a significant number of promising projects being finalized in both the Small Business Lending Program and as direct investments.

The Fund expects to build on this foundation over the coming year in a number of key respects. Fund management expects that larger, direct investments will total on the order of $30-$60 million over the coming year, and that the Small Business Lending Program could reach monthly lending in excess of $1 million, representing dozens of separate loans.

As important as the volume of disbursements, the Fund expects to emphasize new types of financing structures, such as leasing, guarantees, franchising or specialized agricultural lending. Through the implementation of these structures, the Fund can demonstrate approaches to small scale business development which can be replicated at relatively low cost throughout the Russian Federation.

The Fund will necessarily devote increasing attention over the coming year to monitoring and overseeing the projects in which it has invested. The Fund will work closely with co-investors and other entities to ensure that business skills and techniques relevant to operating successfully in a market economy are transferred and implemented by its investee companies, both to ensure their own success and to demonstrate the successful application of these techniques in the Russian context. The challenge facing the Fund will be to balance the need to exercise adequate post-investment oversight with the ongoing demands of evaluation, due diligence, and structuring of new projects.

As it develops its capabilities to invest in Russia, the Fund will devote its attention to mobilizing other investors, thereby multiplying the impact of its U.S. Government funds. In addition to its ongoing efforts to encourage the participation of co-investors in individual projects, the Fund will also begin to explore ways of mobilizing other pools of capital, such as other private funds already under management or funds that might be brought under the Fund’s management.

Any one of these inter-related objectives is a major initiative in itself. The challenge facing the Fund’s management over the coming year will be to make progress in all areas in a way that will preserve the long-term prospects of the Fund. Only in this way can the Fund help promote market reforms in Russia on a concrete level relevant to the lives of Russian entrepreneurs and consumers and demonstrate to potential private investors that, despite the obstacles, investment can be profitably undertaken in the new Russia.
### Direct Investments Approved through December 31, 1994

<table>
<thead>
<tr>
<th>Company</th>
<th>Date of Closing</th>
<th>Date of Conditional Approval</th>
<th>Debt and Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TIME, Podolsk</strong></td>
<td>7/26/94</td>
<td>10/12/94</td>
<td>Debt and Equity: $280,000</td>
</tr>
<tr>
<td>RAEF took a 25% equity stake in AOZT Time, a small women’s skirt producer. Proceeds were used to purchase key pieces of equipment, refinance existing debt, and add to working capital.</td>
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<tr>
<td><strong>ZAPSIBINVEST, Archangel</strong></td>
<td>8/3/94</td>
<td>12/7/94</td>
<td>Debt: DM 1.5 million (approx. $1 million)</td>
</tr>
<tr>
<td>Zapsibinvest, a small wood processing company, required additional funds for new production capabilities. RAEF participated in a financing arranged by the EBRD.</td>
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</tr>
<tr>
<td><strong>GRANT, Moscow</strong></td>
<td></td>
<td>12/8/94</td>
<td>Debt: $780,000</td>
</tr>
<tr>
<td>RAEF has agreed to purchase 20% of GRANT, one of the pioneers of the financial services industry in Russia.</td>
<td></td>
<td></td>
<td>Equity $600,000</td>
</tr>
<tr>
<td><strong>MARIGRAZHDANSTROY, Yoshkar Ola</strong></td>
<td></td>
<td>12/7/94</td>
<td>Debt: $8.8 million</td>
</tr>
<tr>
<td>The Fund will finance the purchase of a complete line of equipment for a newly organized subsidiary of the region’s leading construction company to produce high quality concrete blocks.</td>
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</tr>
<tr>
<td><strong>DIESELPROM, Cheboksary</strong></td>
<td></td>
<td>12/8/94</td>
<td>Debt and equity: $8.8 million</td>
</tr>
<tr>
<td>The financing for a manufacturer and assembler of high quality diesel engines will expand production of component parts currently purchased abroad.</td>
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Report of Independent Accountants

To the Board of Directors of
Russian-American Enterprise Fund

We have audited the accompanying balance sheet of the Russian-American Enterprise Fund (the “Fund”) as of September 30, 1994 and the related statements of revenues, expenses and changes in fund balance and of cash flows for the period from September 27, 1993 (date of incorporation) 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 Russian-American Enterprise Fund as of September 30, 1994, and the results of its operations, changes in fund balance and its cash flows for the period then ended in conformity with generally accepted accounting principles.

As explained in Notes 2 and 7, the financial statements include investments and loans valued at $1,123,064 (15% of the total assets), 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 arriving at their estimates of value 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 and loans existed, and the differences could be material to the financial statements.

Price Waterhouse LLP
New York, New York
November 21, 1994
Russian-American Enterprise Fund
Financial Statements
September 30, 1994
Russian-American Enterprise Fund
Balance Sheet

September 30, 1994

Assets

Cash and cash equivalents $1,332,752
Short-term investments 2,458,365
Accrued interest on short-term investments 15,812
Rent and other receivables 541,673
Security deposits and prepaid expenses 861,268
Loans 1,073,903
Equity investment 49,161
Organizational costs, net of accumulated amortization of $41,567 85,153
Fixed assets, net of accumulated depreciation and amortization of $85,993 959,918

Total assets $7,378,005

Liabilities and Fund Balance

Liabilities

Accounts payable and accrued expenses $911,380
U.S. Government grants received and held for future program purposes 3,718,443

Total liabilities 4,629,823

Commitments (Note 8)

Fund balance 2,748,182

Total liabilities and Fund balance $7,378,005

The accompanying notes are an integral part of the financial statements.
Russian-American Enterprise Fund
Statement of Revenues, Expenses and Changes in Fund Balance

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues</strong></td>
<td></td>
</tr>
<tr>
<td>Interest on loans</td>
<td>$ 1,304</td>
</tr>
<tr>
<td>Commission fees on loan</td>
<td>17,009</td>
</tr>
<tr>
<td>Interest from short-term investments</td>
<td>31,280</td>
</tr>
<tr>
<td>Interest from cash and cash equivalents</td>
<td>23,081</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>72,674</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>1,345,406</td>
</tr>
<tr>
<td>Employee business expenses</td>
<td>476,237</td>
</tr>
<tr>
<td>Occupancy</td>
<td>339,674</td>
</tr>
<tr>
<td>Professional services</td>
<td>715,843</td>
</tr>
<tr>
<td>Directors expenses and fees</td>
<td>139,539</td>
</tr>
<tr>
<td>Direct operating costs</td>
<td>400,435</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>127,560</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>3,544,694</td>
</tr>
<tr>
<td>Net operating loss</td>
<td>(3,472,020)</td>
</tr>
<tr>
<td>U.S. Government grants utilized for program expenditures</td>
<td>6,220,202</td>
</tr>
<tr>
<td>Excess of revenue over expenses</td>
<td>2,748,182</td>
</tr>
<tr>
<td>Fund balance - beginning of period</td>
<td>-</td>
</tr>
<tr>
<td><strong>Fund balance - end of period</strong></td>
<td>$ 2,748,182</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
Russian-American Enterprise Fund  
Statement of Cash Flows  

| For the Period | September 27, 1993  
(date of incorporation)  
through  
September 30, 1994 |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
</tr>
<tr>
<td>Excess of revenues over expenses</td>
<td>$2,748,182</td>
</tr>
<tr>
<td>Adjustment to reconcile excess of revenues over expenses to net cash used for operating activities:</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>127,560</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
</tr>
<tr>
<td>U.S. Government grants received and held for future program purposes</td>
<td>3,718,443</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>(15,812)</td>
</tr>
<tr>
<td>Receivables, security deposits and prepaid expenses</td>
<td>(1,402,941)</td>
</tr>
<tr>
<td>Organizational costs</td>
<td>(126,720)</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>911,380</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash provided by operating activities</td>
<td>5,960,092</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
</tr>
<tr>
<td>Loans and equity investment</td>
<td>(1,123,064)</td>
</tr>
<tr>
<td>Short-term investments</td>
<td>(2,458,365)</td>
</tr>
<tr>
<td>Purchase of fixed assets and leasehold improvements</td>
<td>(1,045,911)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(4,627,340)</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase in cash and cash equivalents and Cash and cash equivalents, end of period</td>
<td>$1,332,752</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of the financial statements.
Russian-American Enterprise Fund
Notes to Financial Statements
September 30, 1994

1. Organization of Fund

The Russian-American Enterprise Fund (the “Fund”) was incorporated in the State of Delaware as a not-for-profit corporation on September 27, 1993. The Fund was established, pursuant to the Support for Eastern European Democracy Act of 1989 (the “SEED” Act) and the 1992 Freedom for Russia and Emerging Eurasian Democracies and Open Markets Support Act (the “FREEDOM” Act), for the primary purpose of promoting the development of the Russian private sector and policies and practices conducive to such development. The U.S. Government has committed to funding of $340 million for the Fund through the Agency for International Development (“AID”) for program purposes and administrative expenditures (the “AID Grant”).

The Fund is engaged in equity investments and loans to small-to-medium sized private and privatizing firms in Russia. The Fund will actively seek corporate and financial partners from the United States, Russia and elsewhere.

In the latter part of fiscal year 1994, the Fund began a program known as the Small Business Lending Program, targeted to very small enterprises. Through this program, the Fund offers participating Russian commercial banks financing for approved loans, servicing fees in return for administering loans and sharing the risk, staff support, and training to enhance their small business lending capabilities.

2. Summary of Significant Accounting Policies

Investment valuation

The Fund’s loan and equity investments are not readily marketable and are not listed on an exchange or quoted in an open market. These investments were made in September 1994 and are stated at fair value which approximated cost. Investment valuation is undertaken annually by management and in each case is approved by the Board of Directors (the “Board”) in conformity with the following broad guidelines:

Investments are carried at cost except where a change in the company’s situation clearly warrants a revaluation. A conservative basis will be sought by generally requiring upward adjustments to be based on values established in meaningful third party transactions in the securities of the company in question, while downward adjustments may be made at the discretion of the Board to reflect changed conditions within the company.

The carrying values assigned to these investments will be based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be determined with certainty until the individual positions are liquidated.
Grant funds
Grant funds received are recognized in the statement of revenues, expenses and changes in Fund balance when funds are disbursed consistent with the purposes of the Fund set forth in the SEED and FREEDOM Acts. Amounts received but not disbursed are reported as Grants received and held for future program purposes.

Translation of foreign currency
The Fund's functional currency is the U.S. dollar. Operating transactions in Russia are conducted primarily in Russian rubles. U.S. dollars are exchanged for Russian rubles only when needed.

The Fund's assets and liabilities reported in the accompanying balance sheet at September 30, 1994, were denominated and payable in U.S. dollars, except for: (1) a loan of $956,403 to a Russian company, denominated in German marks and translated into U.S. dollars at the year-end exchange rate; and (2) an equity investment and a loan made to a Russian company totaling $139,161, denominated in U.S. dollars, but payable in Russian rubles. Revenues and expenses transacted in Russian rubles are translated into U.S. dollars at the exchange rate in effect on the date of the transaction.

Depreciation and amortization
Computer and office equipment and furniture are depreciated on a straight-line basis over their estimated useful lives which range from three to five years. Leasehold improvements are amortized on a straight-line basis over the non-cancelable term of the lease. Organizational costs are amortized on a straight-line basis over three years.

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

Employee business expenses
Expenses for travel, lodging, meals and other direct expenses incurred by employees in connection with the Fund's operations are classified as employee business expenses. The major components of employee business expenses were approximately $231,000 for travel, $141,000 for lodging and $38,000 for meals.

Occupancy
Rent for the Moscow office is approximately $28,000 per month; rent for the New York office is approximately $12,000 per month.
Russian-American Enterprise Fund
Notes to Financial Statements (Cont’d)
September 30, 1994

Professional services
The major expenses for professional services included legal fees ($195,000), computer and communications systems for the New York and Moscow offices ($176,000), compensation of interim Fund staff prior to establishment of the Fund payrolls ($132,000), accounting and audit ($60,000), and development and implementation of a benefits package ($48,000).

Donated services
Members of the 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 consolidated financial statements for such donated services, inasmuch as no objective basis is available to measure the value of such services. The Fund’s Russian directors receive a $5,000 annual fee for providing advice and assistance to the Fund in connection with its investment operations. For the year ended September 30, 1994, the total amount paid or due to all Russian directors was $25,000.

Board of Directors expenses
Travel and other direct expenses incurred by members of the Board of Directors in connection with Fund activities are reimbursed by the Fund. For the year ended September 30, 1994, these expenses totaled approximately $86,000, including the costs of holding one Board meeting in Moscow. Additionally, the Fund incurred general board meeting expenses of approximately $29,000 for the year. Compensation to Russian directors is as described above.

Direct operating costs
Expenses for general and administrative costs, telecommunications, and insurance are classified as direct operating costs. General and administrative expenses were approximately $224,000, $100,000 of which was related to rental of computer and office equipment in the start-up phase of the Fund’s operations. Additionally, telecommunications expenses and insurance costs totaled approximately $138,000 and $32,000 respectively.

3. Government Grants

Amounts received from AID are conditioned upon the Fund’s compliance with the requirements of the AID Grant, and the SEED and FREEDOM Acts, which impose certain U.S. policy objectives and reporting obligations. Under the terms of the AID Grant, the Fund may hold funds in interest bearing accounts and may retain investment and program income for program purposes.
As of September 30, 1994, the status of the AID Grant was as follows (in millions):

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Funds received from AID</td>
<td>$ 9.9</td>
</tr>
<tr>
<td>Remaining funds from 1993 appropriations, available under</td>
<td></td>
</tr>
<tr>
<td>letter of credit from AID</td>
<td>10.1</td>
</tr>
<tr>
<td>Funds appropriated in 1994, available under letter of</td>
<td></td>
</tr>
<tr>
<td>credit from AID</td>
<td>50.0</td>
</tr>
<tr>
<td>Total funds appropriated as of September 30, 1994</td>
<td>70.0</td>
</tr>
<tr>
<td>Remaining amount to be granted by AID</td>
<td>270.0</td>
</tr>
<tr>
<td>Total</td>
<td>$ 340.0</td>
</tr>
</tbody>
</table>

The Fund accounts for its grant activities in accordance with generally accepted accounting principles for not-for-profit organizations, which require that grant funds received be recognized in the statement of revenues, expenses and changes in fund balance when utilized for program purposes. When the Fund makes disbursements for investments, loans, operating expenditures, and fixed assets, grant funds are considered utilized for program purposes. In the accompanying statement of revenues, expenses and changes in fund balance, AID grants totaling $6.2 million are treated in this manner, and are reported as U.S. Government grants utilized for program purposes.

4. Cash and Cash Equivalents

At September 30, 1994, the Fund’s cash and cash equivalents are deposited in three financial institutions. Approximately $1,270,000 is deposited in one United States financial institution (principally in money market funds). The above financial institution has issued a letter of credit on behalf of the Fund, in connection with the Fund’s lease for its New York office (see Note 8), and accordingly, the Fund is required to maintain a balance of $367,500 with such financial institution. Approximately $44,500 of the Fund’s cash and cash equivalents is deposited in Russian commercial banks (demand deposits), of which approximately $1,500 is denominated in Russian rubles.

5. Short-Term Investments

In April 1994, AID granted the Fund a cash buffer of approximately $2.5 million, which at September 30, 1994 was invested in U.S. Treasury instruments. These instruments have maturity dates ranging from three to six months.
6. Fixed Assets

At September 30, 1994 fixed assets consist of:

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer equipment</td>
<td>$294,631</td>
</tr>
<tr>
<td>Furniture</td>
<td>242,192</td>
</tr>
<tr>
<td>Office equipment</td>
<td>37,523</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>471,565</td>
</tr>
<tr>
<td></td>
<td>1,045,911</td>
</tr>
</tbody>
</table>

Less: Accumulated depreciation/amortization 85,993

Net Book Value $959,918

7. Loans and Equity Investment

Loans and equity investment consist of the following at September 30, 1994:

<table>
<thead>
<tr>
<th>Description</th>
<th>Ownership Percentage</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time, common stock</td>
<td>25%</td>
<td>$49,161</td>
</tr>
<tr>
<td>Zabsibinvest, loan,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>11% interest per annum,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>repayable March 31, 2000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time, loan,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15% interest per annum,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>repayable in September 1997</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Business Lending Program</td>
<td></td>
<td>27,500</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>$1,123,064</td>
</tr>
</tbody>
</table>

8. Commitments

Investments

In addition to the loans and equity investment detailed in Note 7 and included in the accompanying balance sheet at September 30, 1994, the Fund committed to make an additional loan in the amount of $140,000 to Time, a privately owned company.
Leases
The Fund is committed to make rental payments under operating leases for office space. Rent expense for the period ended September 30, 1994 was $322,336 net of sublease rental income of $111,000. Rent expense is included in occupancy expense in the Statement of Revenue, Expenses and Changes in Fund Balance. Minimum annual lease commitments subsequent to September 30, 1994 are as follows:

Fiscal year ended September 30:

<table>
<thead>
<tr>
<th></th>
<th>Total</th>
<th>Moscow</th>
<th>New York</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>1996</td>
<td>723,138</td>
<td>553,600</td>
<td>169,538</td>
</tr>
<tr>
<td>1997</td>
<td>738,550</td>
<td>553,600</td>
<td>184,950</td>
</tr>
<tr>
<td>1998</td>
<td>738,550</td>
<td>553,600</td>
<td>184,950</td>
</tr>
<tr>
<td>1999</td>
<td>184,950</td>
<td>0</td>
<td>184,950</td>
</tr>
<tr>
<td>2000</td>
<td>184,950</td>
<td>0</td>
<td>184,950</td>
</tr>
</tbody>
</table>

$ 2,570,138  1,660,800  924,750

9. Tax Status

United States
The Fund has applied to the Internal Revenue Service for tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code. Upon receiving a favorable determination from the Internal Revenue Service, the Fund will apply for exemption from state and local income and other taxes.

Russia
The Fund's Moscow and Khabarovsk offices ("the offices in Russia") were registered in Russia as accredited representative offices in fiscal 1994. Under a bilateral agreement between the Government of the United States of America and the Government of the Russian Federation regarding cooperation to facilitate the provision of assistance ("the Agreement") the Fund is exempt from taxation on income received in connection with implementation of the United States assistance programs. The application of other taxes to the offices in Russia under the Agreement is currently subject to negotiations between the two governments. Management does not expect the tax liability, if any, relating to the offices in Russia to have a material effect on the financial statements of the Fund as of and for the period ended September 30, 1994.
RUSSIAN-AMERICAN ENTERPRISE FUND
OFFICERS

A. Robert Towbin
President and Chief Executive Officer

Steven E. Halliwell
Chief Financial Officer

Paul DiLeo
Senior Vice President

Lori Singer
Treasurer

Moscow
Michael P. Tavis - Managing Director
Paul Asel - Vice President
Larisa Dydykina - Vice President
Mary Petersen - Vice President

Khabarovsk
Laurence Eubank - Managing Director

New York
Roman Pipko - Managing Director
Katarzyna Babinska - Vice President

Small Business Lending Program
Randal L. Petersen - Director

LOCATIONS

Russian-American Enterprise Fund
Tsvetnoy Blvd., 25/3
5th Floor
Moscow 103051
Russia
tel: (7-095) 929-9888
fax: (7-095) 929-9828

Small Business Lending Program
Russian-American Enterprise Fund
Tsvetnoy Blvd., 25/3
5th Floor
Moscow, 103051
Russia
tel: (7-095) 929-9888
fax: (7-095) 929-9828
RUSSIAN-AMERICAN ENTERPRISE FUND
BOARD OF DIRECTORS

E. Gerald Corrigan, Chairman
Chairman, International Advisors
Goldman, Sachs & Co.
New York, NY

Maxim Vladimirovich Boycko
Chief Executive Officer
Russian Privatization Center
Moscow

Robert M. Brown III
President
First Russia Capital Corporation
New York, NY

Sarah C. Carey, Partner
Steptoe & Johnson, Esqs.
Washington, D.C.

Victor Vladimirovich Dmitriev
President
Russian Bank for Reconstruction and Development
Moscow

Richard W. Fisher
Managing Partner
Fisher Capital Management
Dallas, TX

The Honorable Gary Hart
Of Counsel
Coudert Brothers
New York, NY

William L. Hensley
Senior Vice President
NANA Regional Corporation
Anchorage, AK

Robert D. Hormats
Vice Chairman
Goldman, Sachs International
New York, NY

Karen Horn
Chairman and Chief Executive Officer
Bank One Cleveland, NA
Cleveland, OH

Vladimir Ivanovich Ivankov
Deputy Chairman and General Director
Siberian Accord
Novosibirsk

Mickhail Alexandrovich Kharshan
Chairman
First Investment Voucher Fund
Moscow

Oleg Vladimirovich Kiselev
Chairman
MOSEXPO
Moscow
Ilya Iyosifovich Klebanov
General Director
LOMO
St. Petersburg

Victor Victorovich Korovin
General Director
Uralmash
Yekaterinburg

Evgeny Vassilyevich Lensky
Advisor to First Deputy Prime Minister of the Russian Federation
Moscow

Nikolai Borisovich Makarov
General Director
Continentalinvest
Moscow

Earl Molander
Executive Director
Free Market Business Development Institute
Portland, OR

John J. Murphy
Chairman and Chief Executive Officer
Dresser Industries
Dallas, TX

Richard Sklar
Executive Vice President
O’Brien-Kreitzberg
San Francisco, CA

Sharon Tennison
President
Center for Citizen Initiatives - USA
San Francisco, CA

A. Robert Towbin
President and Chief Executive Officer
Russian-American Enterprise Fund
New York, NY

Igor Nikolaevich Tsvetkov
President
DALTRANS
Khabarovsk

Richard D. Turner
Senior Vice President
South Shore Bank
Chicago, IL

This Annual Report was created and designed by the staff of the Russian-American Enterprise Fund.