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ELWFO

Information Memorandum

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Foreword

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Warburgs will act as the sole point of contact with prospective partners of Elwro and no contact should be made under any circumstances with the management of Elwro without the express permission of Warburgs. Enquiries should be addressed to one of the individuals listed below:

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Summary of terms and definitions

“Elwro”, the “Elwro Group” or the “Group”	Elwro Electronics Enterprise (Zakłady Elektroniczne Elwro) and all subsidiary and operating companies under its control
“ZK”	The computer plant (Zakład Komputerowy)
“BHZ”	The Elwro Foreign Trade Office
“Eastern European Countries”	U.S.S.R., Hungary, Czechoslovakia, East Germany, Bulgaria and Romania
“Comecon Countries”	Those countries which are members of Comecon
the “domestic market”	Poland
the “Law”	The Polish foreign investment law of 1988 which was amended on 28th December, 1989 with effect from 1st January, 1990
“Warburgs”	S.G. Warburg & Co. Ltd.
“Zl.”	Polish Zloty
“\$”	U.S. dollars (for exchange rates used, see page 7)
GDR	German Democratic Republic (East Germany)
CSR	Czechoslovakia
PCB	Printed circuit board

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Executive summary

- 1.1 Introduction** The Elwro Group management believes that, following recent political changes and legal reforms designed to encourage foreign investment in Poland, the Elwro Group represents an attractive opportunity for a foreign company to invest in Eastern Europe. The foreign company could use the Group's East European sales network, it could use the Group as a relatively cheap manufacturing base for sales to the West or East and could have management influence directed at further improving Elwro's future performance. The Elwro management has requested S.G. Warburg & Co. Ltd. to approach certain Western companies with a view to arranging an investment in Elwro's business on mutually acceptable terms.
- 1.2 Business description** The Elwro Group is based in Wroclaw, Poland. Founded in 1959, it has developed rapidly. It now manufactures micro-computers, computers and computer and teleprocessing equipment and systems, as well as calculators, industrial automation systems and other electronic products. Computer products account for 67 per cent. of Group sales and are compatible with IBM equipment. Elwro has recently entered into an agreement to distribute 'Microsoft' software in Poland and in certain other countries.
- Elwro's development has been in part due to the trade structure of the Eastern European countries. As a member state of Comecon, Poland developed specific industries in the past in line with the respective Comecon plans. Elwro's technical experience, supported by the skilled technical staff of the Elwro Group (mostly trained by Wroclaw's Polytechnic and University), enabled it to develop a very strong market position in Eastern Europe. As a result, 56.3 per cent. of Elwro's sales in 1989 were exported to the major Eastern European countries (compared to 46.6 per cent. in 1988).

1.3 Financial summary

The following table, extracted from the accountants' report in Part 5 of the memorandum, illustrates the historic financial record of Elwro and the results for the year ended 31st December, 1989, restated in accordance with Western generally accepted accounting principles.

Year ended 31st December, 1989					
	1986	1987	1988	1989	1989
	Zl.bn	Zl.bn	Zl.bn	Zl.bn	\$m
Sales	15.4	19.9	56.7	117.8	28.9
Profit before taxation	4.3	5.7	10.2	58.8	14.4
Taxation	(3.1)	(3.3)	(6.4)	(15.2)	(3.7)
Dividends	—	—	—	(1.2)	(0.3)
Retained profit	1.2	2.4	3.8	42.4	10.4

As at 31st December, 1989, net assets of Elwro, restated as above, were Zl.57.7 billion (\$8.9 million) on an historic cost basis and Zl.418.2 billion (\$64.6 million) on an estimated current cost basis.

See note on the electronics plant below.

The Elwro management believes that a foreign company would be able to achieve convertible currency returns from a partnership with Elwro in various ways. These derive partly from Elwro's substantial exports, mainly to other Eastern European countries, which produced a net surplus (after deduction of all import requirements) of Zl.52.4 billion (\$12.9 million) during 1989. Elwro understands that discussions are being held between various Eastern European governments which could result in their mutual trade being changed to a convertible currency basis. In that event, Elwro's export surplus would contribute to a pool out of which, under Polish regulations, dividends could be paid to a convertible currency investor. In any event, convertible currency dividends can be paid in respect of 15 per cent. of domestic Polish profits. Greater dividend payments can be made if approval is sought and obtained from the Ministry of Finance. Elwro can also buy convertible currency freely at the official exchange rate for any imports.

Note: Electronics plant

With effect from 1st May, 1990 an electronics plant manufacturing measurement and control apparatus has been separated from Elwro. This plant's sales and profits before taxation (according to Elwro's figures which have not been reviewed by KPMG Peat Marwick McLintock) represented 8 per cent. and 7 per cent. respectively of the Elwro total in respect of the year ended 31st December, 1989.

Recently, Poland has negotiated an agreement with the United States regarding, inter alia, the level of dividend which a joint-venture would be able to repatriate to the U.S. The treaty is currently awaiting ratification by the U.S. Senate. Under the proposed treaty the current 15 per cent. limit would be increased on a sliding scale to, for example, 35 per cent. of cumulative profits not previously repatriated by 1993 and 100 per cent. by 1996. The Elwro management understand that a number of similar treaties are being negotiated with, inter alia, West Germany. The treaty signed between the U.K. and Poland states, inter alia, that British investors should receive treatment no less favourable than that which Poland accords to investments or returns of investors of any third State.

This memorandum sets out further information on the assets of Elwro, its business, and the regulations concerning the payment of dividends to an outside investor. Potential investors will have the opportunity to conduct their own investigation in order to enable them to assess the value of Elwro and therefore the amount which they might be prepared to invest in co-operating with Elwro in the manner envisaged on pages 7 and 8.

The various forms of economic assistance which have been promised by other countries to Poland may enable Elwro and its partner to obtain finance for the further expansion of Elwro's business on favourable terms.

- 1.4 **A partnership opportunity**
- The Elwro management believes that the attractions of the Group to an outside partner can be summarised as follows:-
- Elwro has a well-developed sales distribution and service network in Eastern Europe which could assist any partner in gaining direct access to these markets. The map in Appendix I illustrates Elwro's sales network in Eastern Europe.
 - Elwro is an established business with a strong market position in its domestic markets and an established customer base for its principal products in the Soviet Union and Eastern Europe.
 - Elwro expects a significant increase in demand for micro-computers, computer systems, telecommunications, and other technological equipment both from the domestic market and from other Eastern European countries following the liberalisation of these economies. This process is expected to include the establishment of new joint ventures, new banks, management schools, and also stock and commodity markets. During 1989 a total of 866 new joint-ventures involving foreign capital were licenced in Poland.

- Elwro's skilled labour force and manufacturing facilities offer any partner the opportunity of producing a new range of computer equipment for sale in Eastern Europe and for export to Western Europe and other markets. The low cost of skilled labour (average costs of approximately US\$0.71 per hour⁽¹⁾) and certain raw materials in Poland enables Elwro to produce competitively priced products.
- Elwro finances an established R&D facility which is under-utilised at present as resources do not permit the development of more sophisticated products which require foreign component imports. Elwro has special access to Wroclaw's specialist education facilities which provide a local 'pool' of qualified engineers and skilled workers.
- A foreign partner would be able to exert direct management influence (including board representation) to improve Elwro's future performance.
- The increased provision of aid to Poland and other Eastern European countries currently in the process of liberalisation points to a significant improvement in telecommunications, infrastructure and general services in Poland and elsewhere in Eastern Europe.

Elwro is aware that the import of certain electronic products to Poland and other Eastern European countries is currently restricted by Co-Com. However Co-Com is relaxing the restrictions in respect of Poland and Hungary and other Eastern European countries in the light of recent events. Elwro therefore expects its partner to co-operate in the manufacture of products whose sale is permitted by Co-Com. It should be borne in mind that relatively sophisticated electronic equipment is already widely available in Eastern Europe and that the improvement of telecommunications will require the relaxation of Co-Com restrictions in this sector. Appropriate measures will be taken where sales to particular countries are restricted by Co-Com.

1.5 Form of co-operation The Elwro management believes that the most appropriate form of co-operation would include the following elements:

- Elwro would be converted into a joint stock company (Spolka Akcyjna or "S.A.").
- The partner would have full board representation, voting and other rights equivalent to a 35 or 50 per cent. equity interest in Elwro. In the latter case the casting vote would initially be in Polish hands but the foreign investor would have the right of veto on certain matters. The other shares may well be widely held in the future (see paragraph 1.6 below).

(1) The average cost of skilled labour is based on the approximate wages paid by Elwro in January, 1990 translated at the prevailing exchange rate of Zl.9,500 = 1 US\$

- The partner would make available for the future development of the Elwro business a sum in convertible currency which, with the necessary Polish regulatory approvals, would be kept in an overseas deposit account. Elwro and the partner would, in due course, spend the sum on capital equipment and component imports. In the meanwhile interest would accrue to the benefit of Elwro, which could be used to fund dividends paid to the partner.
- The emphasis of the co-operation will be on improving Elwro's "bottom-line" performance for the benefit of the partner and Elwro's other shareholders.

Potential partners will be expected to explain in some detail the ways in which they would be able to contribute technology and know-how to Elwro. The co-operation would result in the development of new Elwro products or of the partner's own new products for manufacture by Elwro. Elwro is also interested in access to new markets.

1.6

Subsequent privatisation

The Elwro Group management envisages that the partner's equity interest in Elwro would be permanent and would not be diluted. The remaining share capital is likely to be owned by the Polish State Treasury, the current owner of the Elwro Group.

Whilst no direct discussions have taken place between Elwro and the Polish authorities on this subject, Elwro understands that current Polish Government policy is to privatise some major state enterprises by selling their shares to employees, to investors in a domestic capital market to be established as soon as practicable, and in certain cases to foreign investors. It is possible that the government's privatisation policy would extend to that part of Elwro's share capital which will be owned by the Polish Treasury after the investment by a foreign party as envisaged in section 1.5 above, in which event the management would like to involve the foreign investor in the discussions and would explore the possibility of part of the enlarged share capital (say 10 per cent.) being sold to employees on favourable terms.

In the meanwhile, the Elwro management would see its aim as being to improve the profitability of Elwro as much as possible for the benefit of all shareholders.

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The business

2.1 Business description The Elwro Group comprises several divisions which are primarily involved in the design, manufacture, sale and distribution of computer and electronic products. In addition, Elwro provides maintenance and other support services.

Elwro's main product areas are:-

- microcomputers;
- teleprocessing systems;
- other computer equipment (including both hardware and software products) and computer systems;
- calculators; and
- industrial automation and control systems.

The largest proportion of exports are computer products (microcomputers, computer systems and teleprocessing systems) which account for over two-thirds of total exports. Income from related spare parts and services increases this figure to over three-quarters of total exports. These products are sold on the whole directly.

57.7 per cent. of total sales were exported in 1989. Details of domestic and export sales and the total sales contribution for each product group are provided in Appendix II.

Elwro's research and development is carried out by an external body, the Institute of Computer Control and Measurement Systems (Instytut Komputerowych Systemów Automatyki i Pomiarów), in Wrocław, which was created and staffed by Elwro in 1977 and continues to be financed largely by Elwro.

2.2 **The history of Elwro** Elwro was formed in 1959 and was initially involved in the manufacture of television sub-assemblies. Subsequently, Elwro went on to develop a range of ICL-compatible computers and associated products. This enabled Elwro to establish a strong customer base in Poland.

Due to the influence of IBM in Eastern Europe generally, and more specifically to the desire of Comecon to develop uniform products, Elwro later switched to the design and manufacture of IBM-compatible computers and associated products.

A full chronological history of the development of Elwro is set out in Appendix III.

2.3 **Structure** Elwro's main plant is the computer plant (zakład komputerowy - "ZK") in Wrocław which manufactures microcomputers, computer and teleprocessing systems and calculators.

Elwro has four separate manufacturing plants, including ZK. Each plant enjoys a high degree of autonomy in day-to-day management, reporting to the Group's senior management on strategic issues. The Group structure of Elwro is set out in Appendix IV.

ZK is the headquarters of the Elwro Group and has two sub-divisions:-

- (a) the electronic equipment division (zakład urządzeń elektronicznych) based in Wrocław (5km from ZK); and
- (b) the printed circuit division (oddział obwodów drukowanych) whose headquarters are in Bierutów (45km from ZK).

ZK also houses the group's service division, Elwro Serwis.

The three remaining manufacturing plants are all self-contained profit centres:-

- (a) the automatic control systems plant (zakład automatyki), in Wrocław (10km from ZK);
- (b) the electro-automatic control plant (zakład elektro-automatyki), in Góra (88km from ZK); and
- (c) the electronic utility products plant (zakład elektroniki użytkowej i podzespołów), with headquarters in Plakowice (115km from ZK).

Group services for the Elwro Group companies are provided by ZK and its central administration departments.

Appendix V illustrates the location of the manufacturing facilities of the Elwro Group in Poland.

- 2.4 **Product range** The main products manufactured by the different parts of the Group are as follows:-
- (a) **Computer plant (ZK)**
 - Professional microcomputers
 - Educational microcomputers
 - Computer systems
 - Data teleprocessing systems
 - Calculators
 - (b) **Electronic equipment division**
 - Desk calculators with printers
 - Calculator printer systems (sub-assemblies)
 - (c) **Printed circuit division**
 - Printed circuit boards
 - (d) **Automatic control systems plant**
 - Automatic control systems for industrial plants
 - Industrial automatic control equipment
 - Street light signalling controllers
 - (e) **Electro-automatic control plant**
 - Industrial automatic control units
 - Electronic feeders
 - Computer furniture (including metal housings, and tables for microcomputers)
 - (f) **Electronic utility products plant**
 - Desk calculators
 - Leisure electronics (e.g. electronic organs)
 - Keyboards

Marketing (a) Export marketing

The 'Foreign Trade Office' (BHZ), which was formed in 1968, conducts import and export activities on behalf of all Group companies. BHZ has its own network of representative offices and Elwro personnel stationed in Eastern European countries as follows:-

U.S.S.R.	- Moscow	Full representative office
	- Kiev	Representative
	- Minsk) Representative planned during 1990
	- Leningrad	
CSR	- Prague	Full representative office
	- Bratislava	Representative
GDR	- Berlin	Full representative office
	- Leipzig	Representative
Hungary	- Budapest	Full representative office
Bulgaria	- Sofia	Representative

The map in Appendix I illustrates the location of Elwro's commercial representative offices and service centres in Eastern Europe.

In addition to the direct export of Elwro's core products by BHZ, Elwro exports certain of its products indirectly through various agencies and other Polish industrial companies which specialise in exporting specific products of certain groups into foreign markets. For example, Fampa (a Polish company specialising in the supply of capital equipment to the paper industry) purchases automation equipment from Elwro specifically for the paper industry which is then exported as part of a total package.

Elwro's exports in the year ended 31st December, 1989, in terms of both direct and indirect sales, are set out in the table below:-

	Total export sales (Zl.m)	Percentage sales per country (%)	Direct sales (%)	Indirect sales (%)
Comecon countries				
U.S.S.R.	38,737.2	55.3	53.5	46.5
Czechoslovakia	21,910.3	31.3	82.2	17.8
GDR	4,890.5	7.0	82.2	17.8
Bulgaria	1,526.6	2.2	-	100.0
Cuba	729.4	1.0	98.8	1.2
Hungary	487.7	0.7	99.9	0.1
Rumania	27.4	0.0	-	100.0
Total	68,309.1	97.6	64.4	35.6
Non-Comecon countries				
West Germany	795.1	1.1	0.6	99.4
Yugoslavia	497.9	0.7	100.0	-
West Berlin	152.3	0.2	100.0	-
China	97.2	0.1	-	100.0
Turkey	64.0	0.1	-	100.0
United Kingdom	31.3	-	-	100.0
India	21.4	-	-	100.0
France	17.0	-	-	100.0
Iraq	2.0	-	-	100.0
Total	1,678.2	2.4	39.0	61.0
Total export	69,987.3	100.0	63.8	36.2

The export sales to Comecon countries are invoiced in convertible roubles. The export sales made to non-comecon countries are invoiced in hard currency.

Elwro's direct sales amount to 64.4 per cent. of exports to Comecon countries. This reflects the fact that Elwro has developed a successful commercial and service network in the countries of Eastern Europe.

In Western countries, however, the role of intermediaries in the export of Elwro's products is more important and the proportion of direct sales is lower.

The products exported to non-Comecon countries comprise a higher proportion of sub-assemblies which are made to order, whereas Elwro exports finished goods to Comecon countries.

Elwro's policy is to pursue the extension of its sales network so as to increase the proportion of direct sales of all products.

For example, in the U.S.S.R., two further Elwro representatives will shortly be stationed in Minsk and Leningrad.

In addition to its own structure, Elwro has in recent years created a network of external links, organising joint-venture companies on their own initiative, or by participating in the share capital of companies involving both Polish and foreign partners.

At present, Elwro is a shareholder in a total of 15 different companies, including two with foreign capital (in West Berlin and Wrocław). A further joint-venture is being negotiated in Tbilisi.

Details of these foreign joint-ventures are set out in point 4.3 on page 29.

(b) Domestic marketing

In its domestic market, the marketing and distribution of Elwro products is carried out by Elwro's salesforce, by nationwide retail outlets and through intermediaries.

Each product division has its own marketing and distribution function using the distribution channels most suited to the individual product groups. For example, the proportion of sales through retail outlets is higher for products such as calculators than for microcomputers given the present limited purchasing power of individuals in Poland.

Elwro's service division, Elwro Serwis, distributes complete computer systems, teleprocessing systems and microcomputers which are configured to the specific requirements of end-users. These complete systems include Elwro products and also products from domestic and foreign suppliers. Elwro also distributes "Microsoft" software.

The following table illustrates the domestic sales per product group and the proportion of direct and indirect sales for each group in the year ended 31st December, 1989.

Product group	Total domestic sales (Zl.m)	Percentage sales per product group (%)	Direct sales ⁽¹⁾ (%)	Indirect sales ⁽²⁾ (%)
Microcomputers	19,413.5	37.8	79.9	20.1
Teleprocessing systems	2,780.0	5.4	100.0	—
Computer systems	4,588.6	8.9	100.0	—
Desk calculators	6,586.8	12.8	5.3	94.7
Measurement and control apparatus	1,621.6	3.2	72.1	27.9
Automation control systems and equipment for industrial plants	2,849.4	5.5	83.2	16.8
Other products, sub-assemblies, spare parts	4,254.2	8.3	94.3	5.7
Services	<u>9,323.6</u>	<u>18.1</u>	100.0	—
Total	<u><u>51,417.7</u></u>	<u><u>100.0</u></u>		

(1) Direct sales include those sales made by Elwro Serwis

(2) Indirect sales includes both sales through retail outlets and sales via intermediaries.

Direct sales and indirect sales represent 78 per cent. and 22 per cent. of total domestic sales respectively.

Elwro continues to monitor regional demand for its products so as to extend its network wherever justified.

(c) Maintenance support services

Servicing, systems installation, repair, maintenance, spare parts supply and training for the range of computer and teleprocessing products manufactured by ZK is provided by Elwro Serwis through its own service network both in the domestic market and abroad.

Domestic servicing

In Poland, Elwro Serwis has service centres in eight major cities which together constitute the domestic service network. The map in Appendix V illustrates this network.

This country-wide network of Elwro Serwis employs 153 specialists, over half of whom are qualified engineers.

All employees are trained at Elwro Serwis' own training centre. Whilst trainees receive basic training in all aspects of Elwro's computer product range, specialisation is grouped into four categories:-

- microcomputers;
- computer systems;
- teleprocessing systems; and
- peripherals.

The training centre which employs 20 lecturers, provides training for customers as well as service employees in software, technical and operational skills.

The centre runs approximately 90 training courses per annum and trains over 1,700 people on average, of which around 600 people come from outside of Poland.

Elwro Serwis also collaborates with other Polish organisations which provide services for Elwro's microcomputers, for example:

- Unitra Serwis which has a service network of 13 service centres in Poland; and
- independent service companies with a total of 68 service centres in Poland.

Service network abroad

Elwro Serwis has six service centres abroad:-

U.S.S.R.	Moscow Kiev Minsk) Leningrad)	planned for 1990
Czechoslovakia	Prague Bratislava	
GDR	Berlin	
Hungary	Budapest	

Elwro Serwis service centres abroad are located at the representative offices described in part 2.5 on page 12 with a total of 33 employees.

The largest service centre of Elwro Serwis abroad is in Moscow, with 19 employees, 11 cars, 234 sq.m. of office space (including a 102 sq.m. hall for the demonstration of Elwro systems), which provides service throughout the Soviet Union.

Outside Poland, Elwro Serwis collaborates with other organisations which provide service for Elwro's teleprocessing systems.

- GDR Neb Robotron (Berlin)
- Hungary Szamalk (Budapest)
- Cuba Cuba Electronica (Havana)

Service for Elwro's other products such as calculators is provided by the respective divisions and by external service companies.

(d) Market research

Elwro conducts a continuous market research programme both in Poland and in other East European countries. The Elwro management finds that wide-ranging co-operation with these countries through contacts with many different organisations provides Elwro with good knowledge of the general state of those markets and helps Elwro to plan its development strategy.

Elwro has at its disposal an organisation enabling it to conduct complex market activities. This organisation includes the domestic market Trade Office and the Foreign Trade Office with its representative offices in Eastern Europe, and also the domestic and foreign networks of Elwro Serwis which are able to collect information on market demand and the development of individual markets.

Information is also collected from:-

- end-users of Elwro's systems both in Poland and abroad during the installation work, periodical inspections and maintenance, etc. conducted by Elwro specialists;
- potential customers at international trade fairs and exhibitions at which Elwro participates and during conferences, symposia and meetings organised by Elwro.

Elwro is also a member of a number of national and international bodies and actively co-operates with scientific institutes both in Poland and abroad. Active participation within these organisations enables Elwro to be aware of new product developments throughout Eastern Europe.

Specific sector information is also available to Elwro from the joint-venture companies in which Elwro is involved.

(e) Advertising

The major method of promoting Elwro's products is the Group's participation in a number of international trade fairs and exhibitions, details of which are set out in Appendix VI.

Elwro also advertises its products through the following media:-

(i) TV and radio

Events involving Elwro such as the signing of major contracts are reported on both local and national television and radio.

(ii) Advertising boards

In Poland such advertising is to be found primarily in the Wroclaw area, whilst in Budapest and Moscow advertising boards are located on the approaches to and in the international airports.

(iii) Press advertising

Elwro runs advertisements in both local and national daily newspapers during the first and third weeks of every month.

Elwro promotes its corporate image by the use of souvenir items as well as displaying its trade mark on the company's products.

The Group has its own publishing department which produces the group's product literature and technical manuals in Polish, Russian, English and German.

2.6 **Distribution** Elwro's products are sold either directly to the client or through Elwro's distribution network. Elwro's foreign representative offices in Eastern Europe co-operate with distributors in individual countries.

In the past, the trade structure in Eastern Europe was such that Elwro was obliged to sell through specific national distributors in each country.

Distribution of Elwro's products to the West is currently undertaken by specialist foreign trade bureaus and by 'piggyback' agreements with other Polish industrial companies. BHZ also exports a small proportion directly.

In the domestic market, however, Elwro is able to select specialist distributors for its different products. Elwro's distribution networks in Poland and Eastern Europe are illustrated by the maps set out in Appendix V and I respectively.

The geographic location of Wroclaw ensures direct access to main roads, railway lines and airports. Distribution of Elwro products is carried out mainly using road and air transport. The map in Appendix VII illustrates the major transport links in Poland.

2.7 **Competitive position** **Domestic market**

In the field of mainframe computers and teleprocessing systems, Elwro is the only manufacturer in Poland and as such experiences limited competition in its domestic market, with the exception of some individual purchases of new computers from abroad. In addition, however, a small number of second-hand IBM systems are imported.

The market for microcomputers is heavily fragmented with a group of some 150 to 200 small firms and around five to ten medium sized firms which assemble PC's using components purchased mainly in the Far East.

The following table contains estimates made by the directors of Elwro as to the market share of Elwro in relation to its competitors in the group's main product areas.

	Computer systems (%)	Teleprocessing systems (%)	Microcomputers and PC's (%)
Elwro	85	>90	42
Small to medium sized firms (including second hand sales)	15	-	40
Direct imports	-	-	15
Direct imports by private individuals	-	-	3

Given the lack of empirical market data available, Elwro has not been able to verify this information which is set out for illustrative purposes only.

Elwro is the only manufacturer of desk calculators in Poland. Competition for Elwro's products in this market is from a group of small independent firms which import Japanese calculators (principally Casio and Citizen). Prices of these calculators are approximately 150 to 200 per cent. higher than prices of Elwro's products. Elwro's share of domestic sales in this market is estimated to amount to some 70 per cent.

Export markets

(i) The Soviet market

Elwro's strongest position is in the market for teleprocessing systems. Apart from a small proportion of Bulgarian products, Elwro is practically the only foreign supplier of teleprocessing systems to the U.S.S.R. However, Soviet manufacturers of teleprocessing systems hold a dominant position with some 70 per cent. of their domestic market.

In 1989, Elwro entered the Soviet market for computer systems, microcomputers and desk calculators despite strong competition not only from domestic manufacturers (computers and microcomputers), but also other East European manufacturers (East Germany - computers and microcomputers; Bulgaria - desk calculators) and also suppliers from Western countries (microcomputers and calculators).

Elwro's activities in the Soviet market are directed towards:-

- strengthening its position in the field of teleprocessing systems;
- increasing its penetration of the market for microcomputers and calculators.

(ii) The Czechoslovakian market

Elwro has a reasonably strong position in the field of teleprocessing systems and in the field of computer systems, Elwro has an estimated market share of around 15 per cent.

Competition in the market for calculators is primarily from Western imports at higher prices.

(iii) Other Comecon markets

In the East German markets for teleprocessing systems and calculators, Elwro has a strong market position. In Hungary and Cuba Elwro's strength lies in teleprocessing systems.

Appendix VIII illustrates the break-down of sales to each country per product group and highlights the differences between the products exported to Comecon and Non-comecon countries.

2.8

Customers

The main customers for Elwro's products both in Poland and in Eastern Europe are organisations such as:

- industrial companies
- banks
- state administration departments
- science research institutes
- higher education establishments
- schools
- computer centres

In addition, Elwro also supplies constituent parts for computer and teleprocessing systems to foreign intermediaries who then assemble and distribute complete systems to their domestic markets.

Suppliers The principal products which are purchased by Elwro are as follows:-

- electronic components and sub-assemblies such as semi-conductor components, cables, connectors and multi-layer PCBs.
- metal products such as steel and aluminium sheets, steel and non-ferrous bars and non-ferrous sections.
- chemical products such as reagents, enamels, foils, plastics and polystyrenes.

In addition, Elwro purchases a number of products which are necessary for complete computer systems but not currently produced by Elwro. These products include:-

peripherals such as line and matrix printers, visual display units, keyboards, hard and floppy discs, magnetic tape units, modems etc.

The source of Elwro's external purchases are as follows:-

- domestic - 50 per cent.
- Western countries and the Far East - 40 per cent.
- Comecon countries - 10 per cent.

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Management and employees

3.1 Management structure

Elwro is a multi-plant enterprise with no separate overall management. ZK is the core business within the Group (employing over 50 per cent. of the total workforce and accounting for approximately 50 per cent. of sales), and its management, therefore, together with the managing directors of the other plants, acts as the central management of the Group.

The senior management of Elwro therefore consists of the senior management of ZK and the managing directors of all other plants within the Elwro group. Managing directors of individual plants are responsible directly to the managing director of Elwro. Directors of plants which constitute separate organisational units manage the plants on a day-to-day basis and are responsible to the Group management for their economic performance.

The outline of the management structure is presented in the organisational chart in Appendix IV.

Summary biographies of the senior management of the Elwro group are set out in Appendix IX.

The central administrative function consists of organisational cells which service all Elwro group companies. They include the following departments:-

- personnel
- economic planning
- finance and accounting
- legal

Approximately 16 per cent. of the total group work-force is employed in administrative positions.

3.2

Employees The total labour-force of Elwro as at 31st December, 1989 was 4,459 persons, including 4,160 full-time employees (i.e. 42 hour week), and 299 part-time employees.

The employees of Elwro can be categorised as follows:-

	Number	%
Skilled workers		
- higher education level (including qualified engineers)	703	15.8
- secondary education level	1,715	38.4
- technical school level	<u>1,253</u>	<u>28.1</u>
	3,671	82.3
Semi-skilled workers	754	16.9
Unskilled workers	<u>34</u>	<u>0.8</u>
	<u>4,459</u>	<u>100.0</u>

Full details of the labour-force structure at each of the Elwro Group companies, including qualifications, are given in Appendix X.

Remuneration The total of salaries and wages paid in the year ended 31st December, 1989, together with other benefits, was Zl.1,090.2 million per month, an average of Zl.246,000 per full-time employee.

The details of Elwro's remuneration structure are set out below. All figures are on a monthly basis unless otherwise stated.

	Zl.m	Percentage of total remuneration (%)
(a) Salary		
Basic monthly pay	692.5	63.5
Monthly bonus	142.7	13.1
(b) Other benefits		
Performance related bonuses ⁽¹⁾	119.4	11.0
"Years of Service" bonus ⁽²⁾	34.6	3.2
"New product" awards ⁽³⁾	34.3	3.1
Jubilee/retirement awards	7.6	0.7
Other payments ⁽⁴⁾	<u>59.1</u>	<u>5.4</u>
Total	<u>1,090.2</u>	<u>100.0</u>

Notes:

- (1) The level of performance-related bonuses varies between individual plants as these are linked to the profitability of each plant.
- (2) Related to the length of time in the company's employment.
- (3) Awarded for those people putting forward new product ideas.
- (4) Including overtime payments.

The breakdown of the average monthly remuneration structure (including benefits) of full-time employees in the fourth quarter of 1989 is illustrated below:-

Pay range (Zl. per month)	Number of employees
up to 250,000	93
250,001 - 350,000	79
350,001 - 450,000	1,010
450,001 - 550,000	1,802
550,001 - 650,000	756
650,001 - 750,000	254
750,001 - 850,000	78
850,001 - 1,000,000	47
1,000,001 - 1,150,000	13
1,150,001 - 1,300,000	8
1,300,001 - 1,450,000	11
1,450,001 - and over	9
Total	<u>4,160</u>

The cost per man-hour of production (including all benefits except performance related benefits) rose in January 1990 to Zl.6,716. Based on the prevailing exchange rate of Zl.9,500 = 1 US\$, this equates to a cost of US\$0.71 per hour. Further increases are anticipated in the coming months.

Details of retirement and social benefits are set out in Appendix XI.

3.4 Working practices

Employees work on average a total of 42 hours per week. Working hours are 8 hours per day Monday to Friday and once per month on Saturdays.

Elwro works two production shifts:

- Shift 1 : 06.00-14.00 hours
- Shift 2 : 14.00-22.00 hours

The normal working hours for the departments other than production are from 07.15 to 15.15. Each employee is entitled to a 15 minute rest break mid-way through their working day. Overtime is worked where necessary to meet delivery dead-lines and is paid as follows:-

- First two hours of overtime - 150 per cent. of basic pay
- Thereafter - 200 per cent. of basic pay

Labour relations within Elwro are good and regular consultation takes place between senior management and the workers' council.

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Assets

- 4.1 **Fixed assets** Elwro's product range involves a number of different production processes and consequently a large stock of machinery.

The following table provides details of the approximate age of Elwro's machinery stock.

Approximate age	Type of machinery					
	Machine tools (%)	Presses (%)	Injection moulding (%)	Assembly equipment (%)	Anti-corrosion coatings (%)	Electronic equipment (%)
up to 5 years	8	11	25	14	0	50
6 to 10 years	6	14	10	32	0	0
over 10 years	86	75	65	54	100	50

- 4.2 **Premises** The premises of Elwro are primarily brick buildings. On the whole, single-storeyed buildings are used for mechanical, plastic and chemical production. One to seven storeyed buildings are used for assembly production of electronic systems. The premises are partly air-conditioned and provide a total area of 117,949 sq.m.

The land which Elwro uses (38 hectares) is owned by the Polish government and leased to Elwro. The Elwro management believes it may be possible to acquire this land at less than market value in the future.

Further information on Elwro's assets is contained in the report by KPMG Peat Marwick McLintock, particularly on pages 42 to 44, in section 5 of this memorandum.

4.3 Details of joint ventures involving Elwro and foreign partners

S.E.T. Superwave Elwro Trading GmbH

Head office: West Berlin

Activity: Electronic equipment traders and agents

Major shareholders:	Shareholding
- Elwro	- 33.3 per cent.
- Superwave Ltd. Taipei, Taiwan - computer system manufacturer	- 33.3 per cent.
- R+P Superwave Electronic GmbH West Berlin - sale of microcomputers	- 33.3 per cent.

Elwro-45 Ltd

Head Office: Wroclaw

Activity: Production of applications software and systems maintenance

Major shareholders:	Shareholding
- Elwro	- 20.0 per cent.
- Institute of Computer Control & Measurement Systems	- 28.8 per cent.
- 45 Organisation S.A. Paris, France - computer services & equipment supply	- 35.0 per cent.
- Soframex S.A.R.L. Paris, France - import-export of software & computer equipment	- 16.2 per cent

Other projects involving foreign partners from the U.S.S.R. and Hungary are currently being negotiated.

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Accountants' report by KPMG Peat Marwick McLintock

- 5.1 Financial statements as presented by Elwro
- 5.2 Distributions to a Western investor
- 5.3 Trading results (restated)
- 5.4 Net assets (restated)
- 5.5 Effect of inflation on trading results
- 5.6 Accounting policies and other matters



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The Directors,
Zaklady Elektroniczne Elwro,
ul Ostrowskiego 30,
53-238 Wroclaw,
Poland.

Your ref

Our ref

The Directors,
S.G. Warburg & Co Ltd.,
2 Finsbury Avenue,
London EC2M 2PA,
United Kingdom.

7th May, 1990

Dear Sirs,

Zaklady Elektroniczne Elwro ("Elwro")

In accordance with instructions confirmed in an exchange of letters between ourselves and Elwro, we have carried out a review of the financial statements of Elwro for the four years ended 31st December, 1989.

The review was carried out at Elwro in the period from 4th December, 1989 to 15th December, 1989. An update was carried out from 13th to 15th February, 1990. The scope of the review was substantially less than an audit conducted in accordance with generally accepted auditing standards. We have not independently verified the information provided to us in the course of our work, and have relied substantially on documents and explanations given to us by the management and staff of Elwro.

The purpose of the review was to consider the financial statements as presented by Elwro, and, where practicable, to restate them to reflect the following:

- a format which Western companies may more readily recognise;
- the financial implications of introducing Western investment into Elwro and, in particular, remuneration of a Western investor by way of dividend;
- Western generally accepted accounting principles where different to principles applied in Poland; and
- the effects of inflation.

A more detailed report has been prepared, which is confidential to Elwro and S.G. Warburg & Co Ltd. The purpose of this letter is to summarise the principal findings of our review for inclusion in material to be shown to selected third parties.

In the report which follows, we have, for reference purposes,

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presented certain of the financial information translated into US \$ at the official rate of exchange between the Zloty and the US \$. Profit and loss account information has been translated at the average exchange rate for the year and balance sheet information has been translated at the rate applicable on the balance sheet date. In view of the significant fluctuations in the exchange rate in 1989, both a simple average and trade weighted average have been calculated for that year. The trade weighted average exchange rate has been used to calculate the translated US \$ profit and loss account information for 1989. Further details are given in paragraph 5.6.6 below.

5.1 FINANCIAL STATEMENTS AS PRESENTED BY ELWRO

5.1.1 We set out below the financial statements for the four years ended 31st December, 1989, as presented by Elwro:

	Years ended 31st December,				
	1986 Z1 m	1987 Z1 m	1988 Z1 m	1989 Z1 m	1989 \$'000 (translated)
<u>Profit and loss accounts</u>					
Sales	15,707	20,520	55,819	121,405	29,785
Cost of sales	(10,854)	(13,282)	(44,051)	(56,872)	(13,953)
including:					
Depreciation	(188)	(207)	(315)	(517)	(127)
R & D	(767)	(610)	(1,129)	(1,346)	(330)
Gross profit	4,853	7,238	11,768	64,533	15,832
Turnover tax	(452)	(576)	(551)	(1,803)	(442)
Export equalisation	7	66	45	104	26
Stock equalisation	-	-	(88)	-	-
Net profit	4,408	6,728	11,174	62,834	15,416
Dividends received	-	2	6	17	4
Profit before tax	4,408	6,730	11,180	62,851	15,420
Taxation	(3,063)	(3,326)	(6,422)	(15,207)	(3,731)
Dividends on the founding fund	-	-	-	(1,246)	(306)
Allocation to funds:					
Reserve fund	(105)	(70)	(385)	-	-
Development fund	(731)	(2,207)	(3,128)	-	-
Enterprise fund	-	-	-	(11,495)	(2,820)
Staff fund	(447)	(900)	(995)	(3,671)	(901)
Other funds	(62)	(207)	(250)	(177)	(43)
	(1,345)	(3,384)	(4,758)	(15,343)	(3,764)
Unallocated profit	-	20	-	31,055	7,619
Exchange rate (simple average)	182.06	278.82	455.64	1,697.35	
(trade weighted average)	N/A	N/A	N/A	4,076.03	

The 1989 allocations of profits to funds are provisional, pending completion of the audit of the 1989 financial statements.

Balance sheets

	1986	As at 31st December,			1989
	Z1 m	1987	1988	1989	1989
	Z1 m	Z1 m	Z1 m	Z1 m	\$'000
					(translated)
Assets in the course of construction	463	972	1,976	7,472	1,155
Fixed assets at cost/valuation	5,324	5,508	11,493	16,409	2,536
Accumulated depreciation	(2,153)	(2,221)	(4,593)	(5,009)	(774)
	<u>3,171</u>	<u>3,287</u>	<u>6,900</u>	<u>11,400</u>	<u>1,762</u>
Stocks and work in progress					
Raw materials	3,912	5,098	7,565	22,337	3,452
Work in progress	1,013	1,446	2,375	10,613	1,640
Finished goods	83	130	269	858	133
Goods for resale	1,000	960	3,213	13,335	2,061
Intangible assets	144	291	282	1,801	278
Trade debtors	5,681	10,256	17,565	90,088	13,924
Cash at bank	20	800	988	7,070	1,093
Other assets	425	474	2,146	653	101
Profit allocation	4,408	6,173	10,377	31,796	4,914
Total assets	<u>20,320</u>	<u>29,887</u>	<u>53,656</u>	<u>197,423</u>	<u>30,513</u>
Exchange rate (closing)	<u>197.62</u>	<u>315.54</u>	<u>502.55</u>	<u>6,470.00</u>	

	As at 31st December,				1989 \$'000 (translated)
	1986 Z1 m	1987 Z1 m	1988 Z1 m	1989 Z1 m	
Creditors for assets being constructed	391	718	1,528	2,275	352
Founding fund	-	-	-	2,833	438
Enterprise fund	-	-	-	23,842	3,685
Statutory fund	3,130	3,271	6,885	-	-
Group fund	2,441	3,628	5,581	-	-
Trade creditors	6,188	10,062	18,783	87,645	13,546
Trade overdraft	2,133	2,904	5,662	10,600	1,638
Investment overdraft	-	-	-	3,605	557
Profit	4,408	6,730	11,180	62,851	9,714
Other reserves					
Staff fund	501	831	908	3,172	490
Development fund	163	685	810	-	-
Special fund	453	619	1,552	244	38
Other liabilities	512	439	767	356	55
Total liabilities	<u>20,320</u>	<u>29,887</u>	<u>53,656</u>	<u>197,423</u>	<u>30,513</u>
Exchange rate (closing)	<u>197.62</u>	<u>315.54</u>	<u>502.55</u>	<u>6,470.00</u>	

It should be noted that on 1st January, 1989 certain of the funds were rationalised and consolidated.

5.2 DISTRIBUTIONS TO A WESTERN INVESTOR

- 5.2.1 In order for a Western investor to take an equity participation in Elwro, it will be necessary for Elwro to be incorporated with limited liability, either as a 'joint stock company' or as a 'limited liability company'. In either case, the method of incorporation and most of the general rules affecting the operation of such a company are governed by the Law on Economic Activity with the Participation of Foreign Parties (the Polish Foreign Investment Law) ("the Law").
- 5.2.2 The Law was passed on 23rd December, 1988 and came into force on 1st January, 1989; it was subsequently amended on 28th December, 1989, the amended Law taking effect from 1st January, 1990. Under Article 4 of certain provisions related to the Law, should the income tax or profit transfer principles under the Law be changed during 1990-95, companies governed by the Law have 14 days after the amendments come into force to advise the Polish Foreign Investment Agency whether they wish to be bound by or exempted from the amendments.
- 5.2.3 The Law provides that business profits are exempt from corporate income tax for the first three years following the date of commencement of trading as defined. This tax 'holiday' can be extended by the Foreign Investment Agency by up to a maximum of a further three years where the company operates in certain sectors of business; these presently include the manufacture of computer systems, electronic data processing equipment and computer software.
- 5.2.4 Once the tax holiday has expired, the basic rate of corporate income tax is 40%. However, a company is entitled to relief and exemption therefrom in accordance with the principles applicable to non-socialized economic entities. In the year ended 31st December, 1989, Elwro was entitled to a reduction in its tax rate of 20% in respect of reliefs available relating to preferred industrial activities and preferred investments, and it anticipates that the equivalent reliefs in 1990 will again reduce the rate, the reduction being 11%. Elwro expects that, following incorporation, such relief would continue to be available to it as a non-socialized economic entity. However, this question remains academic whilst the tax holiday referred to in paragraph 5.2.3 above applies, and it is not possible to predict what the position might be in future when the tax holiday has expired.
- 5.2.5 Under Article 17.4 of the Law, companies are required to set up a reserve fund out of profits after tax. The amount to be set aside is 8% of the profit after tax, but no amounts need to be reserved once the fund reaches 4% of the company's costs in a fiscal year. The Law appears silent on the point, but the opportunity may exist for Elwro to allocate a proportion of its enterprise fund to this reserve fund on incorporation so that there will be no immediate requirement to make the annual transfers of 8%.
- 5.2.6 Under Article 19 of the Law, a foreign shareholder in a company may purchase foreign currency from an authorised Polish foreign currency bank in order to remit dividends to the extent that the company has achieved an export surplus in convertible currency. In calculating the surplus, amounts remitted abroad by foreign

individuals in respect of salary earned from the company must be deducted. To the extent that profits are in excess of the export surplus, a foreign shareholder may purchase foreign currency so as to remit 15% per annum. Dividends can only be remitted out of audited profits. Whether interest earned on foreign currency deposits held abroad can, in effect, be added to the export surplus calculated for dividend purposes will depend upon the structure finally adopted for the investment.

- 5.2.7 Investment protection treaties exist, or are in the process of negotiation, between Poland and certain other countries. In cases where dividends would be restricted as described in paragraph 5.2.6 because the export surplus is insufficient to cover the dividend, these treaties, once ratified, enable foreign shareholders from the countries concerned to receive dividends greater than the 15% referred to.
- 5.2.8 It should be noted that Elwro's export sales for convertible currency presently only amount to about 1% of total turnover, most exports being to other Comecon countries for convertible roubles, which do not rank as a convertible currency for the purposes of Article 19 of the Law. The arrangements between the member countries of Comecon are presently being renegotiated, and the management of Elwro has advised us that it believes that these negotiations will lead to a substantial proportion of Elwro's sales to customers in Comecon member countries in future being for convertible currency. The management of Elwro has produced calculations for us which indicate that, for 1989, if exports for convertible Roubles had been wholly for convertible currency, there would have been an export surplus of some Zl 50.6 billion for dividend purposes in respect of that year.
- 5.2.9 Withholding tax on dividends is at a rate of 30% unless reduced by double tax agreements.
- 5.2.10 On the assumption that the 1989 profit before tax of Zl m 62,851 shown above in paragraph 5.1.1 is the taxable profit of Elwro as incorporated, the following would be the maximum distributable profit under Polish tax regulations in the initial period when the tax holiday is in force and in later years:

Polish corporate income tax rate	0%		40%	
	Zl m	\$'000	Zl m	\$'000
Taxable profit	62,851	15,420	62,851	15,420
Corporate income tax	-	-	(25,140)	(6,168)
Distributable	<u>62,851</u>	<u>15,420</u>	<u>37,711</u>	<u>9,252</u>

- 5.2.11 The tax consequences of a dividend receipt by a Western shareholder will vary depending on the shareholder's country of residence for tax purposes and the provisions of any double tax agreement between Poland and that country of residence. Any shareholder will therefore have to consider its position in the light of the specific tax regulations which apply to its circumstances.

5.2.12 The tax position of the recipient is of particular importance in the early years when the tax holiday in Poland applies, since it is likely that the effective rate of tax suffered on profits earned and remitted from Poland during those years will be the corporation tax rate of the recipient's country of residence. This can be illustrated by the following calculations of a distribution to a UK company, whose normal corporation tax rate is 35%. In making the calculations it is assumed that:

- the Western shareholder has 100% of the equity in Elwro as incorporated;
- Elwro has a foreign currency surplus sufficient to cover the dividend in full;
- the profit before tax in paragraph 5.1.1 above for the year ended 31st December, 1989 is the taxable profit for Elwro as incorporated;
- profits after Polish corporate income tax are distributed in full.

The calculations are shown for a year in which a tax holiday applies, and for subsequent years at 40%. For ease of understanding, the calculations are presented in Zl m (with US \$ figures shown, translated at the trade weighted average exchange rate for 1989, in accordance with the convention adopted in this report), but it will be appreciated that the dividend would be received in hard currency at the exchange rate prevailing at the time the dividend is remitted.

Polish corporate income tax rate	0%		40%	
	Zl m	\$'000	Zl m	\$'000
Taxable profit	62,851	15,420	62,851	15,420
Corporate income tax	-	-	(25,140)	(6,168)
Distributable	<u>62,851</u> *	<u>15,420</u>	<u>37,711</u>	<u>9,252</u>
Dividend to Western investor	62,851	15,420	37,711	9,252
Withholding tax (5%)	(3,143)	(771)	(1,886)	(463)
	<u>59,708</u>	<u>14,649</u>	<u>35,825</u>	<u>8,789</u>
Dividend received in U.K.	59,708	14,649	35,825	8,789
Gross up for Polish taxes	3,143	771	27,026	6,631
Gross income for U.K. purposes	<u>62,851</u>	<u>15,420</u>	<u>62,851</u>	<u>15,420</u>

Polish corporate income tax rate	Zl m	0%	\$'000	Zl m	40%	\$'000
U.K. corporation tax at 35%	21,998		5,397	21,998		5,397
Credit for Polish taxes	(3,143)		(771)	(21,998)		(5,397)
Net U.K. tax	<u>18,855</u>		<u>4,626</u>	<u>-</u>		<u>-</u>
Dividend received net of UK tax	<u>40,853</u>		<u>10,023</u>	<u>35,825</u>		<u>8,789</u>
Effective tax rate suffered		<u>35%</u>			<u>43%</u>	

* As mentioned in paragraph 5.2.8, if 1989 were the year under consideration and on the assumption that sales for convertible Roubles to other Comecon countries had been sales for convertible currency, the dividend distributable to a foreign investor would have been restricted (subject to treaty arrangements - see paragraph 5.2.7) to approximately Zl 52.4 billion, being the identified export surplus plus 15% of the remaining profits in excess of the surplus.

5.3 TRADING RESULTS (RESTATED)

5.3.1 Set out below are the historical cost profit and loss accounts of Elwro for the four years ended 31st December, 1989. These are restated as far as practicable in a format which is considered to be more readily recognisable to Western companies and in accordance with GAAP.

	Years ended 31st December,				
	1986 Zl m	1987 Zl m	1988 Zl m	1989 Zl m	1989 \$'000 (translated)
Turnover	15,449	19,894	56,684	117,775	28,894
Total expenditure	(11,167)	(14,158)	(46,427)	(58,978)	(14,469)
	<u>4,282</u>	<u>5,736</u>	<u>10,257</u>	<u>58,797</u>	<u>14,425</u>
Dividends received	-	2	6	17	4
	<u>4,282</u>	<u>5,738</u>	<u>10,263</u>	<u>58,814</u>	<u>14,429</u>
Profit before taxation	4,282	5,738	10,263	58,814	14,429
Taxation	(3,063)	(3,326)	(6,422)	(15,207)	(3,730)
Dividends	-	-	-	(1,246)	(306)
Retained profit	<u>1,219</u>	<u>2,412</u>	<u>3,841</u>	<u>42,361</u>	<u>10,393</u>
Exchange rate (simple average)	<u>182.06</u>	<u>278.82</u>	<u>455.64</u>	<u>1,697.35</u>	
(trade weighted average)	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>4,076.03</u>	

5.3.2 In the above restated accounts Elwro has achieved retained profits in each of the four years ended 31st December, 1989. It will, however, be noted from the table in paragraph 5.4.4 below that, over the same period, historic cost net assets expressed in US \$ have declined from US \$ 32,608,000 as at 31st December, 1986 to US \$ 8,923,000 as at 31st December, 1989. This has occurred because of the significant decrease in the value of the Zloty compared with the US \$. This decline was particularly acute in 1989.

5.3.3 Using the accounting convention adopted in this report (whereby the 1989 profit and loss account is translated at the trade weighted average rate for 1989 and the balance sheet is translated at the closing rate) prima facie the loss in 1989 arising from such exchange differences would have been \$ 32,051,000, calculated as follows:

	\$'000
Net assets at 1st January, 1989	30,581
Retained profits for the year	10,393
	<hr/>
	40,974
Net assets at 31st December, 1989	(8,923)
	<hr/>
Exchange loss	32,051
	<hr/> <hr/>

In any accounts prepared at a future date by a Western shareholder which include the results of Elwro, it may be necessary for any such losses for the year in question to be dealt with. This will depend on the accounting convention used by the Western shareholder and any other regulations which govern how its accounts are drawn up, including the extent to which a Western shareholder would be able to take account of a revaluation of assets (see paragraph 5.4.3 below).

5.4 NET ASSETS (RESTATED)

5.4.1 Set out below are the historical cost balance sheets of Elwro as at the end of each of the four years ended 31st December, 1989.

	31st December,				
	1986 Zl m	1987 Zl m	1988 Zl m	1989 Zl m	1989 \$'000 (translated)
Fixed assets					
Intangible assets	144	291	282	1,801	278
Tangible assets	3,831	4,570	9,322	19,423	3,002
	<u>3,975</u>	<u>4,861</u>	<u>9,604</u>	<u>21,224</u>	<u>3,280</u>
Current assets					
Stocks	5,810	7,322	12,977	46,592	7,201
Debtors	6,107	10,730	19,711	90,741	14,025
Cash	19	800	988	7,070	1,093
	<u>11,936</u>	<u>18,852</u>	<u>33,676</u>	<u>144,403</u>	<u>22,319</u>
Creditors falling due within one year					
Bank borrowings	(2,133)	(2,904)	(5,662)	(10,600)	(1,638)
Other	(6,716)	(10,663)	(19,812)	(90,276)	(13,953)
Net current assets	<u>3,087</u>	<u>5,285</u>	<u>8,202</u>	<u>43,527</u>	<u>6,728</u>
Total assets less current liabilities	7,062	10,146	17,806	64,751	10,008
Creditors falling due after one year					
Bank borrowings	-	-	(690)	(3,605)	(557)
Provisions	(618)	(1,290)	(1,747)	(3,416)	(528)
Net assets	<u>6,444</u>	<u>8,856</u>	<u>15,369</u>	<u>57,730</u>	<u>8,923</u>
Exchange rate (closing)	<u>197.62</u>	<u>315.54</u>	<u>502.55</u>	<u>6,470.00</u>	

5.4.2 As at 31st December, 1989 the net book value of buildings, together with buildings under construction, included above under tangible fixed assets was Z1 m 10,433. No amount is included in respect of land on which the buildings are situated, which is presently state-owned. We are informed by the management of Elwro that they estimate that the market value of the land available for Elwro's use at 31st December, 1989 was Z1 19 billion. We understand from Elwro's management that the possibility may arise within the foreseeable future for Elwro to purchase the land at a discount to market value. The land presently occupied by Elwro amounts to 381 hectares and is held on 99 year leases at a total annual rental of Z1 1 billion.

5.4.3 All tangible fixed assets in the historic cost accounts were revalued during 1988 to the level of prices prevailing at 31st December, 1986, using indices laid down by the Ministry of Finance. Elwro's management has identified to us an inflation index which it considers to be a representative measure of the inflation which Elwro has experienced during the period under review. Using this index, we estimate that the historic cost net assets as at 31st December, 1989 should be increased by Z1 m 360,496 to restate net assets on a current cost basis as at that date, as follows:

	Z1 m	Z1 m
Historic cost net assets as above		57,730
Current cost adjustments in respect of:		
Tangible fixed assets	239,616	
Stocks	120,880	
	<hr/>	360,496
		<hr/>
		418,226
		<hr/>

Translated at Z1 6,470 = US \$ 1 (the exchange rate as at 31st December, 1989) Z1 m 418,226 equals US \$ m 64.6.

5.4.4 Elwro's net assets on a historic cost basis, together with our estimate of net assets restated on a current cost basis, are summarised below:

		1986	31st December,		1989
			1987	1988	
Historic cost					
Net assets	Zl m	6,444	8,856	15,369	57,730
	\$'000	32,608	28,065	30,581	8,923
Estimated current cost					
Net assets	Zl m	9,059	15,667	25,586	418,226
	\$'000	45,838	49,649	50,913	64,641
Exchange rate (closing)		197.62	315.54	502.55	6,470.00

5.4.5 We understand that the Polish government is presently finalising proposals which will require enterprises to revalue their fixed assets during April, 1990 to the level of prices as at 1st January, 1990. Indices will be laid down by the Ministry of Finance to calculate the amount of the revaluation. Using indices recently published in draft by the Ministry, Elwro has calculated a revaluation surplus as at 1st January, 1990 of Zl m 89,821. This compares with our calculation of the current cost adjustment in respect of fixed assets of Zl m 239,616 shown in paragraph 5.4.3; this calculation was made using an index to measure inflation which Elwro considered representative of its own experience of inflation. It is understood that the draft indices published by the Ministry are subject to change, pending reliable statistics on inflation as experienced by industrial enterprises.

5.5 EFFECT OF INFLATION ON TRADING RESULTS

5.5.1 Inflation in Poland has for some years been running at a rate in excess of the rates experienced in Western industrial countries, and in the second six months of 1989, the rate of inflation has increased significantly to levels which would be regarded as hyper-inflation.

5.5.2 Current cost accounting methodology (which is not used in Poland) was developed to provide information for the guidance of management, in particular, in periods of inflation on such matters as:

- the financial viability of the business;
- return on investment;
- pricing policy, cost control and distribution decisions;
- financing policy.

This is achieved by a requirement to set aside out of profit additional amounts necessary to revalue historic cost net operating assets to current cost, thereby protecting the business' capital base.

5.5.3 The use of current cost accounting methodology has been criticised because a number of adjustments involve subjective assumptions and because non-accountant readers of the results can find the information difficult to comprehend and interpret. As such, the methodology is not universally accepted and attempts to introduce it compulsorily in, for example, the U.K. have been unsuccessful.

5.5.4 We have carried out current cost calculations in respect of Elwro's trading results for the periods under review, and the detailed results of these calculations are set out in the paper referred to in the final paragraph of the introduction to this letter. Our calculations indicate that during the period under review, by far the most significant of the current cost adjustments is that relating to cost of sales (1989: Z1 m 35,568), reflecting the fact that Elwro's management policy, in order to secure continuity of production, is to carry high stocks because supplies can be haphazard. The monetary working capital, depreciation and gearing adjustments are, in contrast, relatively small (1989: Z1 m 2,631 net). Elwro's historic cost profits after tax were not sufficient to keep pace in inflation adjusted terms in 1986, 1987 and 1988, although in both 1987 and 1988 the size of the net deficit after taxation and dividend appears by our estimates to be very small. In 1989, however, an estimated surplus of Z1 m 4,162 was achieved. This surplus was achieved despite the sudden onset of hyper-inflation because Elwro's management was able to take advantage of improved profit margins on export sales shortly before the year end.

5.5.5 Elwro's management have taken great interest in the results shown by our current cost calculations with which they were not previously familiar, and would welcome the opportunity to review with a foreign partner investing in Elwro operational policies to formulate a strategy for overcoming the adverse effects of

inflation. As mentioned above, the most significant current cost adjustment is the cost of sales adjustment, and the review will therefore need to focus, in particular, on pricing policies, and the opportunity to reduce stocks held and to increase the rate at which stocks are turned over.

- 5.5.6 It is understood that, at the beginning of January, 1990, the Polish government introduced a counter inflation policy which is approved by the International Monetary Fund. Current cost accounting considerations will become less relevant if this policy is successful.

5.6 ACCOUNTING POLICIES AND OTHER MATTERS

Accounting policies

5.6.1 As stated in paragraph 5.3.1, we have restated the accounts presented by Elwro so that, as far as practicable, they comply with GAAP. Having regard to our discussions with Elwro as to the accounting policies adopted by them and the adjustments made by us, we summarise below the accounting policies on which the historic cost profit and loss accounts and balance sheets as restated in sections 5.3 and 5.4 respectively have been prepared.

- accounts are drawn up under the historic cost convention, save that all tangible fixed assets were revalued during 1988 to current prices prevailing as at 31st December, 1986 using indices laid down by the Ministry of Finance.
- turnover comprises the value of goods sold and services performed during the year, excluding turnover tax.
- stocks are valued at the lower of cost and net realisable value, except in certain circumstances, which are considered immaterial, where stock has been revalued on Government instruction. Cost includes an appropriate amount of direct production overheads. The cost of raw materials is calculated on the last in first out basis.
- depreciation is provided in accordance with rates laid down by the Council of Ministers. (Such rates are in general conservative, so that there are a large amount of fully depreciated assets still in use.) No depreciation is provided in respect of tangible fixed assets in the course of construction.
- intangible fixed assets comprise research and development expenditure, licenses and patents. Such items are amortised over the production to which they relate. Research and development expenditure has only been capitalised from 1st January, 1989. It has not proved practical to restate prior years.
- subsidies received are credited to profit and loss account.
- shares in related companies in which Elwro has an investment are accounted for at cost. Income is only recognised when received.
- amounts set aside but unspent at the year end in respect of future revenue expenditure including staff benefits, customer warranties and similar items are classified in the balance sheet as provisions.

Auditing

5.6.2 The present system of auditing in Poland is primarily directed towards confirming compliance with the Ministry of Finance's accounting rules and ensuring that the taxation charge has been calculated correctly.

- 5.6.3 The decision as to whether enterprises are audited lies primarily with the Ministry of Finance. Small enterprises are usually not audited at all. It is common for major enterprises to be audited every year, although if there are no significant audit adjustments for two consecutive years, then the Ministry of Finance may waive the requirement for the following year. In such a case the Ministry of Finance will rely on representations from the management of the enterprise. The audit requirement was waived in Elwro's case in 1988. It is expected that the audit of the 1989 financial statements will be completed by the end of March, 1990, at which time the unallocated profit of Zl m 31,055 for 1989 shown in paragraph 5.1.1 above will be allocated.
- 5.6.4 The quality of the individuals carrying out the audits is monitored by the Ministry of Finance. They are typically either the accountants of enterprises or accounting academics. Their names are listed on an official register and an enterprise required to have an audit may select an independent person on the register to carry out the audit. Registered accountants must have a relevant degree such as economics, and pass a two part examination covering inter alia economics, statistics, law and accounting, set by the Polish Society of Accountants. All enterprises are required to allow such accountants twenty one days paid leave so that they may carry out the audits of other enterprises. We understand that, typically, registered accountants will be assisted on large audits by Ministry of Finance accountants.
- 5.6.5 In practice the work is highly substantive in approach with a large number of transactions being checked to source documentation together with reconciliations of general ledgers to subsidiary ledgers. In Elwro's case, for example, we understand that the 1987 audit required a team of ten people for a period of approximately three months.

Exchange rates

5.6.6 The official exchange rate between the Zloty and the US \$ for the four years ended 31st December, 1989 was as follows:

	Closing rate	Simple average rate
September, 1985	68.17	
December, 1985	150.95	
March, 1986	165.88	
June, 1986	165.17	182.06
September, 1986	199.57	
December, 1986	197.62	
March, 1987	241.03	
June, 1987	262.92	278.82
September, 1987	295.78	
December, 1987	315.54	
March, 1988	400.00	
June, 1988	440.00	455.64
September, 1988	480.00	
December, 1988	502.55	
January, 1989	507.88	
February, 1989	560.00	
March, 1989	572.55	
April, 1989	680.00	
May, 1989	850.00	
June, 1989	844.60	1,697.35
July, 1989	828.85	
August, 1989	1,054.37	
September, 1989	1,800.00	
October, 1989	2,400.00	
November, 1989	3,800.00	
December, 1989	6,470.00	

The trade weighted average rate for 1989 was Zl 4,076.03 = US \$ 1 as compared with the simple average rate of Zl 1,697.35.

No account has been taken of devaluations in the Zloty since 31st December, 1989.

5.6.7 Until 31st December, 1989, there were a number of exchange rates in force in Poland. In addition to the official exchange rate above, there was a rate determined by foreign currency auctions arranged by certain authorised Polish foreign currency banks, and an "open market" rate available to private individuals (but not enterprises) through foreign exchange bureaux. An indication of these different rates is as follows:

Month (1989)	Official	Auction	Open Market
January	507.88	2,473.55	3,410.00
February	560.00	3,010.00	3,240.00
March	572.55	2,797.09	3,010.00
April	680.00	3,376.45	3,745.00
May	850.00	3,659.02	3,920.00
June	844.60	4,911.05	4,590.00
July	828.85	5,095.52	5,660.00
August	1,054.37	6,498.00	7,290.00
September	1,800.00	7,908.00	9,540.00
October	2,400.00	6,024.00	8,100.00
November	3,800.00	4,992.00	6,600.00
December	6,470.00	5,560.00	7,865.00

The 'auction' and 'open market' rates have been obtained from unofficial sources.

5.6.8 From 1st January, 1990, the Polish government introduced measures intended to unify the exchange rates and provide internal convertibility of the Zloty. The official exchange rate was therefore devalued to Z1 9,500 = US \$ 1, and market rates have, for the time being, settled at approximately this rate.

5.6.9 Until 31st December, 1989, Elwro was required to sell 50% of its convertible currency export proceeds to an authorised Polish foreign currency bank for Zloty at the official exchange rate. The balance could be maintained in a foreign currency account or sold through the foreign currency auctions. Foreign currency imports could be paid for out of foreign currency accounts or with currency purchased at an auction.

5.6.10 From 1st January, 1990, Elwro must convert all export proceeds to Zloty at the market rate prevailing. Foreign currency can be obtained to pay for imports, again at the market rate.

—
Yours faithfully,

KPMG Peat Marwick McLintock

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zum Selbstausschneiden
von Registertasten**

Current trading

The economic stabilisation programme agreed by the Polish Government with the IMF was introduced on 1st January, 1990. The principal elements of the programme included the liberalisation of prices throughout most of the economy and the removal of most state subsidies, reducing the state budget deficit, a tight credit policy, a devaluation of the Polish Zloty, the establishment of a unified exchange rate and the lifting of most trade restrictions. Companies and state enterprises are able to import freely but are required to convert all export proceeds at the official exchange rate. During January this resulted in an inflation rate of 78.6 per cent., one month interest rates of around 43 per cent., an official exchange rate of Zl.9,500 to the US\$ and an open market exchange rate in the range Zl.9,200 to 9,500 to the US\$. During February and March, inflation was very much lower, the prices of many basic consumer items fell, one month interest rates were around 15 to 22 per cent. and exchange rates were broadly unchanged. These trends continued in April when interest rates were around 10 per cent. The Government's stated intention is to reduce inflation to single figures by June, 1990.

For Elwro, the principal effects, based on its experience in January and February, appear to be as follows:

- a very substantial rise in the Zloty proceeds from exports to East European countries (in the order of 100 to 200 per cent.);
- a substantial rise in Elwro's sales prices in the domestic Polish market (in the order of 120 per cent. - kept relatively low in order to increase volume); and
- substantial rises in costs, averaging around 140 per cent.

The present indications are that the total value of sales will broadly keep pace with any increase in costs. While the Elwro management is not in a position to make a forecast of results for 1990 and despite a fall in production elsewhere in the Polish economy, its current internal budgets for the year show results, when translated into US dollars at current exchange rates, of a similar order to those for 1989 translated into US dollars on the basis used in this memorandum. Elwro views the Group's prospects for this and future years with confidence.

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zum Selbstausschneiden
von Registertasten**

Future prospects

The senior management of Elwro believes that the future prospects for the Group's business, in partnership with a Western company, are very good due to the following factors:-

- the microcomputer population in Eastern Europe is considerably smaller than in Western Europe (it is estimated that there is one microcomputer to every 750 people in Poland, compared to approximately one to 70 in Western Europe);
- most domestic competitors are small or medium-sized and have neither the support services nor the ability to supply quantities comparable to that of Elwro;
- increased sales in other countries such as Czechoslovakia and the Soviet Union should be possible by broadening Elwro's product range and enhancing product technology;
- desk calculators is an area which offers good prospects for further substantial growth;
- continuing trends towards industrial automation offer the prospect of further demand for Elwro's products in these areas; and
- the more liberal exchange of information between Eastern and Western Europe should make the updating of Elwro's product technology easier.

In general, the Elwro management believes that the growth potential for its main-frame computer systems both in the domestic market and abroad will be reduced as people switch to higher capacity microcomputers. Consequently, Elwro is reducing the level of product investment in this area in favour of products likely to offer higher growth potential and better returns. These include a new range of telecommunication equipment in addition to the progressive upgrading of its teleprocessing systems.

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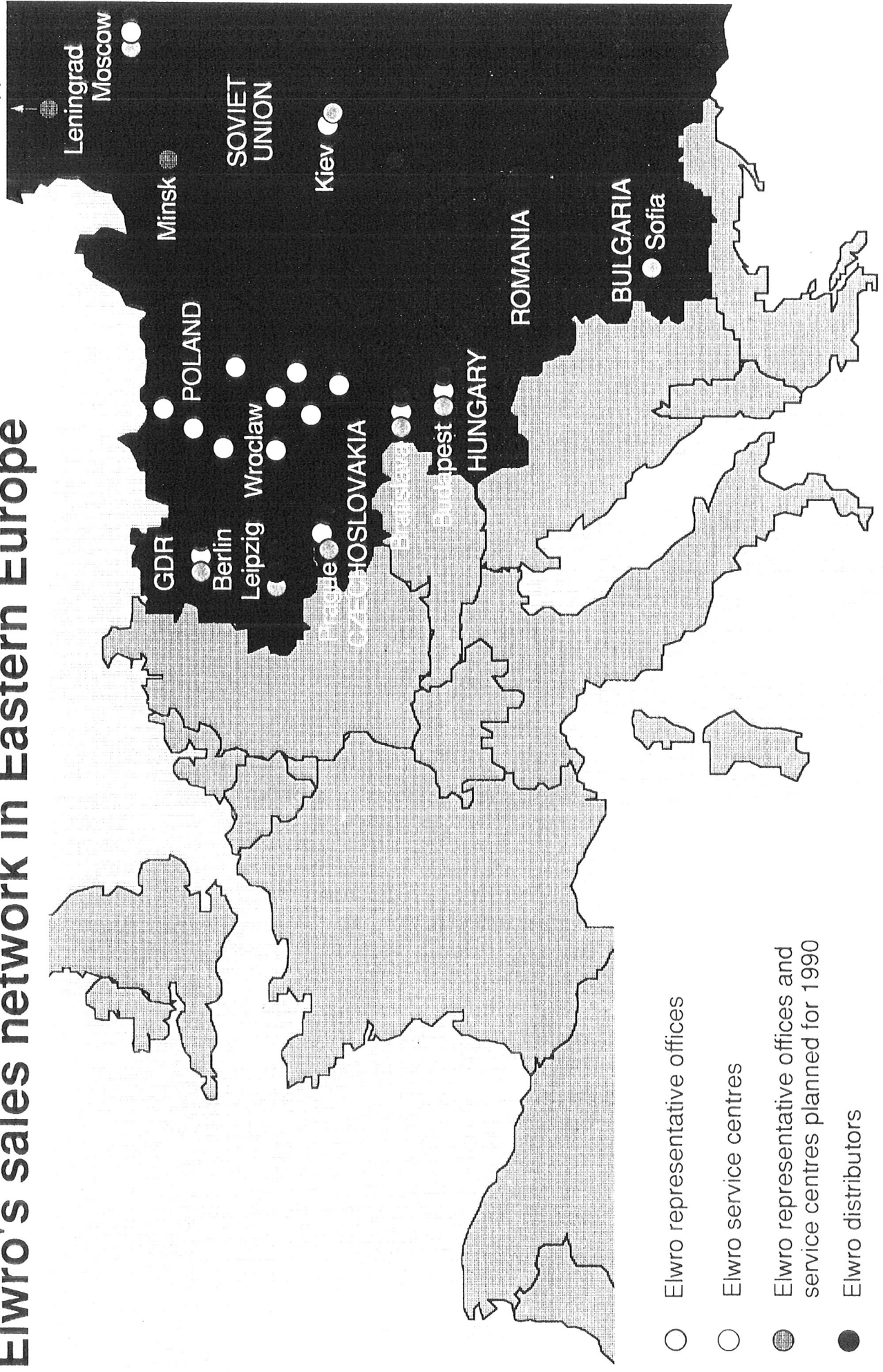
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zum Selbstausschneiden
von Registertasten**

Elwro's sales network in Eastern Europe

Appendix I



- Elwro representative offices
- Elwro service centres
- Elwro representative offices and service centres planned for 1990
- Elwro distributors

Appendix II

Details of the sales contribution of each product group

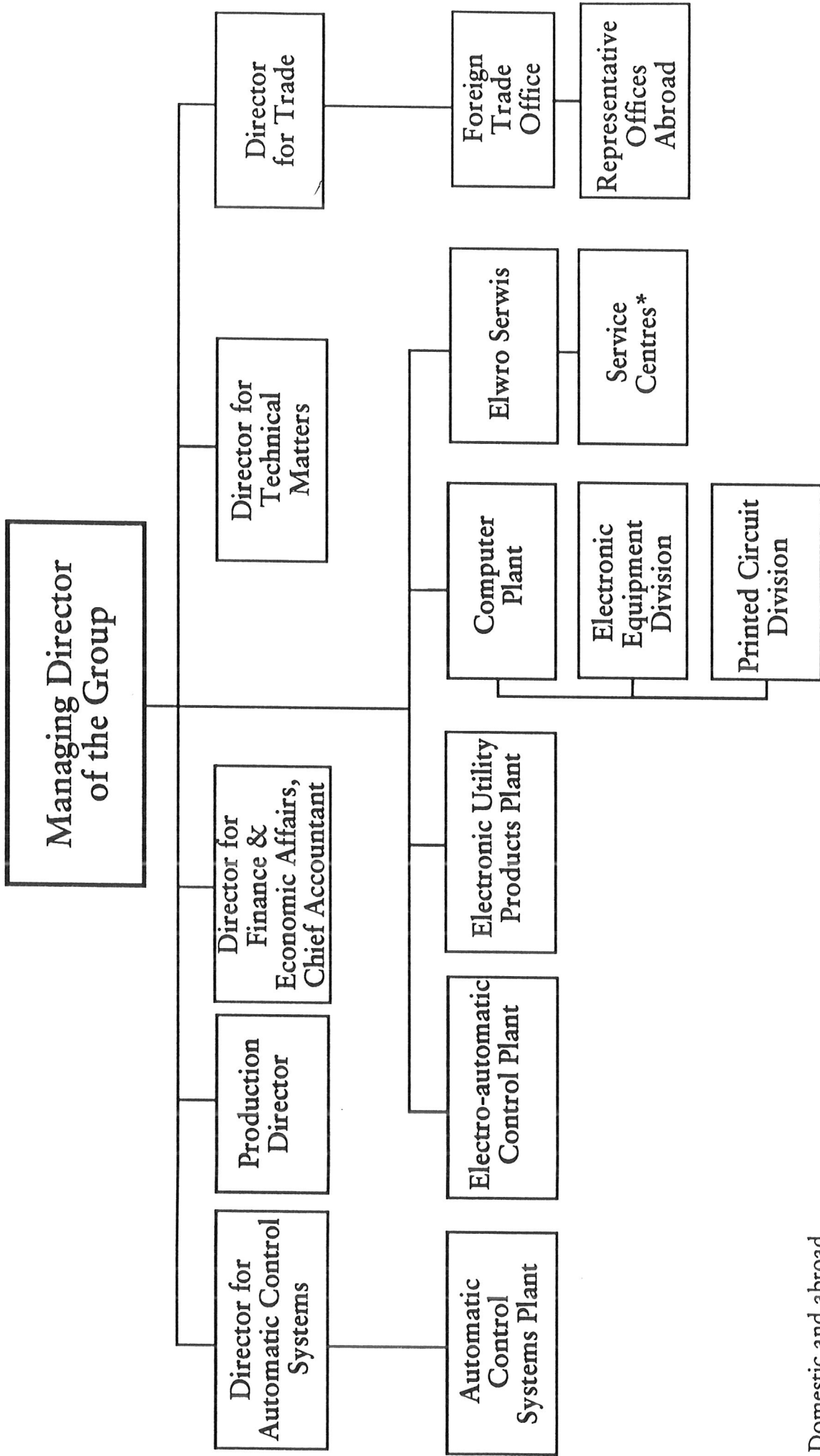
Year ended 31st December, 1989	Domestic sales (Zl.bn)	Export sales (Zl.bn)	Total sales (Zl.bn)	Sales contribution (%)
Microcomputers	19.41	23.08	42.49	35.0
Teleprocessing systems	2.78	16.14	18.92	15.6
Other computer equipment and systems	4.59	9.96	14.55	12.0
Calculators	6.59	5.57	12.16	10.0
Measurement equipment	1.62	5.33	6.95	5.8
Automation and control systems	2.85	4.60	7.45	6.1
Other products	4.25	3.21	7.46	6.1
Service	<u>9.32</u>	<u>2.10</u>	<u>11.42</u>	<u>9.4</u>
	<u>51.41</u>	<u>69.99</u>	<u>121.40</u>	<u>100.0</u>

Chronological history of the development of Elwro

- 1959 ○ Establishment of the Elwro Group in Wrocław.
- 1960 ○ Production of first TV sub-assemblies.
- 1961 ○ Production of first industrial automation equipment.
- 1963 ○ Production of first-generation computers (UMC-1). From this point, which marked the beginning of computer production in Poland, the development of Elwro led to the establishment of Wrocław as the leading computer industry centre in Poland.
- 1964 ○ Production of second-generation computer (ODRA 1003).
 - Establishment of the electronic measurement equipment plant.
- 1965 ○ Establishment of the experimental centre.
 - Establishment of a manufacturing facility in Bierutów for the production of printed circuit boards.
- 1966 ○ Production of first magnetic drum storage devices.
- 1967 ○ Production of first analog computer (ELWAT-1).
 - Establishment of the electro-automatic control plant in Góra.
- 1968 ○ Production of an up-graded range of computers (ODRA 1204).
 - Establishment of Elwro-Serwis and the first Elwro service centres in Poland and in Eastern Europe.
Establishment of Elwro's foreign trade office.
 - Establishment of the electronic utility products plant.

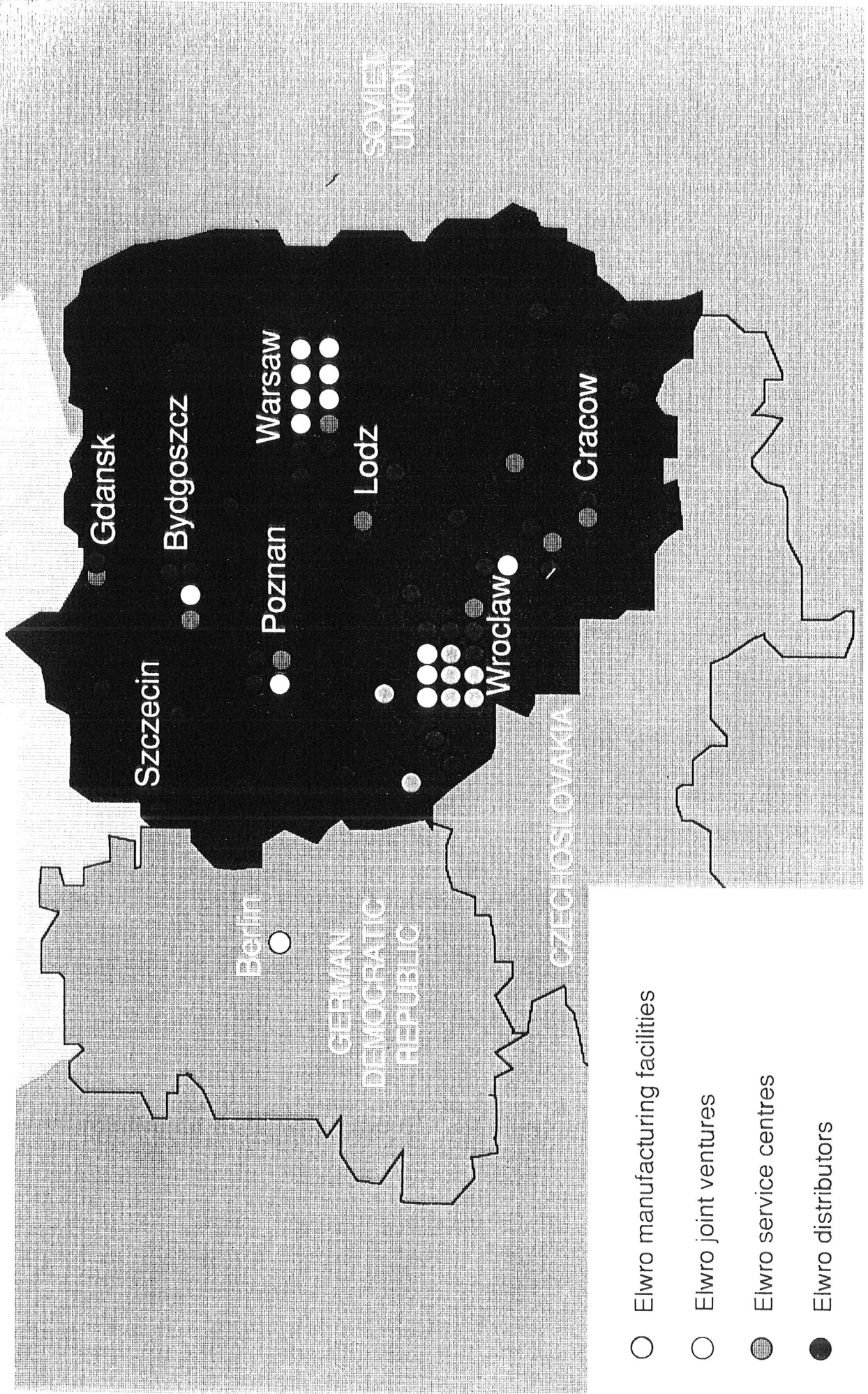
- 1970 ○ Production of a range of ICL-compatible computers (ODRA 1304).
- 1971 ○ Production of first calculators in co-operation with a Japanese company.
- 1972 ○ Production of the first third-generation ICL-compatible computers (ODRA 1305 and ODRA 1325).
- 1973 ○ Production of first apparatus to analyse chemical and physical parameters for environmental protection.
- 1975 ○ Production of first IBM compatible computers (R-32).
- 1976 ○ The enterprise Elmat joined the Elwro Group.
- 1977 ○ Establishment of the Institute of Computer Systems for Automation and Measurement to combine research and development centres of Elwro and the former Elmat centre.
- 1978 ○ Production of first water quality monitors and gas chromatographs.
- Production of the first complete automation systems started.
- 1980 ○ Production of first teleprocessor systems.
- 1981 ○ Production of first mobile laboratories for water quality monitoring.
- 1983 ○ Production of first office microcomputers.
- 1985 ○ Production of first mobile laboratories for soil monitoring.
- 1986 ○ Production of first IBM370/158 compatible computers.
- Acquisition by Elwro of the Ema-Volta factory in Wroclaw. The factory was subsequently integrated into ZK to become the electronic equipment division.
- 1987 ○ Production of first educational microcomputers (800 Junior).
- 1988 ○ Production of the first IBM PC/AT compatible microcomputers. These microcomputers are equipped by Elwro with Microsoft software for which Elwro is an authorised distributor.
- Production of first modems.
- 1990 ○ Separation of the electronics plant from the Elwro Group.

The Elwro Group Management Structure



* Domestic and abroad

Elwro's domestic network



Promotional activities

Participation in international exhibitions and fairs

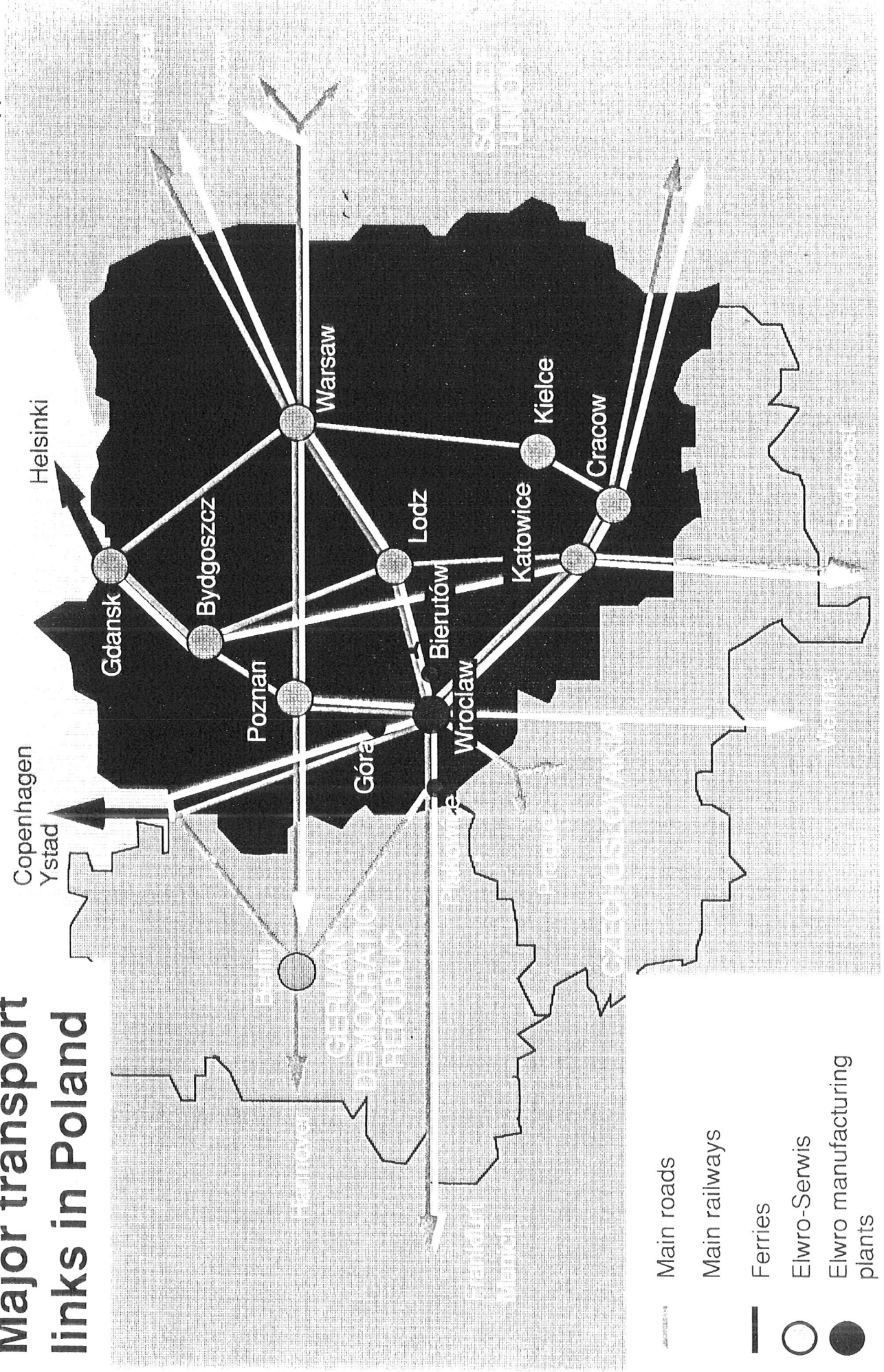
	Date	Approximate exhibition area (sq.m)
1987		
1. Leipzig	03/87	100
2. Infosystem-Wroclaw	04/87	400
3. Budapest	05/87	100
4. Poznan	06/87	100
5. Incheba-Bratislava	06/87	50
6. Leningrad	09/87	100
7. Brno	09/87	100
8. Plovdiv	10/87	70
9. Bukarest	10/87	50
1988		
1. Moscow-exhibition for schools	02/88	50
2. Leipzig	03/88	100
3. Infosystem Poznan	04/88	1,400
4. Budapest	05/88	100
5. Poznan	06/88	500
6. Leningrad	07/88	50
7. Tallin	08/88	50
8. Brno	09/88	100
9. Budapest-Compforix	10/88	50
10. Leipzig	10/88	50
11. Bukarest	10/88	40
12. Moscow-Science	11/88	300
13. Brno-Automation	11/88	50
14. New Delhi	11/88	20
15. Moscow-Gossnab	12/88	100

	Date	Approximate exhibition area (sq.m)
1989		
1. Leipzig	03/89	100
2. Cebit-Hannover	03/89	30
3. Infosystem-Poznan	04/89	1,400
4. Poznan-Inviromes	04/89	150
5. SICOB Paris	04/89	20
6. Budapest	05/89	100
7. Poznan	06/89	250
8. Moscow - 20 years of Unified Systems Computers	06/89	150
9. Moscow-Interoptorg	08/89	250
10. Brno	09/89	120
11. Leipzig	09/89	30
12. Minsk	10/89	100
13. Moscow-Automation	11/89	400
14. New Delhi	11/89	30
15. Lysu n. Labem	12/89	50

Symposia and conferences organised by Elwro

1987	January	Budapest - "Automation systems for power engineering"
	May	Wroclaw - "Medical conference"
	November	Budapest - "Measurement/control apparatus for water quality examination"
1988	May	Berlin - "Water examination systems"
	October	Straznice Czechoslovakia - "Managing systems for water economies"
1989	May	Berlin - Symposium - "30 years of Elwro"
	June	Demonstration of teleprocessing systems in Moscow
	October	Piestany - Symposium "R-34 and teleprocessing applications"
	November	Budapest - "Computer systems and teleprocessing sub-systems"

Major transport links in Poland



- Main roads
- Main railways
- Ferries
- Elwro-Serwis
- Elwro manufacturing plants

Summary biographies of the senior management of the Elwro Group

Andrzej Musielak, M.Sc. Managing Director of the Elwro Group

Aged 52, Andrzej graduated from Wrocław Technical University with an M.Sc. in Electronics. He joined Elwro in 1960 as a design engineer. He gained experience in the areas of production, design and research in key positions within the Group; Head of the Technical department, Chief Engineer, Managing Director of the Institute of Computer Systems for Automatic Control and Measurement. Since 1981 he has held the position of Managing Director of the Elwro Group.

Janina Rudze, M.Sc. Director for Finance and Economic Affairs and Chief Accountant

Aged 50, Janina graduated from the Warsaw School of Planning and Statistics with an M.Sc. in Economics. She has been employed by Elwro since 1965, moving from the position of Head of the Economic Analysis Section to that of Chief Expert on Costs and Pricing.

In 1988, she was appointed Director for Finance and Economic Affairs and Chief Accountant.

Mirosław Kudła, M.Sc. Director for Technical Matters

Aged 45, Mirosław graduated from Wrocław Technical University, with an M.Sc. in Electrical Engineering.

He has been employed by Elwro since 1974 as a manager of Elwro-Serwis and in 1976 became Managing Director. In 1978 he was appointed Director for Technical Matters for the Elwro Group.

Waclaw Osekowski Production Director

Aged 38, Waclaw graduated from Krakow Technical University, with a degree in Mechanical Engineering.

He joined Elwro in 1980 as a design specialist. During the following year he was promoted to the position of Head of the tool-making department.

In 1989 he became Production Director.

Jerzy Bugaj, Eng. Director for Automatic Control Systems

Aged 48, Jerzy graduated from Wroclaw Technical University and joined Elwro in 1962. In 1977 he was appointed Head of Automatic Control Systems Plant and became a director for automatic control systems in 1988.

**Jan Zbigniew Salamon, Director for Trade
M.Sc.**

Aged 56, Jan graduated from Wroclaw Technical University. He started his professional career in 1952. From 1974 to 1981, he was General Director of Elwro. He moved to work at the Co-ordination Centre of the International Commission for Computer Techniques in Moscow until 1988, when he returned to work for Elwro as the Director of the Foreign Trade Office.

**Wladyslaw Kierzkowski, Managing Director of Elwro-Serwis
M.Sc. Eng.**

Aged 40, Wladyslaw graduated from Wroclaw Technical University, with an M.Sc. in Electronics.

He began his career with Elwro following his graduation in 1971 as production engineer. He held the positions of Specialist Electronics Engineer and Chief Specialist on Computer Systems before becoming Managing Director of Elwro-Serwis in 1986.

Karol Tomkow Managing Director of the Electro-Automatic Control Plant

Aged 55, Karol completed studies at Wroclaw Technical University, obtaining a diploma in electrical power engineering. Karol has been employed by Elwro since 1966 and has occupied his present position of Managing Director since 1985.

Tadeusz Barta Managing Director of Electronic Utility Products Plant

Aged 37, Tadeusz completed studies at Wroclaw Technical University. Having begun his career with Elwro in 1978 he was nominated in 1989 for the position of Managing Director of the Electronic Utility Products Plant.

PERSONNEL QUALIFICATION STRUCTURE

Description	Number of staff in each division as at 31st December, 1989						Total Group		
	ZK	ZE	ZA	ZG	ZL	ZM	ZB	Number	%
Higher education level including:									
- qualified engineers	339	41	100	10	18	153	42	703	15.8
Secondary education, including:									
- technical	217	34	90	3	12	109	10	475	10.7
- economics	912	155	189	94	119	215	31	1,715	38.5
- general	554	96	119	55	72	143	11	1,050	23.5
Workers with technical training	108	23	30	15	12	42	7	237	5.3
	250	36	40	24	35	30	13	428	9.6
	653	145	100	148	146	61	-	1,253	28.1
Total skilled workers	1,904	341	389	252	283	429	73	3,671	82.3
Semi-skilled workers	473	84	8	70	77	42	-	754	16.9
Unskilled workers	16	5	1	2	7	3	-	34	0.8
Total work-force	2,393	430	398	324	367	474	73	4,459	100.0

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- ZK - Computer plant
- ZE - Electronics plant
- ZA - Automatic control systems plant
- ZG - Electro-automatic control systems plant
- ZL - Electronic utility products plant
- ZM - Elwro Serwis
- ZB - Foreign Trade Office

Retirement and social benefits

Retirement benefits

The retirement benefits provided by Elwro include the following:-

- (a) Polish National Insurance contributions. These amounted to 38 per cent. of gross wages in 1989 and have risen to 43 per cent. in the current year. These resources are used to pay sickness benefits, care, maternity, funeral and family allowances and indemnities; and
- (b) awards paid to retiring employees. This amount depends on the years of service (e.g. after 10 years it equals the average monthly salary received whilst in the company's employment).

Social benefits

The social fund is financed by regular annual deductions made from Elwro's operating budget. Deductions during 1989 amounted to 25 per cent. of the average monthly salary in state-owned enterprises during 1988. Elwro may also supplement the social fund from its profits. The social fund is used to finance activities for the benefit of employees and their families and pensioners.

These activities include the following:-

- employee holidays
- summer camps and recreational activities for children
- sports and cultural events
- aid granted to employees and ex-employees in difficult circumstances
- child care (nurseries and schools)

Elwro has its own holiday facilities; one seaside and two mountain centres, a summer camp and a weekend recreation centre.

Social benefits expenditure was around Zl.428.5 million in 1989.

Housing benefits

The housing fund is financed by deductions from Elwro's operating budget. These amounted to 12.5 per cent. of the average monthly salary in Poland in 1988. This fund may also be increased by Elwro when profits are distributed.

The Elwro housing fund is used as follows:-

- maintenance and upkeep of the workers' hostel
- upkeep of a house for those employees awaiting their own house
- payment for rooms rented for employees at other companies' hostels

In 1989, total expenditure in respect of housing benefits was Zl.49.4 million.