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ZVU a.s.
Investment Funds on the Board of Directors
of an Engineering Giant

by Tory Wolff

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Comments Welcome

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Czech Management Center



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August 1995

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**Company Case Study
Czech Republic**

ZVU a.s.

**Investment Funds
on the Board of Directors
of an Engineering Giant**

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1. Executive Summary¹

ZVU Hradec Králové is a major heavy engineering firm employing about 3 500 workers and providing engineering and equipment to the chemical, energy, sugar-processing and brewing industries. At the beginning of 1993, the company top management was changed by its investment fund majority owners. Since that time, the governing organs have granted the new management considerable freedom and trust in carrying out a program of gradual improvement at the company.

Management characterizes its relationship with both Boards as close and cooperative, reflective of the long-term interest which the funds have in the company. Both the Board of Directors and the Supervisory Board focus on similar matters: key financial and liquidity issues such as profitability and asset value management, and some longer-term management issues such as regular reviews of sales and strategic planning by the company. There are no perceived systematic differences between Board members on either Board. Certainly no disagreements among members or with management were not resolved in the course of discussion. Since 64 percent of the company ownership is represented in the Board of Directors and Supervisory Board, the governing organs would certainly have the power to register any disagreement with management they might have had.

¹The casewriter served as an advisor to ZVU for one year following the summer of 1991. Some of the opinions of the casewriter were developed during that period, rather than during the course of writing this case. Furthermore, the casewriter continues to work for ZVU on an occasional basis as a consultant.

2.1. Sectoral Setting

ZVU, joint stock company (JSC) is a Czech heavy engineering and manufacturing company supplying equipment and systems to the brewery, sugar-processing, chemical and energy industries. ZVU's products can also be divided into "turn-key" deliveries, in which ZVU serves as main contractor to supply a complete system, and "piece" deliveries, in which ZVU serves as a sub-contractor to another engineering firm, or provides individual pieces of equipment directly to a customer. Until 1990 ZVU enjoyed a near monopoly position as supplier of breweries and sugar factories domestically and to the former Soviet Union. It also enjoyed a regular flow of heavy chemical equipment projects from the former Soviet Union. Up until 1989, over 50 percent of ZVU's production was exported.

Changes in the organization of Eastern European trade have forced ZVU to focus on the domestic market. Indeed, over 74 percent of sales in 1994 were to the domestic heavy engineering market, and, in particular, to the beer brewing, sugar processing, chemical and energy industries. ZVU's historical international orientation combined with the robust competition from Western engineering firms made the domestic market a difficult arena for ZVU.

The Czech **food processing** sector has undertaken extensive investments since the Revolution to make up for the decades of neglect under the former regime. The food processing industry invested a total of CZK 9.4 billion in 1992, 12.3 billion in 1993 and 11.1 billion in 1994². The beer brewing industry invested an estimated CZK 4.8 billion in long-term assets in 1994, while the net book value of depreciable fixed assets at the end of 1994 was CZK 12 billion. ZVU's share in the equipment investments of the brewery industry was a respectable 4 percent in the face of intense international competition. Despite this extensive investing, ZVU management believes that the domestic beer industry will continue to demand turnkey and piece deliveries over the next decade. The disastrous financial losses of the Czech sugar industry have kept investment there to a minimum, although the industry requires significant reconstruction. In 1994 the sugar industry invested an estimated CZK 1.2 billion of which only a fraction was net investment in depreciable machinery and equipment. ZVU retained a dominant share in this investment.

The lion's share of ZVU's sales have been to the domestic **chemical and energy** industries where toughening environmental standards have necessitated extensive

²These and the following market statistics are from the Czech Statistical Office and the author's calculations.

reconstructions. The energy industry invested CZK 28 billion in 1992, 30 billion in 1993 and 33 billion in 1994. ZVU's sales to the energy industry has largely been for desulphurization engineering for coal fired power plants. The most important sale so far has been the company's work on the largest coal fired plant in the Czech Republic - Prunérov II - as part of a consortium with Mitsubishi Heavy Industry. Although investment by the Czech chemical industry peaked in 1992 at CZK 9.5 billion, continued reform of Czech environmental regulations have kept the investment stream significant. In both 1993 and 1994, the chemical industry invested 7.5 billion, while ZVU has maintained a 5 percent share of these domestic investments.

Although ZVU has concentrated on domestic sales recently, the company retains an active marketing interest in international sales. The company focuses particularly on its traditional Russian, Middle Eastern and Asian markets where an extensive reference base provides considerable marketing leverage. Many plants which ZVU built there are in need of refurbishing and modernization. Financing remains a problem, however, and it is difficult to forecast when these opportunities can be reaped. ZVU has also had some success in developing cooperation with Western European companies including selling piece equipment to the German market (often for shipment to third countries).

2.2 History of the firm before privatization

The company was formed in 1869 as a joint-stock company owned by Czech and Swiss traders and German and Czech engineers. Initially, the company made sugar-processing equipment and complete sugar plant deliveries through-out the Austro-Hungarian Empire. Also from a very early date, the firm focused on eastern markets, and opened an office in Kiev as early as 1878. The company gradually expanded its activities to include the manufacture of breweries and industrial boilers. After World War One, the firm suffered a financial crisis and integrated into the Skoda Concern³ with special responsibility for sugar processing equipment, breweries, distilleries and industrial boilers. The firm also became increasingly active in supplying to the energy (coal gasification technology) and heavy chemical industries. The connection with Skoda also provided the firm with a broader network of international sales.

The company was nationalized in 1945. During the integration of Czechoslovakia into the COMECON system, ZVU retained its export specialization. As part of the system of central planning, companies were not allowed to conduct foreign trade themselves. Accordingly, ZVU's products were sold exclusively through a network of Czech state trading organizations, primarily the former Soviet Union, where ZVU enjoyed a near

³One of the leading industrial organizations in the Czech economy.

monopoly in brewery and sugar processing plant supply. Major chemical plants were also supplied. ZVU also supplied to the Third World, including the Middle East, Africa, India and China. A large share of these sales fell into the more prestigious and more profitable "turn-key" delivery category.

ZVU's reliance on foreign trade organizations (FTO's) did not prevent it from developing considerable direct contacts in foreign countries. ZVU staff enjoyed especially close contact and frequent exchanges with the research institutions and ministries of the former Soviet Union. The complicated engineering, assembly and servicing of ZVU's products also necessitated ZVU staff spending extended periods in foreign countries, in direct contact with customers. Thus, the ZVU name is quite well known in the traditional export markets.⁴ However, most of these contacts were after contracts had been signed. ZVU remained fairly inexperienced in the process of obtaining international engineering contracts under a market-economy regime.

ZVU's transition woes were typical for export-oriented engineering companies of the region: the collapse of traditional COMECON trading system in the beginning of 1991 required a refocus on the domestic market, which was itself suffering from a severe recession and shocks of economic transition. The share of export of ZVU's sales declined from 51.3 percent in 1989, 48.8 percent in 1990 to 37,1 percent in 1991 and 18,7 percent in 1992.⁵ The domestic market was opened to Western competitors eager for business. The share of "turn-key" in ZVU sales decreased rapidly, as a result of both increased competition and because traditional customers had no money for project scale investment. Accommodating trade credit eased the pain of transition, resulted, however, in a rapid expansion of current assets and liabilities. Overdue payables also placed ZVU in the position of second-class customer, and suppliers often delivered goods of poor quality.

After the 1989 "Velvet" Revolution in Czechoslovakia, the old management was removed from office and a new General Director was elected, who selected five deputy directors for each of the chief departments in the functionally organized firm. The General Director was responsible directly and exclusively to the Ministry of Industry. Shortly after this election, and on the initiative from the Ministry of Industry, a Supervisory Board consisting of 5 ZVU employees and 5 outsiders was organized.

⁴The casewriter himself head the very warm praise given ZVU products by the Deputy Minister for Agriculture of the former Soviet Union during a meeting in October 1991.

⁵The actual amount of products exported - measured for example in weight - was much less in 1991 and 1992 than it was before. The liberalization of foreign exchange and the currency devaluation led, however, to a sharp increase in the export prices for products, masking the actual decline in volume of trade.

The chief task was finding sufficient work to fill the company's CZK 1.5 billion annual production capacity. ZVU was still able to sell to the Soviet market in 1990. It was already clear, however, that this would not continue in the following year. The search for new customers often meant accepting contracts at undesirable terms. The payment terms in particular represented a delicate negotiating point with customers. Reducing inventories and collection of receivables filled the remaining management time.

The external focus of management attention (finding more customers and collecting receivables) reflected management's perception of its limitations and perceived lack of support from the Ministry of Industry for more radical initiatives. A further drag on change resulted from the privatization process. In 1991, ZVU began to prepare its privatization project and hired an Austrian consulting firm to prepare ZVU for privatization and to find a major international engineering group which could buy a majority stake in ZVU and integrate it into its operations. ZVU management felt that the foreign investor was going to have its own ideas about everything from organizational structure to the accounting software. So managers chose not to change anything until the identity of the foreign investor was clarified.

However, ZVU did not find a majority foreign partner. The final project filed with the Ministry of Privatization reserved only 19 percent for a potential foreign partner, and released 75 percent for coupon privatization. Under this plan, ZVU was reorganized into a JSC in April 1992 with new by-laws.

2.3 Privatization and the resulting ownership structure

Of the 74 percent of shares available, 62 percent were purchased by 40 investment funds, and 12 percent was purchased by 5,570 individual stock-holders. Only a modest share - 2 or 3 percent - of the shares are estimated by the company management to be held by employees. Five investment funds own more than 8 percent of the shares each (two of which own more than 10 percent each).

The 19 percent held by the NPF was privatized during the second wave through coupon privatization. Of this, 13 percent was obtained by 16 investment funds (several of these were funds which already directly or indirectly⁶ held shares in ZVU), while the remaining 6 percent was distributed among individual shareholders.

⁶Several investment companies have several different funds and their ownership of ZVU shares is distributed among them. For example, EVBAK's shares of ZVU are distributed in four different funds, CS Fondy a. s. owns shares of ZVU in five of its funds, and Československá obchodní banka (Czech Commercial Bank) owns shares through four of its funds.

Before the General Meeting of 22 June 1995, a total of 66 investment funds and legal entities held 85 percent of ZVU's shares⁷, while a total of 9 464 individual shareholders owned the remaining 15 percent.

⁷Including the 3 percent allocated to the city of Hradec Králové and 3 percent allocated to the Restitution Fund.

3. The corporate governance of the company

3.1. The Boards

The **Board of Directors** has seven members, elected by the General Meeting, and enjoying a three years term⁸. No limits or specifications are made regarding the composition of the Board. The Board elects its own Chairman and Vice-Chairmen. There are two members of ZVU top management on the Board: the General Director, Ing.⁹ Karel Páral, who simultaneously serves as a Vice Chairman and the financial director, Ing. Josef Sirovy. The current board is chaired by Ing. Oldrich Nepras, a representative from the EVBAK family of investment funds and vice-chaired by Ing. Pavel Dusil, a representative of the Agrobanka investment funds. Of the three remaining members, JUDr.¹⁰ Premysl Titz represents the Banka Hana group of investment funds, Ing. Vaclav Srba represents the Ceska sporitelna (Czech Savings Bank) group of funds, and Ing. Ondrej Danek representing the Ceska pojisovna (Czech Insurance) group of funds. The outside Board members represent about half of the ownership of the company.

The Board is required by the by-laws to meet at least once every three months. Additional meetings can be called, however, should any members of the Board or the Supervisory Board call for such a meeting. The Board meeting constitutes a quorum when more than half of its members are present. Decisions are made by simple majority, and in case of a tie, the Chairman has the deciding vote.

The **Supervisory Board** has six members (3 more than required the minimum set out in the Commercial Code), four elected by the General Meeting and two elected by the employees. No one can be both a member of the Board of Directors and a member of the Supervisory Board. Otherwise, no limitations are made on who can be a member of the Supervisory Board. The members serve three year terms, shorter than the 5 year maximum set by the Commercial Code. The Supervisory Board elects its own Chairman. The Board is required by the by-laws to meet at least four times a year.

Two members of the Supervisory Board are representatives from investment funds, JUDr. Josef Mladek, chairman and representative from the CS investment funds, and

⁸The Commercial Code indicates that a 5 year term is the maximum.

⁹The title "Ing." is an academic qualification earned in technical subject areas and is approximately equivalent to a master's degree.

¹⁰The title "JUDr." means that the person holds a doctorate of laws.

Ing. Jana Pourova, representative from the Ceskoslovenská obchodní banka (Czechoslovak Commercial Bank) investment funds. Under the structure of the first wave of privatization, the city of Hradec Králové obtained a 3 percent share of ZVU, which is represented by Ing. Oldrich Vlasák. Together, 16 percent of the company ownership is represented on the Supervisory Board. The final non-employee member of the Board is Ing. Eva Capková from the Komerční banka (Commercial Bank) with which ZVU has in the past and continues to do much of its banking.

In the view of both the General Director and the Chairman of the Board of Directors, the division of responsibilities between the Boards follows closely the corporate by-laws and Czech Commercial Code. There are no informal adjustments to the distribution of responsibilities between the Boards; nor (with the exception of the special responsibilities of the Chairman of the Board of Directors described below) are there any division of responsibility among the individual members of either Board.

According to the by-laws, the Board of Directors is responsible for the commercial management of the firm and the operating affairs of the company, for dealing with employees and calling the General Meeting. The Board of Directors also enjoys the right of addressing proposals in all issues which the General Meeting should decide. As a result of this, the Board of Directors shares an explicit responsibility for strategic thinking, in that it must determine, develop and prepare proposals regarding the strategic plans for the company and proposals for changes in the strategic plans for the General Meeting. According to the General Director, the commercial management of the company and development of its strategic concept is his bailiwick, while the Board of Directors limits itself reviewing his proposals and making suggestions.

The Supervisory Board's competencies under the by-laws match those listed in the Commercial Code. The Board is responsible for ensuring company conformance with regulations, the by-laws of the company and the decisions of the General Meeting, to review the annual financial statements and the proposed distribution of profit (including payment of royalties to the Board of Directors and the Supervisory Board), to review the simple quarterly accounting balance, to call for an Extraordinary General Meeting, to provide the General Meeting with its statements, recommendations and proposals. The Board is entitled to inspect the accounting books and commercial records of the company. As noted below, the Supervisory Board takes a more general interest in the company affairs than suggested by the by-laws, but limits itself to an oversight and reviewing function.

Communication between the Board is maintained by the Chairman of the Supervisory Board attending the meetings of the Board of Directors, while a member of the Board of Directors (either the Chairman, the General Director or the Financial Director) regularly

attending the meetings of the Supervisory Board. Meeting agendas and minutes are always exchanged. Telephone calls are exchanged occasionally.

3.2. Decision-making on the Board of Directors

Once the former General Director was removed and Ing. Karel Páral was first named Acting General Director, the Board of Directors relied on Páral for much of its analysis and proposals for changing ZVU, while maintaining close oversight. The Board of Directors met 7 times between May and the end of September 1993. Páral was asked to diagnose ZVU's operational problems and devise improvements. Besides reviewing the General Director's progress on this task, the Board meetings focussed on finance and sales. According to the Páral, there were no disagreements during Board meetings: "The [fund representatives on the Board] are experts and the requirements [what had to be done] was fairly clear." The chairman of the Board also met with the Acting General Director frequently between Board meetings (as often as every week), largely to check on progress of tasks assigned during the Board meetings. The General Director also used these occasions to discuss experimental ideas.

The Board of Directors tested the Acting General Director until 9 July, when he was formally named General Director. Following this change, meetings of the Board of Directors and the independent visits of the Chairman became less frequent. In the view of the General Director, he and his team had earned a considerable measure of trust from the owners. Also, the current palette of tasks facing management - freeing fixed assets of their commitment as collateral and increasing profitability - were longer term problems that did not require weekly checking.

Since the first Regular General Meeting on 24 September 1993, the Board of Directors has met once a month. Although this is considerably more often than is required by the by-laws of the company, the General Director views the meetings as completely routine and says he enjoys considerable trust on the part of the Board. The Chairman of the Board still bears a special responsibility for ZVU and continues to act as the designated representative of the funds at ZVU. However, this role has fallen into disuse since the 1993 General Meeting. Currently, the General Director telephones the Chairman perhaps once a month between meetings of the Board of Directors.

In the view of the General Director, there are three main issues on which the Board of Directors focus: the reduction in the proportion of property committed to banks as collateral for loans, increasing the value of property owned by the company and profitability. The Chairman of the Board added that questions of order backlog and

strategy and development issues are also discussed. Individual proposals for restructuring pieces of the ZVU business or major strategic investments - such as in a management information system - are discussed in considerable detail. There has been also some discussion about personnel and efficiency issues, such as the appropriate ratio between blue collar and white collar workers, productive employees (such as blue collar workers and designers) and administrative overhead, and so forth. Specific elements of business policy - such as individual business cases, no matter how major - are generally not discussed.

Since the 1993 management change, the order backlog has been paramount on everyone's mind, according to the Chairman, forcing a relatively short-term management horizon (6 months or so in advance). Now that the order backlog has stabilized, the Board and ZVU's top management can consider longer term issues. "The Board of Directors is now starting to discuss the 1996 financial plan," offered the Chairman of the Board¹¹.

The Board of Directors relies largely on ZVU top management for its information about the company. The Chairman noted that in companies where the owners had less faith in managers, fund people reached further down into middle management for information about the company status. He also noted, however, that Board members receive considerable information about ZVU from customers and suppliers with which their respective fund have ties, as well as from the various financial institutions associated with some investment funds.

Management uses the trust of the Board of Directors to promote a program of gradual improvement. Among the major events of 1994 and the first half of 1995¹² was the certification of ZVU according to the international quality norms ISO 9001. As a result of this certification, management expects its chances on foreign - particularly Western - markets to be considerably improved. In a piecemeal restructuring, ZVU spun off its metal forging workshop into a joint venture with several other individuals. The forge has been losing money for quite some time. Under the new arrangement, ZVU holds a 60 percent share of the forge, while natural persons representing the foreign trade JSC Strojexport Engineering hold the remaining 40 percent. The sales network contributed by Strojexport is expected to turn around the forge shop. In addition the financing arm of ZVU - ZVU Capital - which was formerly structured as a limited liability company was transformed into a subsidiary joint stock company, reflective of its expanded financial activities.

¹¹This conversation took place in July 1995.

¹²As reported in the management report delivered at the General Meeting of 22 June 1995 and confirmed by members of ZVU management in meetings with the casewriter.

According to Páral, the company will be undergoing more radical changes in the future, thanks to the purchase of a new management information system. The new information system is expected to result in a "radical change not just in the process of management, but now...[ZVU] will be able to realize the necessary transformation of internal departments into economically independent strategic business units with the goal of eliminating all organizational and capability barriers which brake the flow of orders and reduce their effectiveness."¹³

In the Board's dealing with each of these issues and in the course of regular oversight of financial developments, there were no discernable differences in approach among any of the members of the Board of Directors. Nor were there any disagreements among members. Mr. Páral attributes much of the good working relationship between top management and the Board of Directors to the long-term approach which the investment funds are treating their stake in ZVU. "We have big funds among our owners who are not interested in either milking our company for dividends or trading their shares for short-term profits." As a concrete example, Mr. Páral cited the following: "In comparison with funds at other companies, for example, our funds respect issues of social policy. They recognize that if there is a profit, then some part of that profit should be distributed to the employees as a reward for their hard work." The Chairman of the Board supported this point. "We see ourselves as long-term owners of ZVU. We do not plan to sell our shares and will stay as long as we see ways of increasing the value of those shares."

Some members helped ZVU in obtaining bank loans for the company. Also, some members were helpful in ensuring that ZVU participated in investment projects in companies where the investment funds also held shares. Details on these activities could not be obtained by the casewriter.

3.3. The Supervisory Board

The Supervisory Board meets once a month. A member of the Board of Directors usually attends the meeting (often representatives of top management of ZVU). Member of ZVU top management not on the Board of Directors also attend the meetings when requested. Up until the first Regular General Meeting, Páral attended every meeting of the Supervisory Board. Now, however, requests for management attendance depend on the topics being discussed and does not always occur. Ing. Páral, for example, attends about one meeting of the Supervisory Board each quarter. The production, sales and

¹³Quoted from the management report to the 22 June 1995 General Meeting.

financial directors have also attended meetings as requested, including ones where the General Director was not present.

Since naming Mr. Páral General Director of ZVU, the Supervisory Board has functioned, according to Páral, in a routine manner. According to the General Director, the Supervisory Board pays particular attention to three aspects of the company: the financial situation, the order backlog, and management's strategic development concept for the company. The Board's financial concerns tend to focus on company liquidity, the collection of receivables and payment of payables, and managing payments on loans. Discussions of order backlog (vitaly important in a heavy engineering plant with high fixed costs) often require the attendance of the commercial director.

Although the by-laws would suggest a narrower focus, the Supervisory Board covers much of the same ground as the Board of Directors, including consistently checking the order backlog and the development of the strategic concept. This may be connected with the presence of two employees representatives and one representative of a banking institution which has substantial loans with ZVU. Indeed, Páral noted that while there are no detectable differences between the fund representatives on the Supervisory Board, the employee representatives have often raised disagreements or concerns. However, these differences were always negotiated out. As yet, there have been no differences of opinion registered in the final minutes of the Board meetings.

4. Major findings

While there is every reason to believe that the existing corporate governance structure is capable of supporting a complete overhaul of ZVU, the system has not been tested since the private owners took over the management of the company, because they have been satisfied with the gradual progress implemented by management. The owners - 64 percent of whom are represented in the corporate governing boards - allowed the new general director a relatively free hand in analyzing the problems of the company and in developing solutions and have limited themselves to oversight - especially of financial matters. The owners have been rewarded with stable profitability¹⁴ and gradual improvements in the company's functioning. A loss-making division was spun off into a joint venture with a foreign trade organization. The company obtained ISO 9001 quality certification which should assist its expansion into foreign - particularly Western - markets. The company also invested in a new management information system which management expects will enable the long-awaited organizational reform of the company¹⁵.

ZVU thus appears to be a case where the primary owners' satisfaction with management has made any radical use of the tools of corporate governance unnecessary. It is perhaps for this reason also that no major differences in the thinking or behavior of the board members was displayed. Furthermore, it is unlikely that radical initiatives can be expected from shareholders not already represented in the governing organs¹⁶.

¹⁴Excluding the influence of extraordinary effects, the company earned profits of around CZK 20 million in 1993 and 1994. This is no small achievement, since the Czech mechanical engineering industry in aggregate lost CZK 2.6 billion (2.6 percent of total operating revenues) in 1993 and lost another CZK 1.4 billion (1.3 percent of total operating revenues) in 1994.

¹⁵Despite having more than 3.000 employees and a very diverse engineering and production program, ZVU still operates under an unwieldy (in the view of current management) functional organizational structure.

¹⁶The dominant position of the major funds in the governing organs of the company (representing 64 percent of ownership) may have caused the remaining, highly dispersed ownership to become quite passive. Shortly before the first Regular General Meeting in 1993, the Chairman of the Board invited the other main investment funds (ones with more than 0.5 percent ownership) to a separate meeting shortly before the beginning of Regular General Meeting. Only one fund sent a representative to this meeting. Only 66 percent of shareholders attended the recent General Meeting of 22 June 1995, only 2 percent more than is regularly represented in the corporate governing organs.

Table I
Income Statement (Czech accounting system)
ZVU a. s. Hradec Králové
(millions CZK)

	1993	1994
Revenues from goods resold	325	528
Cost of goods resold	315	493
+ Trading margin	10	35
Revenues from goods manufactured and services provided	1 345	1 156
Net change in work-in-process and finished goods inventory	-226	-68
Activation	37	44
Total production revenues	1 156	1 132
Consumption of material, energy and services	661	672
+ Value-added	505	495
Personnel costs	344	375
Taxes and fees	2	2
Other operating revenues	41	124
Other operating costs	40	51
Depreciation	80	83
Operating profit	80	105
Net financial costs	57	83
Income taxes on ordinary activities	1	2
Extraordinary income	19	1
Extraordinary costs	59	0
Net extraordinary effect	-40	1
Net income	-18	21
N.B. Number of employees	3 413	3 331

Table II
Cash Flow Statement (Czech accounting system)
ZVU a. s. Hradec Králové
(millions CZK)

	1993	1994
Cash and equivalents held at the beginning of the accounting period	64	65
Operating activities		
Net income	-18	21
Depreciation	134	83
Net change in reserves	-0	-2
Net change in accruals and deferrals	80	-173
Profit (loss) from sale of fixed assets	2	-4
Net change in current assets and liabilities	-291	66
Net cash flows from operating activities	-92	-5
Investment activities		
Acquisition of fixed assets	-75	-77
Sales of fixed assets	2	16
Net cash flow from investment activities	-72	-61
Financial activities		
Increase in long-term bank debts	233	90
Decrease in long-term bank debts	-62	-71
Cash gifts and subsidies	0	2
Other receipts	-6	1
Net cash flow from financial activities	164	22
Net cash flow	-0	-45
Cash and equivalents held at the end of the accounting period	65	21

Table III
Balance Sheet (Czech accounting system)
ZVU a. s. Hradec Králové
(millions CZK)

	1992	1993	1994
ASSETS			
Fixed assets	909	844	829
Intangible depreciable fixed assets	2	2	3
Tangible depreciable fixed assets	872	796	790
Financial investments	35	46	37
Current assets	1 692	1 779	1 760
Inventories	1 049	990	898
Long-term receivables	7	4	3
Short-term receivables	572	720	838
Financial property	64	65	21
Other assets	0	38	121
Total assets	2 601	2 661	2 711
CAPITAL AND LIABILITIES			
Equity capital	1 095	1 070	1 097
Liabilities	1 456	1 422	1 536
Reserves	3	3	0
Long-term payables	0	233	161
Short-term payables	819	665	752
Bank loans and financial assistance	634	522	622
Other liabilities	50	168	79
Total liabilities	2 601	2 661	2 711

Table IV
Summary backgrounds of members of Corporate Boards
ZVU a. s. Hradec Králové

Board of Directors

Ing. Oldrich Nepras, Chairman of the Board of Directors. Studied at the Economic High School of Prague. Currently serves as general director of EVBAK a. s. and as vice chairman of the board of directors at Mosilana a. s. Brno. Represents the EVBAK investment fund interest in ZVU.

Ing. Karel Páral, Vice Chairman of the Board. Studied at the Prague Technical High School. Completed a six month executive management course at the Prague International Business School. Currently serves as General Director of ZVU a. s.. Also is chairman of the Board of Directors of ZVU Capital a. s., chairman of the Supervisory Board of ATEKO a. s. Hradec Králové, a member of the Board of Directors of the Association of Suppliers of Capital Goods, a member of the Board of Directors of Technoexport a. s. Prague and member of the Czech Business Council for Sustainable Development.

Ing. Pavel Dusil, Vice Chairman of the Board. Studied at the Economics High School of Prague and a two-year management course ENICHEM in Italy. Currently Director at Ferodo a. s. Kostelec n. O., joint owner of the company D & D Service s. r. o., vice chairman of the privatization fund ARGO a. s. and member of the Board of Directors of Ferodo a. s. and member of the supervisory board of Optimit a. s. Odry.

JUDr. Premysl Titz, member of the Board. Studied at the Faculty of Law of Charles University. Director of the investment company Mapis a. s., member of the Board of Directors of Sroubarna Zdánice a. s. and FTL Prostejov.

Ing. Václav Srba, member of the Board. Studied at the Economics High School of Prague and two year post graduate study at the Institute of Management. Currently deputy of the general director at the Sportelní investicní společnosti a. s., Chairman of the Board of Directors of the Sportelní privatizační a. s., and a member of the Board of Directors of Lázně a. s. Luhacovice.

Ing. Ondrej Danek, member of the Board. Studied at the Czech Technical University in the Construction faculty. Currently employed in the department of analysis and corporate management of the Kapitálová investicní společnost České pojisy a. s.. Serves as a member of the Board of Directors of Avia a. s., MATE Brno a. s. and SVUS a. s.

Ing. Josef Sirovy, member of the Board. Studied at the Mechanical Engineering and Textile High School in Liberec. Currently serves as Financial Director of ZVU.

Supervisory Board

JUDr. Josef Mládek, Chairman of the Board. Studied at the Faculty of Law at Charles University in Prague. Represents the interests of CS Fondy. Serves as Chairman of the Board of Directors of Primona a. s. and Uniservis Hradec Králové.

Ing. Eva Capková, member of the Board. Studied at the Economic High School of Prague. Currently director of the Department of Large Commercial Cases at the Komerční banka, branch Hradec Králové. Member of the Supervisory Board of Východočeská cukerní and Strojbal a. s. Hradec Králové.

Ing. Jana Pourová, member of the Board. Currently serves at the Československá obchodní banka branch Hradec Králové.

Ing. Oldřich Vlasák, member of the Board. Studied Czech Technical University in Prague and a year long post graduate management course from the Swiss program TRANSFER. Currently serves as director and prokurist for the East Bohemian Airport a. s. Pardubice.

Ing. Miroslav Bulíček, member of the Board representing the employees. Studied at the Czech Technical University in Prague. Currently employed at ZVU as head of the internal controlling and auditing department.

Mr. Eduard Kolbaba, member of the Board representing the employees. He serves as technologist at the boiler workshop.