PD-ABI-371

Polish-American Enterprise Fund

1993 Annual Report

P O L I S H - A M E R I C A N
E N T E R P R I S E
F U N D

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The Polish-American Enterprise Fund was established in 1990 at the initiative of the President and the U.S. Congress to tap the expertise of private sector professionals in making investments and providing technical assistance to encourage Polish private sector development.

It is a private corporation with an independent Board of Directors, authorized to receive $240 million in capital from the U.S. Government. In 1992, it attracted an additional $101 million in equity capital from private sources for parallel investment and established the Polish Private Equity Funds bringing the combined capital base of the funds for investment in Poland to $341 million.

The Polish-American Enterprise Fund has been able to carry out its mission through the continued support, guidance and encouragement of U.S. executive branch officials, the U.S. Congress and Polish Government authorities. It joins with other U.S. public and private institutions and individual Americans in contributing to Poland's progress.

LETTER FROM MANAGEMENT

November 30, 1993

The Polish-American Enterprise Fund has now completed its third full year of operations. Since our formation in May 1990, we have been privileged to participate in the development of a far-ranging private sector which now accounts for some 60 percent of the Polish economy; we have seen Poland become the first among the nations of the former communist bloc to achieve economic recovery with a present GNP growth rate possibly the highest in all of Europe. While unemployment and industrial restructuring remain daunting problems, the worst of the wrenching adjustment to a free market economy should be behind us.

It is gratifying to report that the Polish-American Enterprise Fund has played a role in this development. Since our first investment in 1990, we have disbursed some $142 million in equity investments and loans and $8 million in technical assistance, and have committed for investment an additional $66 million. As a result, we have become one of the two or three largest and most recognized foreign investors in the country.

For the fiscal year ending September 30, 1993, we disbursed $57.5 million in loans, investments and technical assistance, comprising 11 major equity transactions; 787 loans extended through our wholly-owned subsidiary—the Enterprise Credit Corporation; and a number of significant technical assistance grants. Since year-end, another $2.7 million has been invested in three companies.

The Polish Private Equity Funds (PPEF) joined for the first time in our investment program this year. The PPEF were organized in November 1992 with $101 million in fresh capital from the European Bank for Reconstruction and Development, Creditanstalt-Bankverein and a group of American investors, who are members of Russell 20-20 and initially visited Poland under the auspices of that organization. At year-end, the PPEF held six investments valued at $10.9 million. In all these investments, the Enterprise Fund provided directly 31 percent of the capital on a side-by-side basis, with PPEF holding the balance in accordance with a set formula that is based on the capital available from each entity.

Over the past three years, our support has gone to more than 2,500 private businesses throughout Poland, creating an estimated 10,000 new jobs. In addition, our financial intermediary investments, technical assistance programs and educational initiatives are stimulating many firms and individuals that are not direct recipients of Enterprise Fund financing.

It is too early to judge the performance of our portfolio; however, we are encouraged by the progress to date. As in all venture capital activities, a number of our companies will not succeed. As may be expected, these problems surface very quickly and are reflected in the valuation reserve of $4.7 million included in our financial statements. The value build-up in the more successful enterprises usually takes considerably longer to be recognized. Even so, based on our brief experience, we are confident that a number of our investments have the potential for substantial appreciation.

Among these is the First Polish-American Bank in Cracow which, after initial problems, we are pleased to report is now a soundly managed, profitable and rapidly growing enterprise. Another is the Polish-American Printing Association, potentially the largest and most sophisticated printing firm in Poland. We are also particularly encouraged by our recently concluded joint venture, Polskie Ksiazki Telefoniczne Co. Ltd., which involves the support and technology of NYNEX in a program to publish yellow pages telephone directories in Poland.

We are equally enthused about the prospects of three industrial privatizations which we have just concluded through negotiations with the Ministry of Privatization. In these cases, we developed an approach that the Poles now call "capital-management" privatization which is designed to maintain Polish ownership in formerly state-owned companies.

As noted, we have our problem investments, including Akita International, a printed circuit board manufacturer, and Secura, a safety products company, both of which were early investments that at one time held considerable promise. And we continue to encounter difficulties in several of our agricultural and distribution businesses.

The valuation policy reflected in our financial statements is to establish reserves through the write down of investments where serious impairment is evident; on the other hand, we do not consider it prudent to increase carrying values of our more promising companies unless there is a significant new financing that affirms a higher value, or where the financial performance is such to warrant an increased valuation. Our full Board of Directors reviews all of our investments in considerable detail, frequently interviewing individual managements of portfolio companies, on which basis we establish the carrying values reflected in our annual audited financial statements.

The process of investing and managing a portfolio in Poland continues to be interesting and exciting, but very challenging. While conditions have dramatically improved since the early days of our activity three years ago, the deficiencies in accounting systems and legal process and the inherent problems in dealing with government agencies persist. As we have gained more experience, we have refined our investment techniques and learned from our past mistakes. We feel we are getting better at our job.

During the year, we added three Polish nationals as investment managers in our Warsaw office. This office now comprises seven investment officers and a total staff of 35, of which all but six are Polish.

Our wholly-owned subsidiary, the Enterprise Credit Corporation (ECC), which operates as an independent entity in separate offices in Warsaw with its own staff of more than 30, continues to be the largest and most accessible lender to small businesses in Poland. During 1993, the ECC disbursed $21 million in 787 small loans averaging about $27,000 each to help emerging entrepreneurs grow their businesses. The increase in loan activity is gratifying, particularly since from inception charged-off loans represent only about 2.2 percent of the outstanding balance of the ECC's loan portfolio. Since its establishment in 1990, the Enterprise Credit Corporation has approved more than 2,500 small business loans totaling nearly $60 million, of which more than $40 million has been disbursed and nearly $20 million repaid.

This excellent repayment record is a tribute to the caliber of the Polish small business owner and the skills and diligence of our ECC staff. With the floating peg devaluation of the Polish zloty, we continue to be concerned that some borrowers may encounter increasing repayment difficulties as their loans mature, which requires particularly diligent discipline in our lending procedures.

Another institution we launched in partnership with Polish investors in 1992, the Polish-American Mortgage Bank, has now begun to make construction and mortgage loans for single-family housing. As a new bank operating in the emergent real estate market in Poland, where traditional Western financing concepts are only now being introduced, the Mortgage Bank has had to overcome a variety of hurdles. Even so, we feel we are now beginning to make a mark on private residential financing in Poland.

Our technical assistance grants are an important factor in helping our portfolio companies succeed. These grants also allow us to extend our reach to other prospective entrepreneurs. Our 1992 grant to the Foundation in Support of Local Democracy led to the establishment of Polish-American Enterprise Clubs in ten cities, with the involvement of more than five thousand people.

In 1993, a unique $250,000 grant launched a program in cooperation with the Foundation for the Development of Polish Agriculture to make very small loans (in the range of $500-$7,500) available to micro-businesses owned by women in rural areas. The areas in which the program operates have some of the highest rates of unemployment in Poland. Loans are only granted to individuals who have successfully completed a business training program (more than 400 women have completed the course thus far). In extending this financing, we hope we are beginning to encourage the latent entrepreneurship which exists in some of the most depressed areas of the country.

Economic progress in Poland has proceeded in the face of continuing political change. Since our first Board of Directors meeting in March 1990, there have been five governments. The latest government was formed only in late October 1993. Despite these changes in leadership, however, economic policies have remained essentially unchanged. We are confident economic reforms will continue in the direction of free markets and free enterprise.

The problems of unemployment and non-viable major industrial complexes remain as a profound challenge to the incredible patience and hope of a long-suffering population. The importance of Poland, its people and its pilgrimage to democracy is an inspiration to all of us who have had the privilege of intimate involvement there over the past four years. We too, are determined to stay the course.

The U.S. Congress and the Administration continue to recognize the challenge Poland presents and have been very supportive of our efforts. The cooperation we have enjoyed with the U.S. Department of State, the Agency for International Development and other Federal organizations assisting Poland has allowed each of us to devise complementary programs and benefit from one anothers' work. Many Polish officials at all levels of government as well have been receptive to our efforts. Despite the progress, it is too early to claim full success, and continuing official American support for Poland's fragile democracy and market economy remains essential.

Our Board has been our strongest resource; we are grateful for its dedication and its guidance. This year Ryszard Maslowski was elected to replace Jan Krzysztof Bielecki, who left us first to became Poland's Prime Minister and later its Minister for European Community Relations. Since then, two more of our Board Members have been invited to enter government service—Andrzej Olechowski, who has become Poland's Minister of Foreign Affairs, and Nicholas Rey, who has been appointed U.S. Ambassador to Poland. It will indeed be difficult to find replacements for these dedicated colleagues.

With each year, the Enterprise Fund faces new and different challenges as it adjusts to the changing demands of the Polish economy and the world business environment. Poland, too, is entering a critical period as it seeks to gain more attention of Western investors in the face of political change and widespread recession, protectionist tendencies and the competition from so many others for investment capital.

We are deeply gratified at the opportunity to work with and to try to support Poland's dedicated leaders—private and public—as they forge a new, democratic and independent Polish nation.

John P. Birkelund
Chairman of the Board

Robert G. Faris
President and Chief Executive Officer

R E V I E W   O F

M A J O R

D E V E L O P M E N T S

The presence of the Enterprise Fund is felt throughout Poland through major direct investments and loans and the credit provided by its financial institution intermediaries. The Enterprise Fund has also supported a variety of technical assistance projects designed to enhance these investments and create conditions conducive to the development of private enterprise in Poland. The map above denotes the locations of the Enterprise Fund's major activities.

The Enterprise Fund has financed businesses ranging from sole proprietorships serving a local neighborhood to firms employing over 2,000 workers and competing in world markets. While most recipients of financing are Polish-owned firms, the Enterprise Fund also joins in financing ventures with American and other foreign partners. These partners can often introduce Western technology and management skills in addition to providing capital.

The table below delineates the equity investment and loan activities by the Enterprise Fund and its wholly-owned affiliates from inception through September 30, 1993.

	(in millions)
Total Funds Disbursed	$142.4
Less: Loan Repayments and Investments Sold	(24.0)
Net Investments and Loans at Cost	118.4
Less: Loan Loss and Valuation Reserves	(10.6)
Net Investments and Loans Outstanding at Year-end Carrying Value	$107.8

As Enterprise Fund loans are repaid and its equity investments are sold, the proceeds are available for further investment. This recycling capacity should produce an impact far beyond the value of the original government-sourced capital.

In addition to the amounts noted above, the Polish Private Equity Funds, organized in November 1992, have disbursed $7.5 million of capital provided by other institutional investors in side-by-side investments with the Enterprise Fund, and Enterprise Fund support for technical assistance and training programs has totaled $8.1 million since inception. These programs provide examples that have served as models for others—both Polish institutions seeking to improve their operations and Western organizations contributing to Polish development.

These accomplishments have not come easily, and have only been possible through the skills and dedicated efforts of our officers and staff. Under the direction of Barbara J. Lundberg, who heads our Warsaw office, the Enterprise Fund has developed a solid professional team that is becoming a flagship organization of its type in Poland.

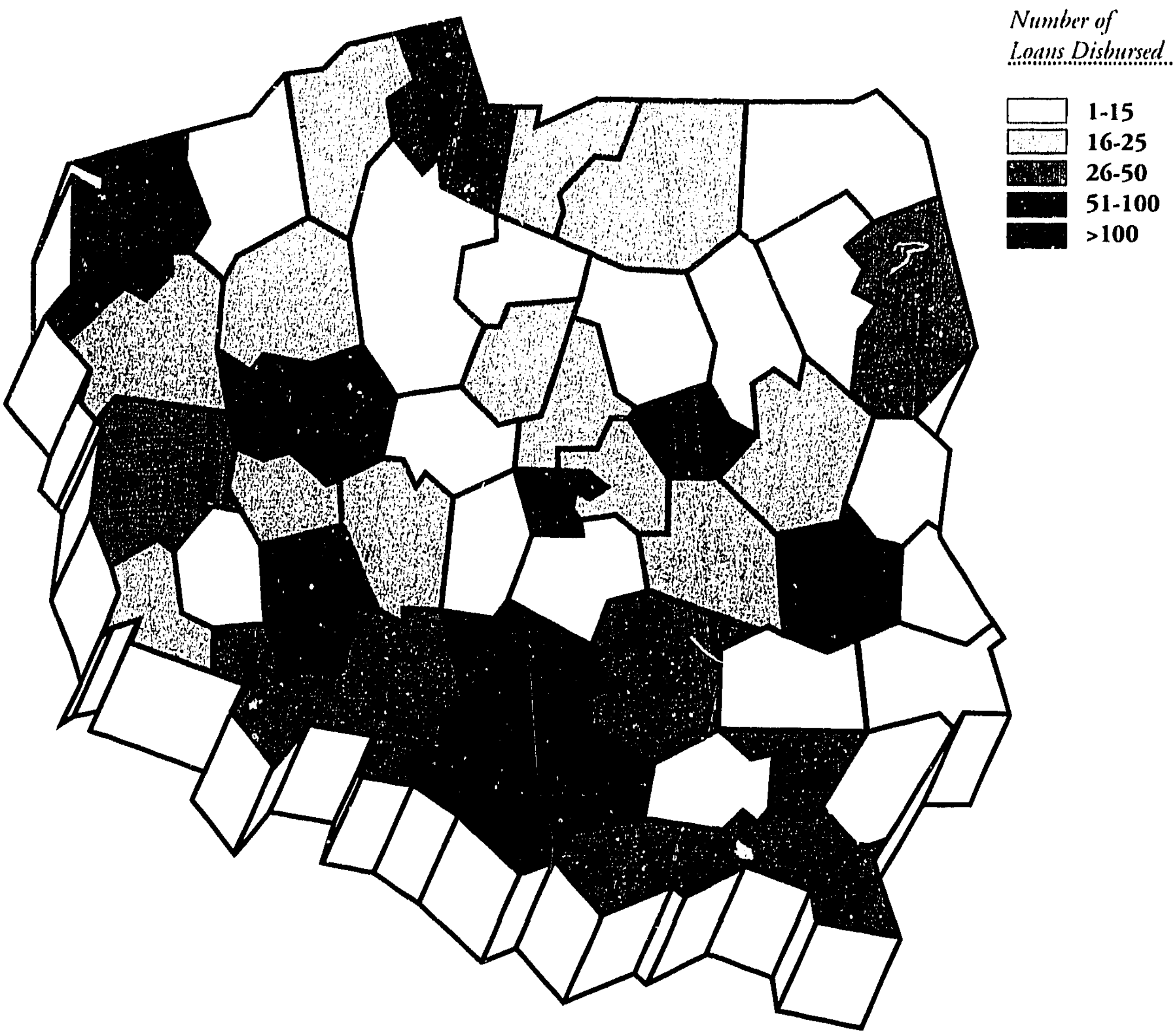
PROVIDING CREDIT FOR SMALL BUSINESSES

Polish bankers do not have a tradition of lending to small businesses. Despite reforms in the Polish banking sector, credit for small business still remains difficult to obtain. Some Polish bankers are beginning to make small business loans, however, most Polish banks are burdened with large portfolios of bad debts made in the past and are still reluctant to extend credit to small businesses.

In its three years of operations, the Enterprise Credit Corporation (ECC) has become the most significant source of loan financing for small businesses in Poland. These loans are promoting the growth of firms providing a wide variety of goods and services throughout the country. While most Polish banks focus on the availability of collateral, the ECC's approach places primary emphasis on the viability of the business—that is, an analysis of cash flows and an assessment of the character of the applicant—with collateral considered next. This approach entails higher risk but is consistent with ECC objectives of developing private businesses.

The ECC's application forms are designed to give prospective borrowers, many of whom have limited business experience, a structured approach for understanding the information essential to their businesses. On the basis of this data, ECC loan officers conduct a comprehensive credit evaluation,

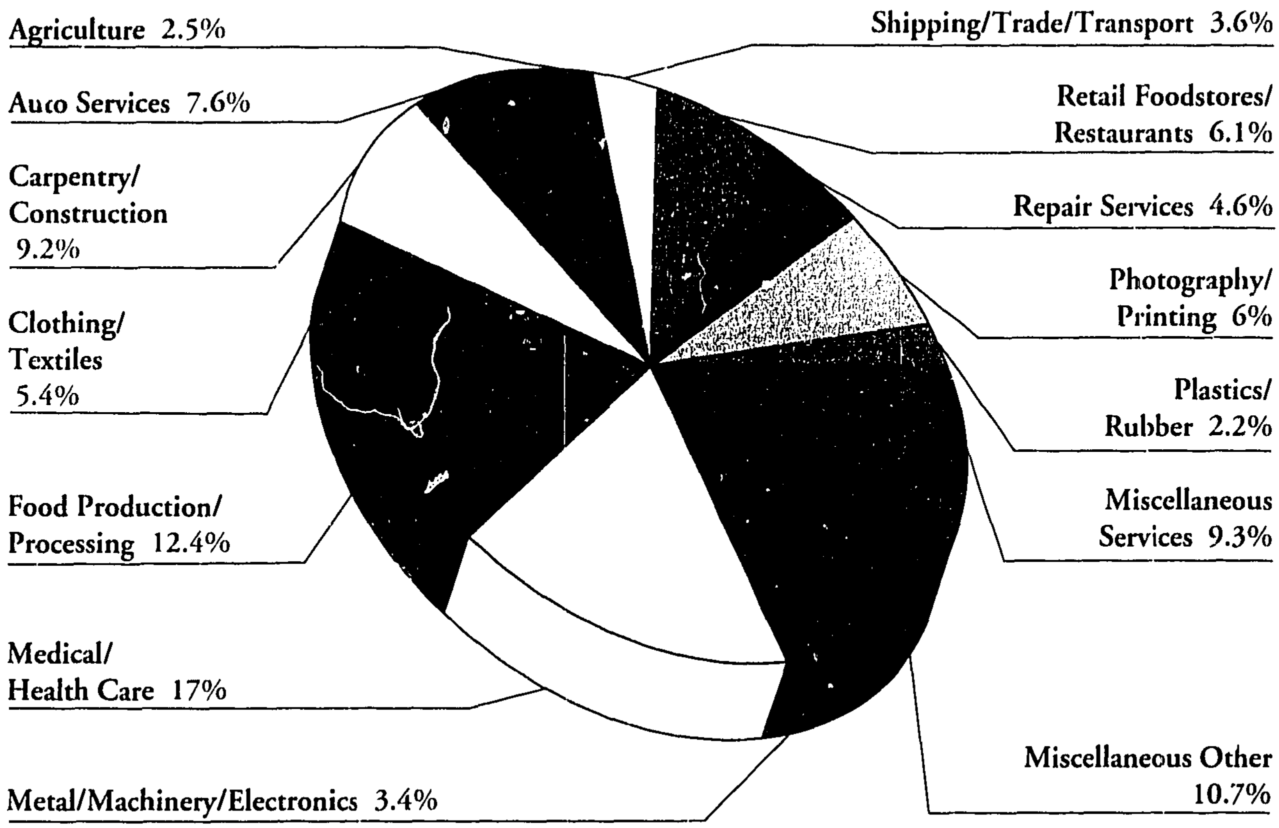
DISTRIBUTION OF ENTERPRISE CREDIT CORPORATION LOANS BY REGION



which includes the collection of supporting documentation, face-to-face meetings, and visits to the business site. During 1993, the ECC's management has reduced the average processing time for completed loan applications from 22 to 16 days. It has continued disciplined controls to limit its risk and ensure, through monitoring on a monthly basis, that problems are quickly identified.

As the map above indicates, the ECC has extended loans in each of Poland's 49 voivodships. ECC loans are offered through a cooperative effort with ten Polish banks in 13 locations, where the ECC has opened "loan windows" staffed by the participating bank's employees. These Polish bankers are trained by the ECC in the disciplines of credit evaluation. They distribute ECC loan application forms and counsel customers in completing their documentation. In the process of collaborating with ECC loan officers, participating Polish bankers have improved their skills and often introduced the operating practices and procedures which they have learned through this cooperation at their own banking institutions. In fact, several Polish banks, including some of the regional banks participating in the ECC's lending program, have now begun to

DISTRIBUTION OF ENTERPRISE CREDIT CORPORATION LOANS BY SECTOR



make small business loans for their own account based on the ECC model.

The ECC has an experienced team of more than 30 under the leadership of its president, Dr. Marek Kulczycki. Three years ago, the ECC's loan officers were comprised largely of expatriate American and Polish-American bankers. Now, except for one expatriate, the ECC's staff is comprised of Poles trained by the Enterprise Fund, who have extensive hands-on credit experience and are now in turn helping to train participating bank employees assigned to ECC loan windows.

The First Polish-American Bank in Cracow, partially capitalized by the Enterprise Fund in 1991, is another financial institution extending the reach of Enterprise Fund capital. Under the sound management of Chairman Joseph Conti and President Ralph Kravitz, it has demonstrated gratifying progress following a tenuous and difficult period of adjustment. During the first ten months of calendar year 1993, the Cracow bank granted 179 loans for asset acquisition and working capital to small businesses in the Cracow region for a total value of 193 billion zlotys ($9.6 million). During the same period, its customer deposits more than doubled to 314 billion zlotys ($15.7 million). Of the 241 loans granted since June 1992, when Enterprise Fund management took charge of operations, only one is nonperforming.

The bank's customer relations program promoted by Western-style advertising emphasizes a high level of service and customer satisfaction. This initiative is being emulated by other banks in the region, as is the Cracow bank's personnel development program, under which each employee attended one or more in-house, university or banking industry training sessions during the past year.

ENCOURAGING PRIVATE HOME OWNERSHIP

Conceived of and developed by the Enterprise Fund, the Polish-American Mortgage Bank is the first private construction and mortgage financing institution in Poland. 1993 was the bank's first year in operation, resulting in start-up difficulties usual for new enterprises in Poland, or for that matter, anywhere else. Like the Enterprise Fund's early experiences in equity investing and small business lending, Mortgage Bank managers found that most proposals from Polish home developers were not suitable for financing. To address this issue, the bank has developed a training program which, as in the case of the ECC, is beginning to produce the disciplines and skills required for successful housing development programs.

The Mortgage Bank was designed to make residential construction loans to developers and individuals for terms of up to one year. Then, on completion of construction, it offers to the purchasers or homeowners 15-year, fixed-rate mortgage loans that are in most cases approved prior to commencement of construction. By September 30, 1993, the bank had closed loans totaling $526,000 financing the construction of 20 single-family homes. It has approved financing for an additional 22 homes with a commitment of $715,000 and is now beginning to develop a flow of acceptable business. The bank's construction and mortgage loans are, respectively, at the rates of 14 and 10 percent, and like the ECC's small business loans, denominated in U.S. dollars.

Another Enterprise Fund investment involving Poland's residential construction sector, RB Polish-American Enterprise Co. Ltd., is a private engineering company in Gdynia which has diversified into home building. RB has completed and sold its first housing development of seven homes which received an architectural design award from the Ministry of Building Industry. A second project of 70 moderately priced units—"Bernadowo Hill"—is under construction near the Baltic port city of Gdynia.

BUILDING THE PRIVATE SECTOR THROUGH INVESTMENTS IN INDIVIDUAL FIRMS

The Enterprise Fund has made 40 direct investments in individual private companies that it believes have growth potential and can contribute to Polish private sector development.

The most significant of these investments established the Polish-American Printing Association (PAPA) in 1991 to purchase through liquidation two state-owned newspaper printing plants. With the assistance of William Sloan and Michael Heath, two American printing executives, PAPA is midway through an $18 million capital improvement plan. It is modernizing presses, and expanding its facilities at its Cracow and Gdansk plants.

In addition to introducing production line improvements, PAPA is improving the marketing of its print services. During 1993, the company signed its largest customer, *Gazeta Wyborcza,* Poland's highest circulation daily, to a long-term contract. The current customer base for newspaper print includes seven daily newspapers with an average combined circulation throughout Poland of 700,000 copies per day. Expanding beyond newspaper operations, the company has entered into a joint venture with R.R. Donnelley, America's largest printer, to build a heat-set printing plant. This joint venture will serve the Polish market in printing high quality magazines and newspaper inserts which have largely been imported in the past.

In another notable investment involving

Polish and American partners, the Enterprise Fund and the Polish Private Equity Funds have established a joint venture with NYNEX International Publishing Company, the Polish national telephone company Telekomunikacja Polska S.A., and a Polish entrepreneur Andrzej Bonarski to publish telephone directories. The new venture, Polskie Ksiazki Telefoniczne Co. Ltd., is based on Mr. Bonarski's directory publishing efforts in Warsaw and Katowice and will become the Polish national telephone company's official publishing representative for yellow pages throughout Poland.

An investment in W. Kruk Ltd., a jewelry firm in business since 1840, is allowing that company to expand its retail operations. The firm's current manufacturing, retailing and distribution network includes four warehouses, six retail shops, 19 stands and three franchises and employs 160 workers.

The Enterprise Fund has provided management support to several of its companies by recruiting experienced operating executives and consultants to work closely with the Polish management team. This has been particularly productive at both Sando and Lodom, two early agricultural sector investments where there have been difficulties. During 1993, there has been a significant recovery in both resulting from the hands-on guidance provided by Thomas Wagner, a former Ocean Spray executive, who moved to Poland in 1992 to advise the Enterprise Fund's agribusiness ventures.

The Enterprise Fund has also begun to play a role in the privatization process. Under the capital-management privatization concept, the Enterprise Fund has worked with and retained existing Polish managers to acquire the businesses, provided capital and assured the firms in which it has invested of the technical and managerial support necessary to strengthen their competitive position. With enhanced capabilities, these Polish firms will now have an opportunity to consider strategic relationships with foreign partners without selling control of the company. Three of these recently privatized companies—Hydrotrest, Energoaparatura and Stomil Sanok—have already begun to strengthen their market position and have, we believe, an opportunity to become stable employers while providing a good return on the Enterprise Fund's investment.

EDUCATIONAL AND TECHNICAL ASSISTANCE

The Educational Enterprise Foundation was established and capitalized jointly by the Enterprise Fund and the Polish Government in 1991 to support business education in Poland by providing grants to educational institutions, underwriting conferences, translating publications and supporting promising business students and professors.

Through the Enterprise Assistance Corporation (EAC), the Enterprise Fund has earmarked funds for technical assistance designed to complement its investments and specifically to support Polish private sector development. Projects include an extensive bank training program, accounting and management information training and direct technical assistance support to companies in which the Enterprise Fund has investments. The EAC has also provided highly focused grants to improve the institutional infrastructure needed for Polish private sector development. Such grants have supported the Polish-American Enterprise Clubs, the Polish Business Roundtable, the Women's Rural Lending Program, notary system reform, an economic educational television series and assistance to Polish Government agencies restructuring domestic banks.

INVESTMENTS AND LOANS IN POLISH COMMERCE AND INDUSTRY DURING 1993

September 30, 1993

Bank Rolno Przemyslowy S.A. *Warsaw*

The Bank Rolno Przemyslowy is a start-up private bank which will provide commercial loans, project and trade financing, and fee-based products primarily to agricultural industry businesses. The Enterprise Fund investment comprises part of the Bank's initial capital.

	PAEF	Total
Equity (20%)	$2,048,440	$2,048,440

Energoaparatura S.A. *Katowice*

Energoaparatura, established as a state-owned entity in 1950, installs process control and automation systems in power plants and industrial plants in Poland, where it is the market leader. The company's revenue comes principally from installation services, followed by sales of panels and structural supports used to install the systems. The Funds' investment facilitated the company's privatization.

	PAEF	PPEF	Total
Equity (total 60%)	$348,030	$774,647	$1,122,677

Fala Co. Ltd. *Gdansk*

Fala, established as a state-owned entity in 1950, is an integrated manufacturer of cotton leisure clothing and underwear. The company was privatized in December 1991 at the initiative of its management and employees through a fixed asset lease arrangement with the City of Gdansk. Fala has used the Funds' financing to repay the privatization lease and modernize its dyeing and sewing facilities.

	PAEF	PPEF	Total
Loan	$310,000	$690,000	$1,000,000
Equity (total 51%)	$278,365	$619,586	$ 897,951

Hydrotrest S.A. *Cracow*

Hydrotrest, established as a state-owned entity in 1951, is a leading Polish hydro-engineering construction company. A broad technological base gives it a competitive edge and contributes to its dominant position in the Polish market. The Funds' financing provided for the privatization of the company.

	PAEF	PPEF	Total
Equity (total 70%)	$987,210	$2,197,296	$3,184,506

ITI Holdings S.A. *Warsaw*

ITI is a diversified private company founded in 1984. Its principal activities in Poland include food production and distribution, advertising, entertainment, and consumer electronics distribution. The Funds provided a loan for working capital purposes.

	PAEF	PPEF	Total
Loan	$1,860,000	$4,140,000	$6,000,000

Lodgar *Nysa*

Lodgar, founded in 1990, produces ice cream and distributes its products to retailers and wholesalers across Poland. The firm used its loan to finance sandwich and stick ice cream production equipment which will enable Lodgar to reduce its direct costs of production. This should allow the firm to maintain its position in an increasingly competitive market.

	PAEF	Total
Loan	$214,053	$214,053

Pol-Mar *Lodz*

Pol-Mar, which produces and distributes cookies and cakes to a variety of retail customers, employs 62 people and operates three shifts, six days per week. Its loan was used to finance the purchase of additional cookie production machines and packaging equipment to expand the business.

	PAEF	Total
Loan	$200,000	$200,000

Polskie Ksiazki Telefoniczne Co. Ltd. *Warsaw*

Polskie Ksiazki Telefoniczne, a new joint venture created by Andrzej Bonarski Publishing House, the Funds, Telekomunikacja Polska and NYNEX, publishes yellow pages telephone directories in Warsaw and Katowice under contract with the Polish national telephone company.

	PAEF	PPEF	Total
Loan	$232,500	$ 517,500	$ 750,000
Equity (total 24.5%)	$591,861	$1,317,368	$1,909,229

Szot International Co. Ltd. *Lublin*

Andrzej and Irena Szot started an auto-parts manufacturing business in 1983. The Fund's financing was used to purchase additional computer numerically-controlled machinery to handle additional demand, enhance production quality of their products, as well as expand and upgrade the production facility.

	PAEF	Total
Loan	$248,563	$248,563
Equity (49%)	$241,198	$241,198

W. Kruk Ltd. *Poznan*

W. Kruk Ltd. is the oldest jeweler in Poland, operating continually since 1840. It manufactures silver and gold jewelry with natural or synthetic gem stones and is involved in retail and wholesale distribution of jewelry and watches in Poland and abroad. The Funds' loan is being used to replenish the company's working capital and to expand its existing retail network. An equity investment followed in 1994.

	PAEF	PPEF	Total
Loan	$310,000	$690,000	$1,000,000

Wielkopolski Bank Kredytowy S.A. *Poznan*

Wielkopolski Bank Kredytowy S.A. with 48 branches through Central and Western Poland was the first of nine commercial banks which emerged from the National Bank of Poland to be offered for sale to the public. The Funds supported the initial public offering and, following a sharp rise in marketability and price, subsequently sold their position for a gain of $201,000 on the Warsaw Stock Exchange.

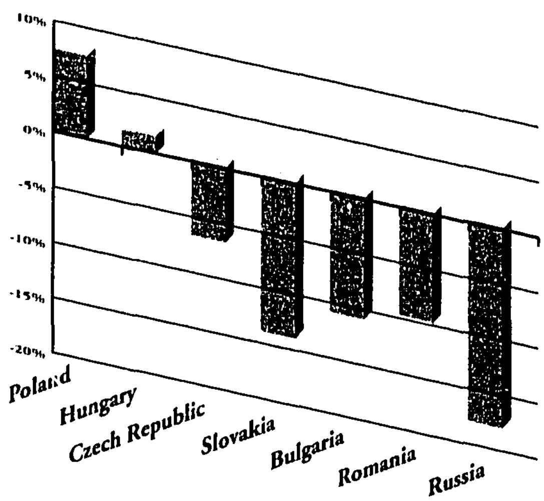
	PAEF	PPEF	Total
Equity	$126,635	$281,847	$408,482

POLISH ECONOMIC PROGRESS

More quickly than many thought possible, a vibrant private sector is taking shape in Poland, creating an emergent middle class and the fastest economic growth not only among the new market economies of the region, but in all of Europe as well.

In 1992, Poland became the first country of Central and Eastern Europe to show a positive growth rate, and in 1993, Poland's GDP is expected to increase at the rate of 4.5 percent. Through October 1993, Polish industrial output grew by seven percent and construction output grew by 11.8 percent over the corresponding period in 1992.

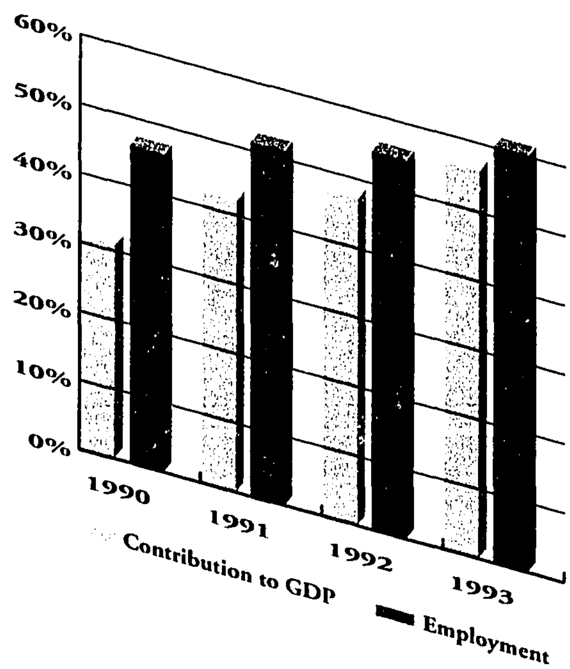
PERCENTAGE CHANGE OF INDUSTRIAL OUTPUT IN THE FIRST HALF OF 1993



Poland's economic progress is the result of the Polish peoples' commitment to a market economy and the stiff economic reforms that have been instituted by a series of governments. The improvements spawned by the transition to a market economy, however, have not come without pain. At the beginning of 1990 unemployment rose quickly as Poland launched its "shock therapy" economic reforms which introduced liberalization of prices, internal convertibility of the Polish zloty, a stable exchange rate, the growth of private enterprise and a massive reduction in inflation.

By the end of 1992, unemployment in Poland reached 13 percent of the work force, and estimates are that by the end of 1993, it will have risen to about 16 percent; yet at the same time, the private sector has made impressive strides in providing reemployment opportunities. As a result, the private sector already employs approximately 60 percent of Poland's work force and accounts for nearly 60 percent of the nation's gross domestic product. So far about 2,300 of the 8,300 state-owned firms have been privatized or otherwise transformed, and 20 of the largest are listed on the Warsaw Stock Exchange. There are approximately 1.8 million small businesses in operation.

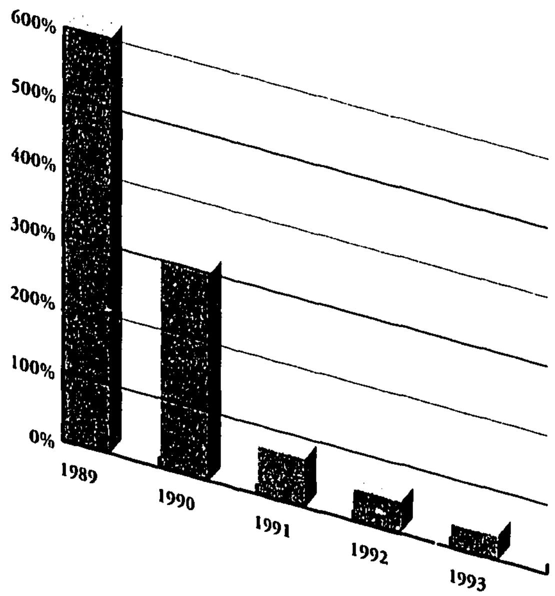
GROWTH OF POLAND'S PRIVATE SECTOR



Despite the burdens borne by Poland's unemployed, a solid foundation exists for the future development of a competitive economy. Money supply has been held within limits set by the International Monetary Fund, though businesses and industry continue to be constrained in their planning by high real interest rates and problems in obtaining financing.

One of the more dramatic indicators of the country's progress is reflected in the rate of inflation which has dropped from nearly 600 percent in 1989 to about 70 percent in 1991 and is estimated to have fallen to approximately 35 percent for 1993.

POLAND'S ANNUAL RATE OF INFLATION



Poland's balance of trade has fluctuated as the country and its traditional trading partners have undergone economic shocks. In 1991, Poland's trade with the former Soviet Union all but collapsed. By 1992, trade patterns had shifted dramatically westward, resulting in a $500 million positive trade balance. While the volume of trade continued to rise in 1993, barriers to many Polish products in the European Community market remain which, combined with general recession on the continent and an economic upturn in Poland increasing the demand for imports, have produced a negative trade balance through the third quarter of 1993 of $1.9 billion.

Foreign investment has grown steadily since reforms were initiated, and the new government has indicated its interest in its further encouragement. Capital inflow during the first ten months of 1993 was about $1 billion, bringing the total since the institution of economic reforms in 1990 to approximately $2.6 billion. It is estimated that nearly 14,000 joint ventures are operating with the participation of foreign capital. This pace of investment is expected to expand with the economic growth and stability now increasingly evident.

With its population of more than 38 million well-educated and industrious people and its location at the crossroads of Europe, Poland is now poised for the kind of growth that was hoped would occur when four years ago its leaders undertook the rigorous and risky path toward a truly free market economy.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 1993 (Notes 2, 3 and 11)
(dollars in thousands)

	Ownership Percentage	Cost
BANKING AND FINANCE		
Bank Rolno Przemyslowy S.A. (1)		
Agricultural bank		
Common stock	20.0%	$2,048
First Polish-American Bank in Cracow S.A.		
Commercial bank		
Debt		4,000
Common stock	47.1%	2,083
Polish-American Mortgage Bank S.A.		
Mortgage bank		
Debt		4,000
Common stock	49.9%	5,997
AGRIBUSINESS		
Lodom Co. Ltd.		
Cold storage facility		
Debt		925
Common stock	53.0%	3,180
Sando Co. Ltd.		
Fruit/vegetable packaging		
Debt (zloty denominated) (1)		1,429
Common stock	76.0%	450
CONSTRUCTION		
Hydrotrest S.A. (2)		
Civil/hydro engineering		
Common stock	21.7%	987
Mostostal Panel Co. Ltd.		
Refrigerated storage		
Debt		1,100
Common stock	40.0%	1,200
RB Polish-American Enterprise Co. Ltd.		
Residential construction		
Debt		944
Common stock	48.0%	500
MANUFACTURING AND OTHER INVESTMENTS		
Akita International Co. Ltd.		
Electronic circuit boards		
Debt		725
Common stock	25.0%	375
Energoaparatura S.A. (2)		
Control systems installation		
Common stock	18.6%	348
Fala Co. Ltd. (2)		
Clothing manufacturing		
Debt		310
Common stock	15.8%	278

See accompanying notes.

CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED)

September 30, 1993 (Notes 2, 3 and 11)
(dollars in thousands)

	Ownership Percentage	Cost
Haste International Co. Ltd.		
Furniture manufacturing		
Debt		$ 4,000
Common stock	49.0%	6,000
ITI Holdings S.A. (2)		
Conglomerate		
Debt		1,860
Mistral International Co. Ltd.		
Shoe distribution		
Debt		500
Common stock	50.0%	742
P.A. Press Co. Ltd.		
Holding company		
Debt		1,175
Common stock	85.0%	1,600
Polish-American Printing Association, Ltd.		
Printing		
Debt		16,000
Common stock	91.0%	9,019
Polish-American Trade Group Co. Ltd.		
Consumer goods wholesaling		
Debt		1,100
Common stock	69.8%	1,255
Polskie Ksiazki Telefoniczne Co. Ltd. (2)		
Yellow pages publishing		
Debt		233
Common stock	7.6%	592
Qumak International Co. Ltd.		
Computer systems retailing		
Debt		474
Common stock	50.0%	350
Secura B. C. Co. Ltd.		
Industrial protective gear		
Debt		1,100
Common stock	83.5%	1,587
W. Kruk Ltd. (2)		
Jewelry manufacturing and retailing		
Debt		310
Consolidated investments, at cost		78,776
Unrealized depreciation on investments		(4,671)
Consolidated investments, at carrying value		$74,105

(1) Agricultural funds investment
(2) Joint investment with Polish Private Equity Funds I and II (Note 6)

See accompanying notes.

CONSOLIDATED BALANCE SHEET

September 30, 1993 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
ASSETS			
Investments at carrying value			
(cost $78,776) *(Notes 5 and 11)*	$ 74,105	$ 74,105	-
Loans, net of loan loss reserve of $1,430 *(Note 8)*	24,242	1,819	$22,423
Investment in Polish Private Equity			
Funds I and II, net *(Note 6)*	9,443	9,443	-
Investment in Enterprise Credit Corporation	-	28,000	-
	107,790	113,367	22,423
Cash and cash equivalents *(Note 9)*:			
Operating funds	11,917	7,597	4,320
Agricultural funds	241	241	-
Accrued interest receivable	938	739	199
Fixed assets, net *(Note 10)*	531	-	531
Investment in Enterprise Investors, L.P., net *(Note 6)*	288	288	-
Prepaid expenses	448	268	180
Other assets	483	341	142
Total assets	$122,636	$122,841	$27,795
LIABILITIES AND FUND BALANCE			
Accounts payable and accrued expenses	$ 858	$ 353	$ 505
Fund balance	121,778	122,488	27,290
Total liabilities and fund balance	$122,636	$122,841	$27,795

See accompanying notes.

CONSOLIDATED STATEMENT OF INVESTMENT OPERATIONS

For the Year Ended September 30, 1993 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
INVESTMENT INCOME			
Interest on investments and loans	$ 4,545	$ 2,702	$1,843
Interest on cash and cash equivalents	801	608	193
Total investment income	5,346	3,310	2,036
Provision for loan losses	(1,235)	(662)	(573)
Net investment income after provision	4,111	2,648	1,463
EXPENSES			
Management expenses - Fund *(Note 6)*	1,589	1,589	-
ECC employee compensation and benefits	880	-	880
Business expenses *(Note 3)*	248	62	186
Professional services	394	267	127
Occupancy and telecommunications	212	-	212
Depreciation and amortization	96	28	68
Other	340	95	245
Direct operating costs *(Note 6)*	401	401	-
Total expenses	4,160	2,442	1,718
Net investment income (loss)	(49)	206	(255)
NET REALIZED AND UNREALIZED LOSS			
Net realized (loss) on investments	(1,447)	(1,447)	-
Net increase in unrealized depreciation on investments	(1,435)	(1,435)	-
Equity in net (loss) of affiliates *(Note 6)*	(503)	(503)	-
Foreign currency translation (loss)	(1,779)	(1,746)	(33)
Net realized and unrealized (loss)	(5,164)	(5,131)	(33)
Net decrease in fund balance resulting from investment operations	$(5,213)	$(4,925)	$ (288)

See accompanying notes.

CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 1993 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
U.S. Government grants utilized for program expenditures:			
Grants from Agency for International Development *(Note 4)*	$ 31,934	$ 27,572	-
Agricultural funds grants *(Note 4)*	2,502	2,502	-
Polish-American Enterprise Fund grants to ECC	-	-	$ 4,362
Technical assistance grants and expenditures	(3,504)	(3,504)	-
Net decrease in fund balance resulting from investment operations	(5,213)	(4,925)	(288)
Net change in fund balance	25,719	21,645	4,074
Fund balance, beginning of year	96,059	100,843	23,216
Fund balance, end of year	$121,778	$122,488	$27,290

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 1993 (Notes 2 and 3)
(dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES	
Net decrease in fund balance resulting from investment operations	$ (5,213)
Adjustments to reconcile net change in fund balance to net cash used by operating activities:	
Provision for loan losses	1,235
Depreciation and amortization	96
Realized depreciation on investment written off	1,672
Unrealized depreciation on investments	1,435
Equity in net (loss) of affiliates	503
Foreign currency translation (loss) on investments	1,277
Cash received from:	
U.S. government grants	14,900
Loan repayments	13,048
Investment principal repayments	3,480
Cash disbursements for:	
Investments	(22,446)
Loans	(22,149)
Investment in Polish Private Equity Funds I and II	(9,975)
Technical assistance grants and expenditures	(3,504)
Changes in operating assets and liabilities:	
Decrease in reimbursable investment expenses	808
Increase in accrued interest receivable	(446)
Increase in prepaid expenses	(321)
Increase in other assets	(231)
Decrease in accounts payable and accrued expenses	(130)
Net cash used by operating activities	(25,961)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(327)
Proceeds from sale of fixed assets	207
Net cash used by investing activities	(120)
Net decrease in cash and cash equivalents	(26,081)
Cash and cash equivalents, at beginning of year	38,239
Cash and cash equivalents, at end of year	$12,158

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1993

1. ORGANIZATION OF FUND

The Polish-American Enterprise Fund (the "Fund") is a not-for-profit corporation established pursuant to the Support for East European Democracy Act of 1989 (the "SEED Act") for the primary purpose of promoting the development of the Polish private sector and policies and practices conducive to such development. As part of the SEED Act, the United States Congress authorized appropriations of $240 million to be granted to the Fund by the Agency for International Development ("AID") for program purposes and administrative expenditures (the "AID Grant").

The Fund is engaged in a broad private investment program in Poland which, through equity investments, loans, grants, technical assistance and other measures, emphasizes a commitment to small-to-medium sized businesses. The Fund provides technical assistance to support Polish private sector development through a variety of entities, including companies in which the Fund has invested, and to the Polish Government to assist it in developing the private sector and a market economy in Poland. Through its direct role in investments in the Polish private sector, the Fund seeks to generate profits that will further support its activities and attract investments by others.

As part of its investment operations, the Fund may obtain representation on management and supervisory boards of investee companies. In the normal course of business, entities in which the Fund invests may enter into business transactions with each other.

2. BASIS OF PRESENTATION AND SUPPLEMENTAL FINANCIAL STATEMENTS

The Fund is the sole member or shareholder in various domestic and foreign entities through which it invests. The accompanying consolidated financial statements include the accounts of the Fund and its consolidated subsidiaries after elimination of intercompany accounts and transactions.

The Fund uses the equity method of accounting for affiliated investments for which it acts, through wholly-owned subsidiaries, as general partner.

Pursuant to the requirements of generally accepted accounting principles, the Fund's wholly-owned subsidiary, Enterprise Credit Corporation ("ECC"), is consolidated in the accompanying financial statements. Since ECC is an autonomous operating entity, the Fund's management believes the separate company supplemental financial statements presented along with the consolidated balance sheet and consolidated statements of investment operations and activities presents a more meaningful analysis of the Fund's financial position and results of operations. The consolidated financial statements include eliminations not reflected in the supplemental financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investment Valuation
The Fund's investments, as set forth in the accompanying consolidated schedule of investments, are not readily marketable and are not listed on an

exchange or quoted in an open market. These investments are stated at fair value. Investment valuation is undertaken annually by management and in each case is approved by the Board of Directors (the "Board") in conformity with the following broad guidelines:

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

The carrying values assigned to these investments are based on available information and do not necessarily represent amounts that might ultimately be realized, since such amounts depend on future circumstances and cannot be determined with certainty until the individual positions are liquidated.

Grant Funds Recognition
Grant funds received are recognized in the consolidated statement of activities when funds are disbursed consistent with the purposes of the Fund set forth in the SEED Act. Amounts received but not disbursed are reported as Grants received and held for future program purposes.

Translation of Foreign Currency
The Fund's functional currency is the U.S. dollar. The Fund's operating transactions are initiated in U.S. dollars and exchanged for Polish zlotys only when needed. The Fund's equity investments are purchased in U.S. dollars which are then exchanged for Polish zlotys when funded.

The Fund's assets and liabilities reported in the accompanying consolidated balance sheet and schedule of investments at September 30, 1993, were denominated in U.S. dollars, except for $241,000 of Agricultural funds and $1.4 million of debt investments which are denominated in Polish zlotys and translated into U.S. dollars at the year-end exchange rate. The resulting translation losses from devaluation of the Polish zloty are reflected in the consolidated statement of investment operations. Revenues and expenses transacted in Polish zlotys are translated into U.S. dollars at the exchange rate in effect on the date of the transaction.

Depreciation and Amortization
Computer hardware, furniture and equipment, and automobiles are depreciated on a straight-line basis over their estimated useful lives. Leasehold improvements are amortized on a straight-line basis over the lesser of their useful lives or the term of the lease. Organization costs are amortized on a straight-line basis over three years.

Business Expenses
Expenses for travel, lodging, meals, etc. incurred in connection with the Fund's operations are classified as business expenses.

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

Donated Services
Members of the Board donate significant amounts of their time to the Fund's programs. The Fund's American directors receive no compensation or fees for serving as directors. No amounts have been reflected in the accompanying consolidated

financial statements for such donated services, inasmuch as no objective basis is available to measure the value of such services. The Fund's Polish directors receive a fee for providing advice and assistance to the Fund in connection with its investment operations. For the year ended September 30, 1993, the combined total paid to all Polish directors was $22,750.

4. U.S. GOVERNMENT GRANTS

Amounts received from AID are conditioned upon the Fund's compliance with the requirements of the AID Grant and the SEED Act, which impose certain U.S. policy objectives and reporting obligations. Under the terms of the AID Grant, the Fund may hold funds in interest bearing accounts and may retain investment and program income for program purposes. Subject to the resolution of certain contingencies, AID plans to grant the Fund an additional $10 million for technical assistance.

As of September 30, 1993, the status of the AID Grant was as follows (in millions):

Funds received from AID	$134.1
Remaining funds from 1992 appropriations, available under letter of credit from AID	54.1
Funds appropriated in 1993, to be granted by AID	51.8
Total initial authorization	240.0
Technical assistance funds to be granted by AID	10.0
Total funding	$250.0

The Fund accounts for its grant activities in accordance with generally accepted accounting principles for not-for-profit organizations, which require that grant funds received be recognized in the consolidated statement of activities when utilized for program purposes. In practice, when the Fund makes disbursements for investments, loans, operating expenditures, technical assistance and fixed assets, grant funds are considered utilized for program purposes. In the accompanying consolidated statement of activities, AID grants totaling $31.9 million are treated in this manner, and are reported as U.S. Government grants utilized for program purposes.

Since inception, the Fund has received $134.1 million of the AID Grant, which has been fully utilized for program purposes. Because the Fund retains interest income and investment and loan repayments for program purposes, total disbursements during the year for program purposes exceeded AID grants received and available for utilization.

In fiscal 1991, the Fund received from the U.S. Government a portion of the proceeds, in local currency, from the sale of U.S. surplus agricultural commodities to Poland ("Agricultural funds"). Agricultural funds, which are in addition to the AID Grant, are required to be used to promote the development of the Polish private agricultural sector, including joint ventures with U.S. and Polish participants. Such funds, including interest earned, are segregated and are subject to the requirements of the SEED Act and the AID Grant. For the fiscal year ended September 30, 1993, $2.0 million of Agricultural funds were utilized for investments, bringing the total utilization for the year to $2.5 million, after taking into account the effect of losses on translation of foreign currency.

5. DEBT INVESTMENTS

The Fund's debt investments, as set forth in the accompanying consolidated schedule of investments, are primarily repayable in U.S. dollars at fixed rates and have various maturities, ranging from six months to six years. Debt investments may be collateralized by property and other assets of the borrower; however, the Fund views such investments as risk loans, the return on which depends on the financial performance of the borrower.

6. INVESTMENTS IN AFFILIATES

Polish Private Equity Funds I and II

On November 2, 1992 the Fund invested in Polish Private Equity Funds I and II ("PPEF I and II"), two closed-end venture capital investment funds which were organized to invest side-by-side with the Fund. The Fund and the European Bank for Reconstruction and Development each have committed to invest $50 million of the $151 million total capitalization of PPEF I and II. PPEF I and II are limited partnerships in which the Fund, through a wholly-owned subsidiary, functions as the general partner (the "PPEF I and II General Partner").

The Fund and PPEF I and II have invested together. Investment opportunities are offered to the Fund and PPEF I and II based on the capital that each has available to invest. Under present policy guidelines, interests in joint investments are allocated 31% to the Fund and 69% to PPEF I and II.

Enterprise Investors, L.P.

On November 2, 1992 ("Date of Formation"), the Fund established Enterprise Investors, L.P. (the "Manager"), a management company which provides investment management services to the Fund and PPEF I and II, pursuant to separate management contracts. The Manager is a limited partnership in which the Fund, through a wholly-owned subsidiary, functions as general partner.

In accordance with the management contract between the Fund and the Manager (the "Management Contract"), the Fund has agreed to pay per annum, in quarterly installments, an amount not to exceed $2 million as compensation for the Manager's services. At the end of each fiscal year, the Manager reports its actual costs to the Fund and PPEF I and II, and any fees paid in excess of actual costs are credited to the subsequent year's fees. Included in Prepaid expenses in the accompanying consolidated balance sheet is $244,000 of fees paid in fiscal 1993 which will be credited to the subsequent year's fee.

Certain officers of the Manager serve as officers of the PPEF I and II General Partner, and certain directors of the Fund serve as investment and management committee members of the PPEF I and II General Partner and the Manager.

Effective with the Date of Formation of the Manager, all the employees of the Fund became employees of the Manager, and the direct operating costs of the Fund for investigating and monitoring investments were assumed by the Manager pursuant to the Management Contract. In the accompanying consolidated statement of investment operations, the costs incurred directly by the Fund to investigate and monitor investments prior to November 2, 1992 are reported as Direct operating costs.

Equity Method of Accounting

The Fund's investments in PPEF I and II and Enterprise Investors, L.P. (the "Affiliated Companies") are accounted for in accordance with the equity method of accounting. Under this method, equity in the net income or losses of the Affiliated Companies are reflected currently in the Fund's operating results rather than when realized. In the accompanying consolidated statement of investment operations, these amounts totaled a net (loss) of ($503,000) which is reported as Equity in net (loss) of affiliates. This amount consisted of net income from Enterprise Investors, L.P. of $28,000 and net (loss) from PPEF I and II of ($531,000).

7. ENTERPRISE CREDIT CORPORATION

ECC makes loans repayable in U.S. dollars at fixed rates to small businesses and entrepreneurs in a variety of industries in Poland. ECC's loans are principally utilized to finance the purchase of specific assets for use in the borrower's trade or business. The loans have various maturities ranging from six months to three years and generally are collateralized by the assets of the borrower.

ECC has entered into agreements with ten commercial banks in Poland (the "Banks") to screen applicants and process and monitor loans. The Banks earn fees based on a percentage of the interest income earned (the "Bank fees") and share any actual loan losses on loans originating in their branches equally with ECC. ECC interest income is net of $574,000 of Bank fees.

Commitments

Loans

In the normal course of business, ECC makes commitments to extend credit that are not presented in the accompanying financial statements. At September 30, 1993, such commitments aggregated $5.0 million, which will expire by March 31, 1994.

Leases

ECC is committed to make minimum annual rental payments under operating leases for office space. Lease commitments for the fiscal years subsequent to September 30, 1993 are approximately $144,000 per year from 1994 through 1997.

8. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans are stated at the principal amount outstanding reduced by a reserve for loan losses. The accrual of interest is discontinued whenever principal or interest has been in default 90 consecutive days or more, unless the loan is adequately secured or in the process of collection as determined by management. Interest on loans is credited to income, net of Bank fees, based on principal amounts outstanding at applicable rates.

The loan loss reserve is maintained at a level believed adequate by management to absorb potential losses in the loan portfolios. This determination is based on the exposure after an evaluation of the portfolios, current economic conditions, volume, growth and composition of the loan portfolios, information about specific borrower situations, including their financial position, payment history and collateral values, and other relevant factors and estimates which are subject to change over time. Estimating the risk of loss and amount of loss on any loan is necessarily subjective and ultimate losses may vary from current estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in the periods in which they become known. There is no precedent for providing for loan losses in Poland; therefore, there is little experience upon which to base an estimate of the risk and amount of possible losses.

The loan loss reserve is increased by provisions for loan losses charged against income and decreased by charge-offs, net of recoveries. Although a loan is charged-off by management when deemed uncollectible, collection efforts continue and future recoveries may occur.

Changes in the loan loss reserve for the year ended September 30, 1993 were as follows:

	Fund	ECC
Balance, beginning of year	$310,000	$372,362
Provision charged to operations	662,038	572,767
Loans charged-off	-	(565,713)
Recoveries	-	78,204
Balance, end of year	$972,038	$457,620

9. CASH AND CASH EQUIVALENTS

At September 30, 1993, the Fund's cash and cash equivalents are deposited primarily in two financial institutions. Approximately $10 million is deposited in one United States financial institution (principally money market funds) and approximately $2.1 million is deposited in Polish commercial banks (demand deposits), of which approximately $241,000 is denominated in Polish zlotys.

10. FIXED ASSETS

At September 30, 1993, fixed assets consisted of:

Computer equipment	$297,859
Furniture and equipment	99,243
Automobiles	177,204
Leasehold improvements	64,509
Total cost	638,815
Accumulated depreciation	(108,073)
Net book value	$530,742

11. COMMITMENTS

At September 30, 1993, the Fund had commitments to invest $39.9 million in Polish Private Equity Funds I and II.

In addition to the loans and investments included in the accompanying consolidated schedule of investments, at September 30, 1993 the Board had approved investments of $26.3 million that, as of that date, were subject to the completion of investment negotiations and the signing of closing documents to the satisfaction of all parties. Subsequent to September 30, 1993, the Fund closed three of these investments and disbursed $2.7 million. Under the terms of two of the Fund's corporate investment agreements, the Fund had committed to purchase up to $300,000 in shares of stock offered to but not purchased by employees of such investments.

12. TAX STATUS

United States

The Fund and its domestic subsidiaries are exempt from Federal income taxes under Section 501 (c)(3) of the U.S. Internal Revenue Code (the "Code"), and have been classified as organizations that are not a private foundation as defined in Section 509 (a)(1) of the Code. In addition, the Fund and its domestic subsidiaries are exempt from payment of state and local income taxes.

Poland

The Fund's Polish office (the "Polish Office") is registered in Poland as a technical information office of the Fund. As such, the Polish Office does not conduct trade in Poland and is not subject to Polish income and other corporate taxes.

The Fund's Polish subsidiary, Polish-American Small Business Finance Corporation Ltd. and ECC's Polish subsidiary, Polish-American Small Business Credit Corporation Ltd., each have a three-year holiday from Polish income taxes, which expire in fiscal 1995.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors
Polish-American Enterprise Fund

We have audited the accompanying consolidated balance sheet of the Polish-American Enterprise Fund (the "Fund"), a Delaware not-for-profit corporation, including the consolidated schedule of investments, as of September 30, 1993, and the related consolidated statements of investment operations, activities, and cash flows for the year then ended. These consolidated financial statements and the supplemental financial statements referred to below are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements and supplemental financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included the confirmation of investments owned. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Polish-American Enterprise Fund as of September 30, 1993, and the consolidated results of its investment operations, activities, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Notes 3 and 6 to the consolidated financial statements, the consolidated financial statements include direct investments valued at $74,105,000 (61% of fund balance) and investment in Polish Private Equity Funds I and II with a carrying value of $9,443,000 (8% of fund balance), whose values have been estimated by management and adopted by the respective Boards of Directors in the absence of readily ascertainable market values. We have reviewed the procedures used by management in arriving at its estimate of value of such investments and have inspected the underlying documentation, and in the circumstances we believe the procedures are reasonable and the documentation appropriate. However, because of the inherent uncertainty of valuation, those estimated values may differ significantly from the values that would have been used had a ready market for the investments existed, and the differences could be material.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental financial statements on pages 18, 19 and 20 presented along with the consolidated balance sheet and consolidated statements of investment operations and activities are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Arthur Andersen & Co.

New York, New York
December 14, 1993

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