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Polish-American Enterprise Fund

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Zamkowy (Castle) Square in Warsaw

Letter from Management

November 30, 1992

We have now completed our second full year of operation. Since formation of the Polish-American Enterprise Fund in May 1990, we have brought together a team of investment professionals in Warsaw and New York which, in the face of challenging circumstances, has established a $76 million portfolio of loans and investments. Including the Enterprise Credit Corporation and our newly created Polish Private Equity Fund, the total of our commitments and closed investments now stands at more than $180 million. In the process, we have provided financing to over 1,500 small and medium-sized enterprises, organized several new financial institutions and supported a variety of technical assistance and training programs.

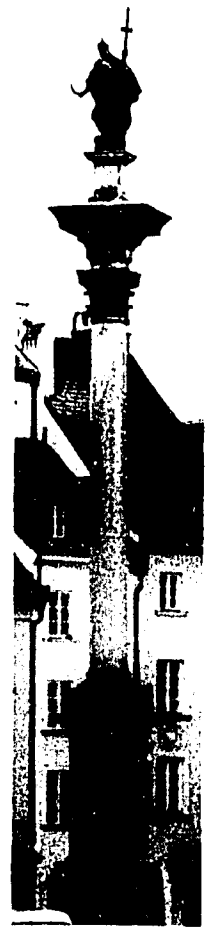
It is particularly gratifying to report that in recognition of the improved operating environment and the developing capability of our organization, we have been successful this year in attracting $100 million in new capital from outside sources to complement the $240 million in authorized funding from the U.S. Government around which the Enterprise Fund was originally constituted. To accommodate this interest, we have organized a sister company, the Polish Private Equity Fund, to which we have committed $50 million of our funds thereby bringing its capital to $150 million. Our partners in this new enterprise include the European Bank for Reconstruction and Development, Creditanstalt-Bankverein of Austria, and a group of seven leading American pension funds and other institutional investors.

The two funds have a combined capital of $340 million supplemented by $10 million committed to the Enterprise Fund by the U. S. Agency for International Development for technical assistance. They share parallel investment objectives and will be advised by our investment organization, which for this purpose has been reconstituted as a separate company, Enterprise Investors, under control of the Enterprise Fund.

Last year, we reported the progress of the Enterprise Credit Corporation (ECC) which was organized in December 1990 for the special purpose of providing loans to small businesses in Poland. With maximum credit limits of $75,000 and an average loan of about $22,500, the ECC is recognized as the leading institution of its type in Poland.

The ECC now operates as a free-standing company with its own staff and headquarters, collaborating closely with our office and with a network of nine regional Polish commercial banks which provide loan generating offices throughout the country. Through fiscal year-end, the

ECC had approved loans of $33 million. Actual disbursements totaled $21.6 million, of which $6.7 million had been repaid, leaving a balance of nearly $15 million outstanding. Thus far, problem loans comprise a remarkably low 2.5 percent of extensions. During fiscal 1993 the ECC's portfolio is expected to reach $30 million, at which level we anticipate profitable operations.



The most important new investment of the Enterprise Fund this year has been the organization of the Polish-American Mortgage Bank. In this undertaking, we are joined by Polish institutions to provide initial capital of $16 million to finance residential construction and long-term mortgages for home purchasers. This initiative required the establishment of an entirely new legal framework, reintroducing to the commercial code the concept of enforceable liens on property. Our Mortgage Bank, which is the first free-standing institution of its type, will hopefully serve as a model for others to emulate in this very important sector.

Complementing our program to support Polish financial institutions, we have continued to invest directly in individual industrial, agricultural and commercial enterprises, where we now hold a portfolio encompassing some 30 companies. In an effort to develop an effective public voice for the business community, we helped organize the Polish Business Roundtable. This group is modeled after the American Business Roundtable and is comprised of the chief executives of some of the largest domestic and foreign companies operating in Poland. We believe it will provide the private business sector a valuable instrument for sponsoring educational programs and for formulating and advocating public policy positions.

Whatever we have achieved over the past two years is in large measure attributable to the enterprise and talent of the business men and women we have financed. We are encouraged by the progress of our companies and are hopeful about their prospects, even though we realize that not every one will succeed. Like capital placed elsewhere in the world, each investment in Poland entails a variety of risks and offers investors the potential for surprises — both positive and negative. With a talented and increasingly experienced organization, we believe we are equipped to deal with the exigencies which most certainly will develop.

Beyond our own activities, we are buoyed by Poland's progress. The economy has stabilized and appears to have commenced the grind-

ing process of recovery from the severe recession that has gripped it since stabilization was introduced. If so, Poland may be the first post-communist country in Central and Eastern Europe to resume sustainable growth. This process has been largely the function of a burgeoning private sector which now accounts for more than 50 percent of economic output. A dramatic westward orientation of trade has produced a surplus of $1 billion in the first eight months of 1992, compared with a negative balance a year before. We are particularly gratified to note that the Polish Government is increasingly implementing policies conducive to business development and investment.

In addition to the hard work of our officers and staff, we are fortunate to have had the support of dedicated Polish and American directors who have been an important source of assistance and counsel. We extend a special note of appreciation to Jan Krzysztof Bielecki and Michal Boni who have left our Board of Directors upon their return to Polish Government service and to Charles M. Harper, one of our original American directors, who left the Board this year as well. They have contributed substantially to leading and guiding the Enterprise Fund. We are also pleased to welcome to the Board this year Andrzej Olechowski, former Minister of Finance of Poland, and John F. Smith, Jr., Chief Executive Officer and President of General Motors Corporation.

We are also profoundly appreciative of the initiative and the sustaining interest and understanding of the Administration and the Congress, without which the Enterprise Fund would not exist.

Trying to make a difference in a country which is emerging into both a democracy and a market economy has not been an easy task; the Enterprise Fund has undergone its share of difficulties and growing pains. And, while we are pleased with what has been achieved so far, the task has really only begun. With the increasingly volatile political and economic conditions emerging elsewhere in Europe and in the former Soviet Union, we recognize the singular importance of the Polish experience and the urgency of its success.

John P. Birkelund
Chairman of the Board

Robert G. Faris
President and Chief Executive Officer

Business Review

The Polish-American Enterprise Fund was established in May 1990 at the initiative of the President and Congress of the United States to tap the expertise of private sector professionals in making investments to encourage Polish private sector development. It is a private corporation, with an independent Board of Directors, for which Congress authorized $240 million in capital over a three-year period.

The table below outlines Enterprise Fund commitments and transactions closed through September 30, 1992.

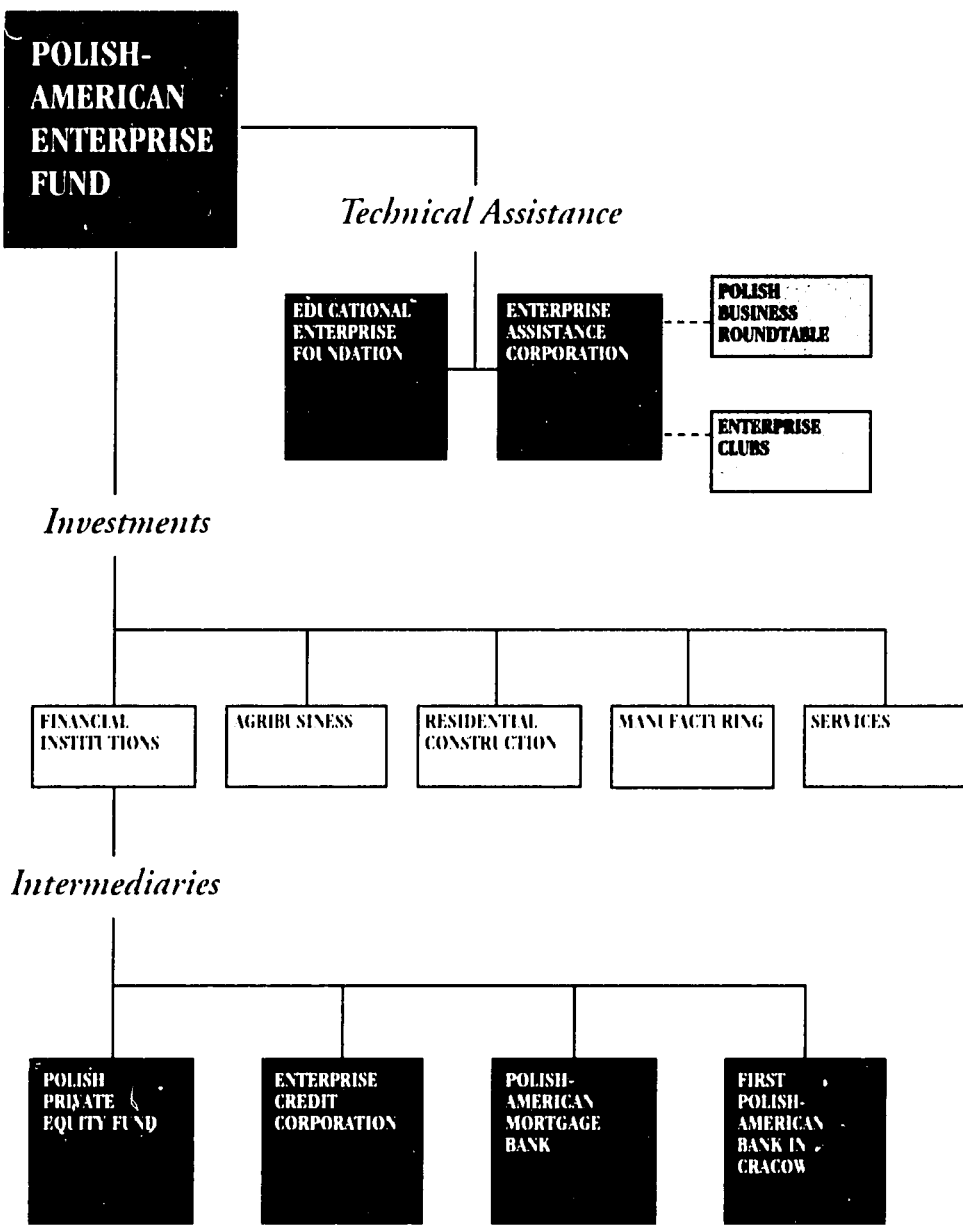
	Approved (US$ millions)	Closed (US$ millions)
Investments & Loans	$125,975	$66,275
Investment in ECC	48,000	28,000
Technical Assistance	6,113	4,575
Total	$180,088	$98,850

In fulfilling the goals established for the Enterprise Fund, we have engaged in the following three broad areas of activity:

- The establishment of financial institutions as intermediaries to extend the reach of the Enterprise Fund and to attract additional capital.
- Direct investments in Polish commerce and industry to support specific enterprises which hopefully will serve as examples to encourage others.
- Technical assistance aimed at the development of private sector business and financial capabilities.

These activities, our organizational development efforts and Poland's economic progress are discussed in further detail in the remainder of this report.

The chart below illustrates the major activities of the Enterprise Fund.



Financial Intermediaries

Polish Private Equity Fund

The Polish Private Equity Fund is a closed-end investment fund established by the Enterprise Fund in November 1992. It seeks to achieve a superior rate of capital growth through investment primarily in small and medium-sized private sector enterprises in Poland. The Polish-American Enterprise Fund and the Polish Private Equity Fund have separate boards of directors and investment committees but are advised by the same newly created management company—Enterprise Investors. In most cases, both funds will participate in the same investments, with their percentage shares based on the amount of capital that each has available to invest.

Enterprise Credit Corporation

The Enterprise Credit Corporation (ECC) was launched by the Enterprise Fund in December 1990 for the purpose of making loans to small businesses in Poland, and by September 30, 1992, the ECC had approved 1,430 loans totaling $33 million. The ECC continues to extend these loans at a rate of about 100 each month totaling approximately $2.5 million.

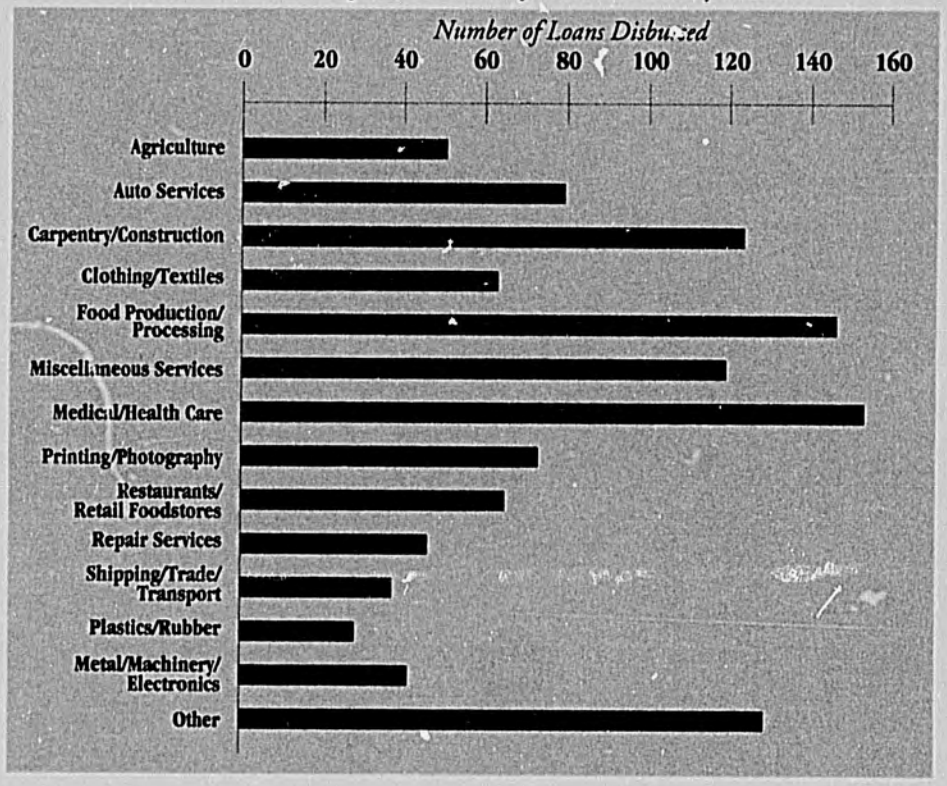
In devising this program, there were some major unknowns—could we develop a program to lend money to people who never had access to credit before, had no business credit references, and had never repaid a loan to an institution? Would our borrowers pay us back?

We decided to try, and we asked the South Shore Bank of Chicago to help us. That bank had more than 18 years of successful experience managing similar lending programs in the United States under conditions in many respects comparable to those facing Poland's new entrepreneurs.

A dilemma in designing a program to meet the needs of Polish small businesses was deciding whether we should administer the loan facility or channel our capital to Polish banks for on-lending. We found that Polish banks then lacked the capability to make small loans on a commercial basis and did not want the responsibility. Given the limited lending experience of Polish bankers, we also recognized we had to maintain tight control to minimize losses. We decided we had to create a new institution operating according to our business practices while delivering reliable customer service.

The ECC financed the purchase of a $15,000 dry cleaning machine for Wanda Kemilew's cleaning shop in Warsaw. Her small business is like many other private shops in Poland that need capital to replace obsolete and worn-out equipment. In business for 25 years, Wanda Kemilew feared that her son and workers were suffering from the fumes exhausted from her 30 year old dry cleaning machine. Another incentive for investing in new equipment was Wanda Kemilew's interest in increasing her efficiency to keep her costs low and increase her slim profit margins. Though short on collateral, the ECC extended financing to this small business proprietor based on an evaluation of her cash flow and character.

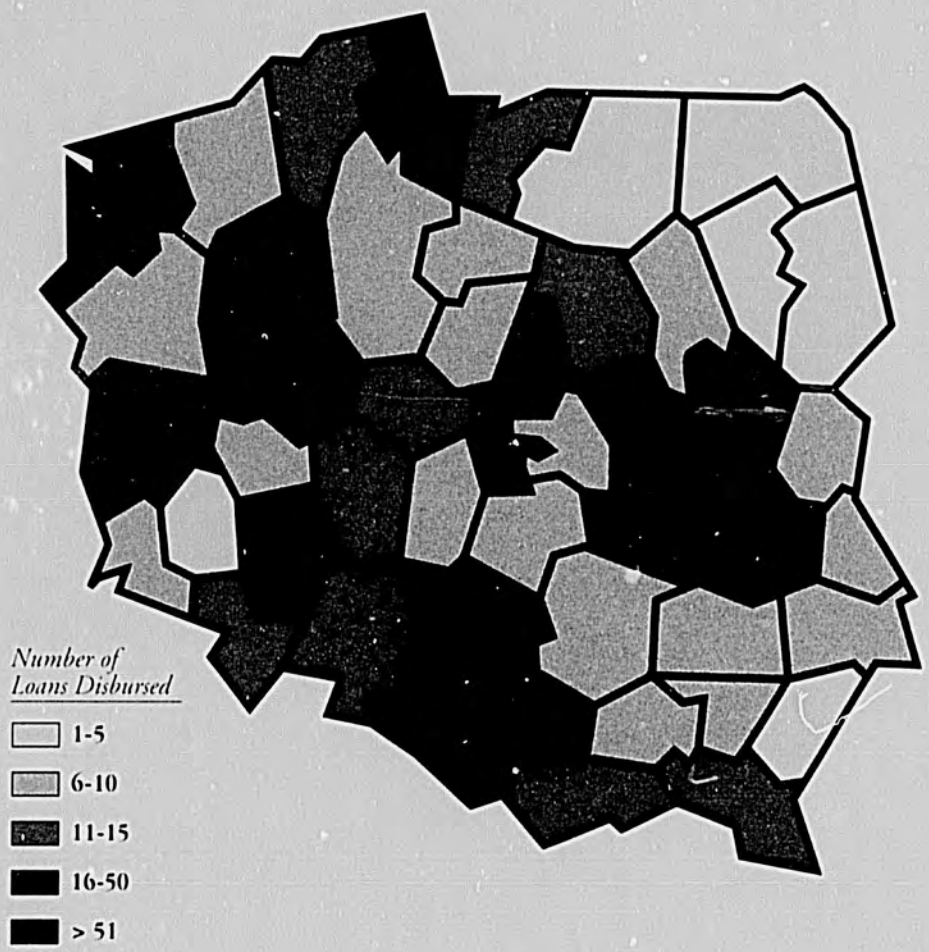
Distribution of Enterprise Credit Corporation Loans by Sector



We found a solution in an arrangement with Polish regional banks whereby we would use their existing network of branches and staff to provide loan application "windows" while we and South Shore Bank would maintain responsibility for credit decisions. The Polish banks participating in the ECC's program earn a fee in exchange for their services and willingness to share in 50 percent of the losses of the loans they initiate. Polish bank staff assist prospective borrowers complete applications and participate with ECC loan officers in the credit review and approval process.

Originally, the ECC was capitalized with an investment of $13 million. Its loan limit was fixed at $20,000, and it was supervised by a staff of expatriate American loan officers. We began operations with loan "windows" at eight regional bank locations and were immediately overwhelmed with applications. We adjusted our procedures and the scope

Distribution of Enterprise Credit Corporation Loans by Region



Jeremi Jobda, together with his wife and one employee, run a single loom manufacturing business in the basement of their two story home an hour outside Warsaw. To expand his business, Jeremi Jobda needed to weave more creative designs requiring sophisticated looms that can use four or five colored yarns at one time. Mr. Jobda, who designs his new products with a computer in his bedroom, turned to the ECC for a loan to purchase four sophisticated new looms. The money loaned by the ECC is giving Mr. Jobda's small, but competently-run family business, an opportunity to transform his fledgling sweater manufacturing operation into a profitable export business.

of the program in response to these demands and the experience gained. More Polish bank staff were trained to process applications and gradually more loan windows were opened at bank branches throughout Poland. The capital was increased to $18 million and the loan limit was raised to $35,000.

Now, nine banks with eleven major bank offices participate in the program and provide loan "windows" at 50 locations throughout Poland.

Letter From Borrower

Koscian, 27.10.1992

Polish-American Enterprise Fund

With reference to the full repayment of the loan I would like to take this opportunity to thank your institution for your assistance. My special thanks goes to Mr. Robert Biernat for a polite and businesslike approach which he always has presented in connection with my credit. This differs so much from the typical manner that Polish bureaucrats serve the client. I would also like to take this opportunity to inform you that my project is successful and that your institution contributed to this in large extent.

With my best regards,
Jerzy Stachowiak

Once an application is received, it takes the ECC an average of 22 days to process it. All ECC loans are denominated in U.S. dollars with a maximum term of three years. Interest charges of currently 12 percent per annum are fixed over the life of the loan. Repayment schedules are customized to meet the needs of the business. Loans administered by the ECC have reached almost every commercial sector in Poland.

Last year, the ECC's capital was again increased, to $28 million, and the loan limit was raised to $75,000. In September, we approved an additional investment in the ECC raising its capital to $48 million. The success of this program is a tribute to the combined efforts of the South Shore Bank and our Polish employees, with valuable support from the Ministry of Finance, the National Bank of Poland, and the private business people that represent Poland's future. These Polish entrepreneurs whom we have financed have been hard-working, honorable and committed to repaying their obligations.

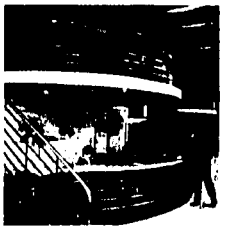
Our experience with these many small borrowers has thus far been encouraging, but we are keenly aware of the potential for individual problems. Delinquencies have been low, with only 2.5 percent of the active loan portfolio showing problems. Economic conditions in Poland can be volatile, and we expect to see more losses. We recognize that large scale devaluation of the Polish zloty, in particular, could have an adverse effect on our borrowers because ECC loans are denominated in U.S. dollars.

Apart from providing jobs and opportunity, our loans have a significant impact in educating emerging entrepreneurs about the mechanics of a market economy. Indeed, we have found that the credit application procedure itself serves an important educational function. The process of requiring applicants to compile essential information about their business and their plans frequently allows these entrepreneurs to see the strengths and weaknesses in their own operations. An added benefit is the training of Polish bank staff in commercial lending and credit practices. Over the long term, this "spill-over" effect should strengthen Polish banking capabilities.

Polish-American Mortgage Bank

The Polish-American Mortgage Bank opened for business in October 1992, offering construction loans to developers and long-term mortgage financing to home purchasers. With a tremendous housing

shortage existing in Poland—some estimates suggest a need for more than two million homes—residential construction can play an important role in stimulating economic growth. Initially, our Mortgage Bank will specialize in financing single-family housing in the $40,000-$75,000 range. Qualified private residential developers may obtain financing for up to 60 percent of construction costs for a term of up to one year, and home purchasers can obtain mortgage financing for up to 50 percent of the purchase price for a 15-year term.



Offices of the First Polish-American Bank in Cracow, ul. Kordylewskiego 11

The Enterprise Fund provided $10 million of the Polish-American Mortgage Bank's initial $16 million capitalization. The Polish bank Wielkopolski Bank Kredytowy S.A. and the Polish international design and engineering firm PHZ Polservice have invested the remainder of the funds. The Enterprise Fund recruited the senior officers for the Mortgage Bank including its president, Dr. Jenne K. Britell. She in turn has attracted the support of KeyCorp Mortgage Inc. of Albany, New York which has been providing valuable assistance in the training of the Mortgage Bank's staff.

First Polish-American Bank in Cracow

The First Polish-American Bank in Cracow was founded in 1989 by a group of local businessmen. We saw an opportunity to expand the reach of Enterprise Fund capital in the important Cracow region and to help improve the capabilities of this small institution that was experiencing problems due to a lack of proper credit controls.

Along with our investment we brought two experienced American bankers to manage the bank—Joseph Conti as chairman and Ralph Kravitz as president. Conti and Kravitz introduced a new business strategy for the bank, with new products, tighter credit standards, and more aggressive marketing, and in the process, are training the Polish staff. They also established a workout group which recovered many delinquent loans and brought accounts back to a current basis. The Bank currently has over 3,000 deposit accounts, approximately 600 outstanding loans and is operating profitably.

Direct Investments and Loans in Polish Commerce and Industry

September 30, 1992

AKITA INTERNATIONAL CO. LTD. *Cracow*

Akita International designs and assembles custom electronic elements and printed circuit boards used in the manufacturing of subassemblies for the electronics industry in Poland and West Europe. Akita applied this financing to improve its products and modernize its facility.

Date of Investment: May 1991

Equity (25%)	$ 375,000
Loan	725,000
Total	$ 1,100,000

ARECO, SP. Z O.O. *Warsaw*

Areco, a construction company which specializes in roofing and insulation installation, operates branches in Warsaw, Szczecin, and Katowice. The company used loan funds to purchase a manufacturing line for production of heavy, plasticized roofing material.

Date of Investment: July 1991

Loan	$ 273,375

CONSAY, SP. CYW. *Lodz*

Since 1984, Consay has been manufacturing hosiery and clothing insulation material. Financing was used to purchase new hosiery equipment.

Date of Investment: Sept. 1991

Loan	$ 331,000

EURO-MARC *Wloclawek*

Euro-Marc produces plastic injection molded products, including hangers, cassettes and files. In addition, it markets electronic equipment and clothing. The company used this financing to expand its plastic injection molding operations to include videocassette box production.

Date of Investment: July 1991

Loan	$ 200,000

HASTE INTERNATIONAL CO. LTD. *Warsaw*

Haste International, founded in 1977, manufactures wooden garden furniture, primarily for export. Funding has been used to expand existing plants and to acquire two additional factories. Haste also manufactures plastic packaging and cosmetics for the domestic market.

Date of Investment: June 1991

Equity (49%)	$ 6,000,000
Loan	4,000,000
Total	$10,000,000

KOBZA *Radwanko Schabecki*

In 1991, Waclawa Kobza began construction of a cold storage facility for freezing and packaging fruits and vegetables for export. Funding was used for the purchase of a freezing tunnel.

Date of Investment: July 1991

Loan	$ 110,000

KUBACKI *Iznota*

Cezary and Maria Kubacki own and operate a small health center on lake front property in a national forest in the Mazurian district of Poland. Financing has been used to complete the construction of their hotel facility and to purchase sports equipment.

Date of Investment: July 1991

Loan	$ 180,000

LODOM CO. LTD. *Szczecin*

Lodom is a start-up company that will operate a cold storage warehouse near the port of Szczecin. It will offer blast freezing, banana ripening, cold storage and distribution services to the public. Lodom's target markets include Polish domestic food processors and exporters.

Date of Investment: Aug. 1991

Equity (53%)	$ 3,180,000
Loan	860,000
Total	$ 4,040,000

MISTRAL INTERNATIONAL CO. LTD.
Nowy Targ

Mistral is a privately held wholesale and retail shoe distributor with 20 wholesale and 13 retail outlets throughout Poland. Enterprise Fund financing provides for improved contract manufacturing of shoes, and computerization of operations.

Date of Investment: July 1992

Equity (50%)	$ 742,000
Loan	500,000
Total	$ 1,242,000

MOSTOSTAL PANEL CO. - LTD. *Warsaw*

Mostostal Panel Company manufactures insulated panels primarily for the construction of food processing plants and refrigerated warehouses for food storage and processing. The company also provides design and construction services incorporating U.S. practices.

Date of Investment: July 1991

Equity (40%)	$ 1,200,000
Loan	1,100,000
Total	$ 2,300,000

OSTROWSKI *Szymanowice*

This family-operated farm is engaged in crop raising, animal husbandry, and meat slaughtering, processing and delivery. Financing has been used to purchase a vacuum packaging line and a smoking machine and to enlarge cold storage and processing facilities.

Date of Investment: May 1992

Loan	$ 203,301

OTOCKI *Pluty*

Janusz Otocki owns an iron foundry near Elblag in northern Poland. His company produces radiators and other iron-cast products. The financing has been used to finish construction of a second production hall and to purchase a truck.

Date of Investment: Nov. 1991

Loan	$ 298,241

P.A. PRESS LTD. *Warsaw*

P.A. Press Ltd. is a start-up company which had plans to publish a new national daily newspaper, *Dziennik Krajowy*. Delays in getting approvals required for the financing resulted in losing a critical marketing window.

Date of Investment: Oct. 1991

Equity (57%)	$ 1,600,000
Loan	671,000
Loan (committed)	729,000
Total	$ 3,000,000

PIERZCHALA *Janikow*

Marian Pierzchala raises approximately 1,400 hogs per year. Financing was used to upgrade the farm's slaughterhouse, finish construction of its meat processing facility and open two butcher shops in neighboring towns.

Date of Investment: July 1991

Loan	$ 150,000

POLISH-AMERICAN PRINTING CORP. *Cracow*

Polish-American Printing Corp. was formed to acquire printing plants in Gdansk and Cracow previously owned by the Polish Government. PAPC is upgrading its facilities and expanding its newspaper printing capacity.

Date of Investment: Sept. 1991

Equity (100%)	$ 5,000,000
Loan	10,000,000
Total	$ 15,000,000

Polish-American Warehouse Club, Ltd. *Warsaw*

Warehouse Club is a consumer goods wholesaler founded with American partners to provide quality products to Polish retailers, to build a general merchandise distribution network and to assist Polish manufacturers market in Poland and abroad.

Date of Investment: Sept. 1991

Equity (49%)	$ 980,000
Loan	4,000,000
Total	$ 4,980,000

Qumak International, Ltd. *Cracow*

Qumak distributes PCs, computer peripherals and software to end-users. The company operates three major business lines: distribution (primarily for Samsung), retail (2 stores in Cracow) and turn-key computer systems for companies, banks and universities.

Date of Investment: July 1991

Equity (50%)	$ 350,000
Loan	644,000
Total	$ 994,000

RB Polish-American Enterprise Co. Ltd. *Gdynia*

RB is a general construction company operating in the metropolitan area of Gdynia and Gdansk. RB has utilized Enterprise Fund financing to expand into residential housing development and construction.

Date of Investment: July 1991

Equity (48%)	$ 500,000
Loan	1,000,000
Total	$ 1,500,000

Sando Co. Ltd. *Kleczanow*

Sando is a start-up company organized with Enterprise Fund financing. It grades, packs and sells apples for domestic and West European markets.

* zloty denominated

Date of Investment: Jan. 1991

Equity (60%)	$ 370,000
Loan*	2,006,000
Total	$ 2,376,000

Sarzynski *Olsztyn*

Krzysztof Sarzynski conceived of a bakery start-up in this northeastern city. Through the financing provided, the bakery officially opened in December 1991.

Date of Investment: Sept. 1991

Loan	$ 165,000

SECURA B.C. LIMITED *Warsaw*

Secura produces industrial protection gear and products for air and fluid filtration. Secura is the only supplier of breathing masks for Polish coal miners. It has been developing foreign markets for its products and is using Enterprise Fund financing to expand capacity.

Date of Investment: Aug. 1991

Equity (49%)	$ 1,300,000
Loan	1,200,000
Total	$ 2,500,000

SPPOW TOMASOVIA *Tomaszow Lubelski*

Tomasovia has been in the business of freezing and processing fruits and vegetables for over 35 years. The Fund helped finance the completion of an additional cold storage warehouse which increased Tomasovia's capacity four-fold.

* zloty denominated

Date of Investment: Mar. 1991

Loan*	$ 2,372,000

TEDAM *Zamosc*

Adam and Teresa Koszel own and operate a gas station in the southeastern part of Poland partly financed by the Enterprise Fund.

Date of Investment: Dec. 1991

Loan	$ 99,966

TRIGON *Warsaw*

Trigon is a workshop that provides design and promotional advice to domestic manufacturers of textiles and garments, as well as consulting services to Western investors interested in the Polish textile industry.

Date of Investment: Oct. 1991

Equity (50%)	$ 50,000

ULMAR *Katowice*

Marek and Urszula Sioda have owned and operated the Ulmar crystal/glass workshop since 1984. The partners requested financing to purchase a glass kiln to avoid reliance on their suppliers for high quality glass.

Date of Investment: July 1991

Loan	$ 132,553

WIZARD SP. CYW. *Sliwice*

Wizard is a boat manufacturing company in the Pomeranian Lake district of Poland. Almost the entire production is exported to Western Europe. The company was provided financing for the purchase of manufacturing equipment to expand its operations.

Date of Investment: Jan. 1991

Loan	$ 199,773

ZPR KRZEKOTY *Krzekoty (woj. Elblag)*

ZPR Krzekoty has raised hogs since 1980. The Enterprise Fund loan was used to finance construction of a meat processing facility.

Date of Investment: Oct. 1991

Loan	$ 340,000

Technical Assistance

While the Enterprise Fund's primary focus has been to provide capital to private firms, a parallel effort has been to develop indigenous human resources. In this context, we have offered technical assistance programs that complement our investment activities. During the year, we trained a number of Polish managers and workers, and in many cases, strengthened the managerial expertise of the companies we financed by bringing American experience to Poland and by enabling specialized training for Poles in the United States. These programs are channeled through two organizations established by the Enterprise Fund during the past 18 months.

Educational Enterprise Foundation

The Educational Enterprise Foundation, established with matching grants of $1 million from the Enterprise Fund and the Polish Government, is engaged in providing practical business education to the business community. One of its projects attracted 15,000 participants in a game simulating the operation of the Warsaw Stock Exchange. A series of conferences devoted to business practice is currently underway, and another project will help to underwrite the translation and publication of foreign language textbooks on business administration.

Enterprise Assistance Corporation

The Enterprise Assistance Corporation, supported entirely by the Enterprise Fund, has a broader agenda. Among its initiatives have been the following:

- Establishment of a program providing training for accountants and management information specialists.
- Support for the Ministry of Finance in bank restructuring and privatization efforts.
- Training for Polish bank chief executives and lending officers.
- Supporting efforts to create a database to assist employment searches.
- Underwriting the production of a series of educational programs for Polish television that explain basic issues in the economic reform process and on doing business in a market economy.

- A Citizens Democracy Corps training program for Polish managers conducted at the offices of Motorola, Baxter International and other firms in the Chicago area.

- A variety of programs to inform Polish officials, entrepreneurs and the public in an effort to encourage commercial activity.

Through our initiative, the Polish Business Roundtable was launched as a forum for chief executive officers of the leading Polish private enterprises and senior in-country managers of the major foreign firms with investments in Poland, so they may play a more active role in formulating public policy affecting business and economic issues. At our encouragement, an executive of the U.S. Business Roundtable participated in the first formal meeting of its Polish counterpart and provided advice on the organization's structure and programs.

On a broader scale, we have sponsored Polish-American Enterprise Clubs in 10 cities with membership in excess of 800 persons. These organizations are taking the initiative to create jobs, strengthen management practices, and spur export trade. In the coming year, we will be coordinating the activities of these Enterprise Clubs with those of our ECC small business loan program.

Organizational Development

Over the past two and a half years, we have developed an effective team of investment professionals and support personnel in Warsaw and New York. During fiscal 1992, we reinforced our management and investment group in Warsaw by recruiting new professionals and transferring key investment officers there. Our staff in Warsaw has been strengthened in particular by the appointment of Barbara J. Lundberg, who moved to Poland in January, as Executive Vice President and General Director of the Enterprise Fund's Warsaw office after having joined the Enterprise Fund as a Senior Vice President in August 1990. Our Warsaw office has grown to 25 persons, including a number of able Polish investment professionals, while we maintain a team of nine persons in the New York office.

In another key personnel development, Dr. Marek W. Kulczycki has been appointed President of the Enterprise Credit Corporation (ECC). Previously, Dr. Kulczycki served as Poland's Deputy Minister for Industry and Trade where he participated in a number of major privatization projects and supervised industrial restructuring efforts.

In the beginning, the ECC's management and loan officers were seconded from South Shore Bank of Chicago, which had developed a successful program of lending under conditions similar to those we found in Poland. Richard Turner, Senior Vice President of South Shore, came to Poland to help organize the ECC. Mr. Turner continues to serve as Chairman of the ECC, but only one other American remains on its staff of 24. Dr. Kulczycki's appointment and the advancement of the ECC's Polish loan officers are a tribute to the leadership of the company and the abilities of its staff to adapt quickly to private banking practices.

In connection with the formation of the Polish Private Equity Fund, the Enterprise Fund's management structure was reorganized and its staff transferred to the newly created Enterprise Investors which advises both funds. Sixty percent interest in this new management company is owned by the Polish-American Enterprise Fund and 40 percent by the European Bank for Reconstruction and Development. As investment manager, Enterprise Investors recommends investments and provides investment management services for an annual fee.

In all of our activities we find valuable support in a diverse network of relationships in Poland and the United States. These include agencies of the U.S. and Polish governments and their political subdivi-

sions: the Overseas Private Investment Corporation, the Export-Import Bank of the United States, the U.S. Department of State, the U.S. Agency for International Development, the American Embassy and the U.S. Foreign and Commercial Service in Warsaw, Poland's Ministry of Finance, Ministry of Privatization, the State Foreign Investment Agency and the National Bank of Poland, and multilateral lending institutions, such as the European Bank for Reconstruction and Development (which has participated with us in establishing the new Polish Private Equity Fund), the International Finance Corporation and the World Bank.

We also work closely with many nongovernmental organizations that are actively involved in Poland. Some of these include: the Citizens Democracy Corps, the MBA Enterprise Corps, the Polish American Congress, the U.S.-Poland Chamber of Commerce, the Financial Services Volunteer Corps, the International Executive Service Corps and many enterprise clubs, other business associations and chambers of commerce in the United States and Poland. This network of relationships is a valuable resource in the identification of potential partners and investment opportunities.

Polish Economic Progress

Poland's economic progress was reported by The New York Times, which in a front page article December 17, 1992, said that "an economic success story is taking shape in Poland, three years after the country became the first in Eastern Europe to risk the rigors of 'shock therapy'."

"Industrial production, which declined a precipitous 39 percent in 1990 and 1991, is on the rise, and Poland is on track this year to become the first among former Communist nations to record annual economic growth."

Dramatic changes have occurred in Poland since it began a difficult economic and political transformation only three and a half years ago. Today, there are many signs of substantial progress—particularly in the development of the private sector. Not only have Poles become a nation of entrepreneurs, Western investors are increasingly recognizing that despite significant risks, Poland holds the potential for real investment opportunity and growth. In the coming years, we believe that Poland will outpace most other nations in the region.

At the outset, we encountered an environment that was not always conducive to the investment process. This was true both for investments in private firms as well as investments designed to privatize State-owned enterprises where progress has been particularly slow. A series of rapid changes in the government is one cause—a bureaucratic system that is not designed to accommodate modern business activity is another impediment. On both counts, we are seeing improvements.

Poland has had a series of four governments since the Communist regime collapsed in 1989, and while these changes have caused uncertainty and delay, the underlying political process has evolved in a remarkably steady and orderly fashion. Each government brought its own particular views, yet all have remained devoted to the basic principles of a free market economy.

Poland started its road to economic reform with a "shock therapy" program designed by Minister of Finance Dr. Leszek Balcerowicz. This approach reduced the nation's inflation from 600 percent per annum in 1990 to about 40 to 45 percent today. It liberalized prices, established stability and internal convertibility of the Polish zloty, cut subsidies and stimulated private sector growth to the impressive levels we see today.

We are proud of the role our former Board Member, Jan Krzysztof Bielecki, has played in this process, formerly as Prime Minister of Poland, and now as Minister for Contacts with European Communities in the new government of Prime Minister Hanna Suchocka. Her government offers the prospect for continuing economic development.

Challenges, though, still lie ahead. With high zloty denominated real interest rates, Polish banks are not viewed as a viable source of capital. In addition, most banks continue to carry a large portfolio of

non-performing loans—many to State-owned enterprises—and are reluctant to make additional commitments. Furthermore, the financial and legal infrastructure is outmoded and complex. Banking and financial sector reforms are needed, but are frequently slow in coming.

The same is true for the privatization process. Many inefficient State-owned enterprises create a burden on government resources and remain a serious drain on the Polish economy. As these enterprises are restructured, or undergo bankruptcy, a reduction in their work forces can be expected to increase Poland's unemployment -- currently standing at 13.5 percent. The pace of privatization will also have an impact on the Polish deficit, which the government must keep under control to meet commitments to the International Monetary Fund.

While the Polish economy thus remains fragile and highly sensitive to external influences, there are significant signs of hope. Most important to the process of political and economic development is the will of the people; for despite changes in government leadership, the Polish public is committed to reform, and the Polish private sector has led the way with substantial growth. There are now approximately 2.7 million private non-agricultural firms doing business in Poland, and the private sector accounts for more than half of Poland's economic output. Moreover, private firms employ over 50 percent of the nation's workers outside of the agricultural sector, which had largely remained in private hands even under the Communists.

The pace of private sector growth has varied by industry with private enterprises now accounting for about 27 percent of industrial sales, 75 percent of construction, 80 percent of retailing, 90 percent of trade, and 60 percent of road transportation. Poland has registered a very impressive positive balance of trade, showing for the first half of 1992 a $1 billion surplus compared to a $300 million deficit for the same period in 1991. Income from exports rose by 12.5 percent and the value of imports fell by four percent during the same quarters. Most significant has been the dramatic shift in trade to the West, which now accounts for approximately 83 percent of Polish exports.

Other signs of economic recovery are a rise in industrial sales, which jumped 7.6 percent in the second quarter of 1992, and labor productivity which grew by nearly 18 percent over the June 1991 figures. On the other hand, the agricultural sector has suffered from a drought in

The Enterprise Fund's investment in Secura B.C. Limited caught the attention of The Wall Street Journal, which in an editorial on June 11, 1992 reported that Secura's entrepreneurial and export oriented management represented the type of private sector solution which could address many of Poland's economic challenges. Secura, which produces protective masks, rubber gloves and other protective equipment for factory workers, has landed contracts to export product to the U.S., U.K., South Africa, Ukraine and Japan.

1992 which is expected to have an adverse impact on Polish growth rates for the year.

Since 1989, the sum of all foreign investment totals only about $1 billion. Growing interest in Poland this past year and the creation of a new State agency to promote investment opportunities suggest that the rate can be expected to increase. As many as 6,000 foreign firms, including 1,500 German and 600 American, have invested in Poland. While many of these are small companies, Poland is attracting an impressive list of the world's largest multinational corporations as well.

Those firms entering Poland today are finding, as we are, an increasingly conducive climate for business and a strategically-located, developed and well-educated nation of 38 million persons, who when given the opportunity and proper rewards for their efforts, prove to be hard-working and committed to success.

Consolidated Financial Statements

Year Ended September 30, 1992

Schedule of Investments and Loan Activity Summary

September 30, 1992 *(Notes 2, 3 and 9)*

SCHEDULE OF INVESTMENTS (at cost)	Ownership Percentage	(in thousands)
Banking and Finance		
First Polish-American Bank in Cracow*	47%	$ 2,083
First Polish-American Bank in Cracow - debt		4,000
Polish-American Mortgage Bank*	50%	6,000
Agribusiness		
Lodom Co. Ltd.*	53%	3,180
Lodom Co. Ltd. - subordinated debt		860
Mostostal Panel Co. - Ltd.*	40%	1,200
Mostostal Panel Co. - Ltd. - subordinated debt		1,100
Sando Co. Ltd.*	60%	370
Sando Co. Ltd. - debt **		2,006
SPPOW Tomasovia - debt **		2,372
Residential Construction		
RB Polish-American Enterprise Co. Ltd.*	48%	500
RB Polish-American Enterprise Co. Ltd. - debt		1,000
Manufacturing and Other Investments		
Akita International Co. Ltd.*	25%	375
Akita International Co. Ltd. - debt		725
Haste International Co. Ltd.*	49%	6,000
Haste International Co. Ltd. - debt		4,000
Mistral International Co. Ltd.*	50%	742
Mistral International Co. Ltd. - debt		500
P.A. Press Ltd.*	57%	1,600
P.A. Press Ltd. - debt		671
Polish-American Printing Corporation *	100%	5,000
Polish-American Printing Corporation - debt		10,000
Polish-American Warehouse Club, Ltd.*	49%	980
Polish-American Warehouse Club, Ltd. - debt		4,000
Qumak International, Ltd.*	50%	350
Qumak International, Ltd. - debt		644
Secura B. C. Limited*	49%	1,300
Secura B. C. Limited - debt		1,200
Consolidated investments at cost		62,758
Unrealized depreciation on investments		(3,235)
Consolidated investments at carrying value		59,523
Loan Finance Investment		
Enterprise Credit Corporation	100%	28,000
Total Polish-American Enterprise Fund investments		$87,523

LOAN ACTIVITY SUMMARY	
Enterprise Venture Capital Corporation loans, at cost	$ 2,733
Loan repayments	(129)
Loans charged off	(440)
Loan loss reserve at September 30, 1992	(310)
Enterprise Venture Capital Corporation loans, net	$ 1,854

* Common stock
** Agricultural funds investment (zloty denominated)

See accompanying notes.

Consolidated Balance Sheet

September 30, 1992 (Notes 2 and 3)

	Consolidated	Polish-American Enterprise Fund	Enterprise Credit Corporation
		(Note 2)	
ASSETS			
Investments at carrying value (cost $62,758,000) (Notes 5 and 9)	$ 59,523,000	$ 87,523,000	$ –
Loans, net of allowance of $682,362 (Note 6)	16,376,398	1,854,256	14,522,142
	75,899,398	89,377,256	14,522,142
Cash and cash equivalents (Note 7):			
Operating funds	35,737,055	22,985,454	12,751,601
Agricultural funds	2,502,014	2,502,014	–
Reimbursable investment expenses	807,826	807,826	–
Accrued interest receivable	491,525	325,646	165,879
Prepaid expenses and other assets	404,962	323,549	81,413
Fixed assets, net (Note 8)	741,127	469,017	272,110
Total assets	$116,583,907	$116,790,762	$ 27,793,145
LIABILITIES AND FUND BALANCE			
Accounts payable and accrued expenses	$ 989,020	$ 773,758	$ 215,262
U.S. Government grants received and held for future program purposes:			
AID (Note 4)	17,033,600	12,672,039	–
Agricultural funds (Note 4)	2,502,014	2,502,014	–
Polish-American Enterprise Fund	–	–	4,361,561
Total liabilities	20,524,634	15,947,811	4,576,823
Fund balance	96,059,273	100,842,951	23,216,322
Total liabilities and fund balance	$116,583,907	$116,790,762	$ 27,793,145

See accompanying notes.

Consolidated Statement of Revenues, Expenses and Changes in Fund Balance

For the Year Ended September 30, 1992 *(Notes 2 and 3)*

	Consolidated	Polish-American Enterprise Fund	Enterprise Credit Corporation
		(Note 2)	
INVESTMENT INCOME			
Investments and loans	$ 2,749,420	$ 1,950,786	$ 798,634
Cash and cash equivalents	1,201,395	790,502	410,893
Total investment income	3,950,815	2,741,288	1,209,527
Provision for loan losses	(1,062,412)	(750,000)	(312,412)
Net investment income after provision	2,888,403	1,991,288	897,115
EXPENSES			
Employee compensation and benefits	2,211,798	1,655,507	556,291
Business expenses (Note 3)	542,994	436,612	106,382
Program development (Note 3)	220,474	220,474	–
Professional services	504,898	461,844	43,054
Occupancy and telecommunications	730,496	583,018	147,478
Depreciation and amortization	232,635	187,094	45,541
Other	495,998	379,087	116,911
	4,939,293	3,923,636	1,015,657
Net operating loss	(2,050,890)	(1,932,348)	(118,542)
Unrealized depreciation on investments	(3,235,771)	(3,235,771)	–
Foreign exchange loss	(858,878)	(858,878)	–
Net loss	(6,145,539)	(6,026,997)	(118,542)
U.S. Government grants utilized for program expenditures:			
AID (Note 4)	36,159,568	28,522,259	–
Agricultural funds (Note 4)	5,197,898	5,197,898	–
Polish-American Enterprise Fund	–	–	17,637,309
Technical assistance	(2,367,115)	(2,367,115)	–
Excess of revenues over expenses and technical assistance	32,844,812	25,326,045	17,518,767
Fund balance, beginning of year	84,496,425	84,496,425	5,697,555
Adjustment to beginning of year fund balance to reflect consolidation of Enterprise Credit Corporation and Enterprise Venture Capital Corporation (Note 2)	(21,281,964)	(8,979,519)	–
Fund balance, end of year	$ 96,059,273	$100,842,951	$ 23,216,322

See accompanying notes.

Consolidated Statement of Cash Flows

For the Year Ended September 30, 1992 (Notes 2 and 3)

CASH FLOWS FROM OPERATING ACTIVITIES	
Excess of revenues over expenses and technical assistance	$32,844,812
Adjustments to reconcile excess of revenues over expenses and technical assistance to net cash used by operating activities:	
Provision for loan losses	1,062,412
Depreciation and amortization	232,635
Unrealized depreciation on investments	3,235,771
U.S. Government grants utilized for program expenditures:	
AID	(36,159,568)
Agricultural funds	(5,197,898)
Cash received from:	
U.S. government grants	16,000,000
Loan repayments	10,113,289
Cash expenditures for:	
Investments	(15,120,332)
Loans	(17,910,730)
Changes in operating assets and liabilities:	
Increase in reimbursable investment expenses	(449,026)
Increase in accrued interest receivable	(208,476)
Increase in prepaid expenses and other assets	(52,175)
Increase in accounts payable and accrued expenses	218,071
Net cash used by operating activities	(11,391,215)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(411,469)
Net decrease in cash and cash equivalents	(11,802,684)
Cash and cash equivalents, at beginning of year	50,041,753
Cash and cash equivalents, at end of year	$38,239,069

See accompanying notes.

Notes to Consolidated Financial Statements

September 30, 1992

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 over a three-year period which has been 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 businesses in the Polish private sector, including those 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. Intercompany accounts and transactions have been eliminated in the consolidated financial statements.

Pursuant to the requirements of generally accepted accounting principles, the Fund's wholly owned subsidiary, Enterprise Credit Corporation ("ECC") along with the Fund, Enterprise Venture Capital Corporation ("EVCC") and Enterprise Assistance Corporation ("EAC"), are consolidated in the accompanying financial statements. Since ECC is considered to be an investment, the Fund's management believes the separate company supplemental financial statements presented along with the consolidated balance sheet and consolidated statement of revenues, expenses and changes

in fund balance presents a more meaningful analysis of the Fund's financial position and results of operations. For purposes of the supplemental financial statement disclosure, the separate accounts of the Fund, EVCC and EAC have been combined under the heading Polish-American Enterprise Fund. The consolidated financial statements include eliminations not reflected in the supplemental financial statements.

The adjustment to the beginning of the year fund balance results from the initial consolidation of ECC and EVCC in 1992 and the resulting adjustment in the timing of U.S. Government grants utilized for program expenditures.

3. Summary of Significant Accounting Policies

Investment Valuation

The Fund's investments, as set forth in the accompanying 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 as determined by management. Portfolio valuation is conducted annually by management and 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.

Revenue Recognition

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

Notes to Consolidated Financial Statements

(continued)

Translation of Foreign Currency
The Fund's functional currency is the U.S. dollar. Generally, 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 and then exchanged for Polish zlotys when funded.

At September 30, 1992, the Fund's assets and liabilities were principally denominated in U.S. dollars, except for $2.5 million of agricultural funds and $4.4 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 are reflected in the consolidated statement of revenues, expenses and changes in fund balance. Revenues and expenses transacted in Polish zlotys are translated into U.S. dollars at historical rates.

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.

Program Development
Program development expenses consist of direct costs of investment operations, including investment expenses not reimbursed for transactions that did not close.

Business Expenses
Non-salary and other expenses of employees and members of the Board incurred in connection with the Fund's investment operations (such as travel, lodging, meals, etc.) 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 and 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.

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 SEED Act and the AID Grant, the Fund may hold funds in interest bearing accounts and may retain investment and program income for program purposes. AID has granted the Fund an additional $10 million for technical assistance, which the Fund manages through its wholly owned subsidiary, EAC, subject to the completion of final grant arrangements.

As of September 30, 1992, the status of the AID Grant was as follows (in millions):

Funds received from AID:	
Inception through September 30, 1991	$103.2
Fiscal 1992	16.0
Total funds received	119.2
Remaining funds available from 1992 appropriations	69.0
Funds made available from 1993 appropriations	51.8
Total initial authorization	240.0
Technical assistance grant from 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. Accordingly, the amount of grant funds disbursed during the year for program purposes is considered revenue. In practice, as disbursements are made an equal amount of grant funds received are considered utilized and recorded as revenue. In the accompanying consolidated statement of revenues, expenses and changes in fund balance, this revenue is reported as U.S. Government grants utilized for program expenditures. For the

fiscal year ended September 30, 1992, AID Grant funds were utilized for the following program purposes (in millions):

	Consolidated	Fund	ECC
Investments	$10.7	$20.7	$ –
Loans	17.9	1.5	16.4
Operating expenditures, net of depreciation and amortization	4.7	3.7	1.0
Technical assistance	2.4	2.4	–
Fixed assets	.4	.2	.2
	$36.1	$28.5	$17.6

Grant funds received which exceed disbursements made are reported as U.S. Government grants received and held for future program purposes in the accompanying consolidated balance sheet. Since inception, the Fund has received $119.2 million of the AID Grant, of which $102.2 million has been utilized for program purposes, leaving $17.0 million available at September 30, 1992 for future program purposes. The Fund's operating cash balance exceeds the amount of U.S. Government grants received and held for program purposes because, under the terms of the SEED Act and the AID grant, the Fund retains interest income and loan principal repayments for program purposes.

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, 1992, $4.4 million of Agricultural Funds were utilized for investments, bringing the total utilization for the year to $5.2 million, after taking into account the effect of foreign exchange losses.

Since inception, the Fund has received $7.7 million of Agricultural Funds, of which $5.2 million has been utilized for program purposes, leaving $2.5 million available at September 30, 1992 for future program purposes.

5. Investments

The Fund's debt investments, as set forth in the accompanying schedule of investments, are primarily repayable in U.S. dollars and have various maturities, ranging from three to eight 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. Loan Finance Investments

ECC and EVCC have entered into agreements with nine commercial banks in Poland (the "Banks") to screen applicants and process and monitor loans. The Banks earn a fee 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 and EVCC. ECC interest income is net of $272,000 of Bank fees. As of September 30, 1992, the Banks had not originated any loans for EVCC and, therefore, no Bank fees were paid in 1992.

Enterprise Credit Corporation

ECC makes loans to small businesses and entrepreneurs in a variety of industries in Poland. The loans are repayable in U.S. dollars at fixed rates up to a maximum amount of $75,000 to a single borrower.

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.

Enterprise Venture Capital Corporation

Through EVCC, the Fund makes loans and equity investments ranging in amount from $75,000 to $500,000 to small businesses in a variety of industries in Poland. The loans are repayable in U.S. dollars at fixed rates. In addition, on certain loans EVCC is entitled to earn a percentage of the borrowers' sales.

EVCC's loans are utilized for working capital and to finance the purchase of specific assets for use in the borrower's trade or business. The loans have various maturities ranging from three to five years and may be collateralized by assets purchased and/or other assets of the borrower.

EVCC loans, however, are viewed as risk loans the return on which depends on the financial performance of the borrower.

Loans and Allowance for Loan Losses
Loans made by ECC and EVCC are stated at the principal amount outstanding reduced by an allowance 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 allowance for loan losses is maintained at a level believed adequate by the managements of ECC and EVCC to absorb potential losses in the loan portfolios. This determination is based on the exposure to ECC and EVCC 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 allowances are 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 allowance for loan losses for the year ended September 30, 1992 were as follows:

	ECC	EVCC
Balance, beginning of year	$ 75,000	$ –
Provision charged to operations	312,412	750,000
Loans charged off	(15,050)	(440,000)
Balance, end of year	$372,362	$310,000

Loan Commitments
In the normal course of business, ECC makes commitments to extend credit that are not presented in the accompanying financial statements. At September 30, 1992, such commitments aggregated $7.6 million, which will expire by March 31, 1992.

7. Cash and Cash Equivalents

At September 30, 1992, the Fund's cash and cash equivalents are deposited primarily in two financial institutions. Approximately $31.5 million is deposited in one United States financial institution (principally money market funds) and approximately $6.7 million is deposited in Polish commercial banks (demand deposits), of which approximately $2.5 million is denominated in Polish zlotys.

8. Fixed Assets

At September 30, 1992, fixed assets consisted of:

	Consolidated	Fund	ECC
Computer equipment	$ 391,602	$258,337	$133,265
Furniture and equipment	244,825	188,137	56,688
Automobiles	175,900	127,207	48,693
Leasehold improvements	220,563	134,587	85,976
Telephone equipment	29,537	29,537	–
Total cost	1,062,427	737,805	324,622
Accumulated depreciation	(321,300)	(268,788)	(52,512)
Net book value	$ 741,127	$469,017	$272,110

9. Commitments

Investments
In addition to the loans and investments included in the accompanying schedule of investments and loan activity summary, at September 30, 1992 the Board and EVCC had approved investments of $79.7 million that, as of that date, were subject to the completion of investment negoti-

ations and the signing of closing documents to the satisfaction of all parties, as follows (in millions):

Enterprise Credit Corporation	$20.0
Planika - Lactona	.7
Polish-American Mortgage Bank	4.0
Polish Private Equity Fund	50.0
Topwasa	4.5
Szot International (EVCC investment)	.5
	$79.7

Leases
The Fund is committed to make minimum annual rental payments under operating leases for office space and equipment. Lease commitments for the fiscal years subsequent to September 30, 1992 are approximately $426,000 in 1993, $410,000 in 1994, and $342,000 in 1995.

10. 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., became active in fiscal 1992 and has a three year holiday from Polish income taxes, which expires in fiscal 1995.

11. Subsequent Event

Consistent with its mandate under the SEED Act to attract private capital to Poland, during November 1992 the Fund formed the Polish Private

Equity Fund ("PPEF") together with the European Bank for Reconstruction and Development (the "European Bank") and Creditanstalt-Bankverein. The Fund and the European Bank each have committed to invest $50 million of the $150 million total capitalization of PPEF and have each disbursed $5 million to PPEF in November 1992.

PPEF is a closed-end venture capital investment fund which seeks to achieve a superior rate of capital growth through investment primarily in small and medium-sized Polish private sector enterprises. The Fund and PPEF (the "Funds") share parallel investment objectives. The percentage of each investment allocated to the Funds will be determined pro-rata based on the amount of capital that the Fund and PPEF have available to invest.

Concurrent with the formation of PPEF, the Fund also established Enterprise Investors, L.P. (the "Manager"), a management company owned 60% by the Fund as general partner and 40% by the European Bank as limited partner. The Fund contributed its fixed assets and the European Bank contributed cash as their capital contributions to the Manager. All the employees of the Fund became employees of the Manager on the date the Manager was established. The Fund and PPEF entered into separate management contracts with the Manager whereby the Manager recommends investments and provides investment management services for an annual fee.

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 schedule of investments and loan activity summary, as of September 30, 1992, and the related consolidated statements of revenues, expenses and changes in fund balance 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, 1992, and the consolidated results of its operations, changes in its fund balance, and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 3 to the consolidated financial statements, the consolidated financial statements include investments valued at $59,523,000 (62% of fund balance), whose values have been estimated by management and adopted by the Board 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 27 and 28 presented along with the consolidated balance sheet and consolidated statement of revenues, expenses and changes in fund balance 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
November 16, 1992

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