Polish-American Enterprise Fund

1994 Annual Report

The Polish-American Enterprise Fund is a private corporation with an independent Board of Directors, authorized to receive $250 million in capital from the U.S. Government. These monies have been supplemented with an additional $101 million in equity capital from other sources for parallel investment through the Polish Private Equity Funds.

The Polish-American Enterprise Fund has been at work since May 1990 to carry out its mission of encouraging private sector development through equity investment, loans and technical assistance for private businesses in Poland.

TABLE OF CONTENTS

November 30, 1994

When the Polish-American Enterprise Fund was established in spring 1990, it was described as a "bold new experiment in providing foreign assistance to the emerging market economies of Central and Eastern Europe." Its enabling legislation, through the Support for East European Democracy Act, and the guidelines established by its Board of Directors dictated that the Fund move quickly to make investments and loans in order to stimulate private sector development and to demonstrate America's vital interest in assisting a free and democratic Poland.

The Fund was designed with dual and somewhat conflicting objectives. On the one hand, it was to invest in difficult and high risk business areas where capital was most scarce. At the same time, it was expected to preserve its capital through prudent and responsible investment management, thereby making its funds available for recycling. It was not clear in the beginning that the Fund could fulfill these seemingly inconsistent goals.

Today, after four full years of operation, we believe we can report considerable progress in fulfilling our mandate—both quantitatively and qualitatively. The Enterprise Fund has become broadly recognized by the Polish and international press and business communities as one of the more important contributors to the country's remarkable economic transition. Its impact has been disproportionate to the financial resources employed, reflecting from the outset a determination to leverage our organization and our assets whenever possible.

We have made investments and loans to over 3,500 companies, creating more than 12,000 new jobs. Companies supported by the Fund now employ over 60,000 people. Our impact extends well beyond the borders of our portfolio, affecting suppliers and customers, as well as professionals such as bankers, lawyers, accountants and by example, our competitors. Then too, the activities of organizations we have helped to create and guide, such as the Enterprise Clubs, the Educational Enterprise Foundation and the Polish Business Roundtable, have encouraged broad private sector interest involving thousands of Polish citizens.

We have, on occasion, stimulated and supported promising government initiatives, encouraged private sector direct investment by American corporations and influenced the emergence of a growing number of public and private investment funds. As a result of these efforts, the Polish-American Enterprise Fund has in a very real sense become a model for seven new Enterprise Funds that have recently been established by the Clinton Administration for investment throughout Central and Eastern Europe, including the former Soviet Union. We believe we have come a long way in four years.

In fiscal 1994, the Fund and its related Polish Private Equity Funds provided $60 million in financing to nearly 1,000 different enterprises and committed an additional $40 million for investment in Polish businesses. To date, the Funds have disbursed investments, loans and technical assistance to small and medium-sized businesses in Poland totaling $227 million. We have leveraged our monies by recycling loan repayments and with equity capital provided by other investors in the Polish Private Equity Funds, including the European Bank for Reconstruction and Development and several private pension funds, which since 1992 have invested alongside the Enterprise Fund.

We continue to report progress by our Enterprise Credit Corporation (ECC) subsidiary, which in 1994 approved loans of $29 million to 920 businesses averaging $32,000 per loan. Since inception, loan losses have amounted to only 1.9 percent of the average $27 million in outstandings.

It is gratifying to note that as a result of their experience with our ECC's small business loan program, most of the banks which originally agreed in 1990 to establish Enterprise Fund "loan windows," have now instituted their own version of a small loan program and have thus emerged as competitors. As a result, many of the facilities that were previously available at Polish banks have been replaced by our own free-standing loan production offices. While we are pleased that Polish banks are beginning to emulate our small business loan program, we believe nonetheless that responsible Polish entrepreneurs still suffer from a lack of the availability of capital, and this shortage must be addressed.

A number of the companies in our portfolio have strengthened their positions during 1994. Our commercial bank headquartered in Cracow has continued to grow profitably and has listed its shares on the Warsaw Stock Exchange which now trade well above our cost, albeit in a very thin market. The Polish-American Mortgage Bank quadrupled its rate of mortgage lending over the previous year and is beginning to have a meaningful impact on the development of housing finance in Poland.

The Polish-American Printing Association has completed its capital investment program and attracted a major new private investor. Lodom, our cold storage facility, recovered from its delayed start-up and is now operating at full capacity. The Mostostal Panel Company has experienced significant growth in both panel sales and in its construction business and is earning a good profit. Our newer investments in Stomil Sanok, Hydrotrest, Energoaparatura, Jaroslaw Glass and ComputerLand Poland are all performing up to expectations.

During the year, loan losses and write-downs of our investments totaled $1.5 million. Since inception, we have recorded aggregate write-downs and loan losses totaling $9.7 million. Despite the notable progress of some of our companies, we have chosen to register no write-ups until such time as there is a meaningful third party transaction or establishment of a broad public market. We believe that our portfolio has the prospect for material appreciation over the values reflected in our balance sheet and that ultimately the Fund will be able to recycle the U.S. Government-sourced monies which it has received.

We are pleased that during the past two years we have been able to support the privatization of seven formerly government-owned Polish companies and are currently working to privatize several others with the participation of their managements. The Ministry of Privatization continues to welcome us as a constructive, strategic investor. We look forward to the opportunity to provide support for the implementation of the long delayed mass privatization program. Many of these 444 companies, once launched in the private sector, will require the type of finance and management assistance which we have learned to provide.

We have also begun to play a supportive role in initial public offerings. In 1994, we purchased shares in the first "large investor" tranche of the initial public offering of EsPeBePe, a leading Polish construction company, and we recently participated in a similar IPO of Polfa-Kutno, a major Polish pharmaceutical company. This activity could become more important as the Warsaw Stock

Exchange continues to expand and mature. The Exchange lists 41 companies and currently has a daily turnover of 550 billion zlotys ($23 million). While still fragile and limited in scale, we anticipate that this Exchange will over time become a meaningful mechanism for financing Polish companies, and in the process, should provide us an exit mechanism for many of our investments.

We continue to press on to new and possibly more risky areas of activity, recognizing that it is our clear mission to offer finance and support where it is least available from other sources. Accordingly, during 1994 our Board of Directors authorized two new initiatives: a micro-lending program to target loans ranging from as little as $100 or as much as $12,500 to people with little or no business experience; and a housing development corporation focused on stimulating the construction of affordable family housing through the support of real estate developers at an early stage of their development.

We welcome three new Board members with impressive professional credentials: Leslaw Paga, Chairman and Managing Partner of Deloitte & Touche Group, Poland and an architect of the Warsaw Stock Exchange and former Chairman of the Polish Securities Commission; Stephen Robert, Chairman and Chief Executive Officer of Oppenheimer & Co., Inc.; and Donald Versen, Sr., President of the Columbia National Bank of Chicago.

Creating and managing the Polish-American Enterprise Fund has been a challenging and exciting process. We look forward in the coming years to building on our accomplishments and continuing to assist the development of the rapidly expanding Polish private sector.

John P. Birkelund
Chairman of the Board

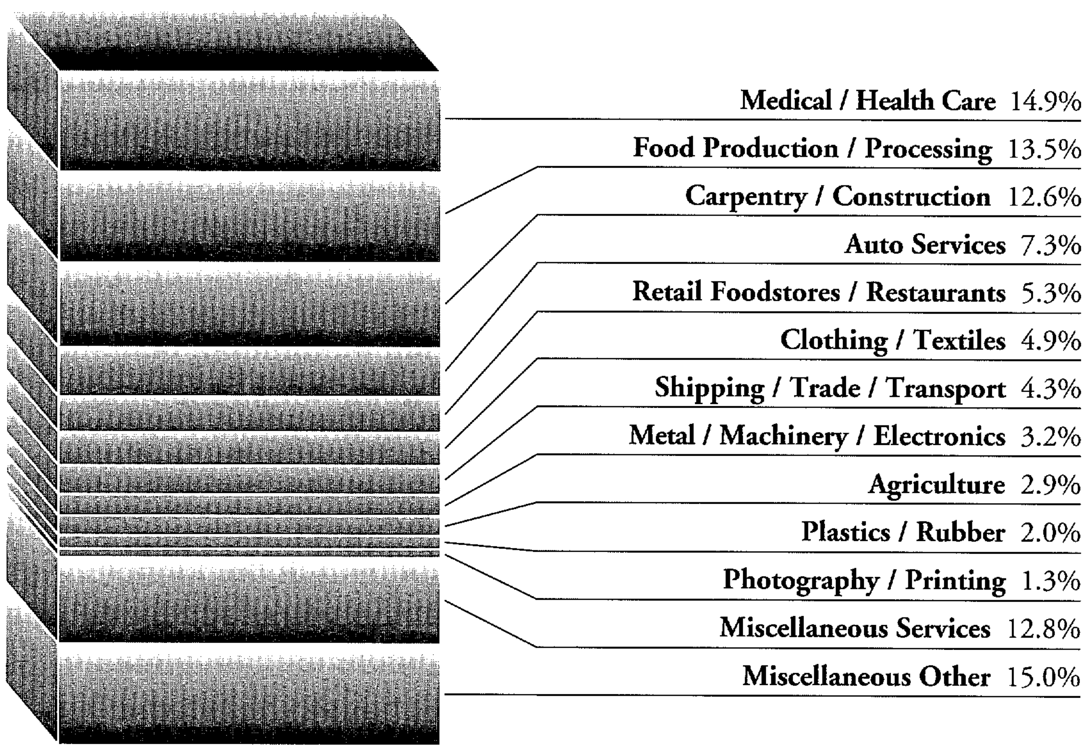
Robert G. Faris
President and Chief Executive Officer

Financial Intermediaries

From the time the Enterprise Fund began operations, it recognized the need to extend its reach through specialized financial institutions that could quickly and effectively distribute capital. In response, it established a number of financial intermediaries providing financing for small businesses, housing development, home mortgages, and the broad commercial needs of the emergent Polish private sector. The progress of these financial intermediaries is discussed below.

Enterprise Credit Corporation (ECC)

By the end of 1994, the Enterprise Credit Corporation had approved nearly 3,400 loans amounting to $90 million, with an average loan size of $26,000. Approximately $67 million has been disbursed and $37 million has already been repaid. Loan loss to date remains at less than two percent. This past year, the ECC expanded its operations beyond the banks participating in ECC loan windows to open its own loan production offices, and it is offering new services to its clients. These include, for the first time, working capital loans and revolving credit.



Enterprise Credit Corporation Loans By Sector

Polish-American Mortgage Bank (PAMBank)

The Polish-American Mortgage Bank is the first private bank in Poland to specialize in residential construction and mortgage lending. Its mission is to show that residential construction and mortgage lending can be a profitable activity in a specialized bank. By the end of September 1994, PAMBank had approved over $9 million in loans financing some 200 homes. During its two years of operations, PAMBank has worked with the government to develop a legal and administrative framework that is more conducive for mortgage lenders and borrowers. In the process, it has become an important source of information for individuals and developers regarding mortgages.

First Polish-American Bank

The First Polish-American Bank is a full-service commercial bank serving mid-size companies in southern Poland and Silesia. This year was significant for the Bank's development. The volume of outstanding loans and deposits doubled. Net profit for the calendar year is expected to be more than double the 1993 net profit. 1994 highlights included a capital increase of $12 million, admission to the Warsaw Stock Exchange, and implementation of a state-of-the-art, on-line computer system linking all of the Bank's locations.

Housing Development Corporation (HDC)

In an effort to further stimulate housing construction in Poland, the Fund has organized the Housing Development Corporation to provide financing at an early stage to residential real estate developers. In each case, the developer must have assets at risk as well as some background in the housing industry. Capitalized with $2 million by the Enterprise Fund in 1994, the HDC makes loans to home developers ranging from $100,000 to $400,000 for the purpose of financing land acquisition, installation of services and building model homes. In addition to earning a fixed rate of interest, the HDC receives a participation in the income of the development. The HDC, which financed its first project in September 1994, is providing a type of financing that is not otherwise available in Poland.

Fundusz Mikro

Fundusz Mikro was created in 1994 to provide credit to Polish businesses which are too small or too new to be able to obtain commercial credit from other sources. The program, providing financing of up to 300 million Polish zlotys ($12,500), will operate through locally established lending outlets. Five pilot lending outlets are to start operating in 1995. If successful, these programs will be expanded in 1996 and could in time reach a much larger number of entrepreneurs than any other Enterprise Fund activity. This program, building on the experiences of micro-lending programs in other countries, has been specifically adapted to Poland's needs.

The Fund's Role In Privatization

The Enterprise Fund had an early expectation of assisting the transfer of Poland's state-owned enterprises to private hands. This process evolved very slowly at first with the result that most of the Fund's early investments were in existing private firms. As privatization has gradually accelerated, the Fund has been able to identify and support a number of privatized companies with competent management, unique products and competitive advantages that contribute to success. In the process, the Fund has pioneered a new form of privatization, called "capital-management" privatization.

This approach evolved from the recognition that while the management teams of a number of current and formerly state-owned enterprises were effectively developing their businesses, they could benefit from a different ownership structure that would both improve management efficiency and provide additional capital.

Typically, the Fund works with management of such companies to purchase company shares from the State Treasury (capital privatization) and then provides the investment capital needed for growth. Changing the form of ownership through the Fund's capital-management privatization allows the company to maintain its identity and independence. This represents an alternative to selling shares to a corporate investor or privatization by leasing which usually burdens the company with the repayment of interest and lease installments, often restricting development by limiting access to capital.

The Fund's objective is to participate in the growth and expansion of these companies by actively assisting management. If the company is successful in implementing its growth plans, significant benefits accrue to the employees, management and the community.

September 30, 1994

Borowskie Kopalnie Granitu Co. Ltd. *Borow*

PAEF/PPEF investment: $1.6 million (equity 49%)

Borowskie Kopalnie Granitu (BKG), an integrated stone quarrying, processing and marketing company, enjoys a strong market position in dimensional stone products and has a number of attractive assets in the aggregates business. During the past year the Company completed an investment program which more than doubled its manufacturing capacity in dimensional stone products. In 1994, BKG projects $5 million in revenues.

ComputerLand Poland S.A. *Warsaw*

PAEF/PPEF investment: $4.1 million (equity 41%)

ComputerLand Poland (CLP) holds the master franchise for Poland from ComputerLand Europe. CLP has a network of six offices throughout Poland which provide sales, training and support to a base of approximately 700 corporate customers, including multinational, industrial and banking customers. The Company is characterized as a value-added reseller/dealer for IBM, HP and Compaq computer hardware, but also has a growing level of sales related to network integration, service, and information technology consulting. Revenue is expected to grow from $16 million in 1993 to $25 million in 1994 with net income reaching $1 million.

EsPeBePe S.A. *Szczecin*

PAEF/PPEF investment: $2.4 million (equity 25%)

EsPeBePe is a diversified construction company which concentrates on industrial construction, infrastructure projects, moderately priced housing developments and the production of building materials, the latter primarily for the German market. The Company was one of the first in the construction sector to be privatized as an employee buy-out in 1990. It has grown rapidly from $18 million in revenues in 1990 to over $40 million in 1994.

Huta Szkla Jaroslaw S.A. *Jaroslaw*

PAEF/PPEF investment: $4.1 million (equity 16%)

Huta Szkla Jaroslaw (HSJ) is the largest domestic manufacturer of glass bottles and jars, supplying a significant share of the Polish food, soft drink, beer and spirits markets. The Fund's partner in HSJ is Owens-Illinois, the leading worldwide producer of glass containers. HSJ has performed better than expected in 1994 with volume completely sold out and demand growing. Planned investment and technology improvements should increase capacity by 40 percent. HSJ expects $48 million in revenues in 1994 with substantial net income.

IPA–BOSS Co. Ltd. *Warsaw*

PAEF/PPEF investment: $0.7 million (equity 83%)

Information Publishing Agency BOSS, Ltd., a spinoff from the Polish Press Agency, is a leading newsletter publishing company with eight newsletters providing information about various aspects of the Polish economy. This is a small investment for the Fund, but the Company appears to be well-positioned in an area with substantial growth opportunities.

Mataczynski Co. Ltd. *Poznan*
PAEF/PPEF investment: $1.8 million (equity 49%)

Mataczynski Printing House is one of the leading Polish companies involved in the offset printing of paper labels for clients such as Coca-Cola, Pepsi, Gerber and major Polish breweries. Mataczynski expects to increase revenue more than threefold in 1994 to approximately $3 million. The Fund's investment will allow the Company to obtain a state-of-the-art printing capability and to more than double its capacity.

Midwest Traders International Co. Ltd. *Warsaw*
PAEF/PPEF investment: $2.2 million (equity 50%)

Midwest Traders International (MTI) is the exclusive distributor in Poland of the Dryvit System, a U.S.-manufactured exterior wall insulation and finishing process using a proprietary stucco substance. MTI has built a nationwide distribution network with 30 key sub-distributors. While sales have lagged somewhat below expectations, MTI expects to increase volume this year approximately 40 percent to $4 million in revenues.

Pakpol S.A. *Bialystok*
PAEF/PPEF investment: $5.8 million (equity 89%)

The Fund privatized Pakpol, Poland's leading supplier of laminated plastic packaging and one of Poland's largest producers of polyethylene films and bags. The Fund provided financing to increase significantly the Company's capacity to manufacture higher value-added products which should, in turn, improve profitability. 1994 revenues will approximate $10 million.

Stomil Sanok S.A. *Sanok*
PAEF/PPEF investment: $4.5 million (equity 80%)

Stomil was one of the first capital-management privatizations completed by the Fund. The Company is a manufacturer of rubber goods including molded products, seals, and gaskets and V-belts. Stomil serves domestic original equipment manufacturers and replacement markets primarily in the automotive, industrial, agricultural and household appliance industries, and is a market leader in all segments. Stomil management has achieved a dramatic turnaround in the past few years, going from a $2.5 million loss in 1991 to an expected $2.5 million profit in 1994.

W. Kruk Co. Ltd. *Poznan*
PAEF/PPEF investment: $2.9 million (equity 49%)

The W. Kruk firm, the oldest jeweler in Poland, has been in business for 150 years and is the leading Polish jewelry manufacturer and retailer. The Company significantly increased its manufacturing capacity in the past year. While W. Kruk faces major challenges in strengthening and expanding its retail network, it is well-positioned to take advantage of the consolidation and growth occurring in the industry. W. Kruk expects revenues of $7 million in 1994 with a 10 percent operating margin.

CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 1994 (Notes 2, 3 and 11)
(dollars in thousands)

	Ownership Percentage	Cost
BANKING AND FINANCE		
Bank Rolno Przemyslowy S.A.		
Agricultural bank		
Common stock	20.0%	$ 2,048
First Polish-American Bank S.A.		
Commercial bank		
Debt		4,000
Common stock	62.3%	8,086
Housing Development Corporation		
Residential development financing		
Common stock	100.0%	580
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%	3,208
Sando Co. Ltd.		
Fruit/vegetable packaging		
Debt		1,271
Common stock	90.2%	495
CONSTRUCTION		
Borowskie Kopalnie Granitu Co. Ltd. (a)		
Granite quarrying and processing		
Equity advance		210
Common stock	15.5%	291
EsPeBePe S.A. (a)		
Industrial construction		
Common stock	7.7%	727
Hydrotrest S.A. (a)		
Civil/hydro engineering		
Common stock	21.7%	987
Mostostal Panel Co. Ltd.		
Industrial construction		
Debt		1,100
Common stock	40.0%	1,200
RB Polish-American Enterprise Co. Ltd.		
Residential construction		
Debt		833
Common stock	48.0%	500

See accompanying notes.

CONSOLIDATED SCHEDULE OF INVESTMENTS
(continued)

September 30, 1994 (Notes 2, 3 and 11)
(dollars in thousands)

	Ownership Percentage	Cost
MANUFACTURING AND OTHER INVESTMENTS		
Akita International Co. Ltd.		
Printed circuit board manufacturing		
Debt		$ 725
Common stock	25.0%	375
ComputerLand Poland S.A. (a)		
Computer sales and system integration		
Common stock	12.7%	1,253
Energoaparatura S.A. (a)		
Control systems design and installation		
Common stock	18.6%	348
Fala Co. Ltd. (a)		
Clothing manufacturing		
Debt		254
Common stock	16.7%	300
Haste International Co. Ltd.		
Furniture manufacturing		
Debt		4,000
Common stock	49.0%	6,000
Huta Szkla Jaroslaw S.A. (a)		
Glass container manufacturing		
Common stock	4.9%	1,260
IPA–Boss Co. Ltd. (a)		
Publishing		
Common stock	25.8%	208
Mataczynski Co. Ltd. (a)		
Label printing		
Common stock	15.1%	560
Midwest Traders International Co. Ltd. (a)		
Exterior building insulation distribution		
Common stock	15.5%	670
Mistral International Co. Ltd.		
Shoe distribution		
Debt		500
Common stock	60.0%	742
Pakpol S.A. (a)		
Plastic package manufacturing		
Common stock	27.4%	1,797
P.A. Press Co. Ltd.		
Holding company		
Debt		1,250
Common stock	86.0%	1,600
Polish-American Printing Association, Ltd. (b)		
Printing		
Debt		5,000
Common stock	86.2%	20,020

See accompanying notes.

September 30, 1994 (Notes 2, 3 and 11)
(dollars in thousands)

	Ownership Percentage	Cost
Polish-American Trade Group Co. Ltd.		
Consumer goods wholesaling		
Debt		$ 805
Common stock	69.8%	1,255
Polskie Ksiazki Telefoniczne Co. Ltd. (a)		
Telephone directory publishing		
Debt		127
Equity advance		386
Common stock	11.4%	1,083
Qumak International Co. Ltd.		
Computer systems retailing		
Debt		420
Common stock	50.0%	375
Secura B. C. Co. Ltd.		
Safety products manufacturing		
Debt		1,100
Common stock	83.5%	1,587
Stomil Sanok S.A. (a)		
Rubber products manufacturing		
Common stock	24.8%	1,385
Szot International Co. Ltd.		
Auto parts manufacturing		
Debt		110
Common stock	59.0%	353
W. Kruk Co. Ltd. (a)		
Jewelry manufacturing and retailing		
Common stock	15.2%	909
Small investment portfolio (c)		1,470
Consolidated investments, at cost		94,685
Unrealized depreciation on investments		(6,740)
Consolidated investments, at carrying value		$87,945

(a) Polish Private Equity Funds I and II are co-investors (Note 6).
(b) Subsequent to year-end, a third party investment of $3 million was made in Polish-American Printing Association and $11 million of Fund debt was converted to equity. Ownership percentage and allocation of total cost have been restated to reflect this change.
(c) Nine loans and investments ranging in size from $25,000 to $300,000.

See accompanying notes.

September 30, 1994 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
ASSETS			
Investments at carrying value (cost $94,685) (Notes 5 and 11)	$ 87,945	$ 87,945	–
Loans, net of loan loss reserve of $582 (Note 8)	27,816	–	$27,816
Investment in Polish Private Equity Funds I and II, net (Note 6)	11,946	11,946	–
Investment in Enterprise Credit Corporation	–	28,000	–
Loan receivable from Enterprise Credit Corporation	–	3,000	–
	127,707	130,891	27,816
Cash and cash equivalents (Note 9)	3,981	2,237	1,744
Accrued interest receivable	1,777	1,595	208
Fixed assets, net (Note 10)	772	–	772
Prepaid expenses, advances and other assets	627	377	250
Investment in Enterprise Investors, L.P. (Note 6)	289	289	–
Total assets	$135,153	$135,389	$30,790
LIABILITIES AND FUND BALANCE			
Accounts payable and accrued expenses	$626	$206	$446
Loan payable to Fund	–	–	3,000
Total liabilities	626	206	3,446
Fund balance	134,527	135,183	27,344
Total liabilities and fund balance	$135,153	$135,389	$30,790

See accompanying notes.

CONSOLIDATED STATEMENT OF INVESTMENT OPERATIONS

For the Year Ended September 30, 1994 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
INCOME			
Interest and dividends on investments and loans	$4,637	$2,384	$2,279
Interest on cash and cash equivalents	274	207	67
Total income	4,911	2,591	2,346
Provision for loan losses	(185)	–	(185)
Interest expense	–	–	(26)
Income after provision	4,726	2,591	2,135
EXPENSES			
Management expenses – Fund (Note 6)	2,000	2,000	–
Professional services	203	203	–
Other operating expenses (Note 3)	159	159	–
Total Fund operating expenses	2,362	2,362	–
ECC employee compensation and benefits	1,007	–	1,007
Professional services	269	–	269
Other operating expenses (Note 3)	342	–	342
Occupancy and telecommunications	288	–	288
Depreciation and amortization	175	–	175
Total ECC operating expenses	2,081	–	2,081
Total consolidated expenses	4,443	2,362	2,081
Excess of operating income over expenses	283	229	54
NET REALIZED AND UNREALIZED LOSS			
Net increase in unrealized depreciation on investments	(1,497)	(1,497)	–
Equity in net loss of affiliates (Note 6)	(869)	(869)	–
Foreign currency translation loss	(233)	(233)	–
Net realized and unrealized loss	(2,599)	(2,599)	–
Net increase (decrease) in fund balance resulting from investment operations	($2,316)	($2,370)	$ 54

See accompanying notes.

For the Year Ended September 30, 1994 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
U.S. Government grants utilized for investment and loan purposes:			
Grants from Agency for International Development (Note 4)	$17,500	$17,500	–
Technical assistance grants and expenditures	(2,435)	(2,435)	–
Net increase (decrease) in fund balance resulting from investment operations	(2,316)	(2,370)	$ 54
Net change in fund balance	12,749	12,695	54
Fund balance, beginning of year	121,778	122,488	27,290
Fund balance, end of year	$134,527	$135,183	$27,344

See accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 1994 (Notes 2 and 3)
(dollars in thousands)

	Consolidated	Fund	ECC
		(Note 2)	
CASH FLOWS FROM OPERATING ACTIVITIES			
Net increase (decrease) in fund balance resulting from investment operations	($2,316)	($2,370)	$ 54
Adjustments to reconcile net change in fund balance to net cash used by operating activities:			
Non-cash items included in net increase (decrease) in fund balance resulting from investment operations:			
Provision for loan losses	185	–	185
Depreciation and amortization	175	–	175
Unrealized depreciation on investments	1,497	1,497	–
Equity in net loss of affiliates	869	869	–
Foreign currency translation loss on investment	212	212	–
Cash received from:			
U.S. government grants	17,500	17,500	–
Investment principal repayments	5,038	5,038	–
Loan repayments	17,479	–	17,479
Loan from Fund	–	–	3,000
Cash expenditures for:			
Investments	(17,153)	(17,153)	–
Loans	(23,057)	–	(23,057)
Investment in Polish Private Equity Funds I and II	(4,988)	(4,988)	–
Loan to ECC	–	(3,000)	–
Technical assistance grants and expenditures	(2,435)	(2,435)	–
Changes in operating assets and liabilities:			
Increase in accrued interest receivable	(838)	(856)	(8)
Increase in prepaid expenses and advances	(37)	(109)	72
Decrease in other assets	341	341	–
Decrease in accounts payable and accrued expenses	(233)	(147)	(60)
Net cash used by operating activities	(7,761)	(5,601)	(2,160)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets	(416)	–	(416)
Net decrease in cash and cash equivalents	(8,177)	(5,601)	(2,576)
Cash and cash equivalents, beginning of year	12,158	7,838	4,320
Cash and cash equivalents, end of year	$3,981	$2,237	$1,744

See accompanying notes.

September 30, 1994

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.

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 in support of Polish private sector development to 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 Fund management views ECC as an autonomous operating entity, it believes the separate company supplemental financial statements presented along with the consolidated balance sheet and consolidated statements of investment operations, activities and cash flows present 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 generally not listed on an exchange or quoted in an open market. These investments are stated at fair value. Investment valuation is undertaken annually at year-end by management and in each case is approved by the Board of Directors (the "Board") in conformity with the following broad guidelines:

The policy of the Board is to carry investments 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 public or private 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 impaired 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.

Translation of Foreign Currency

The Fund's functional currency is the U.S. dollar. The Fund's equity investments generally are purchased in U.S. dollars and exchanged for Polish zlotys when funded. The Fund's operating transactions are denominated in U.S. dollars.

The Fund's assets and liabilities reported in the accompanying consolidated balance sheet and consolidated schedule of investments at September 30, 1994 were denominated in U.S. dollars, except for a $1.2 million debt investment which is 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 vs. the U.S. dollar are reflected in the consolidated statement of investment operations.

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.

Other Operating Expenses

Travel, lodging, meals, and administrative expenses incurred in connection with the Fund's and ECC's operations are classified as other operating 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, 1994, the combined total paid to all Polish directors totaled $21,000.

4. U.S. Government Grants

The Agency for International Development ("AID") has granted the Fund $250 million for program purposes and administrative expenditures (the "AID Grant"). 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.

The U.S. Government has provided the Fund with $7.7 million, denominated in Polish zlotys, from the sale of U.S. surplus agricultural commodities to Poland ("Agricultural funds"). Agricultural funds are subject to the requirements of the AID Grant and the SEED Act and are required to be used to promote the development of the Polish private agricultural sector, including joint ventures with U.S. and Polish participants.

At September 30, 1994, the status of U.S. Government grants was as follows (in millions):

Initial SEED Act authorization		$240.0
Technical assistance grant from AID		10.0
Agricultural funds		7.7
Total funding available		257.7
Less amounts received	– AID	(151.6)
	– Agricultural funds	(7.7)
Balance available under letter of credit from AID		98.4
Less amounts committed	– PPEF I and II	(34.9)
	– Approved investments	(39.7)
	– Other	(3.9)
Balance available		$ 19.9

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 and ECC make disbursements for investments, loans, operating expenditures, technical assistance and purchases of fixed assets, grant funds are considered utilized for program purposes. In the accompanying consolidated statement of activities, AID grants totaling $17.5 million are treated in this manner, and are reported as U.S. Government grants utilized for investment and loan purposes.

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 up to nine 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. Investment in Affiliates

Polish Private Equity Funds I and II

Polish Private Equity Funds I and II are closed-end venture capital investment funds in which the Fund and the European Bank for Reconstruction and Development (the "European Bank") each have committed to invest $50 million of the total capitalization of $151 million of PPEF I and II. The balance of $51 million represents commitments by nine institutional private investors. PPEF I and II co-invest together on a pro-rata basis in Polish private sector enterprises. 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").

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. From inception through September 30, 1994, PPEF I and II have invested $33 million in Polish enterprises in which the Fund has invested $10 million.

Enterprise Investors, L.P.

Enterprise Investors, L.P. (the "Manager"), is 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 and the European Bank as the limited 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 pro-rata to the subsequent year's fees of the Fund and PPEF I and II. In 1994, the credit thus derived totalled $55,000.

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

Equity Method of Accounting

The Fund uses the equity method of accounting for its investments in PPEF I and II and Enterprise Investors, L.P. (the "Affiliated Companies"). Under this method, equity in the net income or losses of the Affiliated Companies are reflected currently in the Funds operating results rather than when realized. In the accompanying consolidated statement of investment operations, these amounts totaled a net loss of $869,000 which is reported as Equity in net loss of affiliates. This amount consisted of net income from Enterprise Investors, L.P. of $53,000 and net (loss) from PPEF I and II of ($922,000).

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 five years and generally are collateralized by the assets of the borrower.

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, 1994, such commitments aggregated $6.2 million, which will expire by March 31, 1995.

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, 1994 are approximately $71,000 in 1995, $13,000 in 1996 and $7,000 per year in 1997 and 1998.

8. Loans and Loan Loss Reserve

Loans are stated at the principal amount outstanding reduced by a loan loss reserve. The accrual of interest is generally discontinued whenever principal or interest has been in default 90 consecutive days or more. Interest on loans is credited to income 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 portfolio. This determination is based on the exposure after an evaluation of the portfolio, current economic conditions, volume, growth and composition of the loan portfolio, 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. 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 uncollectable, collection efforts continue and future recoveries may occur.

Changes in the loan loss reserve for the year ended September 30, 1994 were as follows:

	ECC
Balance, beginning of year	$457,620
Provision charged to operations	184,680
Loans charged off	(319,135)
Recoveries	258,856
Balance, end of year	$582,021

9. Cash and Cash Equivalents

At September 30, 1994, the Fund's cash and cash equivalents are deposited primarily in two financial institutions. Approximately $2.2 million is deposited in one United States financial institution (principally money market funds) and approximately $1.7 million is deposited in Polish commercial banks (demand deposits).

10. Fixed Assets

At September 30, 1994, ECC's fixed assets consisted of:

Computer equipment	$659,325
Furniture and equipment	137,028
Automobiles	167,853
Leasehold improvements	90,722
Total cost	1,054,928
Accumulated depreciation	(282,694)
Net book value	$772,234

11. Commitments

At September 30, 1994, the Fund had uncalled commitments to invest $34.9 million in Polish Private Equity Funds I and II.

In addition to the loans and investments included in the accompanying consolidated schedule of investments, and apart from the commitment to PPEF I and II, at September 30, 1994 the Board had approved investments of $39.7 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, 1994, the Fund closed one of these investments and disbursed $.5 million.

Under the terms of three of the Fund's corporate investment agreements, the Fund had commitments to invest up to $3.3 million in capital equipment to the extent each company does not make such expenditures. In addition, under the terms of three of the Fund's corporate investment agreements, the Fund had committed to purchase up to $.6 million in shares of stock offered to but not purchased by employees of such investments.

12. Tax Status

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.

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, 1994, 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, 1994, 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 $87,945,000 (65% of fund balance) and investment in Polish Private Equity Funds I and II with a carrying value of $11,946,000 (9% 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 14-17 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 LLP

New York, New York
November 30, 1994

BOARD OF DIRECTORS

Chairman
John P. Birkelund
Chairman
Dillon, Read & Co. Inc.

Zbigniew Brzezinski
Counselor
Center for Strategic & International Studies
and former National Security Advisor

Jerzy Dietl
Professor of Marketing
University of Lodz

Robert G. Faris
President and Chief Executive Officer
Polish-American Enterprise Fund

Pawel Jagiello
President
Pro-Invest International, Ltd.

Lane Kirkland
President
AFL-CIO

Ryszard Maslowski
Assistant Professor
Cracow University of Technology

Leslaw A. Paga
Chairman and Managing Partner
Deloitte & Touche Group, Poland

Stephen Robert
Chairman of the Board and Chief Executive Officer
Oppenheimer & Co., Inc.

John F. Smith, Jr.
President and Chief Executive Officer
General Motors Corporation

Donald V. Versen, Sr.
President
Columbia National Bank of Chicago

Robert G. Faris
President and
Chief Executive Officer

Barbara J. Lundberg
Executive Vice President and
General Director

Jacek Siwicki
Senior Vice President

Tuomo Hatakka
Senior Vice President

Norman E. Haslun III
Vice President and
Chief Financial Officer

Ryszard Kruk
Vice President

Marek Kulczycki
Vice President

Robert J. Manz
Vice President

Heather J.C. Potters
Vice President

Stefan Preker
Vice President

Dariusz Pronczuk
Vice President

Michal Rusiecki
Vice President

Polish-American Enterprise Fund
375 Park Avenue, Suite 1902
New York, NY 10152, USA
Tel. 212-339-8330
Fax 212-339-8359

Polsko-Amerykański Fundusz Przedsiębiorczości
ul. Nowy Świat 6/12
00-400 Warszawa, Poland
Tel. (48-2) 625-1921, 625-2017
Fax (48-2) 625-7933