



# Polish-American Enterprise Fund

1995 Annual Report

# POLISH-AMERICAN ENTERPRISE FUND



## **Five Years Of Progress**

The First Polish-American Bank (left) is one of the more than 5,000 companies to which the Polish-American Enterprise Fund has provided loans and equity of over \$291 million in the past five years. Through capital and management assistance, the Enterprise Fund has helped transform the once-struggling bank to a fast growing and innovative financial institution. Recognition of the bank's success and future promise in serving small- and medium-sized corporate clients is reflected by the bank's successful listing on the Warsaw Stock Exchange in November 1994 and subsequent demand for its shares.

### *Table of Contents*

<i>Letter From Management</i> .....	2
<i>Five Years of Progress</i> .....	6
<i>Consolidated Financial Statements</i> .....	14
<i>Notes to Consolidated Financial Statements</i> .....	21
<i>Report of Independent Public Accountants</i> .....	26
<i>Board of Directors</i> .....	27
<i>Officers</i> .....	28

## LETTER FROM MANAGEMENT

November 30, 1995

We are pleased to report the completion of another encouraging year as we seek to fulfill the goals set forth by Congress to promote the development of the private sector in Poland.

Since our formation in 1990, our small loan facility has extended financing to almost 5,000 companies totaling over \$100 million. Our investment program, which includes investments from our sister company the Polish Private Equity Fund, has provided over \$191 million of equity to assist Polish businesses to become private and grow in a free market economy. Our portfolio companies now have aggregate sales exceeding \$450 million and operating profit of over \$40 million. As a result, over 15,000 new jobs have been created with more than 70,000 people now employed in companies directly supported by the Polish-American Enterprise Fund.

The impact of the Fund's activities extends, however, well beyond its direct investment and loan programs. The Fund serves as an example and a template for others to consider in their development efforts. Since the founding of the first two Enterprise Funds for Poland and Hungary, nine new Enterprise Funds have been organized and funded for parallel programs in Eastern Europe and the N.I.S. for a total U.S. Government commitment of \$1.3 billion.

Other important funding sources have modeled or adapted their programs based on our experience. For example, British, Canadian and German Enterprise Funds for Poland are now being organized. The success of our Enterprise Credit Corporation program has encouraged other Enterprise Funds and multilateral organizations to create small loan programs—offering several hundred million dollars in loans to small businesses in this part of the world. Of even greater promise is the private sector response. More than 35 institutional investment funds are now seeking opportunity in Eastern Europe, eight of them in Poland. We believe our Fund's visibility, performance and openness in sharing its experiences has accelerated this impressive and growing mobilization of capital.

We also believe our efforts have contributed to the strengthening of specialized financial institutions in Poland including the agricultural and housing sectors. The Enterprise Fund was one of the founders of the Bank Rolno-Przemysłowy (BRP), a bank targeted to support the agricultural sector in Poland. We helped develop and finance its business plan from inception, and developed a management system that led the bank to profitable operations. We are gratified to report that during the past year,

Rabo Bank from the Netherlands, one of the largest agricultural banks in the world, decided to become BRP's strategic partner. At the same time, our housing industry initiatives through the Polish-American Mortgage Bank, the first bank in Poland to offer western-style mortgages, and through the Housing Development Corporation, a company providing early stage financing for residential developers, are developing nicely. Hopefully, they will also serve as examples of economic development through sound investment and lending practices and encourage others to enter the market.

Over the past three years, the Polish-American Enterprise Fund has played a key role in encouraging the privatization of state owned businesses. We have led 11 such transactions including seven "capital management privatizations", an approach which the Fund introduced to Poland. In these cases, we have encouraged management to join with us in the acquisition of shares of companies from the State Treasury, thereby providing an alternative to the sale of control to a strategic investor. This allows the business to develop under the leadership of existing Polish management teams.

We believe the Enterprise Fund in Poland has worked, and in making it work, we are acutely aware of the circumstances which so importantly supported and influenced our efforts:

- First and foremost has been our good fortune to encounter from the outset inspired and coherent political leadership. Despite five changes in the Polish Government in five years, the bold economic policies inaugurated in 1990 have been pursued with remarkable determination and consistency. These policies, together with the discipline and dedication of the Polish people, have produced a growing, open and vibrant economy in which we have been privileged to play a part.
- In the circumstance of kaleidoscopic changes within Poland's governmental ministries, we were particularly fortunate to be able to interface directly with the rapidly expanding private sector without the need for governmental intermediation as is the case with all government-to-government programs.
- The Fund was also fortunate to be allocated sufficient capital to establish and support a strong management team and to implement a diverse investment program incorporating risk that might not have been acceptable in a more limited undertaking.

**Order Zasługi  
Rzeczypospolitej Polskiej**



Krzyż  
Komandorski

*A Commander's Cross of Merit of the Republic of Poland was awarded this past summer by President Lech Wałęsa to John P. Birkelund for his leadership as Chairman of the Polish-American Enterprise Fund. The Order of Merit award is conferred in recognition of outstanding service rendered in cooperation between nations.*

■ We have benefited from the support of our Board of Directors, comprised of leading independent American business executives, public figures intimately familiar with Poland, and a small group of knowledgeable and dedicated Polish leaders. This Board, selected for its competence without political considerations, has readily provided the guidance—and accepted the risks—essential to our undertaking.

■ Lastly, our programs and activities were not constrained by criteria established by U.S. Government assistance agencies or those of multilateral financial organizations. The purposes and objectives were defined by Congress, subject to responsible governmental audit and oversight procedures, but management was entrusted to the Board of Directors. We have had the historically unique opportunity to find our own way.

Our financial performance through fiscal 1995 continues to suggest that the Polish-American Enterprise Fund will fulfill its goal of eventually recovering or recycling most, if not all, of the original \$240 million grant from the U.S. Government. To date, we have already “leveraged and recycled” \$105 million which has allowed us to loan and invest some \$291 million while using only \$186 million of U.S. Government funds. Our investment portfolio is beginning to reflect underlying increases in value as we begin to exit or find markets for our holdings. We are hopeful that over the next few years, the recovery of our investments will, on balance, materially exceed their cost.

Despite the complications of operating in a distant and rapidly evolving environment, and short of financial and managerial infrastructure at the outset, the Fund has nevertheless operated at a lower cost than would be expected in most domestic venture or buy-out funds. Aggregate management expenses of the Fund are now running at less than one percent of capital under management. Even when the Enterprise Credit Corporation’s operations are included, aggregate overheads amount to approximately two percent of capital. These expenses are now almost completely offset by interest and dividends.

In fiscal 1995, the Fund provided \$66 million in debt and equity to Polish companies and provided an additional \$2.7 million in technical assistance. During the

year, we realized \$800,000 in gains on sales of securities, and unrealized appreciation reflected in our publicly traded securities, discounted for limited marketability, totaled \$8 million. Aggregate write-downs in fiscal 1995 totalled \$2.3 million, resulting in a net realized and unrealized gain for the year of \$6.5 million.

This year, the Enterprise Credit Corporation will hopefully become more fully integrated with the First Polish-American Bank S.A. and subsequently no longer require the same degree of assistance from the Fund. Rather, it will become an integral part of a self-sustaining and growing bank. Likewise, the Polish-American Mortgage Bank and the Housing Development Corporation should move closer to self-sufficiency. Though the mortgage bank should soon be operating at a profit, it will need to develop new sources of capital to expand its operation.

Looking ahead, we can now begin to envisage an evolution in the Fund's operations. During fiscal 1996, we expect to markedly reduce if not discontinue our "standard" portfolio investment program as this activity is increasingly assumed by the Polish Private Equity Funds and other private sector investors in Poland. We shall of course continue to pursue our newer and more innovative initiatives such as micro-lending, leasing, and housing finance.

Thus, by year-end 1996, we hope to have established a small family of self-sufficient financial institutions which can stand on their own and continue to support Polish businesses, and to hold and develop a portfolio of investments in a number of profitable growing companies. Over time, it is our hope that these investments will gradually be liquidated through public sale or merger, thereby allowing the Fund to recover and recycle its capital into new activities in Poland. In doing so, we look forward to pursuing other investment challenges consistent with our mandate of promoting the development of the nation's private sector.



John P. Birkelund  
*Chairman of the Board*



Robert G. Faris  
*President and Chief Executive Officer*

## FIVE YEARS OF PROGRESS

Since 1990, the Polish-American Enterprise Fund (PAEF) has responded to the mandate of the Support for East European Democracy (SEED) Act of 1989—to promote private sector development—by lending money, investing equity and developing programs and institutions within many sectors of Poland's economy. Over the same five years, Poland's economy has changed from a dysfunctional, centrally-planned system to one that is dynamically growing and market driven despite continuing political change. In spite of the many challenges which the country's economy faces, Poland today presents investors and multinational corporations with an attractive business environment.

Poland's economic revival can be attributed to many factors and to the efforts of many institutions. Included among them are the pioneering efforts of the Polish-American Enterprise Fund which has left a mark—quantitatively in terms of the number of loans issued and equity investments made, and qualitatively as a result of the programs and institutions established to leverage our financial commitments. The Fund's success over the last five years leaves a legacy of businesses, institutions, and policies that have contributed to Poland's economic development, and should positively impact the nation's future growth.

The Enterprise Fund has worked to cultivate entrepreneurs, develop innovative privatization strategies, and build and strengthen financial institutions. In doing so, it has preserved the U.S. Government monies entrusted to it. In recognition of these efforts, the Institute for EastWest Studies in a recent publication characterized the Polish-American Enterprise Fund as "...a Model for International Assistance in the Former East Bloc..."

### ***Cultivating Entrepreneurs***

Entrepreneurs comprise a key element of any developing economy. Poland, in the last few years, has been no exception. The Enterprise Fund has offered a number of highly motivated Polish entrepreneurs the opportunity to jump-start their businesses by providing them capital, advice, and assistance. With this boost, these businessmen have developed their companies and prospered despite an increasingly competitive market environment. Today, many of these Polish businesses are also beginning to compete successfully in world markets.

*Enterprise Fund capital and loans helped Irena and Jacek Szot build a \$2 million auto parts manufacturing facility. In three years, sales increased eight-fold and the company is now supplying leading international automobile companies.*



### **Szot International**

One of these companies is Szot International, the owners of which were featured in a November 20, 1995 *BusinessWeek* cover story on Poland. Irena and Jacek Szot built a \$2 million auto parts manufacturing facility with the assistance of the Enterprise Fund, which acquired 49 percent of the

company in 1993 with a \$241,000 equity investment. In addition, the Enterprise Fund loaned Szot International \$248,000 to install modern computer numerically-controlled machinery to replace the aging manufacturing equipment with which they started the business. This capital investment enabled Szot to increase quality and production with the result that in three years the company has increased its sales by a factor of eight. In 1995, eight new products were launched, and the company began meeting price and quality levels that will allow it to continue to increase its revenues by supplying major international automobile companies.

### ComputerLand Poland

ComputerLand provides another example. In 1994, the Fund invested \$4.1 million to acquire 41 percent of the shares of ComputerLand Poland, which holds the master franchise for Poland from ComputerLand Europe. This equity offered management and the other owners of the company additional resources with which to capitalize on the rapidly developing market for computer equipment and services in Poland. With the Fund's investment, ComputerLand strengthened its service and distribution infrastructure by adding new branches and new customers including the National Bank of Poland, Bank Przemysłowo-Handlowy, Bank Gdański, and Polish Television.



*In October 1995, ComputerLand President Tomasz Sielicki, CEO Paweł Piwowar and others (left) were present at the opening of the successful public offering of the company's shares on the Warsaw Stock Exchange.*

### Wiedza i Życie

In 1995, the Fund became a shareholder of the Polish publishing house—Wiedza i Życie. The company's experienced publisher, Jan Rurański, used this investment of \$1.3 million to expand its publishing operation. Wiedza i Życie expects to publish 60 titles within the next 12 months—totaling half a million copies—making it one of the ten largest Polish publishers.



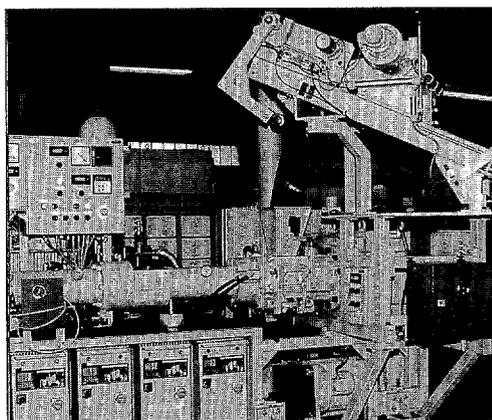
*The Enterprise Fund's investment in Wiedza i Życie, one of the leading publishers in Poland, is helping the company grow. President and publisher Jan Rurański hopes to publish 60 titles this year.*

## ***Innovative Privatization Strategies Lead To Growth And Profitability***

In addition to helping entrepreneurs build new businesses, the Enterprise Fund has helped many previously state-owned companies develop by playing an innovative role in the privatization process. In the last few years, the Fund has assisted the privatization and subsequent growth of 11 companies investing \$41 million.

The Enterprise Fund's "capital management" approach typically allows the businesses which are privatized to develop under the control of strong Polish management teams. In each of its privatization projects, the Fund formulated a plan offering Polish managers the chance to manage their companies and at the same time to become meaningful shareholders of their institutions.

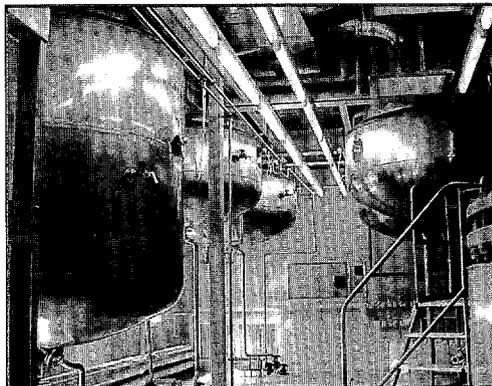
*Enterprise Fund financing helped Stomil invest in modern production facilities (right) that have enabled the company to expand its production and win new clients.*



### **Stomil Sanok S.A.**

Stomil Sanok, a manufacturer of molded rubber products, seals, gaskets and V-belts, was one of the first capital-management privatizations completed by the Fund. Although the company lost \$2.5 million in 1991 on sales of nearly \$21 million, the Enterprise Fund recognized a clear opportunity to support a strongly committed and able management team. In addition to the initial \$4.5 million investment required to privatize the company, the Fund has since financed an expansion plan involving \$4 million. New contracts with customers in Germany and Sweden followed, opening new markets within the European Union for Stomil's pipe and window seals and pressure vessel membranes. Increased production and sales enabled by the Fund's capital investment, combined with tighter management control and restructuring have turned Stomil's operations strongly profitable. The company generated \$2.3 million in profit in 1994 and anticipates earning \$3.3 million in 1995 on revenues of \$45 million.

*Enterprise Fund capital has allowed Polfa Kutno to become the first Polish pharmaceutical company to successfully privatize. The company has subsequently modernized its production facilities.*



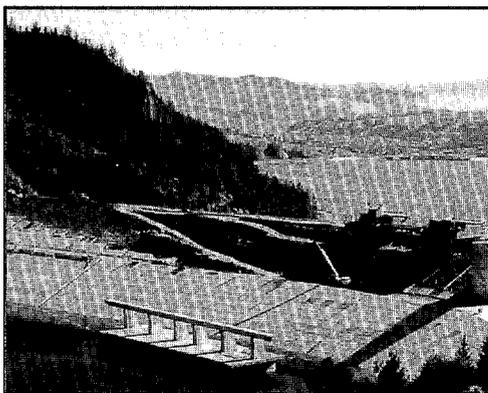
### **Polfa Kutno S.A.**

The Fund acquired 49 percent of Polfa Kutno, a leading Polish pharmaceutical and veterinary products company, from the Ministry of Privatization, and thereafter participated in the company's initial public offering. The \$8 million transaction in 1995 represented the first privatization where a significant shareholding of a pharmaceutical company was offered to a foreign investor. In addition to the original investment, the Fund has committed \$5.5 million

to expand and modernize capacity and to upgrade the production of Vibovit vitamin compound, a product which is very popular for children in Poland.

### **Hydrotrest S.A.**

This leading Polish hydro-engineering construction company, with growth potential related to the increasing demand for hydroengineering construction services, attracted the Fund to invest \$3.2 million as part of a 1993 privatization program. Management and the company's 1,350 employees now own 30 percent of the shares with the Fund holding the balance. Since privatization, Hydrotrest has steadily improved its results with profits increasing more than 220 percent to \$2.3 million in 1995. The company's strong position in the market gives it the potential to expand through acquisition and hopefully to offer its shares on the Warsaw Stock Exchange in 1996.



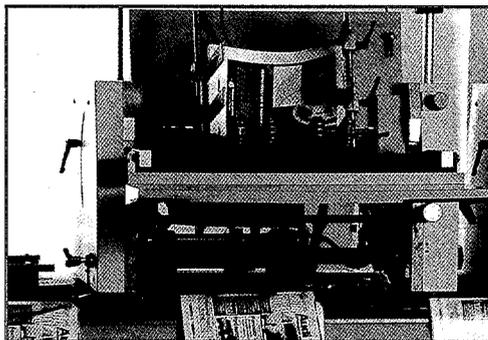
*This year Hydrotrest continued its work as general contractor building Poland's largest dam at Czorsztyn-Niedzica (left). The company also completed the first stage of a geothermal plant for the Tatra Mountains area.*

### **Arranging Joint Ventures**

At the outset, the U.S. Government set the establishment of joint ventures as one of the goals for the Enterprise Fund. Consequently, the Fund has sought opportunities where the contribution of an American partner (in terms of technology, marketing and international customers) would contribute importantly to the development of a Polish enterprise. As a result, the Fund has partnered with a number of multinational corporations, including R.R. Donnelley, NYNEX, Owens Illinois, and Dryvit.

### **Donnelley Polish-American Printing Company**

The Donnelley Polish-American Printing Company was established in September 1993 as a joint venture between R.R. Donnelley & Sons and the Polish-American Printing Company. R.R. Donnelley's participation in the joint venture brought know-how and management expertise as well as capital to ensure the successful start-up of a new commercial printing plant in Cracow in 1994. The company focuses on high quality publications and prints many of Poland's most popular periodicals.



*Many of Poland's most popular periodicals are printed at the Donnelley Polish-American Printing Company—a joint venture that brought capital and management expertise for the start-up of a new printing facility in Cracow.*

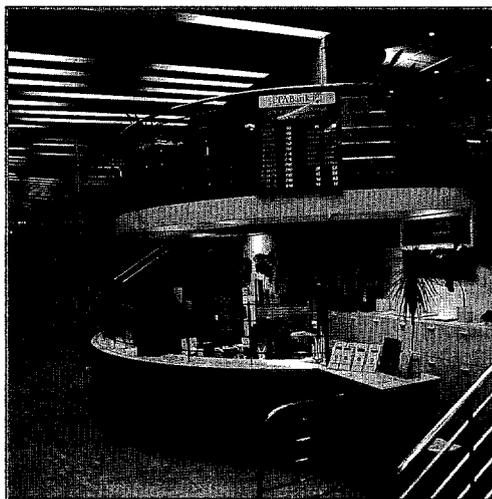
## ***Building Responsive Financial Institutions***

The lack of strong financial institutions presented a critical challenge to Poland's development. The Enterprise Fund addressed this challenge by creating a number of specialized financial institutions including: the First Polish-American Bank, the Enterprise Credit Corporation, Bank Rolno-Przemystowy, the Polish-American Mortgage Bank, the Housing Development Corporation, and Fundusz Mikro. These institutions responded to specific needs within the economy, and are well positioned to continue contributing to the nation's growth.

### **First Polish-American Bank S.A.**

The First Polish-American Bank was founded by a group of local businessmen in Cracow in 1989. Due to a lack of proper credit controls, the bank soon experienced operating problems and losses. Nonetheless, the Enterprise Fund recognized an opportunity to build a viable local banking institution and, in 1991, the Fund provided both debt and equity capital and recruited two experienced U.S. bankers to head the

management team—Chairman Joseph Conti and President Ralph Kravitz. As a result of this involvement, the bank has become a profitable and growing influence on business development in and around the Cracow area. Its loan portfolio has grown to \$40 million with deposits now in excess of \$83 million. The bank has become a model for banks in the private sector and it completed a successful public offering on the Warsaw Stock Exchange in November 1994.



During the past 12 months the First Polish-American Bank has strengthened its position by adding branches in Katowice and Warsaw. In April 1995, the Fund was successful in arranging a merger with the Enterprise Credit Corporation, thus materially expanding the reach of the bank through offices in the largest centers of the country and establishing the Credit Corporation on a sound and self-sustaining basis.

### **Enterprise Credit Corporation**

When the Enterprise Credit Corporation (ECC) was established in 1990, its first priority was to provide cash quickly and effectively to Poland's desperately struggling, small- and medium-sized businesses. The resulting loan program, established in cooperation with the Ministry of Finance and eleven major state-owned banks,

*The Enterprise Fund's investment in the First Polish-American Bank, as well as the development of sound management practices, have turned the bank into a profitable regional institution that is expanding its operations across the country.*

focused exclusively on small businesses, many of which never previously had access to credit. Importantly, loans were disbursed on the strength and quality of a company's management and business plan rather than on the basis of collateral provided. The ECC's loan program has proved remarkably successful in terms of growth and credit quality, and has become a model for many other development programs in the region. The credit provided to some 5,000 Polish private companies was a timely and effective response to the pressing needs of Poland's emerging private sector.

Despite the new and uncertain economic circumstances, the program's experience with its small borrowers has been gratifying, with loan losses incurred since inception at only 1.4 percent of the active loan portfolio. The capital—almost \$100 million disbursed in loans ranging from as little as \$400 and averaging \$32,000—enabled the success of businesses which should continue contributing to Poland's growth in the years ahead.

One beneficiary of ECC financing is Jolanta Zwolińska. Ms. Zwolińska had helped found a successful private cosmetic manufacturing company, but decided to strike out on her own. In January 1994, she obtained an \$80,000 loan to buy raw materials and components to start her own cosmetic manufacturing company, DERMIKA. Today, DERMIKA's sales of cosmetic products (shown at right) are over \$1.25 million.



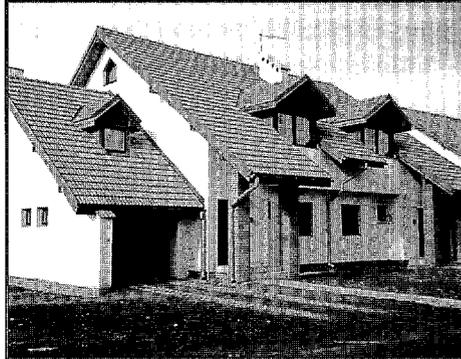
### **Bank Rolno-Przemysłowy S.A.**

A \$2 million investment in 1993 by the Enterprise Fund helped launch Bank Rolno-Przemysłowy (BRP), a start-up private bank that provides commercial loans, and project and trade financing for the agriculture sector. The Enterprise Fund was instrumental in developing the business plan of this specialized institution which supports private agribusiness by providing loans as well as leasing, factoring and tailored credit facilities not yet offered by a majority of banks. BRP's success to date has attracted the interest of one of the largest agricultural banks in the world, Rabo Bank of the Netherlands, as a strategic investor. BRP will play an increasingly important role for Poland's agriculture sector as it faces the challenges presented by prospective entry in the European Union.

## Polish-American Mortgage Bank S.A.

The Enterprise Fund's Polish-American Mortgage Bank (PAMBank) and the Housing Development Corporation (HDC) were established to stimulate housing development in Poland. The problems confronting the Polish residential building sector are staggering in size and complexity. Recognizing its limitations, the Enterprise Fund directed its efforts to a small start-up program where it might generate concrete, measurable results, and provide an example for others.

*PAMBank's mortgage lending helps Poland's burgeoning middle class finance homes like these attached units being built near Warsaw.*



PAMBank specializes in providing 15-year, fixed-rate mortgage loans to purchasers of homes and credit to finance residential construction loans for developers. Before funding the bank, the staff of the Enterprise Fund worked with the Polish Government to develop a legal and administrative framework that would be more conducive to mortgage lenders and borrowers. Following three years of dedicated effort, the bank is now operating

effectively in this untested market. Through the end of the previous fiscal year, PAMBank had granted a total of 177 credits for \$6.9 million. During this past fiscal year, the commitment rate has more than doubled, with more than 389 loans totaling nearly \$16 million. Assuming success in securing additional capital, the bank should be able to lend over \$20 million in 1996.

*Apartment buildings and single family homes, like the units at right being built in Gdynia, are now under construction in five other locations in Poland including Grodzisk Mazowiecki and Piaseczno near Warsaw, Bydgoszcz, Szczecin, and Białystok. Projects financed by HDC range from \$330 to \$500 per square meter and start as low as \$20,000 per unit.*



## Housing Development Corporation

The Enterprise Fund created the Housing Development Corporation as a result of its experience with PAMBank, and in response to the needs of housing developers, to provide financing at an even earlier stage to residential real estate developers—a service unique in Poland. Funds extended by HDC, which totaled \$1.65 million this fiscal year, will finance six moderately-priced residential

construction projects comprising 323 units, including detached and semidetached homes, town houses and apartments. The total value of all of the units in projects financed to date by HDC will exceed \$19 million.

## Fundusz Mikro

Fundusz Mikro was established in 1994 to provide very small loans to fledgling businesses in Poland unable to access commercial bank financing. Designed to extend the reach of the Fund's ECC program, Fundusz Mikro makes zloty loans at

commercial interest rates to small businesses which typically need money for working capital or to finance equipment purchases.

One Polish entrepreneur, for example, borrowed 4,000 zlotys (\$1,600) to buy used television sets which he could acquire for 20 percent of the original selling price. After repairs, he was able to resell them at a profit. Another entrepreneur borrowed 7,000 zlotys for a used car which enabled him to expand his pizza business to include home delivery telephone orders.

Fundusz Mikro's 14 employees now manage lending outlets in Toruń, Siedlce, Starogard Gdański, Łódź, Cracow and Gorlice. During its first eight months of loan operations, Fundusz Mikro has extended 200 loans averaging 5,000 zlotys for an average term of six months. The loan repayment rate is 98 percent, and 99 percent of those who have paid off their loans return for a second loan.

Fundusz Mikro remains an experiment to determine if lending in such small amounts can be done in an economic way. While the program has demonstrated social value, and some of the numbers and early statistics are encouraging, it is still not clear whether this type of microlending will prove economically viable given the required overhead of the program and its small loan size.

### **The Polish Private Equity Funds**

As the Polish-American Enterprise Fund's capital is increasingly committed to its special lending and housing development programs, areas not yet well enough established to attract private capital, the Polish Private Equity Funds (PPEF) are becoming more important as a source of investment in individual enterprises. Established in 1992 under management of the Enterprise Fund and capitalized with \$151 million by PAEF, the European Bank for Reconstruction and Development and a group of private institutional investors, the PPEF seek capital appreciation through investment primarily in small- to medium-sized enterprises in Poland. The Polish-American Enterprise Fund continues to invest along side the PPEF but the rate of participation has now declined to 20 percent in each transaction.

Over the past three years, the PPEF have built a promising portfolio of over 20 companies investing a total of \$53 million. Since fiscal year-end on September 30, 1995, PPEF have invested in two major privatizations and are committed to a third. It is possible that PPEF's \$151 million of capital will be fully invested or committed during the current fiscal year. Accordingly, the PAEF is presently exploring with private investors and EBRD the organization of a successor fund which would largely replace the Polish-American Enterprise Fund as an equity investor in Polish companies, thereby leaving the Enterprise Fund to manage and gradually liquidate its existing portfolio while continuing with its pioneering activities in small lending, mortgage loans, leasing and other programs supporting the Polish private sector. This new fund would focus on investing in the companies in the Mass Privatization Program which are managed by 15 National Investment Funds (NIF). These NIF began operating in July 1995 and are expected to become a major source of deals beginning in late 1996.

## CONSOLIDATED SCHEDULE OF INVESTMENTS

September 30, 1995 (Notes 2, 3 and 12)  
(dollars in thousands)

	<u>Ownership Percentage</u>	<u>Cost</u>
<b>BANKING AND FINANCE</b>		
Bank Przemysłowo Handlowy S.A. (a) <i>Commercial bank</i>		
Common stock	0.5%	\$1,378*
Bank Rolno Przemysłowy S.A. <i>Agricultural bank</i>		
Common stock	20.0%	2,048
First Polish-American Bank S.A. (c) <i>Commercial bank</i>		
Debt		4,000
Common stock	58.8%	7,686*
Housing Development Corporation <i>Residential development financing</i>		
Common stock	100.0%	1,930
Polish-American Mortgage Bank S.A. <i>Mortgage bank</i>		
Debt		4,000
Common stock	49.9%	5,997
Polski Fundusz Leasingowy S.A. (a) <i>Leasing Company</i>		
Debt		77
Common stock	28.1%	154
<b>AGRIBUSINESS</b>		
Lodom Co. Ltd. <i>Cold storage facility</i>		
Debt		925
Common stock	55.7%	3,554
Sando Co. Ltd. <i>Fruit/vegetable packaging</i>		
Debt		1,396
Common stock	90.2%	495
<b>CONSTRUCTION</b>		
Borowskie Kopalnie Granitu Co. Ltd. (a) <i>Granite quarrying and processing</i>		
Debt		53
Common stock	16.5%	653
EsPeBePe S.A. (a) <i>Industrial construction</i>		
Common stock	8.5%	727*
Hydrotrest S.A. (a) <i>Civil/hydro engineering</i>		
Common stock	21.7%	987
Mostostal Panel Co. Ltd. <i>Industrial construction</i>		
Debt		880
Common stock	40.0%	1,200
RB Polish-American Enterprise Co. Ltd. <i>Residential construction</i>		
Debt		833
Common stock	48.0%	500

See accompanying notes.

## CONSOLIDATED SCHEDULE OF INVESTMENTS *(continued)*

September 30, 1995 (Notes 2, 3 and 12)  
(dollars in thousands)

	<u>Ownership Percentage</u>	<u>Cost</u>
<b>MANUFACTURING AND OTHER INVESTMENTS</b>		
Akita International Co. Ltd.		
<i>Printed circuit board manufacturing</i>		
Debt		\$ 725
Common stock	25.0%	375
ComputerLand Poland S.A. (a)		
<i>Computer sales and system integration</i>		
Common stock	9.5%	1,247*
Deni Cler Co. Ltd. (a)		
<i>Women's clothing retailing</i>		
Common stock	27.8%	649
Energoaparatura S.A. (a)		
<i>Control systems design and installation</i>		
Common stock	18.6%	348
Fala Co. Ltd. (a)		
<i>Clothing manufacturing</i>		
Debt		225
Common stock	17.9%	329
Haste International Co. Ltd.		
<i>Furniture manufacturing</i>		
Debt		4,000
Common stock	49.0%	6,000
Huta Szkła Jarosław S.A. (a)		
<i>Glass container manufacturing</i>		
Common stock	4.7%	1,260
IPA - Boss Co. Ltd. (a)		
<i>Publishing</i>		
Common stock	27.4%	313
Mataczyński Co. Ltd. (a)		
<i>Label printing</i>		
Common stock	15.1%	560
Midwest Traders International Co. Ltd. (a)		
<i>Exterior building insulation distribution</i>		
Common stock	15.5%	670
Mistral International Co. Ltd.		
<i>Shoe distribution</i>		
Debt		453
Common stock	60.0%	742
Pakpol S.A. (a)		
<i>Plastic package manufacturing</i>		
Common stock	27.4%	1,797
Polfa Kutno S.A. (a)		
<i>Pharmaceutical manufacturing</i>		
Common stock	15.1%	2,491*
P.A. Press Co. Ltd.		
<i>Holding company</i>		
Debt		1,250
Common stock	86.0%	1,600
Polish-American Printing Association, Ltd.		
<i>Printing</i>		
Debt		5,000
Common stock	82.8%	20,020

See accompanying notes.

## CONSOLIDATED SCHEDULE OF INVESTMENTS *(continued)*

<i>September 30, 1995 (Notes 2, 3 and 12)</i> <i>(dollars in thousands)</i>	<u>Ownership Percentage</u>	<u>Cost</u>
Polish-American Trade Group Co. Ltd. <i>Consumer goods wholesaling</i>		
Debt		\$ 785
Common stock	69.8%	1,255
Polskie Książki Telefoniczne Co. Ltd. (a) <i>Telephone directory publishing</i>		
Debt		127
Common stock	15.5%	2,388
Qumak International Co. Ltd. <i>Computer systems retailing</i>		
Debt		230
Common stock	62.6%	479
Secura B. C. Co. Ltd. <i>Safety products manufacturing</i>		
Debt		1,100
Common stock	83.5%	1,587
Stomil Sanok S.A. (a) <i>Rubber products manufacturing</i>		
Common stock	24.9%	2,432
Szot International Co. Ltd. <i>Auto parts manufacturing</i>		
Debt		102
Common stock	59.0%	353
W. Kruk Co. Ltd. (a) <i>Jewelry manufacturing and retailing</i>		
Common stock	15.2%	909
Wydawnictwo Wiedza i Życie S.A. (b) <i>Book publishing</i>		
Common stock	20.0%	273
Small investment portfolio (d)		<u>1,326</u>
Consolidated investments, at cost		102,873
Net unrealized loss on investments (Note 5)		<u>(684)</u>
Consolidated investments, at carrying value		<u>\$ 102,189</u>

\* Publicly traded on Warsaw Stock Exchange.

(a) Joint Fund (31%) and PPEF I and II (69%) investment (Note 6)

(b) Joint Fund (20%) and PPEF I and II (80%) investment (Note 6)

(c) The Fund owns 29.4% and ECC owns 29.4% for a consolidated ownership interest of 58.8%.

(d) Nine loans and investments ranging in size from \$25,000 to \$300,000.

*See accompanying notes.*

## CONSOLIDATED BALANCE SHEET

September 30, 1995 (Notes 2, 3)  
(dollars in thousands)

	<u>Consolidated</u>	<u>Fund</u>	<u>ECC</u>
		(Note 2)	
<b>ASSETS</b>			
Investments at carrying value (cost \$102,873) (Notes 5 and 12)	\$102,189	\$ 94,515	\$ 7,674
Loans, net of loan loss reserve of \$766 (Note 8)	33,113	—	33,113
Investment in Polish Private Equity Funds I and II, net (Note 6)	16,371	16,371	—
Investment in Enterprise Credit Corporation	—	40,000	—
Investment in Fundusz Mikro (Note 9)	1,000	1,000	—
	<u>152,673</u>	<u>151,886</u>	<u>40,787</u>
Cash and cash equivalents (Note 10)	10,551	5,884	4,667
Accrued interest receivable	1,007	645	362
Fixed assets, net (Note 11)	751	—	751
Prepaid expenses and other assets	159	134	25
Investment in Enterprise Investors, L.P. (Note 6)	<u>451</u>	<u>451</u>	<u>—</u>
Total assets	<u>\$165,592</u>	<u>\$159,000</u>	<u>\$ 46,592</u>
<b>LIABILITIES AND FUND BALANCE</b>			
Accounts payable and accrued expenses	\$664	\$203	\$461
Fund balance	<u>164,928</u>	<u>158,797</u>	<u>46,131</u>
Total liabilities and fund balance	<u>\$165,592</u>	<u>\$159,000</u>	<u>\$ 46,592</u>

See accompanying notes.

## CONSOLIDATED STATEMENT OF INVESTMENT OPERATIONS

For the Year Ended September 30, 1995 (Notes 2, 3)  
(dollars in thousands)

	<u>Consolidated</u>	<u>Fund</u> (Note 2)	<u>ECC</u>
<b>INCOME</b>			
Interest and dividends on investments and loans	\$ 4,557	\$ 1,837	\$ 3,303
Interest on cash and cash equivalents	476	137	339
Total income	<u>5,033</u>	<u>1,974</u>	<u>3,642</u>
Provision for loan losses	(66)	—	(66)
Interest expense	—	—	(583)
Income after provision	<u>4,967</u>	<u>1,974</u>	<u>2,993</u>
<b>EXPENSES</b>			
Management expenses – Fund (Note 6)	1,995	1,995	—
Professional services	207	207	—
Other operating expenses (Note 3)	146	146	—
Total Fund operating expenses	<u>2,348</u>	<u>2,348</u>	<u>—</u>
Management expenses – ECC (Note 7)	1,495	—	1,495
Operating costs 10/1/94 – 3/31/95 – ECC (Note 7):			
Employee compensation and benefits	621	—	621
Professional services	165	—	165
Other operating expenses (Note 3)	660	—	660
Total ECC operating expenses	<u>2,941</u>	<u>—</u>	<u>2,941</u>
Total consolidated expenses	<u>5,289</u>	<u>2,348</u>	<u>2,941</u>
Excess (deficit) of operating income over expenses	<u>(322)</u>	<u>(374)</u>	<u>52</u>
<b>NET REALIZED AND UNREALIZED GAINS AND LOSSES</b>			
Unrealized gains on investments recognized	8,001	1,266	6,735
Unrealized losses on investments recognized	(1,946)	(1,946)	—
Realized gains on investments	757	757	—
Equity in net loss of affiliates (Note 6)	(332)	(332)	—
Net realized and unrealized gain (loss)	<u>6,480</u>	<u>(255)</u>	<u>6,735</u>
Net increase (decrease) in fund balance resulting from investment operations	<u>\$ 6,158</u>	<u>\$ (629)</u>	<u>\$ 6,787</u>

See accompanying notes.

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended September 30, 1995 (Notes 2, 3)  
(dollars in thousands)

	<u>Consolidated</u>	<u>Fund</u> (Note 2)	<u>ECC</u>
U.S. Government grants utilized for investment and loan purposes:			
Grants from Agency for International Development (Note 4)	\$ 26,908	\$ 26,908	—
Polish-American Enterprise Fund grants to ECC	—	—	\$ 12,000
Technical assistance grants and expenditures:			
Investment and program support	(1,215)	(1,215)	—
Fundusz Mikro	(1,450)	(1,450)	—
Net increase (decrease) in fund balance resulting from investment operations	<u>6,158</u>	<u>(629)</u>	<u>6,787</u>
Net change in fund balance	30,401	23,614	18,787
Fund balance, beginning of year	<u>134,527</u>	<u>135,183</u>	<u>27,344</u>
Fund balance, end of year	<u><u>\$164,928</u></u>	<u><u>\$158,797</u></u>	<u><u>\$ 46,131</u></u>

See accompanying notes.

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the Year Ended September 30, 1995 (Notes 2, 3)  
(dollars in thousands)

	<u>Consolidated</u>	<u>Fund</u> (Note 2)	<u>ECC</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net increase (decrease) in fund balance resulting from investment operations	\$ 6,158	\$ (629)	\$ 6,787
Adjustments to reconcile net change in fund balance to net cash provided by operating activities:			
Non-cash items included in net increase (decrease) in fund balance resulting from investment operations:			
Provision for loan losses	66	—	66
Depreciation and amortization	171	—	171
Unrealized gains on investments recognized	(8,001)	(1,266)	(6,735)
Unrealized losses on investments recognized	1,946	1,946	—
Equity in net loss of affiliates	332	332	—
Other	140	—	140
Cash received from:			
U.S. Government grants	26,908	26,908	—
Polish-American Enterprise Fund grants	—	—	9,000
Investment principal repayments	1,557	2,496	—
Loan repayments	20,878	—	20,878
Cash expenditures for:			
Investments	(9,746)	(9,746)	(939)
Loans	(26,067)	—	(26,067)
Investment in Polish Private Equity Funds I & II	(4,988)	(4,988)	—
Investment in ECC	—	(9,000)	—
Investment in Fundusz Mikro	(1,000)	(1,000)	—
Technical assistance grants and expenditures	(2,665)	(2,665)	—
Changes in operating assets and liabilities:			
(Increase) decrease in accrued interest receivable	796	950	(154)
Decrease in prepaid expenses & other assets	363	312	51
Increase (decrease) in accounts payable & accrued expenses	12	(3)	15
Net cash provided by operating activities	<u>6,860</u>	<u>3,647</u>	<u>3,213</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchases of fixed assets	(290)	—	(290)
Net increase in cash and cash equivalents	6,570	3,647	2,923
Cash and cash equivalents, beginning of year	3,981	2,237	1,744
Cash and cash equivalents, end of year	<u>\$10,551</u>	<u>\$ 5,884</u>	<u>\$ 4,667</u>

See accompanying notes.

### **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 presents a more meaningful analysis of the Fund's financial position and results of operations. The consolidated financial statements include eliminations not reflected in the supplemental financial statements.

### **3. Summary of Significant Accounting Policies**

#### **Investment Valuation**

The Fund's investments, as set forth in the accompanying consolidated schedule of investments, are not readily marketable and are 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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

### 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, 1995 were denominated in U.S. dollars.

### 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. Included in ECC other operating expenses from 10/1/94-3/31/95 is occupancy and telecommunications of \$290,000 and depreciation and amortization of \$171,000.

### 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, 1995, the combined total

paid to all Polish directors was \$23,000.

### 4. U.S. Government Grants

The U.S. 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.

In fiscal 1995, the AID Grant was increased from \$250 million to \$254.5 million. The increase of \$4.5 million is required to be used for two purposes, \$2 million for operating costs and technical assistance of Fundusz Mikro and \$2.5 million for technical assistance to support investments and potential investments of a private equity fund that will invest in companies in Poland's Mass Privatization Program ("Privatization support"). Subject to the availability of U.S. Government funding to AID, AID has authorized additional grant funding to the Fund of \$9.5 million, \$2 million for Fundusz Mikro and \$7.5 million for Privatization support.

The U.S. Government has provided the Fund with \$7.7 million that is required to be used to promote the development of the Polish private agricultural sector.

At September 30, 1995, the status of U.S. Government grants was as follows (in millions):

Total U.S. Government grants	\$ 262.2
Less amounts received	<u>(186.2)</u>
Balance available under letter of credit from AID	76.0
Less commitments to -	
- PPEF I and II	(30.0)
- Approved investments and technical assistance	(32.2)
- Amount held in reserve	<u>(6.0)</u>
Balance available	<u>\$ 7.8</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Fund accounts for its grant activities in accordance with generally accepted accounting principles for not-for-profit organizations, which require that grant funds received be recognized in the consolidated statement of activities when utilized for program purposes. In practice, when the Fund makes disbursements for investments, loans, operating expenditures, technical assistance and purchases of fixed assets, grant funds are considered utilized for program purposes. In the accompanying consolidated statement of activities, AID grants totaling \$26.9 million are treated in this manner, and are reported as U.S. Government grants utilized for investment and loan purposes.

### 5. Investments

#### Investment Valuation

In the accompanying consolidated balance sheet, investments are carried at cost adjusted by valuation changes made in accordance with the Fund's investment valuation policy. Changes in net unrealized loss on investments for the year ended September 30, 1995 are as follows (in thousands):

	Unrealized gains	Unrealized losses	Net
Balance, beginning of year	-	\$ (6,739)	\$ (6,739)
Unrealized gains and losses recognized	\$ 8,001	(1,946)	6,055
Balance, end of year	<u>\$ 8,001</u>	<u>\$ (8,685)</u>	<u>\$ (684)</u>

#### 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 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. Investment in Affiliates

#### Polish Private Equity Funds I and II

Polish Private Equity Funds I and II ("PPEF 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 small and medium-sized 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. On this basis, interests in joint investments approved prior to February 1, 1995 were allocated 31% to the Fund and 69% to PPEF I and II and interests in joint investments approved February 1, 1995 and later were allocated 20% to the Fund and 80% to PPEF I and II. From inception through September 30, 1995, the Fund and PPEF I and II have jointly invested \$76 million in Polish enterprises. Of this amount, the Fund has invested \$23 million and PPEF I and II has invested \$53 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 1995, the credit to the Fund thus derived totaled \$5,000.

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 Fund's operating results rather than when realized. In the accompanying consolidated statement of investment operations, these amounts totaled a net loss of \$332,000 which is reported as Equity in net loss of affiliates. This amount consisted of net income from Enterprise Investors, L.P. of \$231,000 and net loss from PPEF I and II of \$563,000.

#### **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.

Effective April 1, 1995, ECC entered into an agreement with First Polish-American Bank (the "Bank"), an investment of the Fund and ECC, whereby the Bank provides ECC with all credit services in connection with its loan portfolio in exchange for a fee (the "Credit Services Agreement"). As part of the Credit Services Agreement, the Bank has agreed to provide \$12 million for small loans to be made as part of the ECC small loan program. ECC and the Bank are each responsible for loan losses on their respective

loan portfolios.

Effective April 1, 1995 all the employees of ECC became employees of the Bank, and the direct costs of managing the ECC small loan program were assumed by the Bank. In the accompanying consolidated statement of investment operations, the costs incurred directly by ECC prior to the inception of the Credit Services Agreement are separately reported under the heading operating costs 10/1/94-3/31/95 -ECC. The cost of the Bank's services provided in accordance with the Credit Services Agreement was \$1,495,000 for the period from April 1 to September 30, 1995.

#### **Loan Commitments**

In the normal course of business, ECC makes commitments to extend credit that are not presented in the accompanying consolidated financial statements. At September 30, 1995, such commitments aggregated \$4.2 million, which will expire by March 31, 1996.

#### **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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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 ECC loan loss reserve for the year ended September 30, 1995 were as follows:

Balance, beginning of year	\$582,000
Provision charged to operations	66,000
Loans charged off	(114,000)
Recoveries	<u>232,000</u>
Balance, end of year	<u>\$766,000</u>

### **9. Investment in Fundusz Mikro**

Fundusz Mikro makes micro loans to small businesses and entrepreneurs in Poland that do not have access to traditional bank financing. USAID has increased the AID Grant by \$2 million to be used for technical assistance and operating expenditures of Fundusz Mikro. For the year ended September 30, 1995, the Fund received \$1.45 million of Fundusz Mikro technical assistance from AID, which has been included as U.S. Government grants utilized for investment and loan purposes in the accompanying consolidated statement of activities.

### **10. Cash and Cash Equivalents**

At September 30, 1995, the Fund's cash and cash equivalents are deposited primarily in three financial institutions. Approximately \$4.2 million of Fund cash is deposited in one United States financial institution (principally money market funds) and approximately \$6.2 million is deposited in Polish commercial banks (demand deposits), of which \$1.5 million of Fund cash and \$3.7 million of ECC cash is deposited at First Polish-American Bank, a Fund and ECC investment.

### **11. Fixed Assets**

At September 30, 1995, ECC's fixed assets consisted of computer equipment (cost \$818,000), furniture (cost \$183,000), automobiles (cost

\$263,000) and leasehold improvements (cost \$19,000) which had a net book value of \$751,000, after considering accumulated depreciation of \$532,000.

### **12. Commitments**

At September 30, 1995, the Fund had uncalled commitments to invest \$30 million in Polish Private Equity Funds I and II. Subsequent to September 30, 1995, \$10 million of this amount was invested in PPEF 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, 1995 the Board had approved investments totaling \$28 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.

### **13. Tax Status**

The Fund and its domestic subsidiaries are exempt from U.S. 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 U.S. state and local income taxes.

## REPORT OF INDEPENDENT ACCOUNTANTS

---

### Board of Directors

### Polish-American Enterprise Fund

We have audited the accompanying consolidated balance sheet of the Polish-American Enterprise Fund (the "Fund"), a Delaware not-for-profit corporation, including the consolidated schedule of investments, as of September 30, 1995, 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 and Government Auditing Standards, issued by the Comptroller General of the United States. 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, 1995, 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 \$102,189,000 (62% of fund balance) and investment in Polish Private Equity Funds I and II with a carrying value of \$16,371,000 (10% 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 17-20 presented along with the consolidated balance sheet and consolidated statements of investment operations, activities and cash flows 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  
December 22, 1995

## BOARD OF DIRECTORS

---

### **Chairman**

#### **John P. Birkelund**

Chairman  
Dillon, Read & Co. Inc.

#### **Zbigniew Brzeziński**

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

#### **Jerzy Dietl**

Professor of Marketing  
University of Łódź

#### **Robert G. Faris**

President and Chief Executive Officer  
Polish-American Enterprise Fund

#### **Paweł Jagiełło**

President  
Pro-Invest International, Ltd.

#### **Lane Kirkland**

Former President  
AFL-CIO

#### **Ryszard Masłowski**

Assistant Professor  
Cracow University of Technology

#### **Stephen Robert**

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

#### **John F. Smith, Jr.**

Chairman, Chief Executive Officer and President  
General Motors Corporation

#### **Donald V. Versen, Sr.**

President  
Columbia National Bank of Chicago

## OFFICERS

---

**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

**Dariusz Prończuk**

Vice President

**Michał 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. (48-22) 625-1921, 625-2017  
Fax (48-22) 625-7933