

**Annual Report 1999**



**Our culture, mission and philosophy develop over time. Tradition, experience and people – all of that contributes to the creation of the lasting values that characterize us, distinguish us from others and make us successful.**

**Contents**

02	Chairman's Statement
05	PPF Group Profile
12	Senior Management
16	Management Report
20	The Companies of PPF Group



→ 10:25 Group Management Coordination Meeting

- **Credibility** → **Business Ethics** →
- **Professional Management** →
- **Flexibility** → **People in a Team** →
- **Growth** → **A Bright Future** →

#### Financial Section

- 41 PPF a.s.
- 55 PPF investiční společnost a.s.
- 65 PPF Český uzavřený podílový fond
- 77 PPF Moravskoslezský uzavřený podílový fond
- 89 PPF Otevřený podílový fond smíšený

## Chairman's Statement

Dear friends,

Like in years past, PPF Group retained its position as one of the largest financial groups in the Czech Republic in 1999. To a large extent, it was helped by successes in areas of its businesses such as fund management and asset management for institutional investors. Through its positive performance, the Group created the right conditions for launching a number of new activities which aim to improve the quality of existing services and offer clients a wider range of financial products.

On the one hand, the focus and overall strategy of PPF Group's new activities last year reflected to a considerable extent the potential of the Czech economy. On the other hand, they reflected the progressive development of advanced economies such as those of the USA and the countries of the European Union. 1999 was characterized by a number of economic difficulties. In addition to flat GDP growth, higher unemployment, and problems in industry, however, our economy also saw some positive changes. Inflation fell almost to 2.5%, investment incentives were offered, the Securities Commission began the process of relicensing all entities that participate in the domestic capital markets and tightened up their regulation, the Union of Investment Companies of the Czech Republic expanded the scope of the disclosure requirements binding upon its members, the bank privatization process got off the ground and progress was made in harmonizing Czech legislation with EU law. As a result of these factors, the Czech capital markets became more transparent and their reputation improved, foreign investors came back, bringing with them capital from advanced countries, the Czech banking sector stabilized, the wider public's trust in the funds industry was renewed and, last but not least, market players began paying closer attention to retail clients and private individuals. These and other facts had a positive effect on the Czech equity market, which gained nearly 24% during last year.

PPF Group strategy in 1999 was aimed at cutting back strategic investments in the industrial sector and focusing more on progressive sectors that are seeing dynamic growth. These sectors include financial services, telecommunications and information technologies. PPF Group prepared several projects, mostly in financial services, which should have a positive effect on the retail portion of our business in the future.

The performance of the individual PPF Group companies demonstrates that the chosen strategy was the right one. The closed-end mutual funds managed by PPF investiční společnost a.s. were among the best performing and most successful in the Czech Republic last year with an overall return of 26%. This was the result of the funds' new investment policy, which focuses on investing in securities issued by companies and institutions in advanced world economies, as well as money market instruments and other debt instruments. Through a well thought-out plan of diversifying fund assets at both the domestic and international levels, the fund manager stabilized the funds' portfolios, thereby sharply limiting potential negative impacts.



Petr Kellner, Chairman of the Board

The goal of these steps is to increase liquidity and prepare the funds for a safe open-ending, with emphasis placed primarily on maximum protection of small investors. The chosen investment policy should be reflected in growing fund assets and bring unitholders solid returns.

The long-term successes of the PPF Group companies and the high quality and ever-expanding scope of financial services they offer are the best way to win the improved trust and confidence of our business partners and build long-term, mutually beneficial relationships. The Group's growing credibility can be seen in increased investor interest in the services offered and in the sustained growth of assets under management. PPF Group is expanding its range of services by adding further investment tools and products that give investors access to advanced foreign markets. Investments in high-quality foreign securities and portfolio diversification at the international level afford clients opportunities for better returns on their investments. PPF Group sees the ability to react quickly and flexibly to changes in external conditions as the foundation of its future success. This ability is reflected in the Group's organization chart, which has been based on a holding structure for the second year now. The Group's holding structure has a number of positive effects in the areas of management, activity coordination and taking advantage of synergic effects, leading to better cost allocation. The structure allows individual Group companies to dedicate more of their resources to their areas of specialization, making further improvements of existing services, and launching new business activities.

The performance results achieved in 1999 and prior years motivate us to work intensively on self-improvement, building the quality and depth of our product range and providing services at a high professional level.

Customer needs and customer satisfaction are the two key considerations of PPG Group when it makes decisions that influence a company's further development, strategy and prosperity. In the future, PPF Group intends to operate in the financial services sector and develop business activities primarily in the retail sector in the Czech Republic and other Central European countries as well.

We are aware that our past achievements are not the work of our employees alone, but are also, without question, the result of the support and trust placed in us by our unitholders, shareholders, and business partners. We are confident that they will continue to hold us in their favor. We will do everything we can to prove that they have chosen a solid, professional and creditworthy partner.



**Petr Kellner**, *Chairman of the Board*

**> PPF a.s.**

Date of inception:	18 November 1996
Address:	Na Pankráci 121, 140 21 Prague 4, Czech Republic
Registered capital:	CZK 420,000,000
Auditor for 1999:	KPMG Česká republika Audit, spol. s r.o.
Board of Directors:	Petr Kellner – Chairman Milan Maděryč Ladislav Bartoníček, MBA Štěpán Popovič (since 20 July 1999)
Supervisory Board:	František Tlustoš – Chairman Martin Dindoš Lenka Šafránková
Company management:	Ladislav Chvátal – Chief Executive Aleš Minx – Director of Finance and Company Proxy Václav Šrajer, MBA - Director of Research Ivan Lackovič – Director of Marketing and Communication Vladimír Čech – Director of Information Systems Jitka Tejnorová – Director of Personnel Martin Dindoš – Financial Projects Management

➤ **PPF investiční společnost a.s.**

Date of inception:	2 September 1991
Address:	Na Pankráci 121, 140 21 Prague 4, Czech Republic
Registered capital:	CZK 20,000,000
Assets under management at 31 December 1999:	CZK 2.2 billion (includes assets in mutual funds)
Auditor for 1999:	KPMG Česká republika Audit, spol. s r.o.
Custodian bank for 1999:	Československá obchodní banka, a.s.
Memberships:	Union of Investment Companies of the Czech Republic American Chamber of Commerce in the Czech Republic
Relicensing:	26 April 1999
Board of Directors:	Libor Motejlek – Chairman (until 25 January 2000) Jan Valdinger, LLB Daniel Kukačka
Supervisory Board:	Radek Krůžela – Chairman Alena Bernreiterová, Petr Vidner (since 20 March 2000)
Company management:	Jan Valdinger, LLB – Chief Executive

➤ **PPF Český uzavřený podílový fond**

Date of inception:	4 September 1993 (fund was established during voucher privatization)
Number of unit certificates outstanding:	817,355
Nominal value of unit certificate:	CZK 1,000
Type and form of unit certificate:	dematerialised, bearer shares
Market value of assets at 31 December 1999:	CZK 1,264,696,000
Market value of assets per unit certificate:	CZK 1,547
Unit certificate listings:	PSE third tier, RM-System
Auditor for 1999:	KPMG Česká republika Audit, spol. s r.o.
Custodian bank:	Československá obchodní banka, a.s.





→ 11:03 Ladislav Chvátal



## **A Bright Future**

We've been a player in the Czech capital markets since their inception. The experience we have gained during that time helps us to stay competitive. The results of our work to date are the building blocks of our future growth.

➤ **PPF Moravskoslezský uzavřený podílový fond**

Date of inception:	4 September 1993 (fund was established during voucher privatization)
Number of unit certificates outstanding:	379,856
Nominal value of unit certificate:	CZK 1,000
Type and form of unit certificate:	dematerialised, bearer shares
Market value of assets at 31 December 1999:	CZK 592,327,000
Market value of assets per unit certificate:	CZK 1,559
Unit certificate listings:	PSE third tier, RM-System
Auditor for 1999:	KPMG Česká republika Audit, spol. s r.o.
Custodian bank:	Československá obchodní banka, a.s.

➤ **PPF Smíšený otevřený podílový fond**

Date of inception:	11 November 1998
Nominal value of unit certificate:	CZK 1,000
Type and form of unit certificate:	dematerialised, bearer shares
Market value of assets at 31 December 1999:	CZK 301,162,000
Market value of assets per unit:	CZK 1,004
Unit certificate listing:	RM-System
Annual fund management fee:	1.75% of the average annual value of fund assets
Unit sale fee:	1% of the value of unit certificates sold
Unit redemption fee:	0%
Minimum investment:	CZK 10 million
Auditor for 1999:	KPMG Česká republika Audit, spol. s r.o.
Custodian bank:	Československá obchodní banka, a.s.



→ 11:54 Marcel Dostal, Jan Blaško



## **Growth**

The only constant in our development is change.

➤ **PPF Capital Management a.s.**

Date of inception: 3 August 1995  
Address: Na Pankráci 121, 140 21 Prague 4, Czech Republic  
Registered capital: CZK 178,300,000  
Auditor for 1999: KPMG Česká republika Audit, spol. s r.o.  
Board of Directors: Ladislav Chvátal – Chairman  
Petr Kellner  
Milan Maděryč  
Supervisory Board: František Tlustoš – Chairman  
Václav Šrajcr, MBA  
Václav Kratochvíl  
Company management: Zbyněk Štěřba – Chief Executive (since 1 January 2000)

➤ **PPF burzovní společnost a.s.**

Date of inception: 23 December 1993  
Address: Na Pankráci 121, 140 21 Prague 4, Czech Republic  
Registered capital: CZK 55,000,000  
Activity permit: License issued by Czech Ministry of Finance  
Relicensed: 23 June 1999  
Access to Securities Center  
and markets: Member, Prague Stock Exchange  
Special customer, RM-System (on-line)  
Computerized trading at Securities Center  
Auditor for 1999: KPMG Česká republika Audit, spol. s r.o.  
Board of Directors: Jan Blaško, MBA – Chairman  
Bohuslav Samec  
Marcel Dostal  
Supervisory Board: Vladimír Čech – Chairman  
Vladimír Dvořák  
Martin Pavlík (since 1 July 1999)  
Company management: Jan Blaško, MBA – Chief Executive

➤ **PPF majetková a.s.**

Date of inception: 8 June 1995  
Address: Na Klikovce 7, 140 00 Prague 4, Czech Republic  
Registered capital: CZK 1,270,000  
Auditor for 1999: KPMG Česká republika Audit, spol. s r.o.  
Board of Directors: Petr Javůrek – Chairman  
Petr Kellner  
Aleš Minx  
Supervisory Board: Milan Maděryč – Chairman  
František Tlustoš  
Martin Wurst  
Company management: Petr Javůrek – Chief Executive

➤ **PPF CONSULTING a.s.** (formerly PPF Securities a.s.)

Date of inception: 18 November 1996  
Address: Na Pankráci 121, 140 21 Prague 4, Czech Republic  
Registered capital: CZK 1,000,000  
Auditor for 1999: KPMG Česká republika Audit, spol. s r.o.  
Board of Directors: Petr Kellner – Chairman  
Václav Kratochvíl  
Vladimír Burda (since 18 February 1999)  
Supervisory Board: Aleš Minx – Chairman  
František Tlustoš  
Lenka Šafránková (since 18 February 1999)  
Company management: Vladimír Burda – Chief Executive (since 1 May 1999)

*Note:*

PPF Group also includes:

PPF investiční holding a.s. – for more information see its annual report, published separately,  
PPF Servis a.s. (date of inception 14 January 1997).

### ⇒ PPF a.s.

#### **Petr Kellner** – Chairman of the Board

Born in 1964; graduated from the Prague University of Economics in industrial economics in 1986. A founder of the PPF Group, he became Chairman of the Board and CEO of PPF investiční společnost a.s. in 1991. Following a restructuring of the Group in January, 1998, Petr Kellner heads up the PPF Group as Chairman of the Board.

#### **Milan Maděryč** – Member of the Board

Born in 1955; attended the Industrial Secondary School and did postgraduate work at the Technical University of Brno. Starting in 1978 he was employed in the technical and investment development department of ZPS, a.s. Zlín; later became head of the company's trading division. Currently Milan Maděryč is a Member of the Board of Česká pojišťovna, a.s.

#### **Ladislav Bartoniček, MBA** – Member of the Board

Born in 1964; a graduate of the Czech Technical University Faculty of Electrical Engineering. He joined PPF investiční společnost a.s. in 1991 as its Executive Director. He was awarded an MBA from The Rochester Institute of Technology, New York, in 1993. Since 1996 he has been Chief Executive Officer and Vice Chairman of the Board of Česká pojišťovna a.s.

#### **Štěpán Popovič** – Member of the Board

Born in 1945, Popovič is a graduate of the Prague University of Economics and the Engineering and Textiles University of Liberec. He began his career as a technologist at Sklo Union. In 1978-1990 he served as director of several industrial enterprises. Since 1991 he has been Chairman of the Board and Chief Executive Officer of Glaverbel Czech, a.s. (formerly GLAVUNION, a.s.).

#### **Ladislav Chvátal** – Chief Executive

Born in 1963; a graduate of the Prague University of Economics. After university Chvátal served as board member and personnel and administration director at AVIA Praha Letňany. He was named director of PPF Capital Management a.s. in 1995. In December 1999 he was named Chief Executive of PPF a.s.

#### **Aleš Minx** – Director of Finance

Born in 1964; a manufacturing economics graduate from the Prague University of Economics. In 1987 – 1992 he was employed at PAL a.s. as head of the finance department. Aleš Minx joined PPF in 1992.

**Václav Šrajec, MBA** – Director of Research

Born in 1947; graduated from Czech Technical University in Prague, Faculty of Nuclear and Physical Engineering, and completed two postgraduate courses. 1972 – 1992 employed in mechanical engineering research and development positions. 1992 – 1993 studied at the U.S. Business School and was awarded an MBA by the Rochester Institute of Technology. Šrajec has been with PPF since 1993.

**Ivan Lackovič** – Director of Marketing and Communication

Born in 1971; an economics and management graduate of the Prague Institute of Chemical Technology. During postgraduate studies, Lackovič did internships abroad in marketing, PR and logistics. He began his career as PR manager at Investiční kapitálová společnost Komerční banky, a.s. and became Director of Komerční banka's Communications Department in 1998. Lackovič joined PPF in 1999.

**Vladimír Čech** – Director of Information Systems

Born in 1966; a graduate of the Czech Technical University in Technical Cybernetics. After completing studies, he worked for TOS Hostivař and later for PCS Praha as head programmer of the economic software group. Čech joined PPF in 1995.

**Jitka Tejnorová** – Director of Personnel

Born in 1971; a secondary school graduate in economics. Tejnorová has worked in human resources since 1994, first at R. J. Reynolds Tobacco in the human resources department and later as a consultant with Accord Group. Tejnorová joined PPF in 1999.

**Martin Dindoš** – Financial Projects Management

Born in 1973, Dindoš is a graduate of the Prague School of Economics Faculty of International Relations, where he specialized in international trade and banking. In 1993 – 1995 he worked as account manager. Later, in 1995 – 1997 he served as finance director of the advertising agency BBK/Time s.r.o. He has been with PPF since 1997.

⇒ **PPF investiční společnost a.s.**

**Jan Valdinger, LLB** – Chief Executive

Born in 1945; a qualified lawyer starting his career with a leading City of London firm of Solicitors. He brings 18 years of investment banking experience to PPF, including five years with Morgan Grenfell in London and twelve years with Standard Chartered Group where, amongst other things, he headed their investment banking operations in India and later in the Far East, based in Hong Kong. Valdinger joined PPF in January 1996.

⇒ **PPF Capital Management a.s.**

**Zbyněk Štěrba** – Chief Executive

Born in 1966; a graduate of the Prague School of Economics in foreign trade. In 1988, Štěrba joined the Intersigma Foreign Trade Organization, where he went on to work in various capacities, from economics specialist to Chief Executive Officer and Chairman of the Board. He joined PPF Capital Management a.s. in January 1997 as a corporate revitalization and restructuring consultant and was named Company Director on 1 January 2000.

⇒ **PPF burzovní společnost a.s.**

**Jan Blaško, MBA** – Chief Executive

Born in 1964; an electrical engineering graduate of the Czech Technical University in Prague. 1991 – 1992 employed at ČKD Elektrotechnika as a testing technician. He obtained his broker's license in 1992 and in 1992 – 1994 he worked at Investiční a Poštovní banka as head of the securities department. In 1994 he became director of the brokerage company Stratego Invest. Blaško was named director of PPF burzovní společnost a.s. in 1996. In November of last year he was awarded an MBA by GSB University of Chicago.

⇒ **PPF majetková a.s.**

**Petr Javůrek** – Chief Executive

Born in 1963; graduate of the Czech Technical University Faculty of Construction. After graduation, Javůrek was employed in various professional and management positions. He was named director of Novota expert institute in 1993. Currently he is a member of Expert Committee of the Institute of Appraisal of the Prague University of Economics. Javůrek became director of PPF majetková a.s. in 1996.

⇒ **PPF CONSULTING a.s.**

**Vladimír Burda** – Chief Executive

Born in 1952, Burda graduated from the Charles University Faculty of Mathematics and Physics and passed the board examinations in 1982. He was a lecturer at Charles University until 1995. In 1994 he worked as a consultant to the YSE investment fund. After obtaining a broker's license, he joined PPF burzovní společnost a.s. as a dealer, later becoming Head Broker. Following a sabbatical devoted to language studies, Burda joined PPF CONSULTING a.s. as project manager, and was named Director in May 2000.





→ 13:12 Jaromír Prokš

” **Professional Management**

We always act professionally.

Only then can we demand professionalism and quality from others.

The successes and accomplishments achieved in the various components of its business made PPF Group a leading financial group and one of the most important institutions in the Czech Republic in 1999. Underpinning the Group's position and contributing to its growing strength in the domestic financial markets were its positive results in the mutual funds area and in managing its clients' assets. They were results achieved on the strengths of a prudent investment policy and a change in the focus of certain areas of the Group's business. The focus on investment in high-quality foreign securities and diversifying client portfolios, particularly at the international level, helped the PPF funds record some of the best performance figures in the Czech Republic. PPF Group asset management clients saw their capital grow at an above-market rate in 1999. The strong performance of PPF Group in the past year is given primarily by the careful implementation of its new strategy based on reducing strategic investments in industrial sectors and focusing more on progressive sectors such as finance, telecommunications and other fast-growing segments. In the financial services area, PPF Group launched several new activities that should have a positive future impact on business, especially in the retail sector. The new activities involve new investment instruments that will improve on and extend PPF Group's current range of financial services. The goal of the activities is to ensure the best possible return on the assets and investments of clients, shareholders and unitholders in PPF funds. The holding structure of the PPF Group has proven itself to be an effective management tool and was a major factor in the PPF Group's successes last year. Greater leeway for the various Group companies to focus on their areas of specialization and central coordination of all Group operations brought better cost effectiveness and allowed for optimum cost management.

## ⇒ Funds Management

PPF investiční společnost a.s., the management company for both of PPF Group's closed-end mutual funds, applied a new investment policy in managing the funds' assets this year. The new policy focuses on investing in top-performing foreign securities and on increasing holdings of money market instruments and other debt instruments. International diversification of the fund portfolios and a prudent investing policy enabled the funds to grow unitholder assets by 26.3% last year, making them two of the best performing and most successful funds in the Czech Republic. Through a process of diversification, the management company stabilized the funds' portfolios, thereby sharply reducing potential negative impacts.

The goal of this strategy is to create sufficient liquidity to prepare the funds for safe open-ending. A precondition to open-ending the funds is ensuring maximum protection of small unitholders and the most effective possible return on their investments while minimizing overall risk.

In September of last year, sales commenced of unit certificates in the latest offering of PPF investiční společnost a.s., a new open-end mixed fund called PPF Smíšený otevřený podílový fond. The new fund is designed primarily for institutional investors and its Statutes allow it to invest up to 100% of its assets in foreign securities.



→ 14:38 Information Center

In the first half of 1999, PPF investiční společnost a.s. successfully underwent the relicensing process (required for all participants in the Czech capital markets) and the Securities Commission confirmed the validity of its license.



## **Credibility**

We are an open and transparent financial group. We provide complete, regular information on our activities, performance and goals. We are aware that being a credible company is a fundamental condition of success, especially in the finance sector.

## ⇒ **Management of Strategic Investments**

In managing strategic investments, the PPF Group always acts in a financial investor role, aiming to achieve the best possible return on its investment. The member of the PPF Group in charge of managing strategic investments is PPF Capital Management a.s. In addition to administering and managing the Group's existing strategic portfolio, the company focused on seeking new, high-quality investment opportunities. The goal of active strategic investment management is to increase companies' intrinsic value. Last year this strategy led to the successful sale of certain strategic companies, especially in the consumer goods and food processing industries. New activities focused on investing in dynamic, progressive sectors require high-quality forms of project financing. In order to finance a retail client project, PPF Capital Management a.s. floated an issue of six-year bonds in 1999. Bonds worth a total of CZK 2 billion were subscribed in the issue. This form of raising funds is standard in advanced countries and should bring further development and growth to the activities of PPF Group.

## ⇒ **Asset Management**

In 1999 PPF burzovní společnost a.s., PPF Group's asset management arm, achieved above-average returns ranging from 16% to 28% on managing clients' investments. The company continued to diversify client portfolios both locally and, more importantly, at the international level. Most activities focused on asset management and consulting for institutional investors, and securities trading accounted for a smaller portion of the company's business than before. This change in the company's strategy brought positive results. The company's stable performance in asset management is attracting more and more institutional investors to entrust their investments to PPF burzovní společnost a.s., and the company is building long-term personal relationships with its clients.

The chosen strategy led not only to high portfolio performance, but also to an increased volume of assets under management. Having increased each year since 1996, assets under management reached nearly CZK 10 billion at year-end 1999. The company saw its earnings before tax grow by 139% in 1999.

## ⇒ **Real Property Management and Development**

PPF Group's range of financial services also covers the real estate market. Through PPF majetková a.s., clients are given access to products related to the management and development of real property.

The company's activities in 1999 focused primarily on improving the portfolio of managed properties, identifying projects with high potential returns on investment, and managing and executing individual projects.

Since the number-one priority is service quality, the company's specialists completed work on implementing the specialized software platform, DataMan, in 1999. The commissioning of this software-based organization system allowed clients to take advantage of comprehensive real property services and effectively diversify their properties both locally and internationally. The reports and other outputs produced by the system are designed to actively support and improve decision-making processes in the development and management of real property funds.

### ⇒ **Strategic Consulting**

PPF CONSULTING a.s. (formerly PPF Securities a.s.) focuses on consulting on topics relating to the management of specific strategic equity interests in client portfolios and the effective exercise of shareholder rights. The company's work consists of providing specific recommendations on how to further diversify portfolio equity interests in companies. The proposed solutions are aimed at improving the liquidity of clients' portfolios and obtaining the best possible return over the given investment term.

In 1999 the company achieved positive results by successfully disposing, on clients' behalf, of several equity holdings in companies at prices above those prevailing on public markets. This had a positive effect on client portfolios by increasing liquidity.

1999 was a successful year for PPF Group. It generated one of the best returns for its shareholders and unitholders, thereby maintaining the potential of their investments. In its mutual funds the Group is steadily increasing portfolio liquidity, which should ensure maximum protection of small unitholders when the funds are open-ended, with the goal of maximizing value for all unitholders. Institutional investors were given an excellent medium term investment opportunity in the form of a new open-end mutual fund. The Group's outstanding results in the asset management area boosted assets under management as new clients came into the fold. The gains in client portfolios were attributable particularly to the focus on securities traded in advanced global and European markets and portfolio diversification at a global level.

The year's accomplishments are a strong motivation for PPF Group and its employees to systematically increase their own professional level and the quality and scope of the service range. The deciding factors in PPF Group's further development will be client needs, client trust, and client satisfaction. The activities of the Group's individual companies will continue to expand, especially in progressive sectors – finance, telecommunications and other fast-growing areas. In the future, PPF Group plans to operate in the financial services sector and develop primarily retail activities in both the Czech Republic and other countries of Central Europe.

## ➤ PPF a.s.

With registered capital of CZK 420 million, PPF a.s. is the holding company for the entire PPF financial group. 1999 was the second year that the holding-based organization structure contributed to the greater effectiveness of all Group members, to optimizing financial flows, reducing and effectively allocating overall expenses associated with the various businesses. The holding structure allows for a better system of management, greater flexibility to react quickly to changes in the external environment, more perfect integration and coordination of all activities and businesses of individual Group member companies in the areas of finance, research, marketing and human resources, as well as in the communication and IT areas. The provision of services and professional advice by PPF a.s. in the above mentioned areas allowed individual Group members to dedicate more of their efforts to effectively managing their own specialized businesses and launching new activities to improve and expand the range of financial services and products offered.

### **People First**

In 1999, PPF Group's key strategy in human resources was to use all personnel management tools to build a unified corporate identity that will allow the Group to effectively utilize human potential and ensure employees remain motivated and loyal. The Group associates human resources development very closely with its business goals, because this is the only way it can effectively react to constantly changing market conditions. PPF Group, as a project-oriented company, is building flexible project teams consisting of top professionals, to continually increase the professionalism and efficiency of its various projects.

The building of project teams is preceded not only by recruiting of qualified employees, but also by planning of employee personal development, motivation systems, and continual improvement of communications within the Group.

In its long-term visions, PPF Group has set forth the goal of creating and continually supporting a unified corporate identity, building a high-quality work environment, and increasing the efficiency of the entire company by improving management skills.

### **High-Quality Research Base**

PPF's research unit creates documents that serve as a basis for investment decisions affecting the entire Group. Individual investment projects are always evaluated comprehensively, in the context of overall macroeconomic developments. Efforts are directed at ensuring the business plan is of high quality, and attention is given to the plan's long-term prospects in the framework of economic trends.

This aspect is especially important in the present period of dynamic growth in new technologies. Until



→ 15:21 Ladislav Bartoniček

recently, financial statements were the basic materials used by the Group's analysts and financial ratios were their tool. Today, however, this is no longer enough. Emphasis is shifting to monitoring global trends and attention is turning to the technical aspects of analyzed projects.

In this respect, analysts in the Czech Republic have had a certain limited advantage over their colleagues on the other side of the Atlantic. Until recently, it was enough to monitor trends and rely on the fact that the latest technological innovations would make it to Central Europe in a few years. Today, however, development is so fast-paced that a much more flexible approach is needed. That means that the "new economy" – an economy based mainly on information and intangibles – is no longer just an idea. It is a reality, especially in sectors such as telecommunications, information technologies, the Internet and biotechnology.



## **Flexibility**

**We don't try to get around problems, we solve them. We seek out new, non-traditional yet effective procedures and apply them in practice.**

When one looks at the structure of portfolios managed by PPF Group it is evident that the "new economy" segment has contributed significantly to the Group's positive returns in 1999, especially in the case of our mutual funds. Until now, most portfolio investments have been in North American and Western European equities, but the prospects of the Czech Republic and other markets in Eastern Europe are in no way underestimated. The effort to diversify portfolios at the international level demands greater knowledge of the markets in question. Therefore, the research unit focused primarily on analyzing selected advanced world economies, their capital markets and the securities traded in them, and possible opportunities for investment. The models created to assess the various foreign corporations are the main source of information concerning their probable future earnings performance, possible further growth, and business plans. The goal of the research unit is to build on its performance to date and further perfect the methods its uses, expand its horizons and make active use of the new possibilities afforded by the ongoing "information revolution".

### **Financial Flows Optimizing**

The goal of the financial department is to provide comprehensive financial services to companies in the Group, maximize all possible cost savings and use synergies to improve the efficiency of financial management. Its other functions include liquidity management, cash flow planning, budgeting and reporting, evaluating preliminary financial performance figures of Group members and, last but not least, consulting on accounting matters. This last item includes all bookkeeping and tax accounting functions, verification of records and preparation of all necessary tax documentation. Employees of the financial department liaise with government authorities and audit firms, take care of settling payments and debt collection, and advise members of the PPF Group on the financial and tax aspects of projects in the preparatory phases.

### **High-Quality Technical Support**

New projects and their implementation, coordination and mutual synergies put new demands on high-quality IT facilities and technical support. This is provided by the information technologies department. During the last year, the department had two primary tasks. The first was to ensure that all systems made a successful Y2K transition and the second was to make technical improvements to the Group's internal and external communications systems without compromising security. Both tasks were successfully completed. Y2K compliance of all systems was determined by communicating with hardware and software suppliers and subsequently tested. The date rollover took place without any complications and all systems remained in full operation.





→ 14:52 PPF burzovní společnost a.s. Dealing

In 2000, the Internet and a Group-wide Intranet have become the primary means of communication. To make this possible, more bandwidth was added to the Group's Internet connections and a "Management Information System" project was designed to allow for more effective information management and processing. The roll-out of the Intranet opened another channel of effective communications within the PPF Group.

### **Openness and Transparency**

Transparency and open communication of the plans of PPF Group and its member companies to the professional and lay public are crucial to ensuring that the Group and its members are perceived as creditworthy business partners. It is here, in the formulation and implementation of a unified, comprehensive and integrated PPF Group marketing and communication strategy that the marketing and communication department's indispensable role lies.

Adherence to the principles of transparent disclosure is the foundation of everyday communications with unitholders, shareholders, investors and the domestic and foreign professional public. What is more, PPF Group

provides even more information on the state of assets in the funds it manages than its disclosure obligations require. It publishes an assets development summary for each of its funds every month in nationwide daily newspapers. Up-to-date information is available on the company's website, giving unitholders and shareholders a convenient, quick way to obtain the most recent information on fund performance and find out more about the activities of the various Group member companies. However, the Information Center, which answers a number of client questions every day, bears most of the burden of providing timely and comprehensive information.

In addition to its role in public disclosure, the information system also plays a major part in intra-Group communications. The fact that each individual employee is familiar with the vision, plans and strategy of PPF Group sets the stage for their fulfillment. The Intranet, through which employees are kept informed of what is going on throughout the entire Group, has become an important tool for effective internal communications.

### **Corporate Citizenship**

PPF Group expresses its relationship to society by supporting a wide variety of educational, humanitarian, and charity events and causes. For example, it supports the Bilingual Nursery School for hearing impaired children, it has a long-term relationship with the National Gallery in Prague, and it provides financial support to the Jára Cimrman Theatre in Žižkov. In co-sponsors several projects aimed at helping save cultural heritage sites. Major projects include the restoration of the studio of one of the greatest Czech photographers, Josef Sudek, which the Group initiated and is currently realizing in central Prague. PPF Group will continue to concentrate its sponsorship activities on long-term support for projects that build lasting values and benefit society as a whole.

### **Leveraging Synergies**

The active support of and services provided by the various PPF Group companies in the above mentioned areas make it possible to effectively manage the company, coordinate its various activities and take advantage of synergies arising within the Group. From a long-term perspective, these synergies generate competitive advantages and enable us to always be a step ahead of the rest of the field. The Group's creation of lasting values and sustained performance growth set the stage for building its future success, boosting its competitiveness, and ensuring its future prosperity.

### ▶ PPF investiční společnost a.s.

Founded in 1991, today PPF investiční společnost a.s. is one of the most important investment companies in the Czech Republic. This is confirmed by the fact that, as management company of the PPF funds, the company achieved a 26.3% return on unitholder assets in the closed-end mutual funds in 1999. This performance ranks the PPF funds among the best performing and most successful funds in the Czech Republic. As of 31 December 1999, PPF investiční společnost a.s. managed a total of CZK 2.2 billion in assets in two closed-end (CZK 1.9 billion) and one open-end mutual fund (CZK 0.3 billion). During the past two years, the management company has been adapting the investment policy it uses with the two closed-end funds to a legislative amendment that requires them to be converted into open-end funds by the end of 2002. At first, the funds focused primarily on strategic investments. The new investment policy based on the amendment calls for the sale of strategic investments to boost the proportion of fund assets allocated to portfolio investments. These include mainly money market instruments, debt instruments, and high-quality foreign securities from high-growth sectors of advanced markets. The goal is to generate sufficient liquidity in the funds' portfolios to allow them to be safely converted to the open-end format. As a precondition to opening the funds, the management company is still stressing maximum protection of small unitholders and the most effective possible return on their investments while minimizing overall risk.

The fact that the PPF funds had some of the highest returns in the industry in 1999 can be attributed to the prudent investment policy implemented by the management company, focusing on investments in top-performing foreign securities traded in advanced markets – primarily the USA and the countries of the European Union.

PPF investiční společnost a.s. is a member of the Union of Investment Companies of the Czech Republic (UNIS ČR) and company representatives actively participate in the drafting of the rules and regulations through which UNIS ČR works to foster the development of the Czech Republic funds industry, especially by advocating wider disclosure standards. The PPF Group welcomes and fully supports this effort, because it sees it as an effective way to achieve openness and transparency towards the entire investing public.

In September 1999 the company began selling units in a new open-end fund, PPF Smíšený otevřený podílový fond, which is designed primarily for institutional investors. The new fund offers investors an effective way to see their assets appreciate thanks to an internationally diversified portfolio.

The goal of the management company's long-term investment policy is to effectively diversify the fund portfolio, primarily at the international level. The plan is to continue increasing the proportion of assets invested in high-quality foreign securities and thereby ensure strong growth in unitholder capital while minimizing overall risk. In the first half of 1999, PPF investiční společnost a.s. successfully underwent the relicensing process (required for all participants in the Czech capital markets) and the Securities Commission confirmed the validity of its license.

## ✦ PPF Český uzavřený podílový fond

Throughout last year, the fund's asset value copied the movement of the PX 50 index. For unitholders, the two most important fund performance indicators are the Net Asset Value (NAV) and the unit price. The fund's NAV grew by 26.3% in 1999, beating the PX 50 index by 3%. Overall assets were CZK 1.27 billion, or CZK 1,547 per unit certificate with nominal value CZK 1,000. During 1999 the price of the fund's units climbed 56.5% to end the year at CZK 1,260.

Last year the management company continued to actively diversify the fund's portfolio both locally and internationally. In view of the investment policy's focus on advanced foreign economies such as the USA and EU countries, there was a major increase in the proportion of foreign securities. The number of foreign securities tripled over 1998. In terms of assets, foreign investments rose from 5% of fund assets at the beginning of last year to 27% at year-end. The sectors most represented in the funds holdings of foreign securities are information technologies (40%), telecommunications (33%), and chemicals (13%).

The growth of foreign securities was accompanied by a reduction in Czech equities, especially those classified as "strategic", from 26% of assets to less than 17%. The following equity holdings were reduced or sold off: Bohemia Sekt a.s., Transporta a.s. and Dům módy.

As of year-end 1999, 56% of the fund's portfolio was in safe debt and money market instruments, mainly deposits, treasury bills and high-quality bonds. The remaining 44% of assets were invested in equities, 27% foreign and 17% Czech.

By carrying out the diversification as outlined above, the management company substantially stabilized the fund's portfolio and thereby restricted potential negative impacts on the fund's assets. The change in investment policy brought the fund's unitholders one of the best returns recorded by all closed-end funds in the Czech Republic in 1999. In terms of sector distribution, the largest segment of the portfolio (nearly half: 47%) is invested in banking and finance. During the year, investments in the engineering sector were aggressively cut in favor of investments in foreign securities.

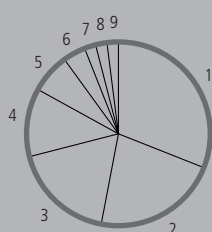
The fund recorded a profit of CZK 31.4 million for 1999 (under International Accounting Standards). The result was attributable mainly to a restructuring of the portfolio as part of the process leading up to open-ending. The management company's main priority is not to maximize accounting gains. Rather, it aims to grow unitholder assets and increase their liquidity. The goal of diversification is to prepare the funds for safe conversion to the open-end fund format with maximum value for all unitholders and while maintaining the potential of their investments.

**PPF Český uzavřený  
podílový fond**

**Portfolio Structure  
by Sector of Issuer**

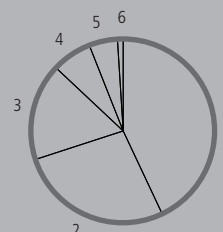
**PPF Český uzavřený  
podílový fond**

**Asset Structure**



at 31 December 1999

- 1 Foreign equities 31%
- 2 Treasury bills 22%
- 3 Banking and finance 18%
- 4 Government bonds 12%
- 5 Mortgage bonds 7%
- 6 Transportation and communication 4%
- 7 Electrical engineering 2%
- 8 Energy 2%
- 9 Other securities 2%

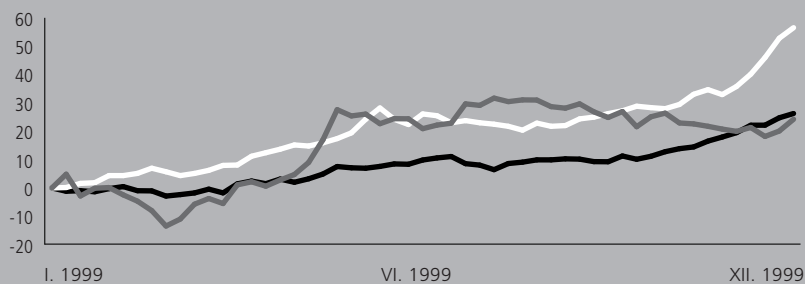


at 31 December 1999

- 1 Bonds 43%
- 2 Foreign equities 27%
- 3 Czech equities 17%
- 4 Balances in CZK 7%
- 5 Balances in foreign currency 5%
- 6 Other assets 1%

**PPF Český uzavřený  
podílový fond**

**NAV, Fund Unit Price,  
and PX 50 Index During 1999 (%)**



- 1 PX 50 Index
- 2 NAV
- 3 Fund Unit Price

### ✦ PPF Moravskoslezský uzavřený podílový fond

The second fund managed by PPF investiční společnost a.s. is PPF Moravskoslezský uzavřený podílový fond. The investment strategy implemented for this fund is identical to that applied to PPF Český uzavřený podílový fond. Since their investment strategies are the same, the structure of their assets is also almost identical, and therefore most performance indicators show a high degree of correlation amongst the two funds.

Assets per unit certificate grew 26.3% in 1999 to a year-end value of CZK 1,559. This growth in the fund's assets exceeded that of the PX 50 index by 3% and represented a total volume of CZK 0.59 billion. During 1999, the price of the fund's units grew 53.7% to end the year at CZK 1,244, making the fund one of the best performing funds in the Czech Republic last year.

During the year strategic equity interests, mostly in Czech companies, were aggressively sold off, lowering their portfolio weighting from 26% at the beginning of 1999 to 17% at 31 December 1999. In addition to strategic stakes, certain other, smaller stakes were sold as well. The overall share of foreign securities in the portfolio rose from 5% at the beginning 1999 to 27% at year-end. This allowed the fund to achieve above-average returns without risk.

As of 31 December 1999 investments in equities accounted for 44% of the fund's assets and 56% of assets were in money market and other debt instruments, stabilizing the fund portfolio. In terms of sector distribution, a large portion of the portfolio (46%) is invested in banking and finance, while foreign equities make up 31%. As in the case of Český uzavřený podílový fond, the management company – PPF investiční společnost a.s. – aims to prepare the fund for a safe open-ending. The investment policy, focusing on continually increasing portfolio liquidity, is designed with this in mind.

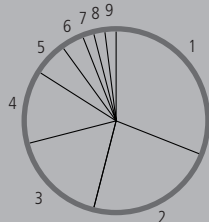
The fund recorded a profit of CZK 15.6 million for 1999 (per IAS) as a result of active restructuring of the fund's portfolio by its management company to prepare the fund for a safe open-ending. For the management company, the most important goal is to ensure commensurate portfolio liquidity to maximize the investments of all unitholders and protect small investors in particular when the fund is open-ended.

**PPF Moravskoslezský uzavřený podílový fond** ↑

**Portfolio Structure by Sector of Issuer**

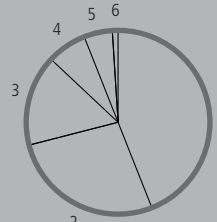
**PPF Moravskoslezský uzavřený podílový fond** ↑

**Asset Structure**



at 31 December 1999

- 1 Foreign equities 31%
- 2 Treasury bills 23%
- 3 Banking and finance 17%
- 4 Government bonds 13%
- 5 Mortgage bonds 6%
- 6 Transportation and communication 4%
- 7 Electrical engineering 2%
- 8 Energy 2%
- 9 Other securities 2%

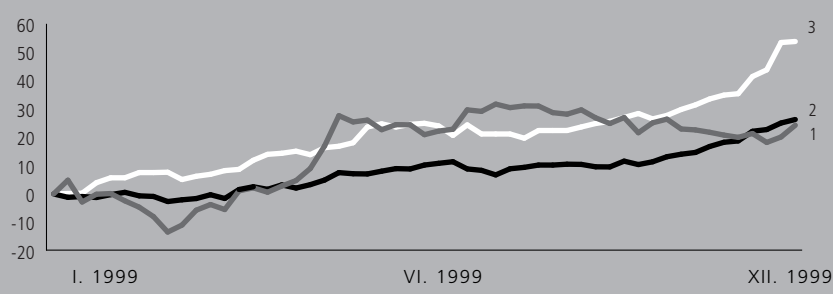


at 31 December 1999

- 1 Bonds 44%
- 2 Foreign equities 27%
- 3 Czech Equities 16%
- 4 Balances in CZK 7%
- 5 Balances in foreign currency 5%
- 6 Other assets 1%

**PPF Moravskoslezský uzavřený podílový fond** ↑

**NAV, Fund Unit Price, and PX 50 Index During 1999 (%)**



- 1 PX 50 Index
- 2 NAV
- 3 Fund Unit Price

### ✦ PPF Smíšený otevřený podílový fond

The fund is classified as a mixed fund, focusing primarily on investments in equities, fund shares, and index-tracking instruments in the USA and the countries of the European Union. The fund received a permit to issue unit certificates from the Securities Commission on 23 June 1999 and commenced operation on 9 September 1999 by issuing CZK 50 million in unit certificates. As of 31 December 1999 CZK 300 million worth of unit certificates were outstanding and the fund's asset value had reached CZK 301.2 million, or CZK 1,004 net asset value per unit. Despite the fund's relatively short period of existence, it is already one of the top ten

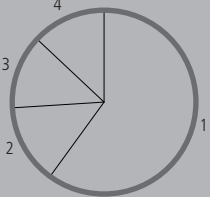
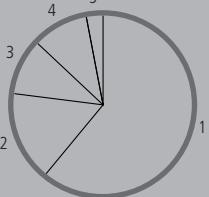
in terms of assets under management out of over thirty mixed funds operating in the Czech Republic.

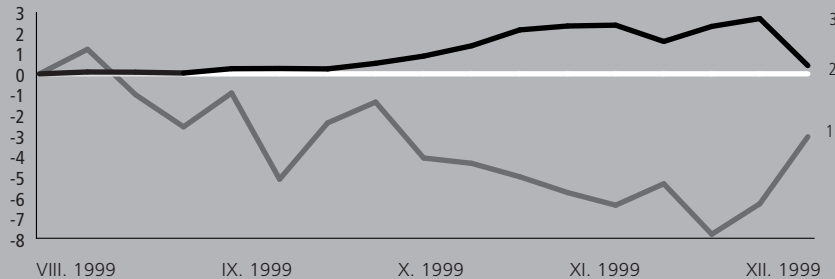
The fund's performance resembles that of a money market fund, since only 16% of the fund's assets were in equities at 31 December 1999 (mainly U.S. telecommunications companies at that time). The remaining funds were temporarily parked in fixed-income instruments such as term deposits (74%) and bonds of first-class Czech issuers (10%).

The primary goal for 2000 is to create and maintain a widely diversified portfolio consisting of liquid, high-quality securities traded on advanced world markets (mainly the USA and Europe), with the aim of growing assets while keeping overall risk low. The fund's investment strategy will be based on selecting asset groups with good growth prospects (dynamic industrial sectors, regions), that will be represented in the fund's portfolio through equities, indexes and funds. The goal is to substantially increase exposure to high-growth foreign securities in which, according to the fund Statute, the fund may invest up to 100% of assets. In view of its minimum investment of CZK 10 million and relatively low fees (1% of amount invested on the front end and 0% on redemption), the fund is designed primarily for institutional investors with a medium term horizon.

The fund recorded a profit of CZK 1.2 million (per IAS) during its short period of activity in 1999.



PPF Smíšený otevřený podílový fond	Portfolio Structure by Sector of Issuer	PPF Smíšený otevřený podílový fond	Asset Structure
	<p>at 31 December 1999</p> <ol style="list-style-type: none"> <li>1 Foreign equities 60%</li> <li>2 Mortgage bonds 14%</li> <li>3 Government bonds 13%</li> <li>4 Banking and finance 13%</li> </ol>		<p>at 31 December 1999</p> <ol style="list-style-type: none"> <li>1 Balances in CZK 61%</li> <li>2 Foreign equities 16%</li> <li>3 Bonds 10%</li> <li>4 Balances in foreign currency 10%</li> <li>5 Other assets 3%</li> </ol>

PPF Smíšený otevřený podílový fond	NAV, Fund Unit Price, and PX 50 Index Until 31 December 1999 (%)	
		<ol style="list-style-type: none"> <li>1 PX 50 Index</li> <li>2 Fund Unit Price</li> <li>3 NAV</li> </ol>

## → PPF Capital Management a.s.

In 1999 PPF Capital Management a.s. carried on its business in two areas: in administering and managing the strategic portfolio of PPF Group and in identifying high-quality investment opportunities. In both strategies, PPF Group acts as a financial investor and the goal is to achieve the best possible return on the amount invested.

Active management of strategic investments by PPF Capital Management a.s. is based on the thorough application of project management principles with the aim of increasing the intrinsic value of companies in the portfolio. Last year this strategy led to the successful sale of certain strategic companies, in the consumer goods and food processing industries in particular, to strong foreign investors.

In late 1999 the identification of investment opportunities for PPF Group became the company's main strategy area. It is the intention of the Board of Directors and company management for PPF Capital Management in the years to come to seek out high-quality projects with good medium-term prospects for investment returns and to manage their implementation.

In both areas of its business, the company thoroughly applies project management principles under which each company or future investment opportunity is treated as a separate, individual project run by a team of people in key positions both at board and executive levels. To fill these positions, the company recruits experienced managers and outstanding specialists to strengthen the competitiveness, development, prosperity and return on each and every financial investment.

Building on the overall strategy of PPF Group of focusing on progressive sectors such as retail financial services (mainly the sale of household consumer goods on credit), telecommunications and other fast-growing sectors, and the related demands for new project financing, PPF Capital Management a.s. seeks alternative funding possibilities. In 1999, one of these was a bond issue by the company. The bonds were issued to finance the purchase of receivables under finance leases and consumer loans entered into in the Czech Republic by various leasing companies focused on retail consumers, or securities backed by these receivables. This business area is showing itself to be very dynamic, and forecasts predict that it will see fast-paced growth in future years.



→ 15:26 Management Meeting PPF a.s.



## **People in a Team**

Through teamwork and project management, we enable each individual to create new value and thereby effectively participate in sustaining the growth of the whole Group.

### → PPF burzovní společnost a.s.

1999 was a very important year for the company in terms of its future direction and focus. Last year, PPF burzovní společnost a.s. focused primarily on asset management for institutional investors, consulting and, to a lesser extent, securities trading.

As the company turned away from traditional dealing (securities trading) operations, resulting in declining trading volumes, it put all its efforts into managing assets on behalf of its clients in a very precisely defined market segment. PPF burzovní společnost a.s. fully concentrated on asset management for institutional clients with regard to regulatory, tax and client-specific risks. Given its strongly risk-adverse clientele, the company achieved above-average returns on its investments while complying with all the above restrictions. This achievement was made possible by the professional qualities of its employees, access to a wide variety of information sources and a top-quality technical base, and a precisely defined, in-depth investment strategy. The annual rate of return achieved on portfolios managed ranged from 16% to 28%.

The company actively trades on the U.S. equity market. The company realized CZK 2.2 billion in trades on advanced foreign markets, mainly in the USA – NASDAQ and NYSE, to which the company has on-line access – as well as OECD member countries.

1999 was a decisive year for many companies that provide capital markets services. Given declining interest in the domestic equity market and cost savings measures made necessary by poor financial performance of many companies in the domestic economy, the target group of potential customers is contracting and competition is intensifying. By changing its strategy, PPF burzovní společnost was able to defend its position as a leader in the Czech market.

Looking back at the past year, especially at the financial performance and rate of return achieved on assets under management, it is evident that PPF burzovní společnost managed to overcome this breaking point by a wide margin. Our performance is pleasing not only to the company itself, but also to its clients, with whom the company is building long-term close-working relationships. The company is continually expanding its service base and recording stable asset management performance results, which attracts new major clients and an undiminished flow of new capital.

In addition to high portfolio performance, the chosen strategy also led to an increase in overall assets under management. This indicator has risen every year since 1996, and reached nearly CZK 10 billion at year-end 1999. Last year, PPF burzovní společnost a.s. realized a total trading volume of CZK 23.2 billion. Over 80% of trading was in shares and unit certificates.

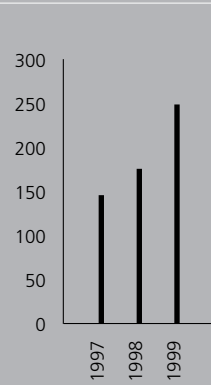
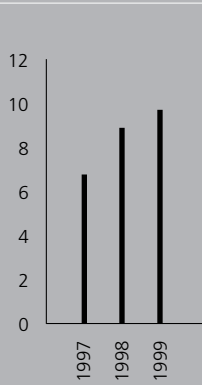
According to its audited results, PPF burzovní společnost a.s. saw its earnings before tax grow by 139% in 1999 to CZK 137.4 million from 1998 gross earnings of CZK 58 million per Czech Accounting Standards. This brought the company's shareholders' equity to CZK 247.5 million (1998: CZK 177 million) with registered share capital of CZK 55 million.

**PPF burzovní společnost a.s.**

**Assets Under Management, 1997 – 1999**

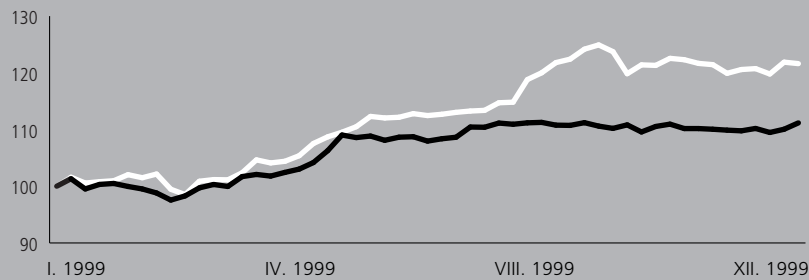
**PPF burzovní společnost a.s.**

**Shareholders' Equity, 1997 – 1999**



**PPF burzovní společnost a.s.**

**Portfolio Rate of Return vs. Return Benchmark in 1999 (%)**



- 1 Return Benchmark  
(0,75\*6M Pribid + 0,25\*PX 50)
- 2 Clients

## → PPF majetková a.s.

PPF majetková is the company responsible for all PPF Group real estate projects. It administers and manages real property assets, identifies for its clients projects with a good potential to generate desired returns and then directs the realization of these projects. The portfolio of real property asset under management is valued at several billions of korunas and in 1999 for the first time included properties both in the Czech Republic and Slovakia.

Like last year, in 1999 work continued on improving the overall quality of the property management portfolio by selling off certain properties in locations where there are no long-term lease prospects or where the expected cost of construction work to improve the properties' technical condition would threaten the long-term return on the projects. Several hundreds of millions of korunas were raised by these sales. Late in the year the company identified projects that have the potential to generate the desired returns, and commenced negotiations concerning the possible purchase of the properties in question.

The new-build project of a commercial complex in Prague's Holešovice district, including offices, commercial space and a parking garage, entered the final phases of project preparation and building permit proceedings late in 1999. During the year the old buildings on the site were demolished, so the site is now ready for groundbreaking pending the completion of tenders for construction contractors.

PPF majetková a.s. is also participating in the execution of another large project – a renovation of the historic Head Office of Česká pojišťovna in Prague. Another construction project for the same client – the renovation of a building in Brno – is nearing completion and will be ready for use in the second half of 2000. A number of other renovations and remodelings were commenced in 1999 with completion scheduled for 2000. One unique project completed in 1999 was the preparation of a design manual for unifying Česká pojišťovna's work spaces. The first interiors according to the new manual will be installed in 2000 and presented to the public in the second half of this year.

Rent proceeds were stable and on budget this year. The trend toward diversifying lease risks was supported by selecting appropriate, sound clients and agreeing to rent payments in several currencies. One exception is rent income on residential space, which is subject to government regulation. While there was an increase in this category of rent revenue last year, the rate of growth slowed from the previous period.

In order to support and develop real property administration functions and procedures, the company implemented the software and organization system DataMan in 1999. This system will allow the company to measure and evaluate the financial performance of individual properties as well as quantify and assess the future benefits associated with holding a given real estate portfolio. This will allow our clients to work with the company's highly qualified staff to find the right way to restructure their portfolios. Last year we continued in our program of employee training; that, combined with several new specialists who joined the company last year has reinforced our highly professional team. Thanks to the experience, qualifications and



→ 17:16 Milan Maděryč, Petr Javůrek

capabilities of its people, PPF majetková will be able to boost returns on the properties it manages in the years to come as well.

Last year, PPF majetková executed a number of development projects throughout the Czech Republic, most of them for its largest client – Česká pojišťovna a.s. Growth in value and appreciation of properties under management were stable in 1999 and the portfolio generated the expected rate of return.

### → PPF CONSULTING a.s.

PPF CONSULTING a.s., formerly PPF Securities a.s., is the PPF Group's arm for providing a range of consulting services related to selected portfolio equity interests as well as providing advice on how to exercise shareholder rights most effectively. The company's primary goal is to provide legal protection to shareholders, to defend their interests and, as effectively as possible, to generate returns on their investments over the appropriate time frame.

Based on detailed case analyses, taking into account the relevant external and internal conditions and capabilities of a given company, PPF CONSULTING a.s. makes proposals for resolving issues concerning selected holdings in client portfolios. The proposals contain specific recommendations for further action, including a recommended series of steps. Once all facts have been taken into account, the result can be, for example, a joint sale with other owners, merger or alliance with a strategic partner, or other methods of disposal. Selling the holding is always seen as just one of several alternative solutions. Indeed, if quantitative forecasts of a company's future development support it, a shareholder's position in a given company can even be increased with the aim of effectively exercising shareholder rights to achieve a return on the investment.

A large number of criteria are considered before any decision is taken. The greatest emphasis is placed on achieving the best possible return on the investment. The goal of carrying out the recommendations and specific decisions is to increase portfolio liquidity by selling off low-liquidity stocks or by boosting the value of existing stakes by enlarging them.

In 1999 PPF CONSULTING a.s. helped clients resolve several large equity holdings, with positive results – several stakes were sold, generating tens of millions of korunas in liquid funds. The company's shareholders thereby obtained greater value than they would have had they sold at prevailing market prices.





→ 17:22 Václav Šraj



## **Business Ethics**

We honor the rules of business ethics. We act fairly toward the competition.  
By so doing, we win the trust and respect of others.

**Financial Section**

99

Annual Report

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## Auditors' Report

### Auditors' report to the Shareholders of PPF a.s.

We have reviewed the information included in the 1999 annual report of PPF a.s. The scope of our review was limited to confirmation as to whether the information included in the annual report was consistent with the consolidated financial statements.

On 27 April 2000, we issued the following auditors' report on the Company's consolidated financial statements:

"We have audited the accompanying consolidated financial statements of PPF a.s. for the year ended 31 December 1999. These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial statements present fairly, in all material respects, the financial position of PPF a.s. and its subsidiaries, as at 31 December 1999, and the results of their operations, cash flows and changes in equity for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 2000



KPMG Česká republika Audit, spol. s r.o

**Consolidated Balance Sheet** as at 31 December 1999, with comparative figures for 1998 and 1997  
(expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Assets</b>				
Current assets				
Cash		153,809	400,999	643,827
Trading securities		48,532	136,290	24,594
Receivables	4	297,940	490,220	205,845
Income tax receivable		642	–	–
Short-term loans	11	941,217	–	–
Prepaid expenses and other assets		34,689	35,648	23,154
		<b>1,476,829</b>	<b>1,063,157</b>	<b>897,420</b>
Non current assets				
Long-term receivables	11	66,750	22,757	8,606
Goodwill	5	320,119	427,419	535,406
Investments		7,082	25,437	47,242
Property and equipment	6	83,743	68,126	46,155
Deferred tax assets		–	569	–
		<b>1,954,523</b>	<b>1,607,465</b>	<b>1,534,829</b>
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities				
Income tax liabilities		37,434	18,575	–
Accounts payable and accrued liabilities	4	241,180	847,808	952,955
		<b>278,614</b>	<b>866,383</b>	<b>952,955</b>
Non current liabilities				
Long-term payables	11	977,900	70,900	–
Negative goodwill	7	61,696	87,112	112,608
Deferred tax liability	9	9,684	13,356	1,817
		<b>1,049,280</b>	<b>171,368</b>	<b>114,425</b>
Shareholders' equity				
Share capital	8	420,000	420,000	400,000
Share premium		70,000	70,000	–
Revaluation reserve		(758)	(1,880)	(20,247)
Legal reserve fund		6,691	520	–
Translation reserve		264	(309)	–
Retained earnings/(accumulated deficit)		40,485	(4,776)	13,953
		<b>536,682</b>	<b>483,555</b>	<b>393,706</b>
Minority interest		89,947	86,159	73,743
		<b>1,954,523</b>	<b>1,607,465</b>	<b>1,534,829</b>

See accompanying notes to financial statements.

## Consolidated Statement of Operations and Retained Earnings

for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Operating revenues</b>				
Fees and commissions		368,288	224,026	135,652
Net gains/(losses) on trading securities		20,710	11,141	(315)
Other operating revenue		40,038	50,218	7,564
		<b>429,036</b>	<b>285,385</b>	<b>142,901</b>
<b>Operating expenses</b>				
Wages and salaries		89,407	68,892	18,641
Interest expense		30,892	21,246	4,805
Depreciation	6	13,881	13,226	2,816
Legal and professional fees		63,898	74,376	11,275
Rentals		28,539	11,742	–
Other expenses		37,698	45,198	40,181
		<b>264,315</b>	<b>234,680</b>	<b>77,718</b>
Operating profit		164,721	50,705	65,183
<b>Investing activities</b>				
Interest income		43,598	20,085	10,114
Net realised gains on investments		4,990	26,164	171
Write-down of investment		–	–	(50,000)
Net (amortisation)/accretion of goodwill and negative goodwill	5,7	(82,478)	(82,418)	12,899
Other investing income		2,924	23,797	–
Other investing expense		(9,882)	(5,386)	(2,240)
		<b>(40,848)</b>	<b>(17,758)</b>	<b>(29,056)</b>
Net profit before taxes and minority interest		123,873	32,947	36,127
Taxes on ordinary income	10	69,547	49,542	22,004
		<b>54,326</b>	<b>(16,595)</b>	<b>14,123</b>
Minority interest		(3,060)	(1,614)	(170)
Net profit/(loss) for the year		51,266	(18,209)	13,953
(Accumulated deficit)/retained earnings, beginning of year		(4,776)	13,953	–
Transfer to legal reserve		(6,005)	(520)	–
Retained earnings/(accumulated deficit), end of year		<b>40,485</b>	<b>(4,776)</b>	<b>13,953</b>

See accompanying notes to financial statements.

**Consolidated Statement of Cash Flows** for the year ended 31 December 1999,  
with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
<b>Cash flows from operating activities</b>			
Net profit for the year before tax and minority interests	123,873	32,947	36,127
Adjustments for:			
Depreciation and amortisation	13,881	13,226	2,821
Net accretion of goodwill and negative goodwill	82,478	82,418	(12,899)
Net (profit)/loss on sale of property and equipment	2,013	14,589	839
Write-down of investment	–	–	50,000
Net realised gain on sale of long-term investments	(4,990)	(26,164)	(171)
Movement in unrealised loss on trading securities	892	966	315
Other non cash movements	882	(400)	–
Operating profit before changes in operating assets and liabilities	219,029	117,582	77,032
Increase in receivables	192,280	(298,526)	(74,324)
Increase in trading securities	86,866	(112,662)	(24,909)
Increase in prepaid expenses and other assets	959	(12,494)	(22,217)
(Decrease)/increase in accounts payable and accrued liabilities	(606,628)	(89,369)	694,237
	<b>(326,523)</b>	<b>(513,051)</b>	<b>572,787</b>
Net cash (used by)/provided from operating activities before tax	(107,494)	(395,469)	649,819
Income taxes paid	(54,433)	(35,775)	(9,255)
Net cash (used by)/provided from operating activities	(161,927)	(431,244)	640,564
<b>Cash flows from investing activities</b>			
Additions to property and equipment	(36,004)	(60,274)	(17,295)
Acquisitions of subsidiaries, net of cash acquired	–	–	(447,868)
Cost of investments purchased	(6,966)	(1,330,537)	(745,960)
Proceeds from sale of investments	31,424	1,407,840	757,429
Proceeds from disposal of fixed assets	4,493	10,487	2,464
Short-term loans provided	(941,217)	–	–
Long-term receivables	(43,993)	–	54,493
Net cash provided by/(used in) investing activities	(992,263)	27,516	(396,737)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of share capital	–	90,000	400,000
Proceeds from issue of bonds	907,000	–	–
Long-term payables	–	70,900	–
Net cash provided from financing activities	907,000	160,900	400,000
Net (decrease)/increase in cash	(247,190)	(242,828)	643,827
Cash, beginning of year	400,999	643,827	–
Cash, end of year	153,809	400,999	643,827

See accompanying notes to financial statements.

**Consolidated Statement of Total Recognised Gains and Losses**

for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
Movement in deficit on revaluation of investments	1,122	18,367	(20,247)
Movement in translation reserve	573	(309)	–
Net gains not recognised in the statement of operations	1,695	18,058	(20,247)
Net profit/(loss) for the period	56,266	(18,209)	13,953
Total recognised gains and losses	57,961	(151)	(6,294)

See accompanying notes to financial statements.

## Notes to the Consolidated Financial Statements for the year ended 31 December 1999

### 1. Description and principal activities

#### (a) Establishment and description of the Company

PPF a.s. ("the Company") was established on 18 November 1996 and recorded in the Commercial Register on 13 January 1997. Prior to 1 January 1997 the Company had no assets, liabilities or capital contributions.

The Company was formed mainly as a holding company for the PPF group of companies. The Company provides administrative support for group companies.

#### (b) Ownership structure

The majority of the Company's shares are held by one individual.

#### (c) Registered office

PPF a.s.  
Na Pankráci 121  
Praha 4  
Czech Republic

#### (d) Members of the board of directors and supervisory board at 31 December 1999

<i>Members of the board of directors</i>	<i>Members of the supervisory board</i>
Petr Kellner	Martin Dindoš
Ladislav Bartoníček	František Tlustoš
Milan Maděryč	Lenka Šafránková

### 2. Significant accounting policies

The significant accounting policies adopted in the preparation of the Company's consolidated financial statements are set out below:

#### (a) Basis of preparation

The consolidated financial statements have been prepared in accordance with International Accounting Standards under the historical cost convention and accrual accounting, except for investments and trading securities which are carried at the lower of cost and market value as described below.

#### (b) Basis of consolidation

Assets, liabilities and results of subsidiaries of the Company are included in consolidated financial statements. For any subsidiary acquired during the year, the purchase method of accounting for the business combination has been used and only the portion of results of the subsidiary from the date of purchase are included in the consolidated statement of operations.

**(c) Goodwill and negative goodwill**

The difference between the net asset value and the purchase price of a subsidiary is recorded as goodwill (purchase price in excess of net assets), or negative goodwill (net assets in excess of purchase price), by the Company. Goodwill and negative goodwill are amortised or accreted, as appropriate, to the consolidated statement of operations on a straight line basis over a period of five years from the date of acquisition.

**(d) Investments**

Investments are held for the long-term and are stated at lower of cost and market value on an aggregate portfolio basis determined by individual company. Market values of domestic investments are determined based on prices quoted by the Prague Stock Exchange ("PSE") or RM System. Foreign securities are valued based on prices quoted by recognized markets in the appropriate countries.

Unrealized losses on investments due to temporary declines in market value are recorded through shareholders' equity as "revaluation reserve". Unrealized losses on investments due to permanent diminution in value are taken to the statement of operations. Unrealized gains are not recognized in the financial statements.

The cost of investments sold is determined using the weighted average method. All realised gains and losses on the sale of investments are taken to the statement of operations.

**(e) Trading securities**

Trading securities are valued at the lower of cost or market value on an individual basis. The cost of investments sold is determined using the average cost method. All realised gains and losses are taken to the statement of operations. Unrealised revaluation losses are recorded through the statement of operations.

**(f) Property and equipment**

Property and equipment are stated at acquisition cost less depreciation. Depreciation is calculated using the straight-line method over the following periods:

Asset	Period
Buildings	45 years
Motor vehicles	4 years
Furniture and other equipment	4 – 15 years
Software	4 years

Depreciation of property and equipment commences in the month following acquisition.

**(g) Foreign currency translation***i) Foreign currency transactions*

Transactions in foreign currencies are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognised in the statement of operations.



*ii) Financial statements of foreign operations*

Foreign operations are not considered an integral part of the parent company's operations. Accordingly, their assets and liabilities are translated at the exchange rate at the balance sheet date, items of income and expense are translated using the average exchange rate for the period. Resulting exchange differences are recognised directly in equity, through a 'translation reserve'.

**(h) Taxation**

Tax expense on the profit or loss for the year comprises current tax and the net change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate effective at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted taxes rates are used to determine deferred income tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

**(i) Reclassifications**

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform with 1999 presentation.

**3. Subsidiaries**

The group companies which have been consolidated into the financial statements and the dates of acquisition of each are as follows:

Company	Ownership	Date of acquisition
PPF majetková a.s.	100.0%	March 1997
PPF burzovní společnost a.s.	100.0%	May 1997
PPF Capital Management a.s.	60.0%	May 1997
CM – Credit a.s.	60.0%	May 1997
PPF investiční společnost a.s.	79.75%	76.2% December 1997
		1.11% December 1998
		2.44% March 1999

Each of the companies above is registered in the Czech Republic and the financial statements of each were audited by KPMG Česká republika Audit, spol. s r.o.

The following group companies were purchased by PPF a.s. from PPF investiční společnost a.s. on 26 May 1999, and as such have been included in the consolidated financial statements of PPF a.s. The date of acquisition represents the date originally purchased by PPF investiční společnost a.s. The resulting net gain on this sale of TCZK 3,174 has been reduced by TCZK 2,580 on consolidation to eliminate the group's share of the profit on the sale from one group company to another.

Company	Ownership	Date of acquisition
PPF Financial Services Ltd.	100%	February 1998
PPF Cyprus Ltd.	100%	February 1998

PPF Financial Services Ltd and PPF Cyprus Ltd are registered in Cyprus and the financial statements were audited by KPMG Certified Public Accountants (Cyprus).

Also during the period, PPF investiční společnost increased its share capital by 43 units of CZK 50,000 nominal value. All of these units were subscribed for by PPF a.s. The ownership percentage of PPF a.s. has therefore increased from 77.31% to 79.75%.

#### 4. Related party balances and transactions

##### (a) Receivables

(in thous. CZK)	1999	1998	1997
<i>Short-term</i>			
PPF investiční holding a.s.	–	1,149	5,729
<i>Long-term</i>			
PPF Consulting a.s. (formerly PPF Securities)	14,311	13,099	–

##### (b) Payables

(in thous. CZK)	1999	1998	1997
PPF Consulting a.s.	–	68	–
PPF investiční holding a.s.	2,202	387	–
PPF Český podílový fond	2,103	90	188
PPF Moravskoslezský podílový fond	974	–	9
PPF Otevřený podílový fond smíšený	463	–	–

##### (c) Securities transactions

During the course of the year the Company had the following securities transactions at arms length with related parties:

(in thous. CZK)	Total sales	Total purchases
PPF Český podílový fond	14,325	16,334
PPF Moravskoslezský podílový fond	6,819	8,166
PPF Otevřený podílový fond smíšený	108,330	57,215

##### (d) Management fees

Included in fees and commissions are management fees charged to related funds and companies managed by certain of the Company's subsidiaries. Management fees earned from related funds and companies recorded in the 1999 consolidated statement of operations totalled 35,920 thousand CZK (1998 – 34,778 thousand CZK; 1997 – 20,193 thousand CZK).

## 5. Goodwill

Goodwill recorded on subsidiaries purchased comprised the following:

(in thous. CZK)	PPF Investiční společnost	PPF Capital Management	PPF Majetková	PPF Financial Services	Total
Goodwill	489,849	49,311	340	682	540,182
Accumulated amortisation	(196,022)	(23,833)	(140)	(68)	(220,063)
Net, 31 December 1999	293,827	25,478	200	614	320,119
Net, 31 December 1998	391,864	35,340	215	–	427,419
Net, 31 December 1997	489,921	45,202	283	–	535,406

## 6. Property and equipment

Property and equipment is comprised as follows:

(in thous. CZK)	Land and buildings	Motor vehicles	Furniture and other equipment	Software	Asset under constr'n	Total
<b>Cost</b>						
Balance, 1 January 1999	16,646	18,643	29,111	14,977	6,774	86,151
Additions	95	7,776	4,927	6,542	16,664	36,004
Disposals	(4,749)	(2,118)	(597)	–	(51)	(7,515)
Balance, 31 December 1999	11,992	24,301	33,441	21,519	23,387	114,640
<b>Accumulated depreciation</b>						
Balance, 1 January 1999	627	3,897	12,154	1,347	–	18,025
Depreciation expense	19	5,318	6,126	2,418	–	13,881
Disposals	–	(412)	(597)	–	–	(1,009)
Balance, 31 December 1999	646	8,803	17,683	3,765	–	30,897
Net book value, 31 December 1999	11,346	15,498	15,758	17,754	23,387	83,743
Net book value, 31 December 1998	16,019	14,746	16,957	13,630	6,774	68,126
Net book value, 31 December 1997	16,037	11,088	17,902	1,128	–	46,155

## 7. Negative goodwill

Negative goodwill recorded from the purchase of PPF Burzovní společnost a.s. comprised the following:

(in thous. CZK)	1999	1998	1997
Negative goodwill	127,481	127,481	127,481
Accumulated accretion	(65,865)	(40,369)	(14,873)
<b>Total</b>	<b>61,616</b>	<b>87,112</b>	<b>112,608</b>

Negative goodwill recorded from the purchase of PPF Cyprus Limited comprised the following:

(in thous. CZK)	1999
Negative goodwill	88
Accumulated accretion	(8)
<b>Total</b>	<b>80</b>

## 8. Share capital

(in thous. CZK)	Share capital	Share premium	Legal reserve	Revaluation reserve	Translation reserve	Retained earnings	Total
Balance at 1 January 1998	400,000	–	–	(20,247)	–	13,953	393,706
Increase in capital	20,000	70,000	–	–	–	–	90,000
Currency changes	–	–	–	–	(400)	–	(400)
Change in revaluation of investments	–	–	–	29,482	–	–	29,482
Change in minority interest portion	–	–	–	(11,115)	91	(1,614)	(12,638)
Transfers	–	–	520	–	–	(520)	–
Net loss for year	–	–	–	–	–	(16,595)	(16,595)
Balance at 31 December 1998	420,000	70,000	520	(1,880)	(309)	(4,776)	483,555
Addition/use of reserves	–	–	166	–	309	–	475
Currency changes	–	–	–	–	264	–	264
Change in revaluation of investments	–	–	–	1,627	–	–	1,627
Change in minority interest position	–	–	–	(505)	–	(3,060)	(3,565)
Transfers	–	–	6,005	–	–	(6,005)	–
Net profit for year	–	–	–	–	–	54,326	54,326
<b>Balance at 31 December 1999</b>	<b>420,000</b>	<b>70,000</b>	<b>6,691</b>	<b>(758)</b>	<b>264</b>	<b>40,485</b>	<b>536,682</b>

## 9. Deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the items described in the following table:

(in thous. CZK)	31 December 1999			31 December 1998		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Provisions not deductible for tax purposes	1,957	–	1,957	20,375	–	20,375
Accelerated amortisation for accounting purposes	–	(4,900)	(4,900)	–	(2,631)	(2,631)
Expected tax on dividends to be remitted from subsidiaries	–	(5,000)	(5,000)	–	(11,500)	(11,500)
<b>Net deferred tax assets</b>	<b>1,957</b>	<b>(9,900)</b>	<b>7,943</b>	<b>20,375</b>	<b>(14,131)</b>	<b>6,244</b>

In accordance with the requirements of IAS 12, the deferred tax liabilities have been provided in full. An amount of the deferred tax assets of 216 TCZK (1998 – 1,344 TCZK) has also been recognised as there are sufficient taxable temporary differences relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the deductible temporary difference. The remaining deferred tax assets have not been recognised in these financial statements because of the uncertainty surrounding the recoverability of such assets. In order to recognise deferred tax assets, it must be probable that future taxable profits will be available against which the deferred tax asset can be utilised. To the extent dividends remitted from subsidiaries are expected to result in additional tax liabilities, appropriate amounts have been provided. No deferred tax has been provided for unremitted earnings when such amounts are considered permanently reinvested.

Beginning in 2000 the tax rate applicable has been reduced to 31%. Deferred tax items have been calculated at this revised rate. The reduction in the tax rate has had the effect of reducing potential deferred tax assets from TCZK 2,209 to TCZK 1,957 and reducing recognised deferred tax assets from TCZK 244 to TCZK 216. The new lower rate has also had the effect of reducing recognised deferred tax liabilities relating to accelerated amortisation for accounting purposes, from TCZK 5,532 to TCZK 4,900.

## 10. Taxation

Income tax in the Czech Republic is assessed at the rate of 35% (1998: 35%;1997: 39%) of taxable income.

(in thous. CZK)	1999	1998
Current year tax expense	73,425	35,573
Change in provision for deferred taxation	(3,103)	10,970
Prior year tax expense	(775)	2,999
<b>Tax expense</b>	<b>69,547</b>	<b>49,542</b>

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense for the years ended 31 December 1999 and 1998.

(in thous. CZK)	1999	1998
Profit (loss) before taxation	123,873	32,947
Computed taxation using applicable tax rate	43,356	11,531
Tax exempt income and non-deductible items	(5,781)	(13,324)
Expected tax payable on dividends receivable in 1999	5,000	11,500
Goodwill amortisation not tax deductible	27,695	–
Adjustments to prior year tax charges	(775)	–
Other timing differences for statutory purposes	52	39,835
<b>Tax expense</b>	<b>69,547</b>	<b>49,542</b>

## 11. Financial instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Group. The most significant risk facing the Group is discussed below.

### Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The only interest bearing assets of the Group at 31 December 1999 were cash held in bank accounts and long-term receivables. Cash in bank accounts earned interest at applicable market rates. Interest on long-term receivables is detailed below. The Group had interest bearing liabilities which are detailed below.

(in thous. CZK)	Outstanding value	Interest rate	Maturity
Long-term receivable*	35,125	10%	11/2002
Long-term receivable*	31,625	10%	12/2002
Short-term loans	865,645	10%	Various within 1 year
Short-term receivables**	75,572	12% – 15%	Various within 1 year
Long-term payable	70,900	13.5%	12/2002
Long-term payable – bonds issued	907,000	PRIBOR+2%	9/2005

\* Interest rate reprices annually.

\*\* Includes TCZK 8,598 receivable from a member of the Board of Directors.

## 12. Financial investments

Market values for investments and trading securities as determined in accordance with notes 2(d) and 2(e), respectively, are presented in the schedule of investments included as part of these financial statements.

For long-term receivables and payables with fixed interest and maturity, fair value was estimated by applying risk adjusted discount factors to scheduled cash flows. For long-term receivables and payables which reprice within 12 months, carrying value was deemed to be the fair value.

(in thous. CZK)	Carrying value	Estimated fair value
Long-term receivable	35,125	35,125
Long-term receivable	31,625	31,625
Long-term payable	70,900	83,261
Long-term payable – bonds issued	907,000	907,000

All other financial assets and liabilities are short term in nature or due on demand. The carrying values for these assets and liabilities are deemed to approximate their market values.

## 13. Employees

The average number of employees is as follows:

	1999	1998
PPF a.s.	36	28
Other subsidiaries	102	102
	138	130

## 14. Contingent liabilities

Many parts of Czech commercial, securities and tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

**Trading securities**

Issuer	Number of shares	Purchase price per share (CZK)	Total cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Česká pojišťovna, a.s.	1,900	1,750	3,325	2,105	4,000
PPF investiční holding a.s.	96,119	336	32,295	470	45,176
Applix Inc.	4,000	712	2,847	650	2,599
Central Europea	6,525	424	2,767	252	1,643
Egreetings Network	3,000	429	1,288	364	1,092
Charter Communications	3,000	819	2,456	787	2,361
The Knot Inc.	3,000	400	1,201	303	911
Ticket Com. Inc	4,000	564	2,258	515	2,060
Va Linux Sys.	150	1,065	160	7,434	1,115
Wireless Facs	1,000	1,578	1,578	1,569	1,570
PPF Otevřený podílový fond smíšený	500	1,024	512	1,000	500
Others			17		16
<b>Total trading securities</b>			<b>50,704</b>		<b>63,043</b>

**Investments****Marketable**

Issuer	Number of shares	Purchase price per share (CZK)	Total cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Dům módy a.s.	462	553	255	1,155	534
PPF investiční holding a.s.	4,000	335	1,340	470	1,880
BOPO a.s.	6,869	140	962	6	42
TechnoMax	8,003	39	312	–	–
Others			84		32
<b>Total tradable</b>			<b>2,953</b>		<b>2,488</b>

**Non-marketable**

Issuer	Total cost (TCZK)	Total carrying value (TCZK)
Zábavní a výstavní park a.s.	500	500
Lajdáček s.r.o.	100	100
DR. AG. spol. s r.o.	200	200
PRIONORD a.s.	10	10
PPF Servis a.s.	1,382	1,382
Home Net a.s.	1,000	1,000
ELINE a.s.	1,000	1,000
HOME CREDIT a.s.	1,200	1,200
<b>Total non-tradable</b>	<b>5,392</b>	<b>5,392</b>
<b>Total investment portfolio</b>	<b>8,345</b>	<b>7,880</b>



## **Auditors' Report**

### **Auditors' report to the Shareholders of PPF investiční společnost a.s.**

We have reviewed the information included in the 1999 annual report of PPF investiční společnost a.s. The scope of our review was limited to confirmation as to whether the information included in the annual report was consistent with the consolidated financial statements.

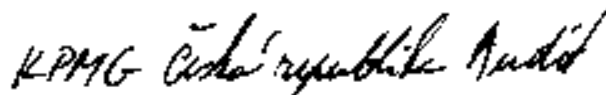
On 27 April 2000, we issued the following auditors' report on the Company's consolidated financial statements:

"We have audited the accompanying consolidated financial statements of PPF investiční společnost a.s. for the year ended 31 December 1999. These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 consolidated financial statements present fairly, in all material respects, the financial position of PPF investiční společnost a.s. and its subsidiaries, as at 31 December 1999, and the results of their operations, cash flows and changes in equity for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 2000



KPMG Česká republika Audit, spol. s r.o

PPF investiční společnost a.s.

**Consolidated Balance Sheet** as at 31 December 1999, with comparative figures for 1998 and 1997  
(expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Assets</b>				
<b>Current assets</b>				
Cash and short term deposits		20,715	298,852	8,724
Management fees receivable	5	3,540	2,315	–
Prepaid expenses and other receivables	4	1,509	460,884	7,368
Related party receivables	5	858	998	25,366
		<b>26,622</b>	<b>763,049</b>	<b>41,458</b>
Investments	6	100	1,214	1,214
Property and equipment	7	2,624	3,264	13,764
		<b>29,346</b>	<b>767,527</b>	<b>56,436</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Current liabilities</b>				
Related party payables	5	360	190	1,185
Other payables and accrued liabilities	8	2,652	746,962	28,900
		<b>3,012</b>	<b>747,152</b>	<b>30,085</b>
<b>Non-current liabilities</b>				
Deferred taxation		298	309	–
<b>Shareholders' equity</b>				
Share capital	10	20,000	17,850	17,850
Legal reserve fund		3,643	3,643	3,443
Translation reserve		–	(400)	–
Retained earnings		2,393	(1,027)	5,058
		<b>26,036</b>	<b>20,066</b>	<b>26,351</b>
		<b>29,346</b>	<b>767,527</b>	<b>56,436</b>

See accompanying notes to financial statements.

**Consolidated Statement of Operations and Retained Earnings**

for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Operating revenues</b>				
Fees and commissions	11	35,920	34,895	38,143
Other operating revenues		5,770	3,889	2,059
		<b>41,690</b>	<b>38,784</b>	<b>40,202</b>
<b>Operating expenses</b>				
Services		27,286	30,255	21,841
Wages and salaries	12	5,832	3,805	13,940
Social security expenses	12	2,088	1,365	4,876
Depreciation expense	7	811	671	5,234
Materials and energy consumed		244	327	1,764
Remuneration of Board members		–	300	–
Other operating expenses		5,462	4,691	1,253
		<b>41,723</b>	<b>41,414</b>	<b>48,908</b>
<b>Operating loss</b>		<b>(33)</b>	<b>(2,630)</b>	<b>(8,706)</b>
<b>Investing activities</b>				
Gain/(loss) on sale of investments		3,802	–	(7,485)
Other investing revenues		31	65	5,225
Interest revenue		863	3,572	3,208
Interest expense		(7)	–	(4,075)
Net profit/(loss) on disposal of property and equipment		12	(2,694)	(88)
Other investing expenses		(371)	(494)	(6,143)
		<b>4,330</b>	<b>449</b>	<b>(9,358)</b>
<b>Net profit/(loss) for the year before taxes</b>		<b>4,297</b>	<b>(2,181)</b>	<b>(18,064)</b>
Taxes on ordinary income	13	877	3,704	(469)
<b>Net profit/(loss) for the year</b>		<b>3,420</b>	<b>(5,885)</b>	<b>(17,595)</b>
<b>(Accumulated deficit)/retained earnings, beginning of year</b>		<b>(1,027)</b>	<b>5,058</b>	<b>29,333</b>
Dividends		–	–	(6,248)
Transfer to legal reserve fund		–	(200)	(227)
Sale of employee shares below nominal value		–	–	(205)
<b>Retained earnings/(accumulated deficit), end of year</b>		<b>2,393</b>	<b>(1,027)</b>	<b>5,058</b>

See accompanying notes to financial statements.

PPF investiční společnost a.s.

**Consolidated Statement of Cash Flows** for the year ended 31 December 1999,  
with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
<b>Cash flows from operating activities</b>			
Net profit/(loss) for the year before tax	4,297	(2,181)	(18,064)
<i>Adjustments for:</i>			
Net (profit)/loss on sale of investments	(3,802)	–	7,4852
Loss on sale of employee shares	390	–	–
Net realised (gain)/loss on disposal of property and equipment	(12)	2,694	88
Depreciation expense	811	671	5,234
Operating profit/(loss) before changes in operating assets and liabilities	1,684	1,184	(5,257)
Decrease in loans receivable	–	–	52,264
Decrease/(increase) in interest receivable	–	–	21,775
(Increase)/decrease in related party receivables	(2,266)	24,368	(18,612)
(Increase)/decrease in management fees receivable	(1,225)	(2,315)	195
Decrease/(increase) in prepaid expenses and other receivables	459,082	(459,365)	1,618
Increase/(decrease) in related party payables	170	(995)	(48,715)
(Decrease)/increase in other payables and accrued liabilities	(741,402)	719,607	(37,244)
	<b>(285,641)</b>	<b>281,300</b>	<b>(28,719)</b>
Net cash (used in)/provided by operating activities before tax	(283,957)	282,484	(33,976)
Taxes (paid)/received	(1,696)	909	(6,700)
Net cash (used in)/provided by operating activities	(285,653)	283,393	(40,676)
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(996)	(1,080)	(6,640)
Proceeds from sale of property and equipment	316	8,215	1,545
Purchase of investments	–	–	(153,990)
Proceeds from sale of subsidiary, net of cash disposed of	4,424	–	–
Proceeds from sale of investments	1,846	–	210,877
Net cash provided by investing activities	5,590	7,135	51,792
<b>Cash flows from financing activities</b>			
Proceeds from issue of share capital	2,150	–	–
Proceeds from the sale of employee shares	–	–	192
Dividends paid	–	–	(6,248)
Net cash provided by/(used in) financing activities	2,150	–	(6,056)
<b>Other non cash movements</b>	<b>(224)</b>	<b>(400)</b>	<b>–</b>
<b>Net (decrease)/increase in cash</b>	<b>(278,137)</b>	<b>290,128</b>	<b>5,060</b>
Cash, beginning of year	298,852	8,724	3,664
Cash, end of year	20,715	298,852	8,724

See accompanying notes to financial statements.

**Statement of Recognised Gains and Losses** for the year ended 31 December 1999,  
with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
Movement in translation reserve	400	(400)	–
Net gains not recognised in the statement of operations	400	(400)	–
Net profit for the period	3,420	(5,885)	(17,595)
Total recognised gains and losses	3,820	(6,285)	(17,595)

See accompanying notes to financial statements.

**Notes to the Consolidated Financial Statements** for the year ended 31 December 1999**1. Description and principal activities****(a) Establishment and description of the Company**

PPF investiční společnost, a.s. ("the Company") was established in accordance with section 25 of Act No. 104/1990 Coll. "Joint Stock Companies Act", on the basis of a founding agreement on 2 September 1991 and the Memorandum and Articles of Association of the Company. The principal business of the Company is the management and administration of mutual funds in the Czech Republic.

**(b) Registered office**

PPF investiční společnost a.s.  
Na Pankráci 121  
Praha 4  
Czech Republic

**(c) Members of the board of directors and supervisory board at 31 December 1999:**

<i>Members of the board of directors</i>	<i>Members of the supervisory board</i>
Libor Motejlek	Radek Krůžela
Jan Robin Valdinger	Alena Bernreiterová
Daniel Kukačka	Martin Dindoš

**2. Significant accounting policies**

The significant accounting policies adopted in the preparation of the Company's consolidated financial statements are set out below:

**(a) Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Accounting Standards and under the historical cost convention, except as described below.

**(b) Basis of consolidation**

Results of subsidiaries of the Company are included in the consolidated financial statements for the year ended 31 December 1999. For subsidiaries disposed of during the year only the portion of results of the subsidiary up to the date of sale are included in the consolidated statement of operations.

**(c) Property and equipment**

Property and equipment are stated at acquisition cost less depreciation. Depreciation is calculated using the straight-line method over the following periods:

<u>Asset</u>	<u>Period</u>
Building reconstruction	5 years
Data processing equipment	4 years
Motor vehicles	4 years
Furniture and other equipment	8 years
Software	4 years

Depreciation of property and equipment commences in the month following acquisition.

**(d) Investments**

Investments are held for the long-term and are stated at acquisition cost. Where the value of an investment has been permanently impaired, the book value of the investment is adjusted to reflect market value. Adjustments to the carrying value are recorded through the statement of operations.

**(e) Loans and accounts receivable**

The Company establishes adjustments and reserves against loans and accounts receivable based on their analysis of the credit status of their clients. Adjustments are calculated for specific credit risks.

**(f) Foreign currency translation**

*i) Foreign currency transactions*

Transactions in foreign currencies are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognised in the statement of profit and loss.

*ii) Financial statements of foreign operations*

Foreign operations are not considered an integral part of the parent company's operations. Accordingly, their assets and liabilities are translated at the exchange rate ruling at the balance sheet date, items of income and expense are translated using the average exchange rate for the period. Resulting exchange differences are recognised directly in equity, through a 'Translation Reserve'.

**(g) Taxation**

Tax expense on the profit or loss for the year comprises current tax and the net change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate effective at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted taxes rates are used to determine deferred income tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

**(h) Reclassifications**

Certain amounts in the 1998 and 1997 financial statements have been reclassified to conform to 1999 presentation.

**3. Subsidiaries**

The group companies which have been consolidated into the financial statements and the dates of acquisition and disposal of each are as follows:

Company	Ownership	Date of acquisition	Date of disposal
PPF Financial Services Ltd.	100%	9 February 1998	26 May 1999
PPF Cyprus Ltd.	100%	9 February 1998	26 May 1999

PPF Financial Services Ltd and PPF Cyprus Ltd are registered in Cyprus and the financial statements were audited by KPMG Certified Public Accountants (Cyprus).

#### 4. Prepaid expenses and other receivables

Prepaid expenses and other receivables at 31 December 1998 included an amount of TCZK 459,879 (USD 15,422,000) owed by the P1 Trust, for whom PPF Cyprus Ltd acted as trustee, relating to a liability for the purchase of marketable securities. The amount was repaid during 1999.

#### 5. Related party receivables and payables

##### (a) Receivables

(in thous. CZK)	1999	1998	1997
PPF Capital Management	–	–	8
PPF burzovní společnost a.s.	851	851	834
PPF a.s.	7	146	24,523
PPF OPF	463	–	–
PPF ČPF	2,103	1,599	–
PPF MPF	974	716	–
PPF růstový uzavřený podílový fond	–	1	1
<b>Total related party receivables</b>	<b>4,398</b>	<b>3,313</b>	<b>25,366</b>

##### (b) Payables

(in thous. CZK)	1999	1998	1997
PPF burzovní společnost a.s.	–	–	3
PPF a.s.	360	–	–
PPF Capital Management	–	190	569
PPF MPF	–	–	9
PPF ČPF	–	–	188
PPF-R	–	–	416
<b>Total related party payables</b>	<b>360</b>	<b>190</b>	<b>1,185</b>

#### 6. Investments

Investments are comprised as follows as at 31 December 1999:

	Ownership interest	Number of shares	Cost of investment (TCZK)
<i>Czech Republic:</i>			
DR. AG. spol. s.r.o.	<20%	–	100
<b>Total 1999</b>			<b>100</b>
<b>Total 1998</b>			<b>1,214</b>
<b>Total 1997</b>			<b>1,214</b>

Management is of the opinion that there has been no permanent diminution in value of the above investment which is intended to be held for the long-term and hence the Company continues to carry it at cost.

**7. Property and equipment**

	Buildings and land	Data processing equipment	Motor and vehicles	Furniture other equipment
Cost				
Balance 1 January 1999	843	1,654	873	2,640
Additions	95	102	721	918
Disposals	–	–	(374)	–
Transferred on sale of subsidiaries	–	(153)	–	(497)
Balance 31 December 1999	938	1,603	1,220	2,143
Accumulated depreciation				
Balance 1 January 1999	419	1,256	384	1,035
Additions	19	88	223	403
Disposals	–	–	(70)	–
Transferred on sale of subsidiaries	–	(31)	–	(98)
Balance 31 December 1999	438	1,313	537	1,340
Net book value, 1 January 1999	424	398	489	1,605
Net book value, 31 December 1999	500	290	683	803

(in thous. CZK)	Works of art	Total
Cost		
Balance 1 January 1999	348	6,358
Additions	–	918
Disposals	–	(374)
Transferred on sale of subsidiary	–	(650)
Balance 31 December 1999	348	6,252
Accumulated depreciation		
Balance 1 January 1999	–	3,094
Additions	–	733
Disposals	–	(70)
Transferred on sale of subsidiary	–	(129)
Balance 31 December 1999	–	3,628
Net book value, 1 January 1999	348	3,264
Net book value, 31 December 1999	348	2,624

During the year, low value assets were purchased and expensed directly to the statement of operations. The value of these items was TCZK 78.

**8. Other payables and accrued liabilities**

Other payables and accrued liabilities at 31 December 1998 included an amount of TCZK 743,087 (USD 24,920,000) relating to the cost of marketable securities described in note 5. The amount was repaid during 1999.

**9. Deferred taxation assets and liabilities**

Deferred taxation assets and liabilities are attributable to the items described in the following table:

(in thous. CZK)	31 December 1999			31 December 1998		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Provisions not deductible for tax purposes	–	(298)	(298)	18	–	18
Accelerated amortisation for accounting purposes	–	–	–	–	(309)	(309)
Net deferred tax (liabilities)/assets	–	(298)	(298)	18	(309)	(291)



In accordance with the requirements of IAS 12, deferred tax liabilities have been provided in full. Deferred tax assets have not been recognised in these financial statements because of the uncertainty surrounding the recoverability of such assets. In order to recognise deferred tax assets, it must be probable that future taxable profits will be available against which the deferred tax asset can be utilised. Beginning in 2000 the tax rate applicable has been reduced to 31%. Deferred tax items have been calculated at this revised rate. The reduction in the tax rate has had the effect of reducing recognised deferred tax liabilities from TCZK 337 to TCZK 298.

## 10. Share capital

As at 31 December 1999, 1998 and 1997 the registered capital of the Company was:

(in thous. CZK)	No shares	Share capital
CZK 50,000 nominal value	350	17,000
CZK 1,000 nominal value	850	850
<b>At 31 December 1997 and 1998</b>	–	<b>17,850</b>
CZK 50,000 nominal value	383	19,150
CZK 1,000 nominal value	850	850
<b>At 31 December 1999</b>	–	<b>20,000</b>

The share capital of the Company was increased during the year through the issue of 43 shares with a nominal value of TCZK 50. The shares were issued at nominal value.

## 11. Management fees

The Company charged a fee of 2% of the average annual value of the assets of several related funds under its management. Total fees charged in 1999 were TCZK 35,920 (1998: 34,895; 1997: 38,143 TCZK).

## 12. Employees and executives

The average number of employees and executives and remuneration are as follows:

1999	Number of employees	Wages & salaries (TCZK)	Social security (TCZK)	Social expenses (TCZK)
Employees	7	2,019	706	32
Executives	4	3,813	1,332	18
<b>Total</b>	<b>11</b>	<b>5,832</b>	<b>2,038</b>	<b>50</b>

1998	Number of employees	Wages & salaries (TCZK)	Social security (TCZK)	Social expenses (TCZK)
Employees	10	1,903	682	30
Executives	2	1,902	647	6
<b>Total</b>	<b>12</b>	<b>3,805</b>	<b>1,329</b>	<b>36</b>

**13. Taxation**

Income tax in the Czech Republic is assessed at the rate of 35% (1998: 35%; 1997: 39%) of taxable income.

(in thous. CZK)	1999	1998
Current tax expense	1,631	1,974
Prior year tax expense/(over accrual)	(743)	2,999
Change in deferred tax provision	(11)	(1,269)
Income tax expense	877	3,704

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense for the years ended 31 December 1999 and 1998.

(in thous. CZK)	1999	1998
Accounting profit/(loss) before tax	4,297	(2,181)
Computed tax using applicable tax rate	1,504	(763)
Non deductible expenses and non taxable income	275	2,606
Prior year over accrual	(743)	2,999
Other items for statutory purposes	(159)	(1,138)
Income tax expense	877	3,704

**14. Disposal of subsidiaries**

The value of subsidiaries disposed of during the year was:

(in thous. CZK)	1999
Cash and short term deposits	1,023
Receivables and other assets	3,271
Property and equipment	650
Other payables	(2,672)
Fair value adjustments	3,175
Proceeds	5,447
Cash and short term deposits disposed of	(1,023)
Proceeds, net of cash and short term deposits disposed of	4,424

**15. Contingent liabilities**

Many parts of Czech commercial, securities and tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

**16. Financial instruments**

The company has no interest bearing assets or liabilities at 31 December 1999 except cash at bank, which bears interest at market rates. Fair value estimates of the Company's investments have not been prepared because readily available market values do not exist for these assets and in management's opinion the cost of producing fair value estimates would exceed the benefits this information would provide to the shareholders of the Company.

All other financial assets and financial liabilities are short-term in nature or due on demand. Therefore, the carrying values of all financial assets (except investments) and financial liabilities of the Company are deemed to approximate their market values.

## Auditors' Report

### Auditors' report to the Shareholders of PPF investiční společnost a.s. Český uzavřený podílový fond

We have reviewed the information included in the 1999 annual report of PPF investiční společnost a.s. Český uzavřený podílový fond. The scope of our review was limited to confirmation as to whether the information included in the annual report was consistent with the financial statements.

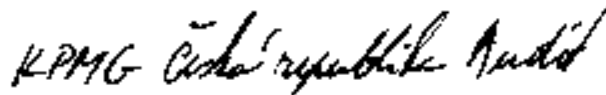
On 27 April 2000, we issued the following auditors' report on the Fund's financial statements:

"We have audited the accompanying financial statements of PPF investiční společnost a.s. Český uzavřený podílový fond for the year ended 31 December 1999. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 present fairly, in all material respects, the financial position of PPF investiční společnost a.s. Český uzavřený podílový fond, as at 31 December 1999, and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 2000



KPMG Česká republika Audit, spol. s r.o

## PPF Český uzavřený podílový fond

**Balance Sheet** as at 31 December 1999, with comparative figures for 1998 and 1997  
(expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Assets</b>				
Cash at bank		147,864	444,079	352,141
Trades pending settlement		16,334	–	–
Trading securities		891,303	283,718	–
Other assets		8,861	21,731	7,941
Incorporation expenses	4	1,368	6,839	12,310
Investments	5	208,060	264,169	738,116
		<b>1,273,790</b>	<b>1,020,536</b>	<b>1,110,508</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Liabilities</b>				
Management fee payable	3	2,103	1,599	–
Deferred tax liability		4,223	–	–
Other payables and accrued liabilities		4,134	802	846
		<b>10,460</b>	<b>2,401</b>	<b>846</b>
<b>Shareholders' equity:</b>				
Share capital	6	817,355	817,355	817,355
Share premium	6	636,000	636,000	636,000
Revaluation reserve	5	(259,228)	(473,072)	(400,352)
Retained earnings	7	69,203	37,852	56,659
		<b>1,263,330</b>	<b>1,018,135</b>	<b>1,109,662</b>
		<b>1,273,790</b>	<b>1,020,536</b>	<b>1,110,508</b>

See accompanying notes to financial statements.

PPF Český uzavřený podílový fond

**Statement of Operations and Retained Earnings** for the year ended 31 December 1999,  
with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Operating income</b>				
Net gain on trading portfolio	8	176,767	49,450	–
Interest income		13,764	21,130	17,767
Dividend income		908	3,226	8,951
Other operating revenue		–	–	19,226
		<b>191,439</b>	<b>73,806</b>	<b>45,944</b>
<b>Expenses</b>				
Management fees	9	21,808	21,469	25,962
Amortisation		5,471	5,471	5,471
Brokerage fees and commissions		2,516	3,198	1,428
Audit fees		200	200	116
Interest expense		–	14	–
Other fees and expenses		1,969	7,250	55
		<b>31,964</b>	<b>37,602</b>	<b>33,032</b>
<b>Net operating profit</b>		<b>159,475</b>	<b>36,204</b>	<b>12,912</b>
Realised (loss)/gain on sale of investments		(122,211)	(48,527)	8,612
<b>Net profit/(loss) before taxes</b>		<b>37,264</b>	<b>(12,323)</b>	<b>21,524</b>
Taxes on ordinary income	10	5,913	27	–
<b>Net profit/(loss) for the year</b>	7	<b>31,351</b>	<b>(12,350)</b>	<b>21,524</b>
<b>Retained earnings, beginning of year</b>		<b>37,852</b>	<b>56,659</b>	<b>49,684</b>
Dividends		–	(6,457)	(14,549)
<b>Retained earnings, end of year</b>		<b>69,203</b>	<b>37,852</b>	<b>56,659</b>
<b>Earnings per share (CZK)</b>	11	<b>38.36</b>	<b>(15.11)</b>	<b>26.33</b>

See accompanying notes to financial statements.

## PPF Český uzavřený podílový fond

### Statement of Cash Flows for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
<b>Cash flows from operating activities</b>			
Net profit/(loss) for the year before tax	37,264	(12,323)	21,524
<i>Adjustments for:</i>			
Net loss/(gain) on sale of investments	122,211	48,527	(8,612)
Amortisation	5,471	5,471	5,471
Operating profit before changes in operating assets and liabilities	164,946	41,675	18,383
Decrease in deferred expenses	–	49	49
Decrease/(increase) in other assets	13,234	(10,766)	(56)
Increase in trading portfolio	(607,585)	(283,718)	–
Increase/(decrease) in management fee payable	504	1,599	(971)
Increase/(decrease) in other payables and accrued liabilities	3,332	(44)	(9,816)
	(590,515)	(292,880)	(10,794)
Net cash (used in)/provided by operating activities before taxes	(425,569)	(251,205)	7,589
Income tax payments	(2,055)	(3,100)	(15,992)
Net cash used in operating activities	(427,624)	(254,305)	(8,403)
<b>Cash flows from investing activities</b>			
Purchase of investments	(69,370)	(21,572)	(93,567)
Proceeds from sale of investments	217,113	374,272	317,199
Increase in trades pending settlement	(16,334)	–	–
Net cash provided by investing activities	131,409	352,700	223,632
<b>Cash flows from financing activities</b>			
Dividends paid	–	(6,457)	(14,549)
Net cash used in financing activities	–	(6,457)	(14,549)
Net (decrease)/increase in cash	(296,215)	91,938	200,680
Cash, beginning of year	444,079	352,141	151,461
Cash, end of year	147,864	444,079	352,141

See accompanying notes to financial statements.

### Statement of Recognised Gains and Losses for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
Movement in deficit on revaluation of investments	213,844	(72,720)	(250,472)
Net gains/(losses) not recognised in the statement of operations	213,844	(72,720)	(250,472)
Net profit/(loss) for the year	31,351	(12,350)	21,524
Total recognised gains and losses	245,195	(85,070)	(228,948)

See accompanying notes to financial statements.

**Notes to the Financial Statements** for the year ended 31 December 1999**1. Description and principal activities****(a) Establishment and description of the fund**

PPF investiční společnost a.s. Český uzavřený podílový fond ("the Fund") was established as a closed-end mutual fund on 28 September 1993 and obtained an investment fund license for the second wave of voucher privatisation. The Fund was allocated shares from the National Property Fund on 28 February 1995 and since then has carried out its investment activities.

On 23 May 1995 the Ministry of Finance granted permission for the Fund to trade its participation certificates. The certificates are currently traded on the Prague Stock Exchange ("PSE") and the RM-System.

**(b) Organisational Structure**

The management and administration of the Fund's activities are provided by its founder, PPF investiční společnost a.s. ("the Manager").

**(c) Registered office**

PPF investiční společnost a.s.  
Český uzavřený podílový fond  
Na Pankráci 121  
Praha 4  
Czech Republic

**2. Significant accounting policies**

The significant accounting policies adopted in the preparation of the Fund's financial statements are set out below:

**a) Basis of preparation**

The financial statements have been prepared in accordance with International Accounting Standards and under the historical cost convention and full accrual accounting, except for trading and investment securities which are carried at market value and the lower of cost or market value, respectively, as described below.

**b) Investments**

Investments are held for the long-term and are stated at lower of cost and market value on an aggregate portfolio basis. Market values of domestic investments are determined based on prices quoted by the Prague Stock Exchange ("PSE") or RM System, in accordance with Ministry of Finance decree No. 207/1998, which came into effect on 1 September 1998. If both prices are available, the PSE price is used. Foreign securities are valued based on prices quoted by recognized markets in the appropriate countries.

Unrealized losses on investments due to temporary declines in market value are recorded through shareholders' equity as "revaluation reserve". Unrealized losses on investments due to permanent diminution in value are taken to the statement of operations. Unrealized gains are not recognized in the financial statements.

The cost of investments sold is determined using the weighted average method. All realised gains and losses on the sale of investments are taken to the statement of operations.

**c) Trading securities**

Trading securities are carried at market value based on prices quoted by recognized markets in the appropriate countries. Differences between market value and cost are included within the statement of operations.

The cost of investments sold is determined using the average cost method. All realised gains and losses are taken to the statement of operations.

# PPF Český uzavřený podílový fond

## d) Incorporation expenses

Incorporation expenses are amortised on a straight-line basis over a period of 5 years.

## e) Taxation

Tax expense on the profit or loss for the year comprises current tax and the net change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate effective at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted taxes rates are used to determine deferred income tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

## f) Foreign currency translation

Foreign currency transactions during the year are translated at the rate of exchange ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the balance sheet date at the rate of exchange ruling at that date. Realised and unrealised foreign currency gains and losses are recognised in the statement of operations.

## g) Derivatives

The Fund uses derivative financial instruments to manage its exposures to foreign currency exchange risks arising from its activities. In accordance with its treasury policy, the Fund does not currently hold or issue derivatives for trading purposes. The derivatives used for hedging purposes are accounted for in the same manner as the hedged item. To the extent recognised, revaluation gains (or losses) are taken to the statement of operations and recorded as part of other assets (liabilities) in the balance sheet.

## 3. Related party transactions and balances

### a) Transactions

During the course of the year, the Fund completed a number of security trades at arm's length with a related party, as follows:

(in thous. CZK)	Total sales	Total purchases
PPF burzovní společnost a.s.	16,334	14,325

### b) Receivables

(in thous. CZK)	1999	1998	1997
PPF investiční společnost a.s.	–	–	188
PPF burzovní společnost a.s.	–	90	–

### c) Payables

(in thous. CZK)	1999	1998	1997
PPF investiční společnost a.s.	2,103	1,599	–



## PPF Český uzavřený podílový fond

### 4. Incorporation expenses

(in thous. CZK)	1999	1998	1997
Incorporation expenses	27,355	27,355	27,355
Accumulated amortisation	(25,987)	(20,516)	(15,045)
<b>Total</b>	<b>1,368</b>	<b>6,839</b>	<b>12,310</b>

### 5. Investments

The movement in the investment account is as follows:

(in thous. CZK)	1999	1998	1997
Balance, 1 January	737,241	1,138,468	1,353,488
Additions at cost	69,370	21,572	93,567
Cost of investments sold	(339,323)	(422,799)	(308,587)
Cost of investments, 31 December	467,288	737,241	1,138,468
Net unrealised loss on revaluation to market value	(259,228)	(473,072)	(400,352)
Market value of investments, 31 December	208,060	264,169	738,116

### 6. Share capital and premium

The nominal value of the issued share capital is TCZK 817,355 which consists of 817,355 shares, each at a nominal value of CZK 1,000. The share premium resulted from the allocation of shares to investors during 1995 following the second wave of voucher privatisation in accordance with local regulations.

### 7. Reconciliation to Czech Statutory Accounts

The reconciliation of the net loss and retained earnings as reflected in the Czech Statutory Accounts to these financial statements is as follows:

(in thous. CZK)	Net (loss)/profit	Retained earnings
Statutory Accounts as at 31 December 1999	(48,758)	(24,094)
Adjustment to recognised loss on transfer of investments	–	1,141
Adjustment to record short term securities at market value	90,955	89,962
Adjustment to record net gain on trades pending settlement	6,417	6,417
Recognition of deferred tax liability	(4,223)	(4,223)
Adjustment relating to forward foreign currency contracts	(13,040)	–
<b>Total</b>	<b>31,351</b>	<b>69,203</b>

## PPF Český uzavřený podílový fond

### 8. Net gain on trading portfolio

(in thous. CZK)	1999	1998
Realised gains on sold securities	54,452	39,601
Unrealised foreign exchange rate differences	16,297	10,841
Realised foreign exchange rate differences	(16,577)	–
Market value differences	90,955	(992)
Interest income from debt securities	30,299	–
Income from equity securities	1,341	–
<b>Net gain</b>	<b>176,767</b>	<b>49,450</b>

There were no trading securities in 1997.

### 9. Management fee

PPF investiční společnost, a.s. managed all of the Fund's activities in accordance with the Management Contract at a management fee of 2% of the average annual value of the investment portfolio of the Fund. The management fee for 1999 totalled 21,808 TCZK (1998: 21,469; 1997: 25,962).

### 10. Taxation

Income tax on funds in the Czech Republic is assessed at the rate of 25% (1998 and 1997: 25%) of taxable income.

(in thous. CZK)	1999	1998
Current tax expense	1,690	27
Change in deferred tax provision	4,223	–
<b>Tax expense</b>	<b>5,913</b>	<b>27</b>

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense for the years ended 31 December 1999 and 1998.

(in thous. CZK)	1999	1998
Accounting profit/(loss) before tax	37,264	(12,323)
Computed tax using applicable tax rate	9,316	(3,081)
Non deductible expenses and non taxable income	952	2,006
Losses on sale of securities not tax deductible	18,544	–
Unrealised gains on securities not taxable	(22,739)	–
Other items for statutory purposes	(160)	1,102
<b>Income tax expense</b>	<b>5,913</b>	<b>27</b>

**11. Earnings per share**

Earnings per share are calculated based on retained profit for the financial year and the weighted average number of shares in issue during the year.

(in thous. CZK)	1999	1998	1997
Net profit/(loss) for the year	31,351	(12,350)	21,524
Weighted average number of shares outstanding	817,355	817,355	817,355
Earnings per share (CZK)	38.36	(15.11)	26.33

**12. Deferred taxation assets and liabilities**

Deferred taxation assets and liabilities are attributable to the items described in the following table:

(in thous. CZK)	31 December 1999			31 December 1998		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Write-down of securities not deductible for tax purposes	64,807	–	64,807	118,822	–	118,822
Mark-to-market of trading securities not taxable	–	(26,860)	(26,860)	–	–	–
Accelerated amortisation for accounting purposes	370	–	370	428	–	428
Unrealised forward foreign exchange contracts	845	–	845	–	(3,260)	(3,260)
Tax value of loss carry forwards	21,422	–	21,422	7,536	–	7,536
<b>Total</b>	<b>87,444</b>	<b>(26,860)</b>	<b>60,584</b>	<b>126,786</b>	<b>(3,260)</b>	<b>123,526</b>

In accordance with the requirements of IAS 12, deferred tax assets of 22,637 TCZK (1998: TCZK 3,260) have been recognised as there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse in the same period as the deductible temporary difference. The remaining deferred tax assets have not been recognised in these financial statements because of the uncertainty surrounding the recoverability of such assets. In order to recognise deferred tax assets, it must be probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax liabilities have been recorded in full.

The tax losses carried forward are subject to limitations concerning their use. TCZK 85,688 can only be utilised against future realised gains on sales of securities. The remaining tax losses can be offset against future taxable income except for income arising from the receipt of dividends. The tax losses can be carried forward for a total of 3 years. Of the total value of tax loss carry forwards, TCZK 74,175 arose in 1999, TCZK 8,927 arose in 1998, and the remainder arose in 1997.

### 13. Commitments

The following forward contracts were outstanding at the end of the year:

(in thous. CZK)	1999	1998	1997
Forward foreign currency sales	216,093	192,286	–
Forward foreign currency purchases	–	96,762	–

The Fund recognised a net unrealised loss on the above contracts totalling TCZK 3,379 at 31 December 1999 (1998: gain 13,040).

### 14. Financial instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Fund. The most significant risks facing the Fund are discussed below.

#### (i) Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Hedging instruments used by the Fund to manage this risk take the form of forward foreign exchange contracts.

#### (ii) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Information regarding interest bearing assets and liabilities of the Fund are contained in the preceding notes and schedule of investments. All other financial assets and liabilities are non-interest bearing, except for term deposits totalling 147,721 TCZK which bear interest at market rates.

#### (iii) Fair values

Market values of investments as determined under note 2(b) are presented in the schedule of investments included as part of these financial statements. All other financial assets and financial liabilities of the Fund are deemed to approximate their market values.

### 15. Contingent liabilities

Many parts of Czech commercial, securities and tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

## PPF Český uzavřený podílový fond

### Investment portfolio

Issuer	Number of shares	Purchase price per share (CZK)	Cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Přerovské strojírny a.s.	127,527	429	54,750	–	–
ZPS Zlín a.s.	44,882	1,562	70,098	–	–
DEZA a.s.	4,000	2,373	9,492	349	1,396
GAMA a.s.	10,464	260	2,721	354	3,701
Lázně Teplice v Čechách a.s.	16,549	166	2,742	185	3,062
KABLO a.s.	27,513	1,630	44,847	412	11,327
BOPO a.s.	19,902	98	1,956	–	–
Česká pojišťovna a.s.	41,215	4,606	189,856	2,105	86,770
Česká spořitelna a.s.	581,917	148	86,360	166	96,540
České radiokomunikace a.s.	4,000	1,116	4,466	1,316	5,264
PPF investiční holding a.s.	1	280	–	492	–
<b>Total</b>	<b>–</b>	<b>467,288</b>	<b>–</b>	<b>–</b>	<b>208,060</b>

### Trading portfolio

#### Debt securities

Issuer	Number of units	Purchase price per unit (CZK)	Cost (TCZK)	Market price per unit (CZK)	Total market value (TCZK)
MF – pokl. poukázky/00*	16	956,838	15,309	965,000	15,440
MF – pokl. poukázky/00*	205	974,883	199,851	976,812	200,246
MF – pokl. poukázky/00*	20	986,485	19,730	988,410	19,768
MF – pokl. poukázky/00*	11	986,214	10,848	991,345	10,905
SD 14.75/00	4,000	10,409	41,634	10,340	41,360
SD 10.90/03	6,000	10,877	65,262	11,294	67,764
Slov. elektr. – dluhopis VAR/03	2,000	9,950	19,900	10,000	20,000
RadioMobil 8.2/04	45	998,500	44,933	1,018,400	45,828
KOB VAR/05	2,000	10,073	20,150	10,077	20,154
CITILEASING 10.45/03	200	100,000	20,000	111,040	22,208
HZL KB 8.00/04	1,000	10,431	10,380	10,590	10,590
HZL 1KB 8.125/04	6,000	10,454	62,060	10,614	63,684
<b>Total principal</b>	<b>–</b>	<b>–</b>	<b>530,057</b>	<b>–</b>	<b>537,947</b>
Accrued interest	–	–	11,733	–	11,733
<b>Total debt securities</b>	<b>–</b>	<b>–</b>	<b>541,790</b>	<b>–</b>	<b>549,680</b>

\* The weighted average yield on Ministry of Finance debt securities was 6.74%.

PPF Český uzavřený podílový fond

Equity securities

Issuer	Number of shares	Currency	Purchase price per share (CZK)	Cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Biochem Pharma	6,000	USD	715	4,288	783	4,695
Nortel Networks Corp.	3,100	USD	1,211	3,754	3,634	11,265
Intershop Comm.	1,455	EUR	2,898	4,216	10,080	14,667
SAP Ag	390	EUR	12,379	4,828	17,668	6,890
Nokia Corp.	4,500	EUR	2,183	9,825	6,503	29,265
Cap Gemini Sogeti	780	EUR	5,511	4,299	9,105	7,102
Bord Telecom Eireann	22,440	EUR	171	3,842	156	3,511
AT&T Corp.	3,780	USD	1,817	6,868	1,828	6,910
Advanced Micro Devices	4,100	USD	1,042	4,272	1,041	4,269
Alcatel Alsthom	1,880	USD	1,500	2,821	1,619	3,044
Allstate	7,060	USD	1,195	8,439	866	6,112
Amazon / AMZN	3,360	USD	1,797	6,037	2,739	9,203
America Online	5,600	USD	1,089	6,096	2,730	15,288
American Express	860	USD	4,415	3,797	5,982	5,144
Amgen Inc. / Amgn	5,600	USD	1,035	5,796	2,161	12,101
Apple Computer	1,250	USD	3,373	4,216	3,699	4,624
At Home Corp / Athm	2,880	USD	2,142	6,168	1,543	4,443
Bell Atlantic	1,890	USD	1,696	3,206	2,215	4,186
Cable & Wireless	2,895	USD	1,364	3,948	1,905	5,514
Cisco Systems	4,340	USD	1,582	6,867	3,854	16,728
Compaq	4,560	USD	1,439	6,561	974	4,440
Compuware	3,290	USD	1,077	3,542	1,340	4,409
Costo Wholes. Corporation	1,405	USD	2,758	3,874	3,283	4,613
Dell Computer	2,240	USD	1,556	3,486	1,835	4,110
Endesa Sponsored	5,065	USD	781	3,958	726	3,679
General Electric	2,100	USD	3,122	6,556	5,568	11,692
Intel / INTC	1,645	USD	2,546	4,187	2,961	4,872
Johnson & Johnson	1,320	USD	3,249	4,289	3,355	4,429
Philips – SPONS ADR	1,670	USD	3,443	5,751	4,857	8,111
Lucent Technology	4,680	USD	1,723	8,063	2,698	12,629
MCI Worldcom	1,295	USD	2,739	3,547	1,909	2,472
Mckesson	870	USD	2,869	2,496	810	704
Merrill Lynch & Co Inc	1,080	USD	3,421	3,695	2,997	3,237
Microsoft	2,300	USD	3,267	7,513	4,201	9,661
Pfizer Inc.	5,460	USD	1,297	7,081	1,167	6,373
Sbc Communications	4,030	USD	1,725	6,950	1,754	7,069
Charles Schwab Corp.	3,600	USD	1,963	7,067	1,376	4,954
Seagate Technology	5,950	USD	1,192	7,092	1,675	9,967
Telekomunikacja Polska – Gdr	33,250	USD	159	5,293	230	7,632
Tellabs Inc.	3,900	USD	2,063	8,046	2,309	9,007
3com	4,560	USD	1,386	6,320	1,691	7,711
3dfx Interactive Inc	7,470	USD	788	5,889	353	2,637
Wal Mart Stores	2,300	USD	1,688	3,882	2,487	5,721
Walgreen Co	8,200	USD	923	7,571	1,052	8,630
Yahoo Inc	1,150	USD	5,027	5,781	15,568	17,903
<b>Total equity securities</b>	–	–	–	<b>242,073</b>	–	<b>341,623</b>
<b>Total trading portfolio</b>	–	–	–	<b>783,863</b>	–	<b>891,303</b>

## Auditors' Report

### Auditors' report to the Shareholders of PPF investiční společnost a.s. Moravskoslezský uzavřený podílový fond

We have reviewed the information included in the 1999 annual report of PPF investiční společnost a.s. Moravskoslezský uzavřený podílový fond. The scope of our review was limited to confirmation as to whether the information included in the annual report was consistent with the financial statements.

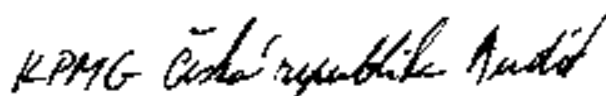
On 27 April 2000, we issued the following auditors' report on the Fund's financial statements:

"We have audited the accompanying financial statements of PPF investiční společnost a.s. Moravskoslezský uzavřený podílový fond for the year ended 31 December 1999. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 present fairly, in all material respects, the financial position of PPF investiční společnost a.s. Moravskoslezský uzavřený podílový fond, as at 31 December 1999, and the results of its operations, cash flows and changes in equity for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 2000



KPMG Česká republika Audit, spol. s r.o

## PPF Moravskoslezský uzavřený podílový fond

**Balance Sheet** as at 31 December 1999, with comparative figures for 1998 and 1997  
(expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Assets</b>				
Cash at bank		70,825	199,396	172,019
Trades pending settlement		8,166	–	3,107
Trading securities		422,833	141,836	–
Other assets		4,495	10,462	2,685
Incorporation expenses	4	635	3,177	5,718
Investments	5	89,807	123,683	339,095
		<b>596,761</b>	<b>478,554</b>	<b>522,624</b>
<b>Liabilities and Shareholders' Equity</b>				
<b>Liabilities</b>				
Management fee payable	3	974	716	–
Deferred tax liability		39	–	–
Other payables and accrued liabilities		2,031	474	320
		<b>3,044</b>	<b>1,190</b>	<b>320</b>
<b>Shareholders' equity</b>				
Share capital	6	379,856	379,856	379,856
Share premium	6	294,881	294,881	294,881
Revaluation reserve	5	(118,998)	(219,714)	(183,816)
Retained earnings	7	37,978	22,341	31,383
		<b>593,717</b>	<b>477,364</b>	<b>522,304</b>
		<b>596,761</b>	<b>478,554</b>	<b>522,624</b>

See accompanying notes to financial statements.



PPF Moravskoslezský uzavřený podílový fond

**Statement of Operations and Retained Earnings** for the year ended 31 December 1999,  
with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	Note	1999	1998	1997
<b>Operating income</b>				
Net gain on trading portfolio	8	83,171	22,009	–
Interest income		6,142	10,354	8,686
Dividend income		394	1,458	4,160
Other net operating revenue		–	–	10,173
		<b>89,707</b>	<b>33,821</b>	<b>23,019</b>
<b>Expenses</b>				
Management fees	3	10,219	10,086	12,181
Amortisation		2,542	2,541	2,541
Brokerage fees and commissions		1,350	1,699	509
Audit fees		200	200	116
Interest expense		–	7	–
Other fees and expenses		1,062	3,346	257
		<b>15,373</b>	<b>17,879</b>	<b>15,604</b>
<b>Net operating profit</b>		<b>74,334</b>	<b>15,942</b>	<b>7,415</b>
Realised (loss)/gain on sale of investments		(57,619)	(20,540)	8,479
<b>Profit before taxes</b>		<b>16,715</b>	<b>(4,598)</b>	<b>15,894</b>
Taxes on ordinary income	10	1,078	–	992
<b>Net profit/(loss) for the year</b>	7	<b>15,637</b>	<b>(4,598)</b>	<b>14,902</b>
<b>Retained earnings, beginning of year</b>		<b>22,341</b>	<b>31,383</b>	<b>23,281</b>
Dividends		–	(4,444)	(6,800)
<b>Retained earnings, end of year</b>		<b>37,978</b>	<b>22,341</b>	<b>31,383</b>
<b>Earnings per share</b>	11	<b>41.17</b>	<b>(12.10)</b>	<b>39.23</b>

See accompanying notes to financial statements.

## PPF Moravskoslezský uzavřený podílový fond

### **Statement of Cash Flows** for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
<b>Cash flows from operating activities</b>			
Net profit/(loss) for the year before tax	16,715	(4,598)	15,894
<i>Adjustments for:</i>			
Net loss/(gain) on sale of investments	57,619	20,540	(8,479)
Amortisation	2,542	2,541	2,541
Operating profit before changes in operating assets and liabilities	76,876	18,483	9,956
Decrease in deferred expenses	-	19	19
Increase in trading portfolio	(280,997)	(141,836)	-
Decrease/(increase) in other assets	6,307	(5,244)	47
Increase/(decrease) in management fee payable	258	716	(735)
Increase/(decrease) in other payables and accrued liabilities	1,557	154	(5,236)
Net cash (used in)/provided by operating activities before tax	(272,875)	(146,191)	(5,905)
Income tax payments	(1,379)	(2,552)	(7,588)
Net cash used in operating activities	(197,378)	(130,260)	(3,537)
<b>Cash flows from investing activities</b>			
Purchase of investments	(30,251)	(9,802)	(43,200)
Proceeds from sale of investments	107,224	168,776	153,340
(Increase)/decrease in trades pending settlement	(8,166)	3,107	(3,107)
Net cash provided by investing activities	68,807	162,081	107,033
<b>Cash flows from financing activities</b>			
Dividends paid	-	(4,444)	(6,800)
Net cash used in financing activities	-	(4,444)	(6,800)
Net (decrease)/increase in cash at bank	(128,571)	27,377	96,696
Cash at bank, beginning of year	199,396	172,019	75,323
Cash at bank, end of year	70,825	199,396	172,019

See accompanying notes to financial statements.

### **Statement of Recognised Gains and Losses** for the year ended 31 December 1999, with comparative figures for 1998 and 1997 (expressed in thousands of Czech crowns)

	1999	1998	1997
Movement in deficit on revaluation of investments	100,716	(35,898)	(114,440)
Net gains/(losses) not recognised in the statement of operations	100,716	(35,898)	(114,440)
Net profit/(loss) for the year	15,637	(4,598)	14,902
Total recognised gains and losses	116,353	(40,496)	(99,538)

See accompanying notes to financial statements.

**Notes to the Financial Statements** for the year ended 31 December 1999

**1. Description and principal activities**

**a) Establishment and description of the fund**

PPF investiční společnost a.s. Moravskoslezský uzavřený podílový fond ("the Fund") was established as a closed-end mutual fund on 28 September 1993 and obtained an investment fund license for the second wave of voucher privatisation. The Fund was allocated shares from the National Property Fund on 28 February 1995 and since then has carried out its investment activities.

On 23 May 1995 the Ministry of Finance granted permission for the Fund to trade its participation certificates. The certificates are currently traded on the Prague Stock Exchange ("PSE") and the RM-System.

**b) Organisational Structure**

The management and administration of the Fund's activities are provided by its founder, PPF investiční společnost a.s. ("the Manager").

**c) Registered office**

PPF investiční společnost a.s.  
Moravskoslezský uzavřený podílový fond  
Na Pankráci 121  
Praha 4  
Czech Republic

**2. Significant accounting policies**

The significant accounting policies adopted in the preparation of the Fund's financial statements are set out below:

**a) Basis of preparation**

The financial statements have been prepared in accordance with International Accounting Standards and under the historical cost convention and full accrual accounting, except for trading and investment securities which are carried at market value and the lower of cost or market value, respectively, as described below.

**b) Investments**

Investments are held for the long-term and are stated at lower of cost and market value on an aggregate portfolio basis. Market values of domestic investments are determined based on prices quoted by the Prague Stock Exchange ("PSE") or RM System, in accordance with Ministry of Finance decree No. 207/1998, which came into effect on 1 September 1998. If both prices are available, the PSE price is used. Foreign securities are valued based on prices quoted by recognized markets in the appropriate countries.

Unrealized losses on investments due to temporary declines in market value are recorded through shareholders' equity as "revaluation reserve". Unrealized losses on investments due to permanent diminution in value are taken to the statement of operations. Unrealized gains are not recognized in the financial statements.

The cost of investments sold is determined using the weighted average method. All realised gains and losses on the sale of investments are taken to the statement of operations.

**c) Trading securities**

Trading securities are carried at market value based on prices quoted by recognized markets in the appropriate countries. Differences between market value and cost are included within the statement of operations.

The cost of investments sold is determined using the average cost method. All realised gains and losses are taken to the statement of operations.

## PPF Moravskoslezský uzavřený podílový fond

### d) Incorporation expenses

Incorporation expenses are amortised on a straight-line basis over a period of 5 years.

### e) Taxation

Tax expense on the profit or loss for the year comprises current tax and the net change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate effective at the balance sheet date, and any adjustment of tax payable for previous years.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted taxes rates are used to determine deferred income tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

### f) Foreign currency translation

Transactions in foreign currencies are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognised in the statement of operations.

### g) Derivatives

The Fund uses derivative financial instruments to manage its exposures to foreign currency exchange risks arising from its activities. In accordance with its treasury policy, the Fund does not currently hold or issue derivatives for trading purposes. The derivatives used for hedging purposes are accounted for in the same manner as the hedged item. To the extent recognised, revaluation gains (or losses) are taken to the statement of operations and recorded as part of other assets (liabilities) in the balance sheet.

## 3. Related party transactions and balances

### a) Transactions

During the course of the year, the Fund completed a number of security trades at arm's length with a related party, as follows:

(in thous. CZK)	Total sales	Total purchases
PPF burzovní společnost a.s.	8,166	6,819

### b) Receivables

(in thous. CZK)	1999	1998	1997
PPF investiční společnost a.s.	–	–	9

### c) Payables

(in thous. CZK)	1999	1998	1997
PPF investiční společnost a.s.	974	716	–

## PPF Moravskoslezský uzavřený podílový fond

### 4. Incorporation expenses

(in thous. CZK)	1999	1998	1997
Incorporation expenses	12,706	12,706	12,706
Accumulated amortisation	(12,071)	(9,529)	(6,988)
<b>Total</b>	<b>635</b>	<b>3,177</b>	<b>5,718</b>

### 5. Investments

The movement in the investment account is as follows:

(in thous. CZK)	1999	1998	1997
Balance, 1 January	343,397	522,911	624,572
Additions at cost	30,251	9,802	43,200
Cost of investments sold	(164,843)	(189,316)	(144,861)
<b>Cost of investments, 31 December</b>	<b>208,805</b>	<b>343,397</b>	<b>522,911</b>
Net unrealised loss on revaluation to market value	(118,998)	(219,714)	(183,816)
<b>Market value of investments, 31 December</b>	<b>89,807</b>	<b>123,683</b>	<b>339,095</b>

### 6. Share capital and premium

The nominal value of the issued share capital is TCZK 379,856 which consists of 379,856 shares, each at a nominal value of CZK 1,000. The share premium resulted from the allocation of shares to investors during 1995 following the second wave of voucher privatisation in accordance with local regulations.

### 7. Reconciliation to Czech Statutory Accounts

The reconciliation of the net profit and retained earnings as reflected in the Czech Statutory Accounts to these financial statements is as follows:

(in thous. CZK)	Net (loss)/profit	Retained earnings
Statutory Accounts as at 31 December 1999	(23,271)	(6,975)
Adjustment to realised loss on investments transferred	–	529
Adjustment to record short term securities at market value	41,999	41,255
Adjustment to record net gain on trades pending settlement	3,208	3,208
Recognition of deferred tax liability	(39)	(39)
Adjustment relating to forward currency contracts	(6,260)	–
<b>Total</b>	<b>15,637</b>	<b>37,978</b>

## PPF Moravskoslezský uzavřený podílový fond

### 8. Net gain on trading portfolio

(in thous. CZK)	1999	1998
Realised gains on sold securities	26,102	17,657
Unrealised foreign exchange rate differences	7,639	5,096
Realised foreign exchange rate differences	(7,417)	–
Market value differences	41,999	(744)
Interest income from debt securities	14,205	–
Income from equity securities	643	–
<b>Net gain</b>	<b>83,171</b>	<b>22,009</b>

There were no trading securities in 1997.

### 9. Management fee

PPF investiční společnost a.s. managed all of the Fund's activities in accordance with the Management Contract at a management fee of 2% of the average annual value of the investment portfolio of the Fund. The management fee for 1999 totalled TCZK 10,219 (1998: 10,086; 1997: 12,181).

### 10. Taxation

Income tax on funds in the Czech Republic is assessed at the rate of 25% (1998 and 1997: 25%) of taxable income.

(in thous. CZK)	1999	1998
Current tax expense	1,039	–
Change in deferred tax provision	39	–
<b>Tax expense</b>	<b>1,078</b>	<b>–</b>

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense for the years ended 31 December 1999 and 1998.

(in thous. CZK)	1999	1998
Accounting profit/(loss) before tax	16,715	(4,598)
Computed tax using applicable tax rate	4,179	(1,150)
Non deductible expenses and non taxable income	625	594
Losses on sale of securities not tax deductible	8,681	–
Unrealised gains on securities not taxable	(10,500)	–
Other items for statutory purposes	(1,907)	556
<b>Income tax expense</b>	<b>1,078</b>	<b>–</b>

# PPF Moravskoslezský uzavřený podílový fond

## 11. Earnings per share

Earnings per share are calculated based on retained profit for the financial year and the weighted average number of shares in issue during the year.

(in thous. CZK)	1999	1998	1997
Net profit/(loss) for the year	15,637	(4,598)	14,902
Weighted average number of shares outstanding	379,856	379,856	379,856
Earnings per share (CZK)	41.17	(12.10)	39.23

## 12. Deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the items described in the following table:

(in thous. CZK)	31 December 1999			31 December 1998		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Write-down of investments not deductible for tax purposes	29,750	–	29,750	55,406	–	55,406
Mark-to-market of trading securities not taxable	–	(10,314)	(10,314)	–	–	–
Accelerated amortisation for accounting purposes	172	–	172	794	–	794
Unrealised forward foreign exchange contracts	393	–	393	–	(1,565)	(1,565)
Tax value of loss carry forwards	9,710	–	9,710	2,949	–	2,949
<b>Total</b>	<b>40,025</b>	<b>(10,314)</b>	<b>29,711</b>	<b>59,149</b>	<b>(1,565)</b>	<b>57,584</b>

In accordance with the requirements of IAS 12, deferred tax assets of 10,275 TCZK (1998: TCZK 1,565) have been recognised as there are sufficient taxable temporary differences relating to the same taxation authority which are expected to reverse in the same period as the deductible temporary difference. The remaining deferred tax assets have not been recognised in these financial statements because of the uncertainty surrounding the recoverability of such assets. In order to recognise deferred tax assets, it must be probable that future taxable profits will be available against which the deferred tax asset can be utilised. Deferred tax liabilities have been recorded in full.

The tax losses carried forward are subject to limitations concerning their use. TCZK 38,841 can only be utilised against future realised gains on sales of securities. The tax losses can be carried forward for a total of 3 years. Of the total value of tax loss carry forwards, TCZK 34,724 arose in 1999, TCZK 2,824 arose in 1998 and the remainder arose in 1997.

## 13. Commitments

The following forward contracts were outstanding at the end of the year:

(in thous. CZK)	1999	1998	1997
Forward foreign currency sales	100,607	90,288	–
Forward foreign currency purchases	–	48,312	–

The Fund recognised a net unrealised loss on the contracts totalling TCZK 1,573 at 31 December 1999 (1998: gain TCZK 6,260).

#### **14. Financial instruments**

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Fund. The most significant risks facing the Fund are discussed below.

*(i) Foreign exchange risk*

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Hedging instruments used by the Fund to manage this risk take the form of forward foreign exchange contracts and currency swaps.

*(ii) Interest rate risk*

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Information regarding interest bearing assets and liabilities of the Fund are contained in the preceding notes and schedule of investments. All other financial assets and liabilities are non-interest bearing, except for term deposits totalling 70,748 TCZK which bear interest at market rates.

*(iii) Fair values*

Market values of investments as determined under note 2(b) are presented in the schedule of investments included in these financial statements. All other financial assets and financial liabilities of the Fund are deemed to approximate their market values.

#### **15. Contingent liabilities**

Many parts of Czech commercial, securities and tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.



## PPF Moravskoslezský uzavřený podílový fond

### Investment portfolio

Issuer	Number of shares	Purchase price per share (CZK)	Cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Přerovské strojírný a.s.	59,189	429	25,411	–	–
ZPS Zlín a.s.	20,727	1,553	32,190	–	–
DEZA a.s.	1,100	2,373	2,610	349	384
GAMA a.s.	4,856	260	1,263	354	1,718
Lázně Teplice v Čechách a.s.	7,682	166	1,273	185	1,421
KABLO a.s.	11,934	1,701	20,303	412	4,913
BOPO a.s.	9,238	98	908	–	–
Česká pojišťovna a.s.	19,257	4,615	88,872	2,105	40,542
Česká spořitelna a.s.	230,238	147	33,743	166	38,196
České radiokomunikace a.s.	2,000	1,116	2,232	1,316	2,633
PPF investiční holding a.s.	1	280	–	492	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>208,805</b>	<b>–</b>	<b>89,807</b>

### Trading portfolio

#### Debt securities

Issuer	Number of units	Purchase price per unit (CZK)	Cost (TCZK)	Market price per unit (CZK)	Total market value (TCZK)
MF – pokl. poukázky /00*	10	956,966	9,570	965,000	9,650
MF – pokl. poukázky /00*	102	987,329	100,708	989,406	100,919
MF – pokl. poukázky /00*	10	986,485	9,865	988,410	9,884
SD 14,75/00	2,000	10,408	20,815	10,340	20,680
SD 10,90/03	3,000	10,872	32,615	11,294	33,882
Slov. elektr. – dluhopis VAR/03	1,000	9,950	9,950	10,000	10,000
RadioMobil 8,2/04	20	998,728	19,970	1,018,400	20,368
KOB VAR/05	1,000	10,073	10,075	10,077	10,077
CITILEASING 10,45/03	100	100,000	10,000	111,040	11,104
HZL 1KB 8,125/04	3,000	10,456	31,028	10,614	31,842
<b>Total principal</b>	<b>–</b>	<b>–</b>	<b>254,596</b>	<b>–</b>	<b>258,406</b>
Accrued interest	–	–	5,620	–	5,620
<b>Total debt securities</b>	<b>–</b>	<b>–</b>	<b>260,216</b>	<b>–</b>	<b>264,026</b>

\* The weighted average yield on Ministry of Finance debt securities was 5.53%.

## PPF Moravskoslezský uzavřený podílový fond

### Equity securities

Issuer	Number of shares	Currency	Purchase price per share (CZK)	Cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Biochem Pharma	2,805	USD	715	2,005	783	2,195
Nortel Networks Corp.	1,460	USD	1,211	1,768	3,634	5,305
Intershop Comm,	675	EUR	2,898	1,956	10,080	6,804
SAP AG	180	EUR	12,332	2,220	17,667	3,180
Nokia Corp,	2,070	EUR	2,183	4,519	6,503	13,462
Cap Gemini Sogeti	365	EUR	5,511	2,012	9,105	3,323
Bord Telecom Eireann	10,560	EUR	171	1,808	156	1,652
AT&T Corp,	1,740	USD	1,817	3,161	1,828	3,181
Advanced Micro Devices	1,840	USD	1,043	1,919	1,041	1,916
Alcatel Alsthom	940	USD	1,500	1,410	1,619	1,522
Allstate	3,230	USD	1,195	3,861	866	2,796
Amazon / AMZN	1,540	USD	1,797	2,767	2,739	4,218
America Online	2,560	USD	1,089	2,787	2,730	6,989
American Express	410	USD	4,415	1,810	5,981	2,453
Amgen Inc, / Amgn	2,560	USD	1,035	2,649	2,161	5,532
Apple Computer	590	USD	3,373	1,990	3,699	2,182
At Home Corp / Athm	1,360	USD	2,142	2,913	1,543	2,098
Bell Atlantic	860	USD	1,696	1,459	2,215	1,905
Cable & Wireless	1,355	USD	1,364	1,848	1,905	2,581
Cisco Systems	1,980	USD	1,582	3,133	3,854	7,632
Compaq	2,080	USD	1,439	2,993	974	2,025
Compuware	1,500	USD	1,077	1,615	1,340	2,010
Costo Wholes, Corporation	645	USD	2,758	1,779	3,283	2,118
Dell Computer	1,020	USD	1,556	1,587	1,835	1,872
Endesa Sponsored	2,375	USD	781	1,856	726	1,725
General Electric	960	USD	3,122	2,997	5,568	5,345
Intel / INTC	770	USD	2,546	1,960	2,961	2,280
Johnson & Johnson	615	USD	3,249	1,998	3,355	2,063
Philips – SPONS ADR	837	USD	3,446	2,885	4,857	4,066
Lucent Technology	2,140	USD	1,723	3,687	2,698	5,775
MCI Worldcom	590	USD	2,739	1,616	1,909	1,126
Mckesson	579	USD	2,871	1,663	809	469
Merrill Lynch & Co Inc	510	USD	3,421	1,745	2,997	1,529
Microsoft	1,080	USD	3,267	3,528	4,201	4,537
Pfizer Inc,	2,520	USD	1,297	3,268	1,167	2,941
Sbc Communications	1,840	USD	1,725	3,173	1,754	3,227
Charles Schwab Corp,	1,700	USD	1,963	3,337	1,376	2,340
Seagate Technology	2,720	USD	1,192	3,242	1,675	4,557
Telekomunikacja Polska – Gdr	15,660	USD	160	2,499	230	3,595
Tellabs Inc,	1,830	USD	2,063	3,775	2,309	4,226
3com	2,080	USD	1,386	2,883	1,691	3,517
3dfx Interactive Inc	4,300	USD	763	3,279	353	1,518
Wal Mart Stores	1,080	USD	1,688	1,823	2,487	2,686
Walgreen Co	3,880	USD	923	3,582	1,052	4,083
Yahoo Inc	530	USD	4,814	2,551	15,568	8,251
<b>Total equity securities</b>	–	–	–	<b>113,316</b>	–	<b>158,807</b>
<b>Total trading portfolio</b>	–	–	–	<b>373,532</b>	–	<b>422,833</b>

## **Auditors' Report**

### **Auditors' report to the Shareholders of PPF investiční společnost a.s. Otevřený podílový fond smíšený**

We have reviewed the information included in the 1999 annual report of PPF investiční společnost a.s. Otevřený podílový fond smíšený. The scope of our review was limited to confirmation as to whether the information included in the annual report was consistent with the financial statements.

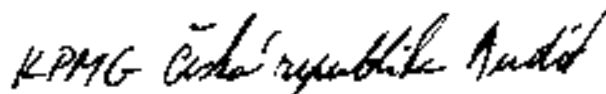
On 27 April 2000, we issued the following auditors' report on the Fund's financial statements:

"We have audited the accompanying financial statements of PPF investiční společnost a.s. Otevřený podílový fond smíšený for the period ended 31 December 1999. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 present fairly, in all material respects, the financial position of PPF investiční společnost a.s. Otevřený podílový fond smíšený, as at 31 December 1999, and the results of its operations, cash flows and changes in equity for the period then ended in accordance with International Accounting Standards."

In Prague, 30 April 2000



KPMG Česká republika Audit, spol. s r.o

## PPF Otevřený podílový fond smíšený

### **Balance Sheet** as at 31 December 1999 (expressed in thousands of Czech crowns)

	Note	1999
<b>Assets</b>		
Cash at bank		226,615
Trading securities		76,651
Other assets		194
		<u>303,460</u>
<b>Liabilities</b>		
Management fee payable	3	463
Other payables and accrued liabilities		1,835
		<u>2,298</u>
<b>Net assets</b>		
		<u>301,162</u>
Shareholders' equity:		
Share capital	4	300,000
Retained earnings	5	1,162
		<u>301,162</u>
Number of shares		300,000
<b>Net asset value per share (CZK)</b>		<u>1,003.87</u>

See accompanying notes to financial statements.

PPF Otevřený podílový fond smíšený

**Statement of Operations and Retained Earnings** for the year ended 31 December 1999  
(expressed in thousands of Czech crowns)

	Note	1999
<b>Operating income</b>		
Net gain on trading portfolio	6	2,372
Interest income		3,655
		<b>6,027</b>
<b>Expenses</b>		
Management fees	7	1,763
Brokerage fees and commissions		643
Audit fees		105
Other operating expenses		229
Other fees and expenses		65
		<b>2,805</b>
<b>Net profit before taxes</b>		<b>3,222</b>
Taxes on ordinary income	8	(2,060)
<b>Net profit for the period</b>	5	<b>1,162</b>
<b>Earnings per share (CZK)</b>	9	<b>3.87</b>

See accompanying notes to financial statements.

## PPF Otevřený podílový fond smíšený

### **Statement of Cash Flows** for the year ended 31 December 1999 (expressed in thousands of Czech crowns)

	1999
<b>Cash flows from operating activities</b>	
Operating profit/(loss) before changes in operating assets and liabilities	3,222
Increase in other assets	(194)
Increase in trading portfolio	(76,651)
Increase in management fee payable	463
Increase in other payables and accrued liabilities	637
	(75,745)
Net cash used in operating activities before taxes	(72,523)
Income tax payments	(862)
Net cash used in operating activities	(73,385)
<b>Cash flows from financing activities</b>	
Share capital issued	300,000
Net cash provided by financing activities	300,000
<b>Net increase in cash</b>	<b>226,615</b>
Cash, beginning of period	–
Cash, end of period	<b>226,615</b>

See accompanying notes to financial statements.

### **Statement of Recognised Gains and Losses** for the year ended 31 December 1999 (expressed in thousands of Czech crowns)

	1999
Net gains not recognised in the statement of operations	–
Net profit for the period	1,162
Total recognised gains and losses	<b>1,162</b>

**Notes to the Financial Statements** for the year ended 31 December 1999

**1. Description and principal activities**

**a) Establishment and description of the fund**

PPF investiční společnost, a.s. Otevřený podílový fond smíšený ("the Fund") was established as an open-end mutual fund on 23 June 1999. The Fund issued participation certificates on 9 September 1999 and has carried on investment activities since that date.

**b) Organisational structure**

The management and administration of the Fund's activities are provided by its founder, PPF investiční společnost a.s. ("the Manager").

**c) Registered office**

PPF investiční společnost a.s.  
Otevřený podílový fond smíšený  
Na Pankráci 121  
Praha 4  
Czech Republic

**2. Significant accounting policies**

The significant accounting policies adopted in the preparation of the Fund's financial statements are set out below:

**a) Basis of preparation**

The financial statements have been prepared in accordance with International Accounting Standards and under the historical cost convention and full accrual accounting, except for trading securities which are carried at market value, as described below.

**b) Trading securities**

Trading securities are carried at market value based on prices quoted by recognized markets in the appropriate countries. Differences between market value and cost are included within the statement of operations.

The cost of investments sold is determined using the average cost method. All realised gains and losses are taken to the statement of operations.

**c) Taxation**

Tax expense on the profit or loss for the period comprises current tax and the net change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the period, using the tax rate effective at the balance sheet date.

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted taxes rates are used to determine deferred income tax. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the deferred tax assets can be utilized.

**d) Foreign currency translation**

Transactions in foreign currencies are converted at the rate of exchange ruling at the transaction date. At the balance sheet date, foreign currency monetary assets and liabilities are converted at the rate of exchange ruling at that date. Resulting exchange differences are recognised in the statement of operations.

**e) Derivatives**

The Fund uses derivative financial instruments to manage its exposures to foreign currency exchange risks arising from its activities. In accordance with its treasury policy, the Fund does not currently hold or issue derivatives for trading purposes. The derivatives used for hedging purposes are accounted for in the same manner as the hedged item. To the extent recognised, revaluation gains (or losses) are taken to the statement of operations and recorded as part of other assets (liabilities) in the balance sheet.

# PPF Otevřený podílový fond smíšený

## 3. Related party transactions and balances

### a) Transactions

During the course of the period, the Fund completed a number of security trades at arms' length with a related party, as follows:

(in thous. CZK)	Total sales	Total purchases
PPF burzovní společnost a.s.	57,215	108,330

### b) Payables

(in thous. CZK)	1999
PPF investiční společnost a.s.	463

## 4. Share capital and premium

The nominal value of the issued share capital is TCZK 300,000, which consists of 300,000 shares, each at a nominal value of CZK 1,000.

These shares were issued on 9 September 1999 at nominal value.

## 5. Reconciliation to Czech Statutory Accounts

The reconciliation of the net profit and retained earnings as reflected in the Czech Statutory Accounts to these financial statements is as follows:

(in thous. CZK)	Net profit	Retained earnings
Statutory Accounts as at 31 December 1999	5,968	5,968
Adjustment to record short term securities at market value	(4,806)	(4,806)
Total	1,162	1,162

## 6. Net gain on trading portfolio

(in thous. CZK)	1999
Realised gains on sold securities	6,304
Unrealised foreign exchange rate differences	555
Market value differences	(4,806)
Interest income from debt securities	319
Net gain	2,372

## 7. Management fee

PPF investiční společnost a.s. managed all of the Fund's activities in accordance with the Management Contract at a management fee of 1.75% of the average annual value of the investment portfolio of the Fund. The management fee for the period totalled TCZK 1,763.

## 8. Taxation

Income tax on funds in the Czech Republic is assessed at the rate of 25% of taxable income.

(in thous. CZK)	1999
Current tax expense	2,060
Change in deferred tax provision	–
Tax expense	2,060



## PPF Otevřený podílový fond smíšený

The following is a reconciliation of income taxes calculated at the applicable tax rate with the income tax expense for the period ended 31 December 1999.

(in thous. CZK)	1999
Accounting loss before tax	3,222
Computed tax using applicable tax rate	805
Non deductible expenses and non taxable income	(66)
Unrealised revaluation adjustments	1,321
Income tax expense	2,060

### 9. Earnings per share

Earnings per share are calculated based on retained profit for the period and the weighted average number of shares in issue during the period.

(in thous. CZK)	1999
Retained profit for the period	1,162
Weighted average number of shares outstanding	300,000
Earnings per share (CZK)	3.87

### 10. Deferred taxation assets and liabilities

Deferred taxation assets and liabilities are attributable to the items described in the following table:

(in thous. CZK)	31 December 1999		
	Assets	Liabilities	Net
Revaluation of securities not deductible for tax purposes	1,202	–	1,202
Unrealised forward foreign exchange contracts	119	–	119
<b>Total</b>	<b>1,321</b>	<b>–</b>	<b>1,321</b>

In accordance with the requirements of IAS 12, deferred tax assets have not been recognised in these financial statements because of the uncertainty surrounding the recoverability of such assets. In order to recognise deferred tax assets, it must be probable that future taxable profits will be available against which the deferred tax asset can be utilised.

### 11. Commitments

The following forward contracts were outstanding at the end of the period:

(in thous. CZK)	1999
Forward foreign currency sales	49,895

The Fund has recognised a net unrealised gain on the contracts totalling TCZK 476 at 31 December 1999. Refer also to note e).

### 12. Financial instruments

A financial instrument is any contract that gives rise to the right to receive cash or another financial asset from another party (financial asset) or the obligation to deliver cash or another financial asset to another party (financial liability).

Financial instruments result in certain risks to the Fund. The most significant risks facing the Fund are discussed below.

## PPF Otevřený podílový fond smíšený

### (i) Foreign exchange risk

Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Hedging instruments used by the Fund to manage this risk take the form of forward foreign exchange contracts and currency swaps.

### (ii) Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. Information regarding interest bearing assets and liabilities of the Fund are contained in the preceding notes and schedule of investments. All other financial assets and liabilities are non-interest bearing, except for term deposits totalling 207,320 TCZK which bear interest at market rates.

### (iii) Fair values

Market values of investments as determined under note 2(b) are presented in the schedule of investments included in these financial statements. All other financial assets and financial liabilities of the Fund are deemed to approximate their market values.

## 13. Contingent liabilities

Many parts of Czech commercial, securities and tax legislation remain untested and there is uncertainty about the interpretation that the financial authorities may apply in a number of areas. The effect of this uncertainty cannot be quantified and will only be resolved as legislative precedents are set or when the official interpretations of the authorities are available.

### Debt securities

Issuer	Number of units	Purchase price per unit (CZK)	Cost (TCZK)	Market price per unit (CZK)	Total market value (TCZK)
HZL 1KB 8,125/04	1,000		10,508		10,614
KOB VAR/05	1,000		10,085		10,077
KB VAR/02	1,000		10,040		10,007
Total principal			30,633		30,698
Accrued interest			963		963
<b>Total debt securities</b>			<b>31,596</b>		<b>31,661</b>

### Equity securities

Issuer	Number of shares	Purchase price per share (CZK)	Cost (TCZK)	Market price per share (CZK)	Total market value (TCZK)
<i>USD Denominated</i>					
Tyco (USD)	800	1,793	1,435	1,403	1,123
Global Crossing	1,800	1,475	2,656	1,798	3,238
Bell Atlantic	2,400	2,252	5,405	2,214	5,316
Ford Motor Corp.	2,000	1,890	3,781	1,918	3,836
Intel / INTC	2,100	2,702	5,674	2,961	6,219
Intl Business Mach Corp / IBM	700	3,906	2,734	3,881	2,717
Eli Lilly	900	2,658	2,393	2,392	2,153
Lucent Technology	1,800	2,835	5,104	2,698	4,857
MCI Worldcom	1,900	3,073	5,838	1,909	3,627
SBC Communications	3,000	1,670	5,011	1,753	5,262
Tellabs Inc.	2,300	2,507	5,767	2,309	5,312
<i>EUR Denominated</i>					
Tyco (EUR)	1,000	3,033	3,033	1,329	1,330
<b>Total equity securities</b>	–	–	<b>48,831</b>	–	<b>44,990</b>
<b>Total trading portfolio</b>	–	–	<b>80,427</b>	–	<b>76,651</b>

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