

ANNUAL REPORT
1997

OMNIPOL



INTRODUCTORY REMARKS FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS AND GENERAL DIRECTOR



Dear shareholders:

The company's financial program for 1997 was approved by the general assembly of shareholders on 18 July 1997. It was conceived not only for the maintenance of balanced financial management, but also for the strengthening of new commercial activities which are extending the traditional field of military technology. Emphasis was also placed on increasing activity in non-military areas, lowering the risks associated with concentration on only one area of commercial activity.

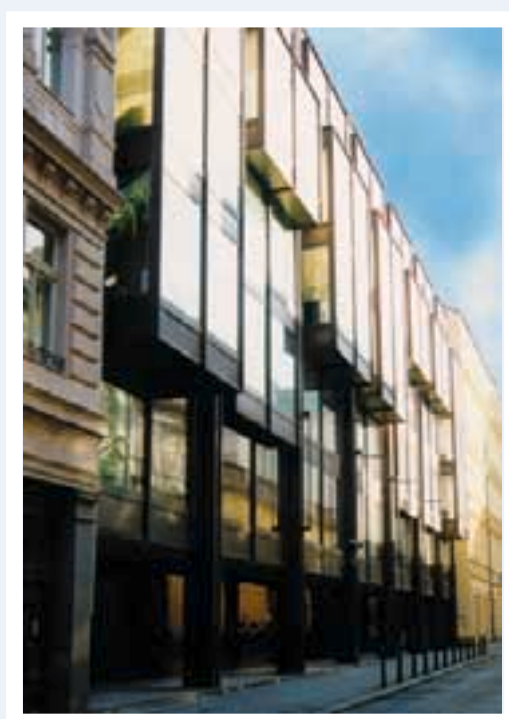
In the course of the year, the company strengthened its leading market position in the area of trade with military supplies. The company has very broad legal authority, enabling it to engage in international trade with this technology.

By having been incorporated into the CHEMAPOL GROUP in September 1996, the company gained the much-needed feeling of belonging to a strong and important financial group. Our partners appreciate the importance of this fact, particularly today, when we are witnessing the concentration of capital in other branches besides the armaments industry. In this way, we are acquiring the conditions necessary for a more aggressive approach toward projects with long-term plans for perspective transactions and complete services, founded upon mutually beneficial cooperation with important Czech engineering and electronics manufacturers, as well as with institutions, which are contributing to, among other things, innovative and modernization programs in the area of military technology. We have actively participated in the work of the Defense Industry Association. At a time when our country is seen as one of the future members of NATO, this orientation is of particular relevance.

In December 1997, an extraordinary general assembly approved the proposed changing of the company's management personnel. The goal of those changes was to make company management more effective by trimming down the board of directors. On the basis of experience gained during the year, the newly created three-member board of directors made some organizational changes. The export and import divisions were merged into one commercial division, and at the same time, the finance – management division was created. In the course of 1997, the number of employees was lowered by 43 to a total of 227 as of 1 January 1998.

BASIC INFORMATION ABOUT THE COMPANY

Company name:	OMNIPOL a. s.
Headquarters:	Nekázanka 11, 112 21 Praha 1
Telephone:	(02) 24011111
Fax:	(02) 24012241
E-mail:	omnipol@gts.cz
Internet:	http://www.omnipol.cz
Company registration no. (IČO):	00001201
Tax ID no. (DIČ):	001-00001201
Date of entry into the companies register:	19. srpna 1991
Registered capital (as of 31 December 1997):	1 616 000 000 Kč
Number of employees (as of 31 December 1997):	245





SHARES

The registered capital of Omnipol a.s., in the amount of CZK 1,616bn, is divided into 1,616,000 common bearer shares. The nominal value of each share is CZK 1,000. –. Omnipol a.s. shares are publicly negotiable. Total number of shareholders as of 31 December 1997 is 41 legal entities and 9,161 individuals.

OWNERSHIP STRUCTURE (as of 31. December 1997)

	Number of shares	% of registered capital
Chemapol Group a. s., Praha	1 418 125	87,7553
IPF Komerční banky	27 250	1,6863
National Property Fund	14 907	0,9225
Instar a. s., Bratislava	3 296	0,2040
Other legal entities	6 706	0,4148
Individuals	145 716	9,0171
Total	1 616 000	100,00

COMPANY BODIES

STATUTORY BODY – THE BOARD OF DIRECTORS

During the from 1 January 1997 until 22 December 1997, the board of directors of Omnipol a. s. had the following members:

chairman:

Mr. Richard Háva

vice-chairman:

Mr. Milan Černý

members:

Mr. Jiří Fiala, Dr. Ivan Hejl, Mr. Pavel Musela
Mr. Pavel Roubal, Mr. Petr Veselý

During the period from 23 December 1997 until 31 December 1997, the board of directors of Omnipol a. s. had the following members:

chairman:

Mr. Michal Hon

general director, Omnipol a. s.

members:

Mr. Jiří Řezáč

director of the commercial division, Omnipol a. s.

Mr. Milan Faltus

director of the commercial section, Omnipol a. s.

CONTROL BODY – THE SUPERVISORY BOARD

During the period from 1 January 1997 until 22 December 1997, the supervisory board of Omnipol a. s. had the following members:

chairman:

Mr. Otakar Bízek

members:

Mr. Jaromír Burián, Mr. Petr Kudrna

During the period from 23 December 1997 until 31 December 1997, the supervisory board of Omnipol a. s. had the following members:

chairman:

Mr. Richard Háva

chairman of the board of directors and general director, C.H.M. a. s.

members:

Mr. Jozef Piga

member of the board of directors and executive director, C.H.M. a. s.

Mr. Petr Kudrna

member elected by employees of the company Omnipol a. s.

INFORMATION FROM THE 1997 GENERAL ASSEMBLIES

During 1997, two Omnipol a. s. general assemblies took place.

The regular general assembly was held on 18 July at company headquarters. Seven shareholders, owning 1,445,528 shares, i.e. 89.45% of the total registered capital, were present.

In addition to procedure questions, shareholders also discussed:

- a report by the board of directors on business activities, property status, commercial policy and the 1996 financial statement, including a proposal for the distribution of profits for 1996
- a report by the supervisory board on inspection activities and a statement on the economic results for 1996 and on the proposal for the distribution of profits
- prospects for company development in 1997

Also approved:

- changes to the Articles of Association
- the financial statement for 1996 and distribution of profits

An extraordinary general assembly was held on 22 December 1997 at company headquarters. Four shareholders, owning 1,420,278 shares, i.e. 87.88% of the total registered capital, were present. This general assembly primarily addressed itself to the company's personnel issues. The former board of directors and supervisory were recalled and a new supervisory board was elected. The general assembly then approved a corresponding change to the Articles of Association.

COMPANY BALANCE SHEET THROUGH 31 DECEMBER 1997

(in 000 CZK)

		Current year	Last year
	Total assets	4 905 187	5 063 721
A	Receivables for subscribed share capital	0	0
B	Fixed assets	1 752 024	1 759 830
B.I.	Intangible fixed assets	5 232	151
B.II.	Tangible fixed assets	1 267 598	1 188 326
B.III.	Financial investments	479 194	571 353
C	Current assets	2 778 415	3 239 946
C.I.	Inventory	126 954	164 734
C.II.	Long-term receivables	243 157	346 255
C.III.	Short-term receivables	1 963 892	2 331 754
C.IV.	Financial assets	444 412	397 203
D	Other assets	374 748	63 945

		Current year	Last year
	Total liabilities	4 905 187	5 063 721
A	Owner s equity	1 969 677	1 978 083
A.I.	Share capital (registered capital)	1 616 000	1 616 000
A.II.	Capital funds	415	415
A.III.	Retained earnings and funds created from net profit	263 127	277 713
A.IV.	Profit/loss brought forward from previous years	81 880	67 115
A.V.	Profit/loss for the current year	8 255	16 840
B	External resources	2 570 560	2 537 948
B.I.	Reserves	431 496	427 849
B.II.	Long-term liabilities	0	0
B.III.	Short-term liabilities	1 439 064	1 585 099
B.IV.	Bank loans and assistance	700 000	525 000
C	Other liabilities	364 950	547 690

PROFIT/LOSS STATEMENT THROUGH 31 DECEMBER 1997

(in 000 CZK)

		<i>Current year</i>	<i>Last year</i>
I.	Revenues from the sale of goods	1 801 403	1 966 782
A	Cost of goods sold	1 647 847	1 835 952
+	Sales margin	153 556	130 830
II.	Services	698 514	23 923
B	Service consumption	284 635	139 573
C	Personnel costs	162 211	92 112
D	Taxes and fees	3 362	3 098
E	Depreciation of intangible and tangible assets	522 711	466 230
III.	Revenues from the sale of fixed assets and material	66 094	11 149
F	Residual price of sold fixed assets and material	86 777	20 110
IV.	Accounting of reserves and temporal distribution of operating revenues	29 278	175 418
G	Creation of reserves and temporal distribution of operating expenses	34 072	17 314
V.	Accounting of adjustments into operating revenues	112 153	0
H	Accounting of adjustments into adjusting expenses	18 366	103 046
VI.	Other operating revenues	239 959	96 063
I	Other operating expenses	210 739	205 120
VII.	Transfer of operating revenues	0	0
J	Transfer of operational expenses	0	0
*	Operating profit/loss	(23 319)	(609 220)

OVERVIEW OF CASH FLOW FOR 1997 (in 000 CZK)

P	Status of financial resources at the beginning of the accounting period	397 203
A	Cash flow from operating activities	188 846
Z	Accounting profit or loss from ordinary activities before taxation	8 438
A 1	Adjustment for non cash operations	180 408
1.	Depreciation of fixed assets	745 445
2.	Change to the status of adjustments, reserves and changes to the balance and temporary accounts of assets and liabilities	(605 910)
3.	Profit (loss) from the sale of fixed assets	82 955
4.	Revenues from dividends and shares of profits	(692)
5.	Accounted expenses interest and accounted revenues interest	(41 390)
A 2	Change in the need for working capital	(341 374)
1.	Change in the status of receivables	430 606
2.	Change in the status of short term liabilities	(146 037)
3.	Change in the status of inventory	37 782
4.	Change in the status of leasing assets	(663 725)
A 3	Expenses from interest payments	(28 571)
A 4	Received interests	27 342
A 5	Income tax paid	(4 993)
A 6	Revenues and expenses connected with extraordinary accounting cases	1 358

AUDITOR'S STATEMENT FOR COMPANY SHAREHOLDERS

We made an audit of the financial statement of the company Omnipol a.s. through 31 December 1997. The board of directors is responsible for the creation of a financial statement. Our task is to express our opinion on this financial statement on the basis of the completed audit.

The audit was made in accordance with ČNR Act no. 524/1992 Coll. on auditors and the Chamber of Auditors of the Czech Republic, and with directives on audits issued by the Chamber of Auditors. These directives require that the audit be planned and made so as to allow the auditor to assure himself adequately that the financial statement does not contain any significant inaccuracies. The audit comprises the selective verification of the completeness and conclusiveness of the amounts and information stated in the financial statement. The audit also comprises an evaluation of the accuracy and suitability of the accounting bases used, and of significant estimates made by the company, and an evaluation of the total presentation of the financial statement. The extent of our audit was limited by the fact that we were not allowed to examine the records of the company's board of directors. The director of the company gave us written confirmation that those records do not contain any facts not in agreement with this financial statement. We are convinced that, apart from that limitation, the audit provides an adequate basis for reaching a conclusion.

(1) On 31 December 1997, the company created adjustments to receivables in the amount of CZK 105,064,000.-. In our opinion, the adjustments to receivables, which would appropriately cover the risk connected with uncollectable receivables, should be higher by CZK 552,000,000.-, and company profits, assets and equity should be lowered by the same amount.

In our opinion, the adjustment should have also been made through 31 December 1996. The adjustment for uncollectable receivables through 31 December 1996 and through 31 December 1997 should be increased by the above-mentioned amount. This correction does not have any bearing on the company's stated operating profits for 1997.

(2) On 31 December 1997, the company has an uncollectable term deposit. In our opinion, a reserve for the lowering of the uncollectable term deposit should be created in the amount of CZK 125,000,000.-, and company profits, assets and equity should be lowered by the same amount.

In our opinion, the reserve should have also been made through 31 December 1996. The reserve for the uncollectable term deposit through 31 December 1996 and through 31 December 1997 should be increased by the above-mentioned amount. This correction does not have any bearing on the company's stated operating profits for 1997.

(3) On 31 December 1997, the company did not create adjustments for its financial investments. In our opinion, the adjustments should have been created in the amount of CZK 11,000,000.-, and company profits, assets and equity should be lowered by the same amount.

In our opinion, the adjustment should have also been made through 31 December 1996. The adjustment for financial investments through 31 December 1996 and through 31 December 1997 should be increased by the above-mentioned amount. This correction does not have any bearing on the company's stated operating profits for 1997.

INCOME STATEMENT FOR 1997 (in CZK)

Expenses	(3 191 340 333,73)
Revenues	3 201 451 934,41
Income before taxation	10 111 600,68
Non-deductible ites	163 563 872,76
Deductible items	(166 484 822,05)
Profit/loss	7 190 651,39
10 % deduction for tangible fix ed assets purchased in 1997	(2 287 085,00)
Tax base I	4 903 566,39
2 % deduction - gifts (2 % of the tax base)	(41 832,00)
Tax base II	4 861 734,39
Rounded-off tax base	4 861 000,00
Tax - 39 %	1 895 790,00
Rabate in accordance with § 35	(39 400,00)
Tax due	1 856 390,00
Tax due in 1997 for 1996	0
Profits after taxation	8 255 210,68

PROPOSAL FOR THE DISTRIBUTION OF PROFITS FOR 1997 (in CZK)

Distribution of profits	8 255 210,68
Basic allocation for the reserve fund (5 %)	(412 760,53)
Further allocation for the reserve fund (5 %)	(412 760,53)
Allocation for the social fund (2 %)	(165 104,21)
Profits from the recreational facility for the social fund	(128 087,32)
Interest from the social fund current account	(26 806,31)
Undistributed profits	7 109 691,77

The payment of a dividend was not proposed. The undistributed profits in the amount of CZK 7,109,691.77 will be left as a reserve against extraordinary risks. These profits may be distributed during the coming period.

OMNIPOL - RELIABLE PARTNER
IN THE INTERNATIONAL DEFENCE
AND AEROSPACE BUSINESS



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