



OMNIPOL a. s.

Report 2003

COMPANY INFORMATION

| | |
|---|---|
| Trade Name: | OMNIPOL a. s. |
| Registered Office: | Nekázanka 880/11 112 21 Praha 1 |
| Telephone: | (+420) 224 011 111 |
| Fax: | (+420) 224 012 241 |
| E-mail: | omnipol@omnipol.cz |
| Internet: | http://www.omnipol.cz |
| Company Registration Number: | 00001201 |
| Tax Registration Number: | 001-00001201 |
| Date of Incorporation: | 19. August, 1991 Municipal Court in Prague (part B, insert 885) |
| Registered Capital (as at Dec. 31, 2003): | 1,616,000,000 CZK |
| Total Equity (as at Dec. 31, 2003): | 1,848,192,000 CZK |
| Number of Employees (as at Dec. 31, 2003): | 129 |
| Average Number of Employees in 2003: | 131 |

SCOPE OF BUSINESS

- purchase of goods for the purpose of re-sale, and sale
- brokerage of goods purchase for the purpose of re-sale
- purchase and sale of weapons and ammunition
- foreign trading in military material
- leasing of non-residential premises to the extent that is not subject to licence
- purchase and sale of military weapons and ammunition
- economic and organisational consulting
- leasing of movable assets

- representation in customs procedure

Foreign trading in military material undertaken by OMNIPOL a. s. is based on "Licence No. R050802042 for Foreign Trading in Military Material" issued by the Licence Administration of the Ministry of Industry and Trade of the Czech Republic, dated August 26, 2002, to the extent of the Military Material List (SVM) 1 - 24 and with the territorial focus specified in the consequently issued "Licences after Amendment".

STOCK SHARES

As of 31 December, 2003, the registered capital of OMNIPOL a. s. was CZK 1,616,000,000 and was divided into 1,616,000 ordinary bearer shares with the face value of each share being CZK 1,000. In connection with the resolution of the general meeting held on 21 December, 2001, on changing over from uncertificated shares registered at the Securities Centre to share certificates, the company, in compliance with the law, made announcements in the press (the daily newspaper *Hospodářské noviny* on 8 February, 2002, and in the *Commercial Journal - Obchodní věstník* - on 13 February, 2002) asking shareholders to pick up their share certificates. Share certificates were issued at the company's head office from 25 March, 2002, until 27 May, 2002, and subsequently from 29 July, 2002, until 2 September, 2002. After those deadlines, share certificates were issued continuously until the holding of a public auction. As at 7 February, 2003, share certificates were retrieved by 1,413 shareholders. On 7 February, 2003, a public auction was held for unclaimed share certificates of the company OMNIPOL a. s. pursuant to Act No. 26/2000 Coll. At the auction, 74,439 shares (4.6 % of the registered capital) were sold for the price of CZK 12,670,000. After the deduction of necessary costs, the proceeds of the auction were sent out to the individual former shareholders during May 2003.

INFORMATION FROM GENERAL MEETINGS

During 2003, there were two general meetings of OMNIPOL a. s. shareholders.

The regular general meeting was held on **30 June, 2003**, at the company's head office. Participating at the general meeting were 19 shareholders holding a total of 1,308,482 shares, i.e. 80.97 % of the total registered capital.

Besides procedural questions, the shareholders present **discussed**:

- the report of the board of directors on business activities and the status of the company's property, the 2002 annual financial statement and a proposal for profit distribution including a proposal for the amount, manner and date of the payment of a dividend;
- the report of the supervisory board on the monitoring of activities and its opinion regarding business results for the year 2002 and the proposal for profit distribution;
- prospects for the company's development in the year 2003.

The shareholders **approved**:

- the 2002 annual financial statement;
- profit distribution for 2002, a **dividend of CZK 26.00** per share (before taxes) was approved, to be paid from 3 September, 2003, through 3 December, 2003, in the manner approved at the general meeting;
- the dissolving of the company's special purpose reserve fund.

An extraordinary general meeting was held on **23 December, 2003**, at the company's head office. Present at the general meeting were 32 shareholders owning a total of 1,541,864 shares, representing 95.41 % of the total number of shares and therefore the same percentage of the company's registered capital. After the general meeting was called to order, a quorum was determined and the officers of the general meeting were elected, the shareholders present **discussed**:

- the intent of the main shareholder OMNYX, a. s., with registered office at Prague 1, Nekázanka 11, Company ID 25063138, to take over OMNIPOL a. s., i.e. the report of the board of directors clarifying the proposed contract for the take-over of corporate assets by the principal shareholder, the opinion of the supervisory board concerning the proposed contract for the take-over of corporate assets by the principal shareholder, and an expert opinion on examination of the appropriate amount of monetary settlement for the minority shareholders;
- the final financial statement issued as of 31 August, 2003.

The shareholders **approved**:

- the dissolving of the company OMNIPOL a. s. without liquidation and the take-over of its assets by the principal shareholder OMNYX, a. s. (these changes shall come into effect upon their legally binding entry in the Commercial Register);
- the proposed contract for the take-over of the corporate assets of the dissolved company OMNIPOL a. s. by the principal shareholder OMNYX, a. s.;
- the final financial statement of the company OMNIPOL a. s. issued as of 31 August, 2003, being the day preceding the effective date of the take-over of corporate assets by the principal shareholder.

OWNERSHIP INTERESTS

(as at December 31, 2003)

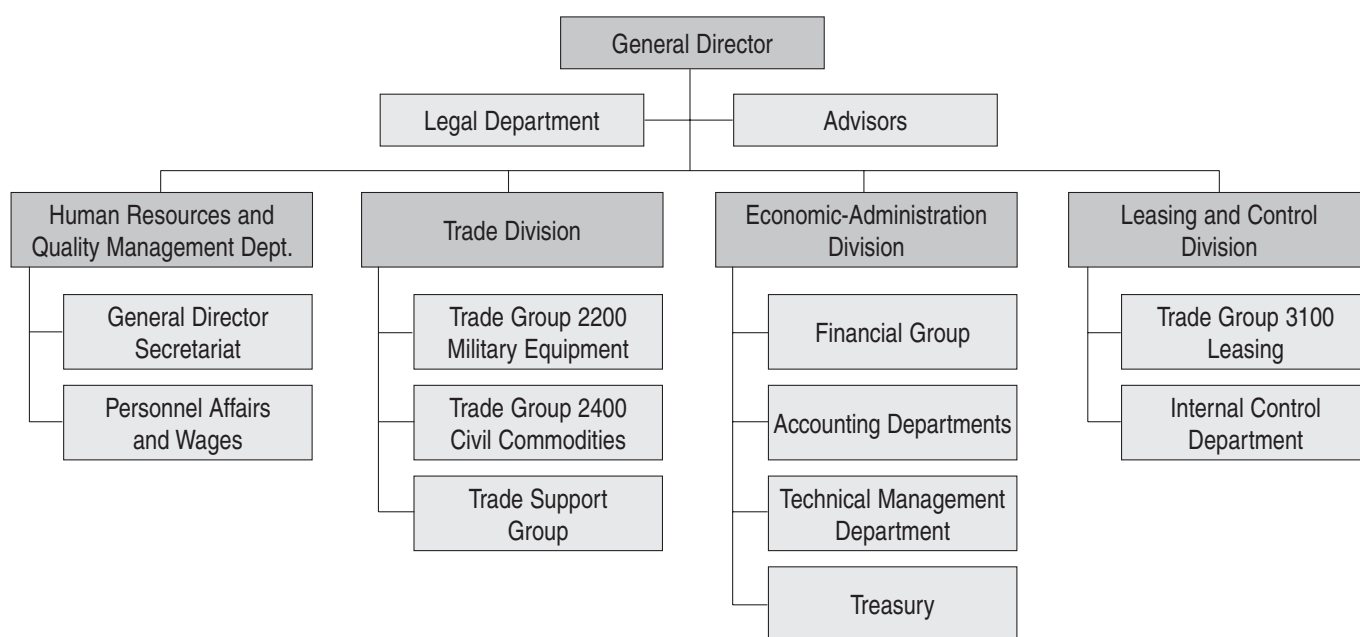
| <i>Company's trade name and registered office</i> | <i>% of registered capital</i> |
|---|--------------------------------|
| SLOMEX a. s., Bratislava | 100.00 % |
| Česká letecká servisní a. s., Praha | 51.00 % |
| Elektrosignál Praha, a. s., Praha | 49.66 % |
| Poličské strojírny a. s., Polička | 39.81 % |
| RAMET C.H.M. a. s., Kunovice | 34.00 % |
| RAMET s.r.o., Kunovice | 20.00 % |
| ERA a. s., Pardubice | 10.00 % |

SHAREHOLDER'S STRUCTURE

(as at December 31, 2003)

| | <i>Number of shares</i> | <i>% of registered capital</i> |
|--------------------|-------------------------|--------------------------------|
| OMNYX, a. s. | 1,507,471 | 93.28 % |
| Other shareholders | 108,529 | 6.72 % |
| Total | 1,616,000 | 100.00 % |

ORGANISATIONAL STRUCTURE



COMPANY BODIES

STATUTORY BODY – Board of Directors

The following persons composed the Board of Directors of OMNIPOL a. s. in the period from January 1, 2003, to December 31, 2003:

Chairman:

Mr. Michal Hon

Chief Executive Officer and Director General, OMNIPOL a. s.

Members:

Mr. Jiří Řezáč

Commercial Deputy Director General, OMNIPOL a. s.

Mr. Milan Faltus

Commercial Director, OMNIPOL a. s.

SUPERVISORY BODY – Supervisory Board

The following persons composed the Supervisory Board of OMNIPOL a. s. in the period from January 1, 2003, to December 31, 2003:

Chairman:

Mr. Richard Háva

Chief Executive Officer and Director General, OMNYX, a. s.

Members:

Mr. Jozef Piga

Member of the Board of Directors and Exec. Director, OMNYX, a. s.

Mr. Vratislav Ondráček

Member elected by employees of OMNIPOL a. s.

COMPANY MANAGEMENT

Chief Executive Officer and Director General Mr. Michal Hon

Member of the Board and Commercial Deputy Gen. Director Mr. Jiří Řezáč

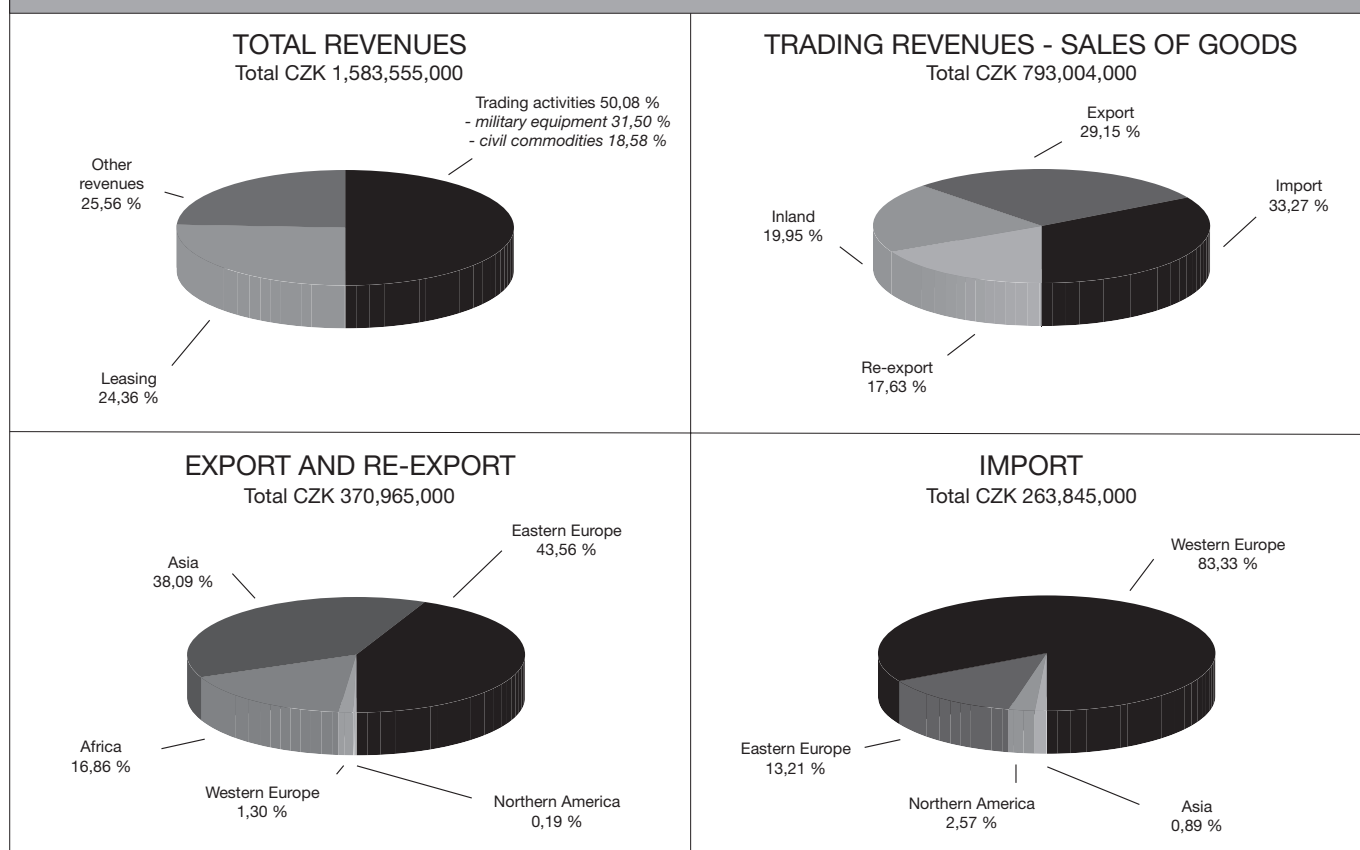
Member of the Board of Directors and Commercial Director Mr. Milan Faltus

Economic Deputy General Director Mr. Jan Eret

Legal Department Director Mr. Bruno Chudý

Human Resources and Quality Management Dept. Director Mrs. Alena Cejnarová

STRUCTURE OF REVENUES IN 2003



BALANCE SHEET AS AT DECEMBER 31, 2003

The data stated as at 31 December, 2003, are not audited due to the change of accounting period verified by the auditor (see chapter "Auditor's report for January through August 2003") and shall only serve for comparison with the data as at 31 December, 2002.

| ASSETS (in CZK thousand) | | 31. 12. 2003 | 31. 12. 2002 |
|-----------------------------|--|------------------|------------------|
| TOTAL | | 2,816,552 | 3,266,066 |
| A | Receivables for capital subscription | 0 | 0 |
| B | Fixed assets | 882,056 | 1,104,429 |
| I. | Long-term intangible assets | 7,449 | 16,038 |
| II. | Long-term tangible assets | 652,408 | 866,242 |
| III. | Long-term financial assets | 222,198 | 222,149 |
| 1. | Majority shareholdings and participating interests (shareholdings > 20%) | 8,233 | 8,062 |
| C | Current assets | 1,872,695 | 1,645,247 |
| I. | Inventory | 51,324 | 129,092 |
| II. | Long-term receivables | 686,020 | 665,959 |
| III. | Short-term receivables | 1,052,334 | 739,458 |
| IV. | Short-term financial assets | 83,017 | 110,738 |
| D I. | Accruals | 61,802 | 516,390 |

| SHAREHOLDER'S EQUITY AND LIABILITIES (in CZK thousand) | | 31. 12. 2003 | 31. 12. 2002 |
|---|-------------------------------------|------------------|------------------|
| TOTAL | | 2,816,552 | 3,266,066 |
| A | Shareholder's equity | 1,848,192 | 1,876,430 |
| I. | Registered capital | 1,616,000 | 1,616,000 |
| II. | Capital funds | 586 | 415 |
| III. | Funds created from profit | 214,729 | 214,799 |
| IV. | Retained earnings | 1,859 | 18,407 |
| V. | Result of current accounting period | 15,018 | 26,809 |
| B | Liabilities | 900,035 | 1,292,000 |
| I. | Reserves | 85,956 | 103,781 |
| II. | Long-term liabilities | 4,000 | (19,806) |
| III. | Short-term liabilities | 412,265 | 826,537 |
| IV. | Bank loans and short-term notes | 397,814 | 381,488 |
| 1. | Long-term bank loans | 100,000 | 100,000 |
| C I. | Accruals | 68,325 | 97,636 |

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2003

(in CZK thousand)

The data stated as at 31 December, 2003, are not audited due to the change of accounting period verified by the auditor (see chapter "Auditor's report for January through August 2003") and shall only serve for comparison with the data as at 31 December, 2002.

| | | | 31. 12. 2003 | 31. 12. 2002 |
|---|-------|--|---------------|-----------------|
| | I. | Revenues from goods sold | 793,004 | 983,063 |
| A | | Cost of goods sold | 737,604 | 839,180 |
| | + | Gross margin | 55,400 | 143,883 |
| | II. | Operation | 385,692 | 455,414 |
| B | | Consumption from operation | 80,229 | 103,071 |
| | + | Value added | 360,863 | 496,226 |
| C | | Personnel expenses | 79,070 | 98,476 |
| D | | Taxes and fees | 2,213 | 1,448 |
| E | | Depreciation of long-term intangible and tangible assets | 315,394 | 375,954 |
| | III. | Revenues from intangible and tangible assets and material sold | 40,372 | 49,060 |
| F | | Net book value of intangibles, tangibles and material sold | 47,745 | 62,247 |
| G | | Change in operational reserves and provisions | (14,298) | (58,662) |
| | IV. | Other operational revenues | 225,019 | 707,412 |
| H | | Other operational expenses | 178,313 | 677,929 |
| | V. | Transfer of operational revenues | 0 | 0 |
| I | | Transfer of operational expenses | 0 | 0 |
| | * | Net operating results | 17,816 | (22,018) |
| | VI. | Revenues from sales of securities and deposits | 0 | 210,385 |
| J | | Sold securities and deposits | 0 | 206,957 |
| | VII. | Revenues from long-term financial investments | 1,301 | 0 |
| | VIII. | Revenues from short-term financial assets | 0 | 0 |
| K | | Costs of financial assets | 0 | 0 |
| | IX. | Revenue from revaluation of equity securities | 0 | 0 |
| L | | Costs of revaluation of equity securities | 0 | 0 |
| M | | Change in financial reserves and provisions | 0 | 0 |
| | X. | Interest revenues | 4,342 | 12,099 |
| N | | Interest expenses | 9,171 | 43,685 |
| | XI. | Other financial revenues | 132,042 | 66,435 |
| O | | Other financial expenses | 126,800 | 50,479 |
| | XII. | Transfer of financial revenues | 0 | 0 |
| P | | Transfer of financial expenses | 0 | 0 |
| | * | Net result from financial activities | 1,712 | (12,202) |
| Q | | Income tax on ordinary activities | 6,293 | 100 |
| | ** | Net result after taxes from ordinary activities | 13,235 | (34,320) |
| | XIII. | Extraordinary revenues | 1,783 | 61,249 |
| R | | Extraordinary expenses | 0 | 120 |
| S | | Income tax on extraordinary activities | 0 | 0 |
| | * | Net result from extraordinary activities | 1,783 | 61,129 |
| T | | Income distribution to partners | 0 | 0 |
| | *** | Net income (net loss) for the accounting period | 15,018 | 26,809 |

2003 CASH FLOW STATEMENT

(in CZK thousand)

The data stated for the period January to December 2003, are not audited due to the change of accounting period verified by the auditor (see chapter "Auditor's report for January through August 2003") and shall only serve for comparison with the data for the period January to December 2002.

| | | | <i>Jan. to Dec. 2003</i> | <i>Jan. to Dec. 2002</i> |
|-----------|----|--|--------------------------|--------------------------|
| P | | Cash and cash equivalents at the beginning of the accounting period | 110,738 | 95,602 |
| A | | Cash flow from main operational activity | (54,860) | (28,780) |
| Z | | Profit (loss) from normal activity before taxes | 19,529 | (34,220) |
| A1 | | Adjustments by non-cash transactions | 312,509 | 468,085 |
| | 1. | Depreciation of fixed assets | 315,394 | 375,954 |
| | 2. | Change in provisions and reserves | (15,086) | 50,782 |
| | 3. | Profit (loss) from sale of fixed assets | 7,371 | 9,763 |
| | 4. | Dividends and profit revenues | 0 | 0 |
| | 5. | Interest expense and revenue | 4,830 | 31,586 |
| A2 | | Change in working capital | (380,177) | (438,945) |
| | 1. | Change in receivables from operational activities and change in prepayments | 116,140 | 20,872 |
| | 2. | Change in short-term payables from operational activities and change in accruals | (448,779) | (193,478) |
| | 3. | Change in inventories balance | 77,768 | 17,214 |
| | 4. | Change in leasing assets | (125,306) | (283,553) |
| A3 | | Interest paid | (9,172) | (43,685) |
| A4 | | Interest received | 4,342 | 12,099 |
| A5 | | Tax on normal activity and additional tax of prior years | (3,674) | (3,243) |
| A6 | | Proceeds and disbursements related to extraordinary items | 1,783 | 11,129 |
| A7 | | Dividends | 0 | 0 |
| B | | Cash flow from investment activities | 25,084 | 204,390 |
| B1 | | Fixed asset acquisition | (15,406) | (56,442) |
| B2 | | Sale of fixed assets | 40,368 | 259,426 |
| B3 | | Loans to related parties | 122 | 1,406 |
| C | | Cash flow from financial activities | 2,055 | (160,474) |
| C1 | | Change in long-term liabilities | 40,132 | (131,223) |
| C2 | | Impact of changes in equity | (38,077) | (29,251) |
| | 1. | Capital and reserve fund increase | 0 | 0 |
| | 2. | Refund of equity to shareholders | 0 | 0 |
| | 3. | Monetary donations and subsidies to equity and other cash contributions of partners and shareholders | 0 | 0 |
| | 4. | Settling of loss by shareholders | 0 | 0 |
| | 5. | Direct payments debited to funds | (1,411) | (1,472) |
| | 6. | Paid-out dividends and profit shares | (36,666) | (27,779) |
| F | | Net increase (decrease) in cash | (27,721) | 15,136 |
| R | | Cash and cash equivalents at the end of the accounting period | 83,017 | 110,738 |

AUDITOR'S REPORT FOR JANUARY THROUGH AUGUST 2003

In accordance with Act no. 254/2000 of the Collection of Laws (Coll.) on auditors, and pursuant to the Auditing Standards of the chamber of Auditors of the Czech Republic, the auditing firm BDO CS s.r.o. has carried out an audit of the attached special purpose financial statements of the company OMNIPOL a. s., as of 31 August 2003.

The company's management is responsible for preparing these financial statements. Our task is to issue an opinion regarding these financial statements on the basis of our audit. The above Auditing Standards require the audit to be planned and conducted to that appropriate assurances are obtained that the financial statements do not contain any significant inaccuracies. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The audit also includes an appraisal of the accounting procedures used and the important estimates made by the company, as well as an assessment of the overall presentation of the financial statements. We are satisfied that the audit conducted provides an appropriate basis for issuing our opinion.

We did not conduct an audit of the company's financial statement as of 31 December 2002. Consequently, we are not expressing any opinion on the opening balances as of 1 January 2003, which are shown in these special purpose financial statements.

The company has shares with a substantial influence in two companies, whose trading results have been negative for a long period. In our opinion, a provision amounting to 80,535,000 CZK should be created regarding these shares. The amount mentioned is the difference between the value of financial investments and equity capital in the audited accounting statement.

In our opinion, with the exception of the above mentioned matter these special purpose financial statements show a true and fair view of the assets, liabilities, equity capital, and financial situation of the company OMNIPOL a. s. as of 31 August 2003, and its trading income for the accounting period from 1 January to 31 August 2003, in accordance with the Act on Accounting and the relevant regulations of the Czech Republic.

Without further qualifying our opinion, we wish to point out that the company has not yet managed to settle all claims with insolvent debtors from previous years' contracts, the most significant of which are foreign receivables with a nominal value of 1,371 million CZK and a net value of 143 million CZK after a write-off. Their settlement depends on the fruition of important new potential contracts in these territories. OMNIPOL's company management is exploring the possibility of concluding such contracts, which would facilitate the settlement of these claims as a result.

Furthermore, we wish to draw attention to some matters stated in the appendix to these financial statements, which in our opinion are essential for a full appraisal of the company's financial situation and whose results are dependent on decisions and events that are to take place after the date of these financial statements. Specifically, this concerns the following:

1. Claims on the parent company OMNYX, a. s. amounting to 467,694,000 CZK, arising from advance payments provided for projects for which their return in the event of successful implementation is anticipated within a time horizon of several years. Provisions will be created in respect of these advance payments in the opening balance sheet of the main shareholder of OMNYX, a. s. as of 1 September 2003, in connection with a decision by the company's board of directors dated 20 October 2003, on the take - over of assets by the main shareholder. Further information is presented in point 6. of the appendix.
2. The results of two important lawsuits brought against the company for the amount of 868,000 USD and 13,303,000 CZK, which are stated in point 17 of the appendix. At present, it is not possible to assess to outcome of these lawsuits.
3. The unresolved right of ownership to property in Brno, whose purchase cost amounts to approximately 49,400,000 CZK. Since 1995, however, OMNIPOL a. s. has had the power of attorney to dispose of this property.
4. The restructuring of a company loan provided by Union Banka, a. s. "in liquidation", which is currently bankrupt. As stated in point 14. of the appendix, the loan became payable when the bankruptcy occurred.

In Prague, on 12 November 2003

Doc. Ing. Jan Doležal, CSc.
Auditor - Certificate No. 0070
a Partner of BDO CS s.r.o.

Ing. Radomír Kosina, CSc.
Auditor - Certificate No. 0119
a Partner of BDO CS s.r.o.

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Olbrachtova 5
140 00 Praha 4
Czech Chamber of Auditors
Certificate No. 018



REPORT ON THE ACTIVITIES OF THE OMNIPOL a.s. SUPERVISORY BOARD

The company's supervisory board performed activities in 2003 in accordance with its approved work agenda in compliance with the law and the company's Articles of Association.

The main emphasis of the Supervisory Board's activities was on monitoring the realisation of business activities and the performance of the Board of Directors. In this area, the Supervisory Board worked in close co-operation with the Board of Directors and also dealt at meetings with the company's current problems. The Supervisory Board was continually involved with business results and personnel questions.

In connection with the review of the take-over of corporate assets by the main shareholder within the meaning of Article No. 21, Section 10, of the company's Articles of Association, the Supervisory Board examined the final financial statement of the company OMNIPOL a. s. issued in accordance with accounting regulations on an extraordinary basis reflecting the status as of the day prior to the effective date of the merger, i.e. as of 31 August, 2003. The Supervisory Board reviewed the company's business results for the period from 1 January, 2003, through 31 August, 2003, on the basis of:

- submitted accounting statements including the final financial statement with all requisites,
- the auditor's report on the financial statement for the period from 1 January, 2003, through 31 August, 2003.

On the basis of information obtained and the auditor's report that was prepared by the auditing company BDO CS s.r.o., head office at Prague 4, Olbrachtova 5, 140 00, the Supervisory Board states that the final financial statement issued on 31 August, 2003, was prepared in compliance with generally binding regulations on the basis of conclusive evidence of accounting, corresponding with the data in the books of accounts and, in the opinion of the auditing company, providing a faithful depiction in all substantial points and in compliance with Act No. 563/1991 Coll., on Accounting, and with relevant regulations of the property, obligations, equity capital and financial situation of the company OMNIPOL a. s. and its business results for the period during 2003 preceding the date of record, i.e. for the period from 1 January, 2003, through 31 August, 2003.

The Supervisory Board discussed the submitted documents at its meeting held on 18 November, 2003, and expressed its agreement with all of those documents **without reservations**. At the same time it took notice of the auditor's opinion on the financial statement for the period from 1 January, 2003, through 31 August, 2003.

At the general meeting that decided on the take-over of corporate assets by the main shareholder, the Supervisory Board recommended the approval of the final financial statement issued on 31 August, 2003.

Ing. Richard Háva
Chairman of the Supervisory Board
OMNIPOL a. s.

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