

Annual
report



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Dear Friends,

I am pleased to report that the PPF Group has maintained its position as one of the most significant financial institutions in the Czech Republic and continued to build a reputation for being a dynamic, highly-professional and successful financial group. Our strategy of improving the quality of our services while at the same time expanding into new areas had a generally positive impact on the PPF Group's overall performance in 1998, a year that fell far short of expectations both economic and political. Serious problems in the financial markets, not only in the Czech Republic, but in the world as well (notably the Asia crisis), a contraction of the economy expressed by a 2.6% fall in GDP, inflation of nearly 11% at its highest point, deteriorating competitiveness of Czech industry, the sad state of affairs in the banking sector, foreign investor disenchantment with the Czech Republic, instability on the political scene – all of these factors affected the performance of the Czech capital market. As trust in the market fell to new lows, foreign investors balked, sending stock prices and the PX-50 index down by more than 20%. Portfolio investors were hit the hardest. Our focus on strategic investment i.e., creating value by restructuring the companies in our portfolio, mitigated the impact of these negatives on the Group and protected the potential of our shareholders' investments in the PPF Group. **1998** also saw key changes in how the Czech capital markets work. In addition to the continuing efforts of government institutions to amend capital markets legislation, a new Securities Commission was established to regulate the market, improve its reputation and transparency, and bring foreign capital to the Czech Republic. Since the PPF Group welcomes this step and fully supports all activities leading to a standardized environment necessary for the Czech capital markets' effective functioning and further development, we have appointed representatives to serve in the bodies and committees of the Union of Investment Companies of the Czech Republic, where they work actively to develop and shape the new legislative framework. As this work progresses, we are helping significantly to accelerate the capital markets standardization process, harmonize its legislation with that of the European Union, and foster collective investment in the Czech Republic. **A**n amendment of the Investment Companies and Investment Funds Act made it necessary to change the investment strategy of PPF investiční společnost a.s., which manages the PPF Group's mutual funds. Originally, the investment strategy was based on building a portfolio for long-term capital growth. Due to restrictions on what funds may invest in, strategic investments have had to be replaced by portfolio investments. In order to comply with



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the restrictions and ensure sufficient liquidity to open the funds, the management company was forced to sell strategic investments. Effecting these sales in a bear market limited the company's ability to achieve a return on the original investments. **O**ur primary goal for the future is to deliver strong returns to our investors. In keeping with this goal, we diversified the fund portfolios in 1998, adding foreign securities from advanced Western economies. These new investments should yield secure real returns with a positive impact on NAV growth. **T**he PPF Group's successes to date in individual business areas motivate us to work continually on improving and expanding our services. We want to offer our clients a high-quality, professional financial services solution. Implementing a new Group organization structure, in which PPF a.s. has taken over the role of Group holding company, is an important step. The change will allow individual Group member companies to concentrate more on their specialized areas, thus enabling them to expand their services. The changes are most evident in real estate and strategic investment management, corporate finance and foreign securities trading. The PPF Group's holding structure allows it to react swiftly to external changes and efficiently manage its companies while at the same time considerably increasing overall cost effectiveness. **A** reputation for quality takes a long time to build. During the past eight years we have been encouraged by our growth, the successes we have achieved, and positive evaluations of the results of our work. However, none of that would have been possible without the support and trust of our investors, business partners, clients, and employees. They deserve our gratitude.



PETR KELLNER
Chairman of the Board

Prague, May 1999

The PPF Group In Brief

PPF a.s.

Date established:	November 18, 1996
Address:	Na Pankráci 121, 140 21 Prague 4
Registered capital:	CZK 420,000,000 Kč (effective January 7, 1999)
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Board of Directors:	PETR KELLNER - Chairman MILAN MADĚRYČ LADISLAV BARTONÍČEK, MBA
Supervisory Board:	FRANTIŠEK TLUSTOŠ - Chairman (effective January 5, 1998) MARTIN DINDOŠ LENKA ŠAFRÁNKOVÁ (effective January 15, 1999)
Company management:	PETR KELLNER - Chief Executive Officer ALEŠ MINX - Director of Finance and Company Proxy VÁCLAV ŠRAJER, MBA - Director of Research VLADIMÍR ČECH - Director of Information Systems IVAN LACKOVIČ - Director of Marketing and Communications (effective January 25, 1999) JITKA TEJNOROVÁ - Director of Personnel (effective March 1, 1999) MARTIN DINDOŠ - Financial Projects Management

PPF investiční společnost a.s.

Date established:	September 2, 1991
Address:	Na Pankráci 121, 140 21 Prague 4
Registered capital:	CZK 17,850,000
Managed assets as of 31 December 1998:	CZK 1,476,196,000 (Includes assets in mutual funds under management)
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Custodian Bank for 1998:	Československá obchodní banka, a.s.
Memberships:	Union of Investment Companies of the Czech Republic American Chamber of Commerce in the Czech Republic
Board of Directors:	PETR KELLNER - Chairman ŠTĚPÁN POPOVIČ LADISLAV BARTONÍČEK, MBA
Supervisory Board:	FRANTIŠEK TLUSTOŠ - Chairman MARTIN DINDOŠ JAROSLAV PŘEROST
Company management:	JAN VALDINGER, LLB - Chief Executive LIBOR MOTEJLEK - Director of Portfolio Administration

PPF Český uzavřený podílový fond

Date established:	September 4, 1993 (fund was set up during voucher privatization)
Number of fund shares outstanding:	817,355
Par value of one fund share:	CZK 1,000
Type and form of fund shares:	Dematerialised, bearer shares
Market values of assets as of 31 December 1998:	CZK 1,005,094,000
Trading status of fund shares:	PSE Third Tier RM-System
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Custodian Bank:	Československá obchodní banka, a.s.

PPF Moravskoslezský uzavřený podílový fond

Date established:	September 4, 1993 (fund was set up during voucher privatization)
Number of fund shares outstanding:	379,856
Par value of one fund share:	CZK 1,000
Type and form of fund shares:	Dematerialised, bearer shares
Market values of assets as of 31 December 1998:	CZK 471,104,000
Trading status of fund shares:	PSE Third Tier RM-System
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Custodian Bank:	Československá obchodní banka, a.s.

PPF Capital Management a.s.

Date established:	August 3, 1995
Address:	Na Pankráci 121, 140 21 Prague 4
Registered capital:	CZK 178,300,000
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Board of Directors:	PETR KELLNER - Chairman LADISLAV CHVÁTAL MILAN MADĚRYČ
Supervisory Board:	FRANTIŠEK TLUSTOŠ - Chairman VÁCLAV ŠRAJER VÁCLAV KRATOCHVÍL
Company management:	LADISLAV CHVÁTAL - Chief Executive

PPF burzovní společnost a.s.

Date established:	December 23, 1993
Address:	Na Pankráci 121, 140 21 Prague 4
Registered capital:	CZK 55,000,000
Activity permit:	License issued by Ministry of Finance
PSE and market access:	Member, Prague Stock Exchange Special customer, RM-System (on-line) Computerized trading at Securities Center
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Board of Directors:	JAN BLAŠKO - Chairman BOHUSLAV SAMEC MARCEL DOSTAL (effective December 14, 1998)
Supervisory Board:	VLADIMÍR ČECH - Chairman (effective March 17, 1998) HANA PŘIKRYLOVÁ (effective March 17, 1998) VLADIMÍR DVOŘÁK
Company management:	JAN BLAŠKO - Chief Executive

PPF majetková a.s.

Date established:	August 6, 1995
Address:	Na Klikovce 7, 140 00 Prague 4
Registered capital:	CZK 1,270,000
Auditor for 1998:	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 Securities a.s.

Date established:	November 18, 1996
Address:	Na Pankráci 121, 140 21 Prague 4
Registered capital:	CZK 1,000,000
Auditor for 1998:	KPMG Česká republika Audit, spol. s r.o.
Board of Directors:	ING. PETR KELLNER - Chairman MGR. VÁCLAV KRATOCHVÍL RNDR. VLADIMÍR BURDA (effective February 18, 1999)
Supervisory Board:	ING. ALEŠ MINX - Chairman JUDR. FRANTIŠEK TLUSTOŠ LENKA ŠAFRÁNKOVÁ (effective February 18, 1999)
Company management:	MGR. VÁCLAV KRATOCHVÍL - Chief Executive

N.B.:

The PPF Group also includes PPF Servis a.s (established January 14, 1997). Information on PPF investiční holding a.s. is available under separate cover.

PPF a.s.

Petr Kellner - CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

Born in 1964; an industrial economics graduate from the Prague University of Economics. A founder of the PPF Group. Chairman of the Board and CEO of PPF investiční společnost a.s. since 1991. Following a restructuring of the Group in January, 1998, Petr Kellner heads the PPF Group as Chairman of the Board and Chief Executive Officer of PPF a.s.

Milan Maděryč - MEMBER OF THE BOARD

Born in 1955; a graduate of the Industrial Secondary School. Did postgraduate work at the Technical University of Brno. Since 1978 employed in the technical and investment development department of ZPS, a.s. Zlín; later became head of the company's trading division. Currently Member of the Board of Česká pojišťovna, a.s.

Aleš Minx - DIRECTOR OF FINANCE

Born in 1964; a manufacturing economics graduate from the Prague University of Economics. From 1987-92 employed at PAL a.s. as head of the finance department. Aleš Minx joined PPF in 1992.

Václav Šrajer, 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. 1972-92 employed in mechanical engineering research and development positions. 1992-93 studied at the U.S. Business School and was awarded an MBA by the Rochester Institute of Technology. Václav Šrajer has been with PPF since 1993.

Vladimír Čech - DIRECTOR OF INFORMATION SYSTEMS

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

Ivan Lackovič - DIRECTOR OF MARKETING AND COMMUNICATIONS

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. Began career as PR manager at Investiční společnost Komerční banky, a.s. and became Director of Komerční banka's Communications Department in 1998. Ivan Lackovič joined PPF in 1999.

Jitka Tejnorová - DIRECTOR OF PERSONNEL

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

Martin Dindoš - FINANCIAL PROJECTS MANAGEMENT

Born in 1973; a graduate of the Prague University of Economics Faculty of International Relations, where he specialized in international business and banking. During 1993-1997 employed by advertising agency BBK/Time s.r.o., first as account manager and later as finance director. Martin Dindoš has worked for 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. Jan Valdinger joined PPF in January 1996.

PPF Capital Management a.s.

Ladislav Chvátal - CHIEF EXECUTIVE

Born in 1963; a graduate of the Prague University of Economics. After university, served as board member and personnel and administration director at AVIA Praha Letňany. Named marketing director of PPF investiční společnost a.s. in 1994. Ladislav Chvátal has been director of PPF Capital Management a.s. since 1995.

PPF burzovní společnost a.s.

Jan Blaško - 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. 1992-1994 with Investiční a Poštovní banka as head of the securities department. Obtained broker's license in 1992. Since 1994 managed the brokerage company Stratego Invest. Jan Blaško was named director of PPF burzovní společnost a.s. in 1996.

PPF majetková a.s.

Petr Javůrek - CHIEF EXECUTIVE

Born in 1963; graduate of Faculty of Construction at the Czech Technical University in Prague. After graduation employed in various professional and management positions. Named director of Novota expert institute in 1993. Member of expert committee of the Institute of Appraisal of the Prague University of Economics. Petr Javůrek became director of PPF majetková a.s. in 1996.

PPF Securities a.s.

Václav Kratochvíl - CHIEF EXECUTIVE

Born in 1965; completed studies at the Charles University in 1992 and joined PPF to take part in launching PPF investiční společnost a.s. and founding PPF burzovní společnost a.s., where he worked in dealing and later became director of dealing. Returned to PPF investiční společnost a.s. in 1995 as portfolio director. Václav Kratochvíl was named director of PPF Securities a.s. in mid-1998.



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The PPF Group

During 1998, the PPF Group reinforced its market position and business successes to make us one of the most significant financial institutions in the Czech Republic. Our operations continued to be centered around managing the pooled funds of thousands of voucher privatization investors. In keeping with our goal of achieving the best possible return on these funds, we expanded our operations into capital markets, collective investment and real estate fund management. The PPF Group's new holding structure put in place in January of last year was a major step in achieving specialization of our subsidiaries, allowing them to concentrate more energy on their particular business areas. This made it possible to develop and put in place new asset management tools to improve and expand the PPF Group's existing financial services. Also, the establishment of PPF a.s. as the PPF Group's holding company increased the level of centralization and improved the coordination of certain Group-wide operations. That brought positive results in the form of increased cost effectiveness. **D**espite the poor performance of the Czech capital market, the management company of both mutual funds, PPF investiční společnost a.s. was able to beat the indices by changing the funds' portfolio structure. The funds' NAV beat the PX-50 by more than 11% and the share price grew by a similar amount. Changes were made to the investment policy in order to comply with new investment and mutual funds legislation. The funds' original strategic investment mandate was gradually transformed into a concentration on portfolio investing. This involved the sale of several strategic shareholdings to foreign investors. **T**he management company's goal is to achieve an optimum balance between capital growth and increased fund share liquidity. This goal was achieved by dramatically reducing equities and acquiring money-market and debt instruments up to 70% of assets. This core strategy was complemented by investments in foreign securities traded on advanced Western markets. These diversification measures allowed the management company to stabilize the fund portfolios, thereby substantially increasing their intrinsic resistance to market turbulence. **D**ay-to-day support of the strategic investments of the PPF Group and other clients is the responsibility of PPF Capital Management a.s. In 1998, the company continued its active approach toward managing strategic industrial holdings, based on thorough application of project-oriented management techniques, allowing it to better exercise shareholder rights and more efficiently manage companies. PPF Capital Management a.s. also coordinates and realizes individual projects (mostly corporate restructurings) in its strategic holdings. Its goal is to lay the groundwork for acquisition by a strong outside investor. Last year the company arranged the sale of several strategic holdings to foreign investors, helping its clients realize significant gains. **P**PF burzovní společnost a.s. reinforced its position amongst securities traders in 1998, posting 36% year-on-year growth in realized trades to total CZK 43.7 billion. This confirmed the company's position as one of the largest brokerages in the Czech Republic. The company also played a role in several major corporate financing projects, including helping investors

join forces to sell large blocks of shares in Czech companies. Over CZK 2.8 billion in shares were sold in this fashion. In 1998 PPF burzovní společnost a.s. also improved its results in trading for its own account. In asset management, the company diversified client accounts internationally to achieve an overall return on client assets. **T**he PPF Group offers real estate management and development services through PPF majetková a.s. In 1998, this company concentrated on improving service quality and continued to work towards completing a specialized software system for comprehensive property services as well as helping clients effectively diversify their holdings both locally and internationally. When the system is completed in 1999, it should significantly increase the company's competitiveness. The high cost of financing made the past year a poor one for real estate investing, and so PPF majetková a.s. put most of its energy into property leases. By choosing its clients well, the company achieved growth in both the value of assets under management and the income generated by those assets. **L**aunching operations in July, 1998 was the newest member of the PPF Group, PPF Securities a.s., which helps clients to find solutions for selected holdings in their portfolios as well as to exercise their shareholder rights. During the second half of the year, the company developed specific recommendations for further diversifying industrial portfolios to achieve an optimum return. The goal of the proposed solutions is to increase the liquidity of client portfolios, primarily by acting jointly with other investors in selling certain holdings. Acting on of the company's recommendations had a positive effect on client portfolio liquidity. **T**he PPF Group's successes motivate us to work continually on improving and expanding our services. Our highest priority is to meet client needs so as to ensure their satisfaction with the services we offer. In the future, we intend to seek out high-quality investment opportunities – especially in companies with excellent growth prospects. We will remain oriented towards strategic investing. **I**n capital markets, we are preparing to expand into trading in foreign securities, new activities in corporate finance, underwriting securities offerings on foreign markets and derivatives trading. **I**n collective investment, the PPF Group will focus on achieving sufficient liquidity in the funds it manages so as to fully prepare them for a smooth opening process and to deliver maximum value for all investors. **I**n 1999, the PPF Group plans to add comprehensive management of nationwide property funds to its growing portfolio of services.

PPF a.s.

Starting in January, 1998, PPF a.s. – with registered capital of CZK 420 million is the PPF Group holding company. The Group's new structure was formed to improve the operating efficiency of all Group members and reduce overall operating costs. The fact that the PPF Group increased overall costs effectiveness is evidence that this was the right decision. The cost savings was achieved through fully integrated and coordinated Group member activity in sales, finance, research, marketing and communication, information technologies, and human resources policy. Services and professional consultation from PPF a.s. in these areas allowed individual PPF Group members to effectively manage their companies, increasing the quality and widening the scope of the products and services they offer.

In the finance area, coordination of Group-wide activities involves primarily planning, cash flow management, budgeting, and Group-wide monitoring of costs and revenues. The consulting role of the finance department entails assessing and developing the financial aspects of proposed investments, as well as Group-wide accounting, including tax accounting and verification. The financial department also manages of all the Group's payments, communicates with various government bodies and auditing firms, and prepares draft financial statements and tax returns.

Analyst work product is a crucial element in the investment decisions made throughout the PPF Group. Support in this area is provided by the research department, which develops in-depth analyses and assessments of specific investment opportunities, including issuing recommendations for particular Group member companies. These analyses are generally for domestic public corporations. The research and analysis process leads to an assessment of a given corporation based on various growth models.

As the PPF Group expands geographically to achieve international diversification of its investment risks, a large part of the research department's work centered around analyses of selected advanced Western economies, their capital markets and possible investment opportunities, mainly foreign securities from major issuers.

In addition to Western economies, the department also investigated opportunities in certain Central and Eastern European countries which show potential for growth.

The research team's job description also includes assessing the macroeconomic situation in the Czech Republic and developing forecasts that are a necessary part of further analytical work.

The general investing and lay public's overall perception of the PPF Group is given by the degree of trust and confidence in which it holds the Group itself. Here the marketing and communication department plays a key role, developing and implementing a unified, integrated marketing and communication strategy for the entire PPF Group.

Coordination of activities in this area allows us to effectively communicate our vision, goals and strategy to specifically targeted groups both inside and outside the PPF Group. PPF's management is aware of and respects the need for a transparent, open disclosure policy. At PPF, this first and foremost means day-to-day communication between information center employees and our investors. Above and beyond the scope of its disclosure requirements, the PPF Group also provides further information on the assets in funds under management. Each week, we publish asset value information for our funds

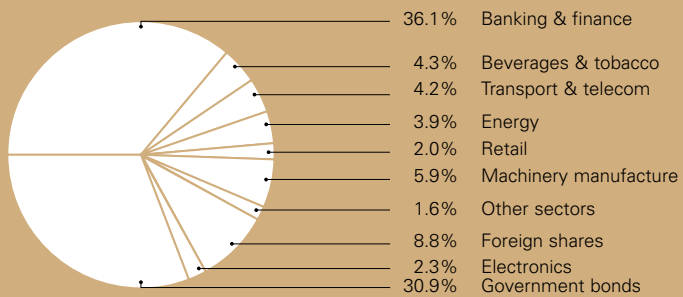
and PPF investiční holding a.s. in nationwide newspapers. These weekly reports are supplemented by a special extended report published monthly. The published reports give investors a simple and quick way to get information on and regularly check up on their investments. **T**he PPF Group name is closely tied to support for educational, humanitarian, and charity efforts. The Bilingual Nursery School for the Hearing Impaired is one of the longer-running projects in this area. The PPF Group's sponsorship strategy is to concentrate on projects in the above mentioned areas that create permanent value and public benefit. **G**roup-wide technical and information systems support is provided by the information technology (IT) department. In addition to standard services such as administering LANs, workstations, and file and database servers, the IT department also provides the Group's analysts and brokers with access to information. Direct connections to information service providers enable the PPF Group's member companies to communicate quickly and easily. Efficient communications within the PPF Group are facilitated by an Intranet. **T**his year the IT department faced the issue of Group-wide Y2K compliance. This daunting task was being addressed and the measures now in place should ensure that the PPF Group's systems and software make a smooth transition into the new millennium. **D**uring 1998, the PPF Group repeatedly benefited from its ability to put the right people in the right positions and build its success on its employees' strong points. **T**he PPF Group achieves positive results thanks to its team of experienced, qualified professionals with a high degree of responsibility, flexibility, adaptability and ability to seek out new opportunities in a continually changing marketplace. PPF pays more and more attention to its human resources strategy and programs, which are based on an integrated approach to human resources management. PPF sees a clear correlation between employee positive motivation, on the one hand, and efficiency and top performance on the other. This approach enables the PPF Group to realize all its demanding plans with the help of highly loyal staff. **T**he primary goal of the PPF Group's human resources policy is to achieve a successful interconnection between the company's own plans and the possibilities of self-realization it gives to its employees. **T**he company's attention is focused on creating personal and career development programs whose purpose is to equip employees – primarily middle and upper management – with the tools and skills necessary for them to carry out the company's strategic plans. **S**een from a long-term perspective, the PPF Group's goal is to create long-lasting value and gain competitive advantage in all the areas mentioned above, thus improving the performance of the Group as a whole. Increasing performance is a prerequisite for the successful development and future prosperity of the PPF Group.

PPF investiční společnost a.s.

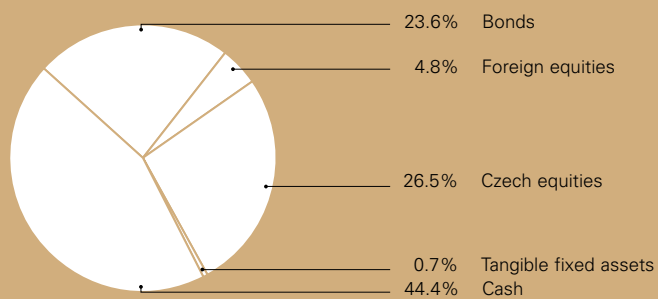
This company, established in 1991, is currently one of the most significant investment companies in the Czech Republic. Being integrated into the PPF Group allows it to apply a flexible investment strategy in domestic and foreign markets in support of the company's goal, which is to achieve the maximum possible return on the assets under its management. PPF investiční společnost a.s. is a member of the Union of Investment Companies of the Czech Republic (UNIS) and the company's representatives play an active role in developing the conditions and rules on the basis of which UNIS works to develop collective investment, establish high standards of disclosure and strict respect for honest business and ethical principles. **A**t present, PPF investiční společnost a.s. manages two closed-end mutual funds with total assets of CZK 1.5 billion and is preparing a range of new open-end funds to give investors a safe way to invest in various markets in keeping with their preferred investing style. **I**n 1998 the Czech capital market suffered yet another decline and certain new negative aspects appeared in the Czech economy. The Czech equities market reacted unfavorably to the poor outlook of the Czech economy and the general loss of confidence in emerging markets, which led to the departure of foreign investors. During the past year, the PX 50 index lost 20.4% of its value. Even so, we were able to outperform all the Czech capital market indices by changing the portfolio structure of both our mutual funds. **I**n the first half of 1999, PPF investiční společnost a.s. underwent the capital markets re-licensing process, at the end of which the Securities Commission confirmed the validity of its license.

PPF Český uzavřený podílový fond

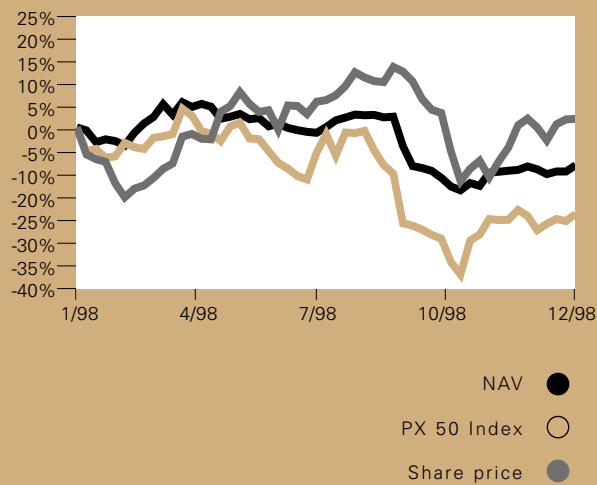
All last year, the fund's asset value copied the PX 50 index. Overall, the asset value outperformed the PX 50 index by 12.2% and shareholders' equity (NAV) posted an 8.2% decline (under International Accounting Standards). During 1998 the fund's share price grew 2% to end the year at CZK 805. With its NAV of CZK 1 billion at year end, PPF Český is one of the largest second wave voucher funds in the Czech Republic. **L**ast year saw a continuation of the portfolio diversification process begun the year before. While at the beginning of 1998, Czech equities represented a large part of fund assets (66%), by 31 December 1998 this fraction had fallen 40% to 26% of fund assets. The fund successfully divested holdings in 1. Severozápadní teplárenská and TMP-Telekomunikační montáže Praha. We also sold off or reduced Czech portfolio investments in Komerční banka a.s. and Deza a.s. **A**s we reduced holdings of Czech equities, at the same time we increased the level of the portfolio invested in treasury bills issued by the Czech National Bank and the Ministry of Finance to take advantage of risk-free, above-average yields. Another portion of assets was invested in top-quality Czech bonds (Czech government, Citileasing, SPT TELECOM) and foreign securities traded on advanced markets primarily in the United States and Western Europe. During 1998, the share of foreign investments remained below 10%, and ended the year at 5% of fund assets. We favored shares of well-managed companies in high-growth areas such as IT, telecommunications, and pharmaceuticals. At year end 1998, 30%



PPF Český uzavřený
podílový fond
Portfolio structure by sector
of industry
as of 31 December 1998



PPF Český uzavřený
podílový fond
Structure of assets
as of 31 December 1998

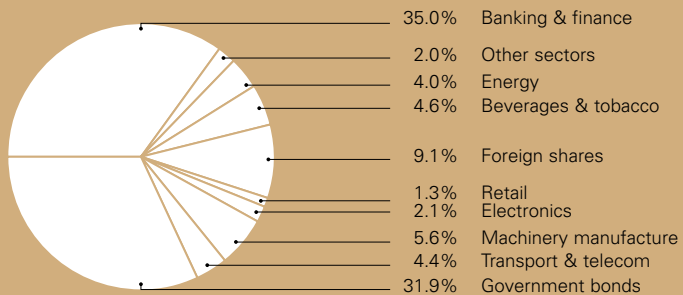


PPF Český uzavřený
podílový fond
NAV, share price,
and the PX 50 Index in 1998

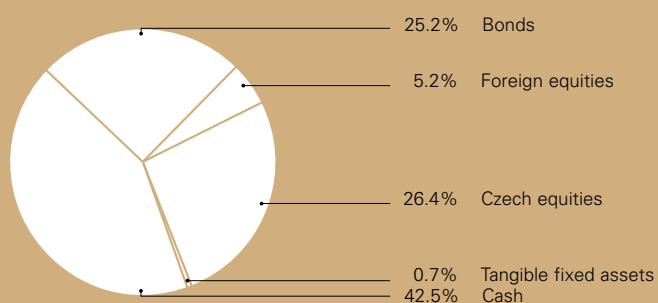
of fund assets were invested in equities, while the remaining 70% consisted of cash and debt instruments. This had the effect of stabilizing the portfolio and minimizing potential negative influences on fund assets. In terms of sector distribution, the largest segment of the portfolio is invested in banking and finance (36%). Holdings in Industrial Equipment and Transportation & Telecommunications decreased, while new investments were made in Beverages & Tobacco. **T**he fund posted a loss of CZK 12.3 million for 1998, which means that, for the first time in its history, the fund will not pay a shareholder distribution. This result was heavily influenced by the poor performance of the Czech capital market, which was down over 20% for the year. **I**n accordance with the investment policy, we will continue to cut strategic investments in favor of portfolio investments, primarily in foreign securities. The fund's management company, PPF investiční společnost a.s., intends to ensure sufficient fund liquidity in preparation for a safe opening of maximum value to all investors.

PPF Moravskoslezský uzavřený podílový fond

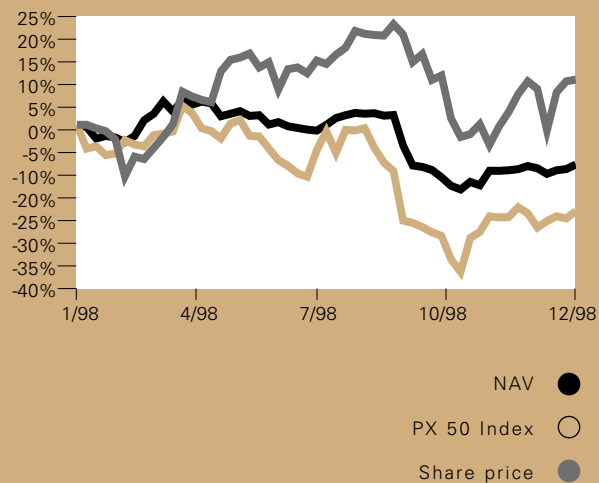
PPF Moravskoslezský uzavřený podílový fond was established during the second wave of voucher privatization. Its investment strategy is the same as for PPF Český uzavřený podílový fond. This means the asset structures of the two funds are nearly identical, as are most fund performance indicators. **T**he value of the fund's assets outperformed the PX 50 index by 11.8%, while NAV fell by 8.6% (per IAS). The fund's share price rose nearly 11% during 1998 to CZK 809, thus delivering fund investors better returns than bank term deposits. As of year end 1998, the fund's assets totaled CZK 0.5 billion and the fund posted a CZK 4.6 million loss for the year. Like PPF Český, the fund will be unable to pay a shareholder distribution for 1998. **D**uring the year, the fund's positions in Czech equities were dramatically reduced, from 65% of assets at the beginning of 1998 to 26% at 31 December 1998. The fund's holdings of 1. Severozápadní teplárenská, TMP-Telekomunikační montáže Praha and several smaller equity holdings were sold off entirely. The decrease in equities was compensated by acquisitions of treasury bills issued by the Czech National Bank and the Ministry of Finance, and by top-quality government and corporate bonds. This allowed the fund to achieve above-average returns at no risk. A portion of assets was invested in foreign securities traded on advanced markets primarily in the United States and Western Europe. As of 31 December 1998, these holdings represented less than 5% of fund assets, and were concentrated in shares of well-managed companies in high-growth areas such as IT, telecommunications, and pharmaceuticals. As of 31 December 1998, 30% of fund assets were invested in equities, while the remaining 70% was in money-market and debt instruments, which have a stabilizing effect on the portfolio. In terms of sector distribution, the largest single portfolio segment is banking and finance, which accounts for 35% of overall assets and 56% of the equity portion of the portfolio. **T**he strategy of the management company PPF investiční společnost a.s. for the fund is similar to its strategy for PPF Český: to prepare the fund for a safe opening, which means applying an investment policy designed to increase overall liquidity of fund assets.



PPF Moravskoslezský
uzavřený podílový fond
Portfolio structure by sector
of industry
as of 31 December 1998



PPF Moravskoslezský
uzavřený podílový fond
Structure of assets
as of 31 December 1998



PPF Moravskoslezský
uzavřený podílový fond
NAV, share price,
and the PX 50 Index in 1998

PPF Capital Management a.s.

In 1998, PPF Capital Management a.s. concentrated on diversifying the PPF Group strategic portfolio and implementing restructuring programs at the companies it holds. Last year, the PPF Group controlled and managed industrial holdings primarily in the Industrial Equipment sector. Since the PPF Group holds these equity interests purely as a financial investor and has no intention of building an industrial holding structure, each of the companies in the strategic portfolio represents an individual project. Thorough application of project-oriented management techniques makes it possible to better exercise shareholder rights and more efficiently manage the companies. Responsibility lies with a team of people who occupy some of the key board and executive positions. Both short- and long-term strategies share a common goal: to prepare the company to be acquired by a strategic investor. Based on in-depth analyses both of strategic companies in the PPF Group portfolio and the sectors in which they operate, it is possible to identify effective ways to achieve revenue and earnings growth and reinforce market position. Of all the companies in the Group's strategic portfolio, Bohemia Sekt clearly represents the greatest success in terms of increasing competitiveness. After merging with Vínó Mikulov in 1998, Bohemia Sekt integrated production and sales activities and came out of the deal with a substantially stronger domestic market position in both sparkling and classic wines. Steady revenue growth gives the company many options for further expansion and forms a firm basis for future prosperity.

Thanks to the successful merger of GAMA České Budějovice with KOH-I-NOOR Hardtmuth České Budějovice (KIN), the company is achieving efficient results under PPF Group management. Further corporate acquisitions have led to a wider product range and the formation of a nationwide wholesale network. The PPF Group's active approach to managing its assets in strategic companies has led it to begin implementing restructuring programs within the companies. For example, an intensive, 18-month restructuring at Přerovské strojírný has renewed that company's position in the large-scale machinery installations market. Following the completion of the restructuring process in the company's subsidiaries, which is planned for mid-1999, Přerovské strojírný will serve as an example of a successful corporate restructuring carried out by a Czech management team without the help of a foreign investor. 1998 also saw continued steps taken in comprehensive restructurings at other strategic companies in the PPF Group portfolio, primarily ZPS Zlín and BOPO Třebíč. After the basic restructuring steps are completed, the key goal of these companies will be to launch the process of selecting a strategic investor. That process has already begun at ZPS Zlín, under the direction and coordination of the internationally renowned company KPMG. The entire process should be completed in this year. In February, 1998, a tender to find a strategic investor for 1. Severozápadní teplárenská was successfully completed. The company was acquired by the Dutch company Horizon Energy Development. Elektromontážní závody Praha, Unex Uničov and TMP-Telekomunikační montáže Praha were also sold last year, to U.S. and Austrian investors. The proceeds of the sales will be used to fund further long-term investment projects.

Trading volume
in 1998 (CZK '000)

PSE for own account	3,828,180
PSE for client account	23,333,485
PSE Total	27,161,665
RM-S for own account	1,359,439
RM-S for client account	11,831,275
RM-S Total	13,190,714
Foreign securities trading for own account	161,695
Foreign securities trading for client account	2,016,456
Foreign securities trading total	2,178,151
OTC trading for own account	568
OTC trading for client account	1,206,742
OTC Total	1,207,310
Total trading volume	43,737,840

PPF burzovní společnost a.s.

During 1998, PPF burzovní společnost a.s. improved its position in the Czech capital market and was one of the largest brokerage firms in the Czech Republic in terms of trading volume. **I**n addition to steadily improving the quality of its domestic market services, the company's goals for 1998 included a strong orientation toward international markets. This process had a favorable effect on the company's results for the year (trading volume grew 36% to CZK 43.7 billion). The company was also successful in portfolio management. Its annual returns outperformed capital and money-market indices, which for large clients meant 1998 returns between 14% and 16%. PPF burzovní společnost a.s. continued to maintain its steady upward trend in trading volume despite all the negative factors on capital markets.

1998 was a turning point for many companies operating in the Czech capital markets. More departures brought the elite club of Prague Stock Exchange members down to 62 companies. In late 1998 this trend was even more pronounced among non-members with a sharp fall in the number of smaller brokerage houses. Part of the cause was poor macroeconomic performance, which depressed the market and caused many foreign investors to leave. Another significant factor in the decrease was the Securities Commission, which has undertaken the task of cleansing the Czech capital market of opaque and untrustworthy companies. **T**he company also participated in corporate financing projects, mainly deals in which investors joined forces to sell large blocks of shares in a single company. In aggregate, the deals were worth over CZK 2.8 billion. The company also achieved significantly better results in own-account trading, generating CZK 17 million in capital gains on sales of both domestic and foreign securities. **E**ven though PPF burzovní společnost a.s. has significantly strengthened its position among renowned Czech securities traders, the company is planning yet another extension of its services: organizing rights offerings on promising foreign markets and trading in derivatives.

Success

is the art of convincing
others that it is in their
interests to further
your interests

PPF majetková a.s.

PPF majetková a.s. was the first company in the Czech Republic to obtain a permit to manage real estate funds and today it is one of the largest providers of this class of services. On behalf of its clients, the company both manages and develops immovable property funds. It also seeks out investment and development projects with high growth potential and goes on to manage and implement these projects on its clients' behalf. In 1998, PPF majetková a.s. focused on improving service quality. Prerequisites for high quality of service are a team of experienced professionals and a corresponding technology base. Both of these competitive advantages allowed the company to work on developing a specialized software system that is unique in our region. The software performs various operations on statistical and financial real estate market data, such as cost optimizing and various kinds of modeling. Daily appraisals of properties in the portfolio will allow for efficient diversification both locally and nationwide. PPF majetková a.s. hopes that this comprehensive real estate fund management and development tool, when completed, will help it grow market share and attract new clients. The system's development phase should be completed in mid-year, at which time it will be brought to market. Last year, under the influence of highly overvalued early-1990s-era real estate prices and higher financing costs, the company focused primarily on property leases. By carefully selecting clients so as to diversify real estate lease income risk, the company saw revenues grow, thereby increasing the value of assets under management. Also contributing to the positive results was our strategy of selling a limited number of properties in locations where long-term lease income prospects are poor or where the estimated cost of necessary renovations significantly reduce long-term profitability. More and more often, buyers are taking advantage of mortgage financing, which helped close deals in several cases. The most important sale closed last year was a group of three hotel and restaurant properties in Karlovy Vary. Along with the sale of another five buildings all under 1,000 m², property sales during 1998 amounted to CZK 80 million. Unfortunately, we did not find any properties worth acquiring during the year. The excellent results of our employee training program and the hiring of several new experts in the past year brought a further improvement in our already highly professional team, whose expertise is a guarantee of increasing returns from the properties the company will manage in the years to come.

PPF Securities a.s.

PPF Securities a.s. was incorporated on 21 February 1997 and began operations on 1 July 1998.

Within the PPF Group, PPF Securities a.s. specializes in helping to find solutions for selected portfolio equity holdings as well as to exercise of shareholder rights. The goal is to protect the shareholder and achieve good investment returns. **PPF Securities a.s.** focuses on particular holdings in a client's portfolio and develops specific recommendations for further action. With regard to internal and external factors and the capabilities of the given company, this process could lead for example to a joint sale together with other shareholders, merger with a strategic investor, or other methods of sale. Of course, sale itself is just one of several alternatives. In cases where a company's future growth prospects are good, the shareholding can be increased. Each individual decision is made after considering a large number of criteria. Priority is given to achieving an optimum return on each investment. **T**he goal of implementing these recommendations and taking specific decisions is to increase the liquidity of fund portfolios by selling low-liquidity stocks at a premium while buying more stock in high-growth companies. Despite the difficulties and time required to implement many solutions, PPF Securities a.s. has managed during its relatively short operating life to sell several corporate shareholdings running into the tens of millions of CZK at significant premiums above stock market values.

(Financial

Section

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

We have reviewed the information included in the 1998 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 9 April 1999, we issued the following auditor's 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 1998. 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 Accounting 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 1998, and the results of their operations and cash flows for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 1999

KPMG Česká republika Audit

KPMG Česká republika Audit, spol. s r.o.

Consolidated Balance Sheet

PPF a.s.
As at 31 December 1998, with comparative figures for 1997
(Expressed in thousands of Czech crowns)

	Note	1998	1997
ASSETS			
Current assets			
Cash		400,999	643,827
Trading securities		136,290	24,594
Receivables	3	490,220	205,845
Prepaid expenses and other assets		35,648	23,154
		1,063,157	897,420
Long-term receivables		22,757	8,606
Goodwill	5	427,419	535,406
Investments		25,437	47,242
Property and equipment	6	68,126	46,155
		1,606,896	1,534,829
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Deferred tax liability		12,787	1,817
Accounts payable and accrued liabilities	3	866,383	952,955
		879,170	954,772
Long-term payables		70,900	–
Negative goodwill	7	87,112	112,608
Minority interest		86,159	73,743
Shareholders' equity			
Share capital	8	420,000	400,000
Share premium		70,000	–
Revaluation reserve		(1,880)	(20,247)
Legal reserve fund		520	–
Translation reserve		(309)	–
Retained earnings		(4,776)	13,953
		483,555	393,706
		1,606,896	1,534,829

See accompanying notes to financial statements.

Consolidated Statement of Operations and Retained Earnings

PPF a.s.

For the year ended 31 December 1998, with comparative figures for 1997

(Expressed in thousands of Czech crowns)

	Note	1998	1997
Operating revenues			
Fees and commissions		224,026	135,652
Net gains/(losses) on trading securities		11,141	(315)
Other operating revenue		50,218	7,564
		285,385	142,901
Operating expenses			
Wages and salaries		68,892	18,641
Interest expense		21,246	4,805
Depreciation	6	13,226	2,816
Legal and professional fees		74,376	11,275
Rentals		11,742	-
Other expenses		45,198	40,181
		234,680	77,718
Operating profit		50,705	65,183
Investing activities			
Interest income		20,085	10,114
Net realized gains on investments		26,164	171
Write-down of investment		-	(50,000)
Net (amortisation)/accretion of goodwill and negative goodwill	5, 7	(82,418)	12,899
Other investing income		23,797	-
Other investing expense		(5,386)	(2,240)
		(17,758)	(29,056)
Net profit before taxes and minority interest		32,947	36,127
Taxes on ordinary income	10	49,542	22,004
		(16,595)	14,123
Minority interest		(1,614)	(170)
Net (loss)/profit for the year		(18,209)	13,953
Retained earnings, beginning of year		13,953	-
Transfer to legal reserve		(520)	-
Retained earnings, end of year		(4,776)	13,953

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

PPF a.s.

For the year ended 31 December 1998, with comparative figures for 1997

(Expressed in thousands of Czech crowns)

	1998	1997
Cash flows from operating activities		
Net profit for the year before tax and minority interests	32,947	36,127
Adjustments for:		
Depreciation and amortisation	13,226	2,821
Net accretion of goodwill and negative goodwill	82,418	(12,899)
Net (profit)/loss on sale of property and equipment	14,589	839
Write-down of investment	–	50,000
Net realised gain on sale of long term investments	(26,164)	(171)
Net unrealised loss on trading securities	966	315
Other non cash movements	(400)	–
Operating profit before changes in operating assets and liabilities	117,582	77,032
Increase in receivables	(298,526)	(74,324)
Increase in trading securities	(112,662)	(24,909)
Increase in prepaid expenses and other assets	(12,494)	(22,217)
(Decrease)/increase in accounts payable and accrued liabilities	(89,369)	694,237
	(513,051)	572,787
Net cash (used by)/provided from operating activities before tax	(395,469)	649,819
Income taxes paid	(35,775)	(9,255)
Net cash (used by)/provided from operating activities	(431,244)	640,564
Cash flows from investing activities		
Additions to property and equipment	(60,274)	(17,295)
Acquisitions of subsidiaries, net of cash acquired	–	(447,868)
Cost of investments purchased	(1,330,537)	(745,960)
Proceeds from sale of investments	1,407,840	757,429
Proceeds from disposal of fixed assets	10,487	2,464
Long-term receivables	–	54,493
Net cash provided by/(used in) investing activities	27,516	(396,737)
Cash flows from financing activities		
Proceeds from issuance of share capital	90,000	400,000
Long term payables	70,900	
Net cash provided from financing activities	160,900	400,000
Net (decrease)/increase in cash	(242,828)	643,827
Cash, beginning of year	643,827	–
Cash, end of year	400,999	643,827

Notes to the consolidated financial statements

For the year ended 31 December 1998

1. DESCRIPTION AND PRINCIPAL ACTIVITIES

Establishment and description of the Company

PPF a.s. ("the Company") was established on 18 November 1996 and recorded in the Companies 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.

Ownership structure

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

Legal seat of the Company

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

Members of the board of directors at 31 December 1998

PETER KELLNER
LADISLAV BARTONÍČEK
MILAN MADĚRYČ

Members of the supervisory board at 31 December 1998

MARTIN DINDOŠ
FRANTIŠEK TLUSTOŠ
ALENA BERNREITEROVÁ

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 the year ended 31 December 1998. 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. 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 profit and loss. 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 profit and loss.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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 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 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 1997 financial statements have been reclassified to conform with 1998 presentation.

3. RELATED PARTY BALANCES AND TRANSACTIONS

(a) Receivables

(TCZK)	1998	1997
<i>Short term</i>		
PPF investiční holding a.s.	1,149	5,729
<i>Long term</i>		
PPF Securities a.s.	13,099	–

(b) Payables

(TCZK)	1998	1997
PPF Securities a.s.	68	–
PPF investiční holding a.s.	387	–
PPF Český podílový fond	90	188
PPF Moravskoslezský podílový fond	–	9

(c) Securities transactions

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

(TCZK)	Total sales	Total purchases
PPF investiční holding a.s.	201,356	438,783
PPF Český podílový fond	12,759	103,933
PPF Moravskoslezský podílový fond	11,170	46,924

(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 1998 consolidated statement of operations totalled 34,778 thousand CZK (1997 - 20,193 thousand).

4. 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.	77.31%	76.2% December 1997 1.11% December 1998

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.

CM - Credit a.s. was formerly named CM - Development a.s.

The following group companies are subsidiaries of PPF investiční společnost a.s. and as such have been included in the consolidated financial statements of PPF a.s. The ownership reflects the ownership by PPF investiční společnost a.s.

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).

5. GOODWILL

Goodwill recorded on subsidiaries purchased comprised the following:

(TCZK)	PPF investiční společnost	PPF Capital Management	PPF majetková	Total
Goodwill	489,921	49,311	340	539,572
Arising on purchase during year	(72)	–	–	(72)
Accumulated amortisation	(97,985)	(13,971)	(125)	(112,080)
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:

(TCZK)	Buildings	Vehicles	Equipment	Software	Total
Cost					
Balance, 1 January	16,560	15,120	26,982	2,845	61,507
Additions	86	4,515	41,717	13,956	60,274
Disposals	–	(11,557)	(22,249)	(1,824)	(35,630)
Balance, 31 December	16,646	8,078	46,450	14,977	86,151
Accumulated depreciation					
Balance, 1 January	523	4,032	9,080	1,717	15,352
Depreciation expense	104	1,500	10,633	989	13,226
Disposals	–	(3,726)	(5,468)	(1,359)	(10,554)
Balance, 31 December	627	1,806	14,245	1,347	18,025
Net book value, 31 December 1998	16,019	6,272	32,205	13,630	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 purchase of PPF burzovní společnost a.s. comprised the following:

(TCZK)	1998	1997
Negative goodwill	127,481	127,481
Accumulated accretion	(40,369)	(14,873)
Total	87,112	112,608

8. SHARE CAPITAL

(TCZK)	Share capital	Share premium	Legal reserve	Revaluation reserve	Translation reserve	Retained earnings	Total
Balance at 1 January 1997	–	–	–	–	–	–	–
Increase in capital	400,000	–	–	–	–	–	400,000
Revaluation of investments	–	–	–	(32,504)	–	–	(32,504)
Minority interest in revaluation	–	–	–	12,257	–	–	12,257
Net profit for year	–	–	–	–	–	13,953	13,953
Balance at 31 December 1997	400,000	–	–	(20,247)	–	13,953	393,706
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

The nominal value of the registered, issued and fully paid share capital at 31 December 1998 was 400,000 thousand CZK. Prior to year end 1998, an additional 20,000 thousand CZK for share capital and 70,000 thousand CZK for share premium was paid in by the owners, however these shares were not officially registered as at 31 December 1998. Subsequent to 31 December 1998, the new shares were registered accordingly.

The nominal value of the registered, issued and fully paid share capital at 31 December 1997 was 1,000 thousand CZK. Prior to year end 1997, an additional 399,000 thousand CZK for share capital was paid in by the owners, however these shares were not officially registered as at 31 December 1997. Subsequent to 31 December 1997, the new shares were registered accordingly.

9. DEFERRED TAXATION ASSETS AND LIABILITIES

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

(TCZK)	31 December 1998		Net
	Assets	Liabilities	
Provisions not deductible for tax purposes	20,375	–	20,375
Accelerated amortisation for accounting purposes	–	(2,631)	(2,631)
Expected tax on dividends to be remitted from subsidiaries	–	(11,500)	(11,500)
Tax value of loss carry forwards	–	–	–
Net deferred tax assets (liabilities)	20,375	(14,131)	6,244

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 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.

10. TAXATION

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

(TCZK)	1998
Current year tax expense	35,573
Change in provision for deferred taxation	10,970
Prior year tax expense	2,999
Tax expense	49,542

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

(TCZK)	1998
Profit (loss) before taxation	32,947
Computed taxation using applicable tax rate	11,531
Tax exempt income and non-deductible items	(13,324)
Expected tax payable on dividends receivable in 1999	11,500
Other timing differences for statutory purposes	39,835
Tax expense	49,542

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 1998 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.

(TCZK)	Outstanding value	Interest rate	Maturity
Long term receivable *	13,099	18.2%	31. 12. 2000
Long term receivable **	8,658	14.5%	31. 12. 2000
Long term receivable	1,000	–	30. 11. 2000
Long term payable	70,900	13.5%	31. 12. 2002
Short term payable	9,680	13.5%	–

* Receivable from related party.

** Receivable from 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.

(TCZK)	Carrying value	Estimated fair value
Long term receivable	13,099	14,872
Long term receivable	8,658	9,224
Long term receivable	1,000	813
Long term payable	70,900	77,702

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. 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 PORTFOLIO

Issuer	Number of shares	Purchase price per share (CZK)	Total cost (CZK)	Market price per share (CZK)	Total market value (CZK)
Amgen Inc	600	3,086.78	1,852,067	3,121.71	1,873,028
Bohemia Sekt, a.s.	100	2,800.00	280,000	2,300.00	230,000
Chemapol	1	318.10	318	446.20	446
PPF ČPF	2,624	860.00	2,256,640	805.00	2,112,320
PPF investiční holding a.s.	73,851	300.00	22,155,300	297.30	21,955,902
PPF MPF	441	870.00	383,670	809.00	356,769
TMP-Telekomunikační montáže Praha, a.s.	10,743	2,210.00	23,742,030	2,130.00	22,882,590
CSOB bill of exchange 01/99	1	86,900,000	86,900,000	86,900,000	86,900,000
Total trading securities			137,570,025		136,311,055

INVESTMENT PORTFOLIO**Tradable securities**

Issuer	Number of shares	Purchase price per share (CZK)	Total cost (CZK)	Market price per share (CZK)	Total market value (CZK)
BOPO	6,869	140.00	961,660	23.00	157,987
Bohemia Sekt, a.s.	2,486	2,987.06	7,425,826	2,300.00	5,717,800
Česká pojišťovna, a.s.	1	2,378.77	3,279	1,350.00	1,350
Gama, a.s.	39	317.08	12,366	345.60	13,478
PPF investiční holding a.s.	4,000	335.00	1,340,000	297.3	1,189,200
TechnoMax, a.s.	8,003	39.04	312,437	-	-
Others			89,632		42,493
Total tradable			10,145,200		7,122,308

Non-tradable

Issuer	Total cost (CZK)	Total carrying value (CZK)
Lajdáček, s.r.o.	100,000	100,000
DR. AG. spol., s r.o.	16,000,000	16,000,000
PPF R	14,147	14,147
PPF Servis a.s.	1,000,000	1,000,000
HOME CREDIT, a.s.	1,200,000	1,200,000
Total non-tradable	18,314,147	18,314,147
Total investment portfolio	28,459,347	25,436,455

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

We have reviewed the information included in the 1998 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 7 April 1999, we issued the following auditor's 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 1998. 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 Accounting 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 1998, and the results of their operations and cash flows for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 1999

KPMG Česká republika Audit

KPMG Česká republika Audit, spol. s r.o.

Consolidated Balance sheet

PPF investiční společnost a.s.
As at 31 December 1998 with comparative figures for 1997 and 1996
(Expressed in thousands of Czech crowns)

	Note	1998	1997	1996
ASSETS				
Current assets				
Cash and short term deposits		298,852	8,724	3,664
Management fees receivable		2,315	-	195
Prepaid expenses and other receivables	3	460,881	7,368	3,137
Related party receivables	4	998	25,366	6,754
Interest receivable		3	-	21,775
		763,049	41,458	35,525
Investments	6	1,214	1,214	65,586
Loans receivable		-	-	52,264
Property and equipment	7	3,264	13,764	13,991
		767,527	56,436	167,366
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Related party payables	4	190	1,185	49,900
Other payables and accrued liabilities	8	747,271	28,900	67,464
		747,461	30,085	117,364
Shareholders' equity				
Share capital	10	17,850	17,850	17,453
Legal reserve fund		3,643	3,443	3,216
Translation reserve		(400)	-	-
Retained earnings		(1,027)	5,058	29,333
		20,066	26,351	50,002
		767,527	56,436	167,366

See accompanying notes to financial statements.

Consolidated Statement of Operations and Retained Earnings

PPF investiční společnost a.s.

For the year ended 31 December 1998 with comparative figures for 1997 and 1996

(Expressed in thousands of Czech crowns)

	Note	1998	1997	1996
Operating revenues				
Fees and commissions	11	34,895	38,143	81,281
Other operating revenues		3,889	2,059	2,081
		38,784	40,202	83,362
Operating expenses				
Services		30,255	21,841	42,719
Wages and salaries	12	3,805	13,940	11,191
Social security expenses	12	1,365	4,876	3,919
Depreciation expense	7	671	5,234	5,169
Materials and energy consumed		327	1,764	1,854
Remuneration of Board members		300	–	50
Other operating expenses		4,691	1,253	5,046
		41,414	48,908	69,948
Operating (loss)/profit		(2,630)	(8,706)	13,414
Investing activities				
Gain/(loss) on sale of investments		–	(7,485)	(19)
Other investing revenues		65	5,225	4
Interest revenue		3,572	3,208	7,620
Interest expense		–	(4,075)	(12,434)
Net (loss)/profit on disposal of property and equipment		(2,694)	(88)	140
Other investing expenses		(494)	(6,143)	(915)
		449	(9,358)	(5,604)
Net (loss)/profit for the year before taxes		(2,181)	(18,064)	7,810
Taxes on ordinary income	13	3,704	(469)	4,774
Net (loss)/profit for the year		(5,885)	(17,595)	3,036
Retained earnings/(accumulated deficit), beginning of the year		5,058	29,333	31,990
Dividends		–	(6,248)	(3,493)
Transfer to legal reserve fund		(200)	(227)	(2,200)
Sale of employee shares below nominal value		–	(205)	–
Retained earnings, end of year		(1,027)	5,058	29,333

See accompanying notes to financial statements.

Consolidated Statement of Cash Flows

PPF investiční společnost a.s.

For the year ended 31 December 1998 with comparative figures for 1997 and 1996

(Expressed in thousands of Czech crowns)

	1998	1997	1996
Cash flows from operating activities			
Net (loss)/profit for the year before tax	(2,181)	(18,064)	7,810
Adjustments for:			
Net loss on sale of investments	–	7,485	19
Net realised loss/(gain) on disposal of property and equipment	2,694	88	(140)
Depreciation expense	671	5,234	5,169
Operating profit/(loss) before changes in operating assets and liabilities	1,184	(5,257)	12,858
Decrease in loans receivable	–	52,264	5,593
(Increase)/decrease in interest receivable	(3)	21,775	(6,813)
Decrease/(increase) in related party receivables	24,368	(18,612)	14,425
(Increase)/decrease in management fees receivable	(2,315)	195	8,815
(Increase)/decrease in prepaid expenses and other receivables	(459,362)	1,618	(1,057)
(Decrease)/increase in related party payables	(995)	(48,715)	48,000
Increase/(decrease) in other payables and accrued liabilities	719,607	(37,244)	54,908
	281,300	(28,719)	123,871
Net cash provided by/(used in) operating activities before tax	282,484	(33,976)	136,729
Taxes received/(paid)	909	(6,700)	(11,545)
Net cash provided by/(used in) operating activities	283,393	(40,676)	125,184
Cash flows from investing activities			
Purchase of property and equipment	(1,080)	(6,640)	(5,807)
Proceeds from sale of property and equipment	8,215	1,545	1,625
Purchase of investments	–	(153,990)	(12,999)
Proceeds from sale of investments	–	210,877	27
Net cash provided by/(used in) investing activities	7,135	51,792	(17,154)
Cash flows from financing activities			
Net decrease in bank loans payable	–	–	(127,000)
Proceeds from the sale of employee shares	–	192	(100)
Dividends paid	–	(6,248)	(3,493)
Net cash used in financing activities	–	(6,056)	(130,593)
Other non cash movements	(400)	–	–
Net increase in cash	290,128	5,060	(22,563)
Cash, beginning of year	8,724	3,664	26,227
Cash, end of year	298,852	8,724	3,664

Notes to the consolidated financial statements

For the year ended 31 December 1998

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 investment and mutual funds in the Czech Republic.

(b) Legal seat of the Company

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 1998:

Members of the board of directors

PETER KELLNER
ŠTĚPÁN POPOVIČ
LADISLAV BARTONÍČEK

Members of the supervisory board

FRANTIŠEK TLUSTOŠ
JAROSLAV PŘEROST
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

Assets, liabilities and results of subsidiaries of the Company are included in the consolidated financial statements for the year ended 31 December 1998. 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) 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
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 1996 and 1997 financial statements have been reclassified to conform with 1998 presentation.

3. PREPAID EXPENSES AND OTHER RECEIVABLES

Prepaid expenses and other receivables include an amount of TCZK 459,879 (USD 15,422,000) owed by the P1 Trust, for whom PPF (Cyprus) Ltd acts as trustee, relating to a liability for the purchase of marketable securities. The amount is payable on 30 June 1999.

4. RELATED PARTY RECEIVABLES AND PAYABLES**(a) Receivables**

(TCZK)	1998	1997	1996
Directors	–	–	4,553
PPF Capital Management	–	8	55
PPF burzovní společnost a.s.	851	834	422
PPF a.s.	146	24,523	9
PPF Securities a.s.	–	–	9
PPF ČPF	–	–	971
PPF MPF	–	–	735
PPF růstový uzavřený podílový fond	1	1	–
Total related party receivables	998	25,366	6,754

(b) Payables

(TCZK)	1998	1997	1996
PPF burzovní společnost a.s.	–	3	48,000
PČIF a.s.	–	–	950
PMIF a.s.	–	–	950
PPF Capital Management a.s.	190	569	–
PPF MPF	–	9	–
PPF ČPF	–	188	–
PPF R	–	416	–
Total related party payables	190	1,185	49,900

5. 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 Financial Services Ltd.	100%	9 February 1998
PPF (Cyprus) Ltd.	100%	9 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).

6. INVESTMENTS

Investments are comprised as follows as at 31 December 1998:

	Ownership Interest	Number of Shares (TCZK)	Cost of Investment
<i>Czech Republic:</i>			
PPF Servis a.s.	100%	1,000	1,000
DR. AG., spol. s.r.o.	<20%	–	200
<i>Russia:</i>			
PPF R	100%	–	14
Total 1998			1,214
Total 1997			1,214
Total 1996			65,586

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

7. PROPERTY AND EQUIPMENT

(TCZK)	Buildings and Land	Data Processing Equipment	Motor Vehicles	Furniture and Other Equipment
Cost				
Balance 1 January 1998	843	8,614	11,111	2,143
Additions	–	209	374	497
Disposals	–	(7,169)	(10,612)	–
Balance 31 December 1998	843	1,654	873	2,640
Accumulated depreciation				
Balance 1 January 1998	409	4,916	3,715	719
Additions	10	162	183	316
Disposals	–	(3,822)	(3,514)	–
Balance 31 December 1998	419	1,256	384	1,035
Net book value, 1 January 1998	434	3,698	7,396	1,424
Net book value, 31 December 1998	424	398	489	1,605

(TCZK)	Software	Works of Art	Total
Cost			
Balance 1 January 1998	1,762	348	24,821
Additions	–	–	1,080
Disposals	(1,762)	–	(19,543)
Balance 31 December 1998	–	348	6,358
Accumulated depreciation			
Balance 1 January 1998	1,298	–	11,057
Additions	–	–	671
Disposals	(1,298)	–	(8,634)
Balance 31 December 1998	–	–	3,094
Net book value, 1 January 1998	464	348	13,764
Net book value, 31 December 1998	–	348	3,264

8. OTHER PAYABLES AND ACCRUED LIABILITIES

Other payables and accrued liabilities at 31 December 1998 include an amount of TCZK 743,087 (USD 24,920,000) payable on 30 June 1999 relating to the cost of shares described in note 3.

The 1996 balance includes a loan from KIS a.s. in the amount of TCZK 41,000. The loan was fully repaid during 1997.

9. DEFERRED TAXATION ASSETS AND LIABILITIES

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

(TCZK)	31 December 1998		Net
	Assets	Liabilities	
Provisions not deductible for tax purposes	18	–	18
Accelerated amortisation of fixed assets for tax purposes	–	(309)	(309)
Net deferred tax assets (liabilities)	18	(309)	(291)

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. Deferred tax liabilities have been recorded in full.

10. SHARE CAPITAL

As at 31 December 1998, the registered capital of the Company was 340 shares with a nominal value of CZK 50,000 and 850 shares with a nominal value of CZK 1,000.

(TCZK)	1998	1997	1996
340 shares at CZK 50,000	17,000	17,000	17,000
850 shares at CZK 1,000	850	850	850
Less:			
Repurchased shares	-	-	(397)
Total	17,850	17,850	17,453

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 for 1998 were TCZK 34,895 (1997 - 38,143 TCZK; 1996 - TCZK 66,446).

12. EMPLOYEES AND EXECUTIVES

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

	Number of Employees	Wage & Salaries (TCZK)	Social Security (TCZK)	Social Expenses (TCZK)
Employees	10	1,903	682	30
Executives	2	1,902	647	6
Total	12	3,805	1,329	36

13. TAXATION

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

(TCZK)	1998
Current tax expense	1,974
Prior year tax expense	2,999
Change in deferred tax provision	(1,269)
Income tax expense	3,704

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

(TCZK)	1998
Accounting loss before tax	(2,181)
Computed tax using applicable tax rate	(763)
Non deductible expenses and non taxable income	2,606
Other items for statutory purposes	1,861
Income tax expense	3,704

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.

15. FINANCIAL INSTRUMENTS

The company has no interest bearing assets or liabilities at 31 December 1998 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 to the Shareholders of PPF investiční společnost a.s. Český uzavřený podílový fond

We have reviewed the information included in the 1998 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 2 April 1999, we issued the following auditor's 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 1998. 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 Accounting 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 1998, and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 1999

KPMG Česká republika Audit

KPMG Česká republika Audit, spol. s r.o.

Balance Sheet

PPF Český uzavřený podílový fond
As at 31 December 1998, with comparative figures for 1997 and 1996
(Expressed in thousands of Czech crowns)

	Note	1998	1997	1996
ASSETS				
Cash at bank		444,079	352,141	151,461
Trading securities		283,718	-	-
Deferred expenses		-	49	98
Other receivables		21,731	7,892	2,505
Incorporation expenses	4	6,839	12,310	17,781
Investments	5	264,169	738,116	1,203,608
		1,020,536	1,110,508	1,375,453
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Management fee payable	9	1,599	-	971
Other payables and accrued liabilities		802	846	21,323
		2,401	846	22,294
Shareholders' equity				
Share capital	6	817,355	817,355	817,355
Share premium	6	636,000	636,000	636,000
Revaluation reserve	5	(473,072)	(400,352)	(149,880)
Retained earnings	7	37,852	56,659	49,684
		1,018,135	1,109,662	1,353,159
		1,020,536	1,110,508	1,375,453

See accompanying notes to financial statements.

Statement of Operations and Retained Earnings

PPF Český uzavřený podílový fond
For the year ended 31 December 1998, with comparative figures for 1997 and 1996
(Expressed in thousands of Czech crowns)

	Note	1998	1997	1996
Operating income				
Net gain on trading portfolio	8	36,410	–	–
Interest income		21,130	17,767	9,361
Dividend income		3,226	8,951	10,977
Other operating revenue		13,040	19,226	2,692
		73,806	45,944	23,030
Expenses				
Management fees	9	21,469	25,962	26,491
Amortisation		5,471	5,471	5,471
Brokerage fees and commissions		3,198	1,428	4,068
Audit fees		200	116	109
Interest expense		14	–	–
Other fees and expenses		7,250	55	1,680
		37,602	33,032	37,819
Net operating profit/(loss)		36,204	12,912	(14,789)
Realised (loss)/gain on sale of investments		(48,527)	8,612	75,134
Net (loss)/profit before taxes		(12,323)	21,524	60,345
Taxes on ordinary income	10	27	–	10,661
Net profit/(loss) for the year	7	(12,350)	21,524	49,684
Retained earnings/(accumulated deficit), beginning of year		56,659	49,684	(179,906)
Transfer of share premium to cover prior year losses		–	–	179,906
Dividends		(6,457)	(14,549)	–
Retained earnings, end of year		37,852	56,659	49,684
Earnings per share (CZK)	11	(15.11)	26.33	60.79

See accompanying notes to financial statements.

Statement of Cash Flows

PPF Český uzavřený podílový fond
 For the year ended 31 December 1998, with comparative figures for 1997 and 1996
 (Expressed in thousands of Czech crowns)

	1998	1997	1996
Cash flows from operating activities			
Net (loss)/profit for the year before tax	(12,323)	21,524	60,345
Adjustments for:			
Net loss/(gain) on sale of investments	48,527	(8,612)	(75,134)
Amortisation	5,471	5,471	5,471
Operating profit/(loss) before changes in operating assets and liabilities	41,675	18,383	(9,318)
Decrease in due from broker	–	–	157,982
Decrease in deferred expenses	49	49	50
Increase in other assets	(10 766)	(56)	(1,175)
Increase in trading portfolio	(283,718)	–	–
Increase/(decrease) in management fee payable	1,599	(971)	(1,119)
(Decrease)/increase in other payables and accrued liabilities	(44)	(9,816)	10,427
	(292,880)	(10,794)	166,165
Net cash (used in)/provided by operating activities before taxes	(251,205)	7,589	156,847
Income tax payments	(3,100)	(15,992)	–
Net cash (used in)/provided by operating activities	(254,305)	(8,403)	156,847
Cash flows from investing activities			
Purchase of investments	(21,572)	(93,567)	(1,714,635)
Proceeds from sale of investments	374,272	317,199	1,632,760
Decrease/(increase) in trades pending settlement	–	–	74,763
Net cash provided by/(used in) investing activities	352,700	223,632	(7,112)
Cash flows from financing activities			
Dividends paid	(6,457)	(14,549)	–
Net cash (used in)/provided by financing activities	(6,457)	(14,549)	–
Net increase in cash	91,938	200,680	149,735
Cash, beginning of year	352,141	151,461	1,726
Cash, end of year	444,079	352,141	151,461

Notes to financial statements

For the year ended 31 December 1998

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 4 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) Legal seat of the Fund

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 profit and loss. 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 profit and loss.

(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.

(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 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 recorded as part of other operating income (expense) in 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 trades at arms' length with related parties:

(TCZK)	Total sales	Total purchases
PPF burzovní společnost a.s.	103,933	23,300

(b) Receivables

(TCZK)	1998	1997	1996
PPF investiční společnost a.s.	–	188	–
PPF burzovní společnost a.s.	90	–	–

(c) Payables

(TCZK)	1998	1997	1996
PPF investiční společnost a.s.	1,599	–	971
PPF burzovní společnost a.s.	–	–	1,744

4. INCORPORATION EXPENSES

(TCZK)	1998	1997	1996
Incorporation expenses	27,355	27,355	27,355
Accumulated amortisation	(20,516)	(15,045)	(9,574)
Total	6,839	12,310	17,781

5. INVESTMENTS

The movement in the investment account is as follows:

(TCZK)	1998	1997	1996
Balance, 1 January	1,138,468	1,353,488	1,196,479
Additions at cost	21,572	93,567	1,714,635
Cost of investments sold	(422,799)	(308,587)	(1,557,626)
Cost of investments, 31 December	737,241	1,138,468	1,353,488
Net unrealised loss on revaluation to market value	(473,072)	(400,352)	(149,880)
Market value of investments, 31 December	264,169	738,116	1,203,608

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.

In accordance with local regulations, funds cannot carry forward an accumulated deficit from a previous year. Therefore in 1996, the Fund transferred an amount equal to the 1995 accumulated deficit from share premium. No such transfer was required in 1998 or 1997.

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:

(TCZK)	Net loss	Retained earnings
Statutory Accounts as at 31 December 1998	(24,398)	24,663
Adjustment to recognised loss on transfer of investments	–	1,141
Adjustment to record short term securities at market value	(992)	(992)
Recognition of gains on forward foreign currency contracts	13,040	13,040
Total	(12,350)	37,852

8. NET GAIN ON TRADING PORTFOLIO

(TCZK)	1998
Realised gains on sold securities	39,601
Unrealised foreign exchange rate differences	(2,199)
Market value differences	(992)
Net gain	36,410

There were no trading securities in 1997 or 1996.

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 1998 totalled 21,469 TCZK (1997 - 25,962; 1996 - 26,491).

10. TAXATION

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

(TCZK)	1998
Current tax expense	27
Change in deferred tax provision	–
Tax expense	27

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

(TCZK)	1998
Accounting loss before tax	(12,323)
Computed tax using applicable tax rate	(3,081)
Non deductible expenses and non taxable income	2,006
Other items for statutory purposes	1,102
Income tax expense	27

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.

(TCZK)	1998	1997	1996
Retained profit (loss) for the year	(12,350)	21,524	49,684
Weighted average number of shares outstanding	817,355	817,355	817,355
Earnings per share (CZK)	(15.11)	26.33	60.79

12. DEFERRED TAXATION ASSETS AND LIABILITIES

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

(TCZK)	31 December 1998		
	Assets	Liabilities	Net
Provisions not deductible for tax purposes	118,822	–	118,822
Accelerated amortisation for accounting purposes	428	–	428
Other temporary differences	–	(3,260)	(3,260)
Tax value of loss carry forwards	7,536	–	7,536
Net deferred tax assets (liabilities)	126,786	(3,260)	123,526

In accordance with the requirements of IAS 12, deferred tax assets of 3,260 TCZK 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 2,879 can only be utilised against future realised gains on sales of securities. The remaining tax losses can be offset against future taxable income except that 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 6,346 arose in 1998 and the remainder arose in 1997.

13. COMMITMENTS

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

(TCZK)	1998	1997	1996
Forward foreign currency sales	192,286	–	–
Forward foreign currency purchases	96,762	–	–

The Fund has recognised a net unrealised gain on the above contracts totalling TCZK 13,040 at 31 December 1998.

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 444,044 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.

INVESTMENT PORTFOLIO

Issuer	Number of shares	Purchase price per share (CZK)	Book Value (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Bohemia Sekt, a.s.	10,672	3,200.00	34,150	2,200.00	23,478
BOPO, a.s.	19,902	98.30	1,956	25.00	498
Česká pojišťovna, a.s.	41,215	4,606.49	189,856	1,350.00	55,640
Česká spořitelna, a.s.	493,887	249.51	123,231	114.00	56,303
DEZA, a.s.	4,000	2,373.00	9,492	492.00	1,968
Dům Módy, a.s.	11,667	850.00	9,917	600.10	7,001
GAMA, a.s.	10,464	260.00	2,721	345.60	3,616
KABLO, a.s.	27,513	1,630.03	44,847	462.80	12,733
Lázně Teplice v Čechách	16,549	165.69	2,742	180.00	2,979
PPF investiční holding a.s.	223,682	452.90	101,305	300.00	67,105
Přerovské strojírny, a.s.	127,527	429.32	54,750	24.67	3,146
TRANSPORTA, a.s.	162,234	176.20	28,585	45.90	7,447
Závody přesného strojírenství Zlín, a.s. (ZPS Zlín)	85,598	1,561.82	133,689	260.00	22,255
Total			737,241		264,169

At the date of these financial statements, the market value of ZPS Zlín shares had decreased to CZK 90 per share, which is 35% of the market value at 31 December 1998. The Fund does not have sufficient information available to determine whether the decrease in value is permanent, and therefore whether to adjust the market value of these shares in the financial statements as at 31 December 1998.

TRADING PORTFOLIO

Debt securities

Issuer	Number of units	Purchase price per unit (CZK)	Book Value (TCZK)	Market price per unit (CZK)	Total market value (TCZK)
SD 14.85/03	4,000	11,156	44,625	12,262	49,048
SD 14.75/00	4,000	10,409	41,634	10,814	43,256
SD 10.90/03	6,000	10,877	65,262	11,066	66,396
Slovenské elektrárny 18.45/03	2,000	9,950	19,900	10,000	20,000
Citileasing 10.45/03	200	100,000	20,000	100,000	20,000
SPT TELECOM 11.3/04	2,000	10,175	20,350	10,664	21,328
Total principal			211,771		220,028
Accrued interest			15,212		15,212
Total debt securities			226,983		235,240

Equity securities

Issuer	Number of shares	Purchase price per share (CZK)	Book Value (TCZK)	Market price per share (CZK)	Total market value (TCZK)
<i>German securities</i>					
SAP AG	390	12,379.15	4,828	12,930.64	5,043
<i>Hungarian securities</i>					
Borsodchem	4,200	1,125.82	4,728	777.34	3,265
<i>US securities</i>					
AMR Corp	1,020	2,053.75	2,095	1,772.64	1,808
Alcatel Alsthom	1,880	1,500.47	2,821	729.58	1,372
Allstate	5,240	1,220.44	6,395	1,149.42	6,023
Centocor Inc	3,430	1,225.47	4,203	1,347.21	4,621
Excite Inc	1,360	1,535.92	2,089	1,255.78	1,708
Fox Entertainment Group Inc	1,760	723.24	1,273	750.11	1,320
Gateway 2000 Inc	2,450	1,741.63	4,267	1,528.20	3,744
HBOC	2,350	1,062.31	2,496	856.47	2,013
Philips ADR	2,740	3,168.22	8,681	2,020.81	5,537
Telekomunikacja Polska	35,000	134.13	4,694	152.26	5,329
3DFX Interactive	11,220	788.40	8,846	376.92	4,229
Xerox Corp	700	3,585.81	2,510	3,522.89	2,466
Total equity securities			59,926		48,478
Total trading securities			286,909		283,718

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

We have reviewed the information included in the 1998 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 2 April 1999, we issued the following auditor's 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 1998. 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 Accounting 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 1998, and the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards."

In Prague, 30 April 1999

KPMG Česká republika Audit

KPMG Česká republika Audit, spol. s r.o.

Balance Sheet

PPF Moravskoslezský uzavřený podílový fond
 As at 31 December 1998, with comparative figures for 1997 and 1996
 (Expressed in thousands of Czech crowns)

	Note	1998	1997	1996
ASSETS				
Cash at bank		199,396	172,019	75,323
Trades pending settlement		–	3,107	–
Trading securities		141,836	–	–
Deferred expenses		–	19	38
Other assets		10,462	2,666	1,176
Incorporation expenses	4	3,177	5,718	8,259
Investments	5	123,683	339,095	555,196
		478,554	522,624	639,992
LIABILITIES AND SHAREHOLDERS' EQUITY				
Liabilities				
Management fee payable	9	716	–	735
Other payables and accrued liabilities		474	320	10,615
		1,190	320	11,350
Shareholders' equity				
Share capital	6	379,856	379,856	379,856
Share premium	6	294,881	294,881	294,881
Revaluation reserve	5	(219,714)	(183,816)	(69,376)
Retained earnings	7	22,341	31,383	23,281
		477,364	522,304	628,642
		478,554	522,624	639,992

See accompanying notes to financial statements.

Statement of Operations and Retained Earnings

PPF Moravskoslezský uzavřený podílový fond
For the year ended 31 December 1998, with comparative figures for 1997 and 1996
(Expressed in thousands of Czech crowns)

	Note	1998	1997	1996
Operating income				
Net gain on trading portfolio	8	15,749	–	–
Interest income		10,354	8,686	4,247
Dividend income		1,458	4,160	5,227
Other net operating revenue		6,260	10,173	1,226
		33,821	23,019	10,700
Expenses				
Management fees	9	10,086	12,181	12,385
Amortisation		2,541	2,541	2,541
Brokerage fees and commissions		1,699	509	2,238
Audit fees		200	116	109
Interest expense		7	–	–
Other fees and expenses		3,346	257	1,121
		17,879	15,604	18,394
Net operating profit/(loss)		15,942	7,415	(7,694)
Realised gain/(loss) on sale of investments		(20,540)	8,479	36,034
Profit before taxes		(4,598)	15,894	28,340
Taxes on ordinary income	10	–	992	5,059
Net profit/(loss) for the year	7	(4,598)	14,902	23,281
Retained earnings/(accumulated deficit), beginning of year		31,383	23,281	(84,304)
Transfer of share premium to cover prior year losses		–	–	84,304
Dividends		(4,444)	(6,800)	–
Retained earnings, end of year		22,341	31,383	23,281
Earnings per share	11	(12.10)	39.23	61.29

See accompanying notes to financial statements.

Statement of Cash Flows

PPF Moravskoslezský uzavřený podílový fond
 For the year ended 31 December 1998, with comparative figures for 1997 and 1996
 (Expressed in thousands of Czech crowns)

	1998	1997	1996
Cash flows from operating activities			
Net (loss)/profit for the year before tax	(4,598)	15,894	28,340
Adjustments for:			
Net loss/(gain) on sale of investments	20,540	(8,479)	(36,034)
Amortisation	2,541	2,541	2,541
Operating profit/(loss) before changes in operating assets and liabilities	18,483	9,956	(5,153)
Decrease in due from broker	–	–	73,746
Decrease in deferred expenses	19	19	19
Increase in trading portfolio	(141,836)	–	–
(Increase)/decrease in other assets	(5,244)	47	(559)
Increase/(decrease) in management fee payable	716	(735)	(285)
Increase/(decrease) in other payables and accrued liabilities	154	(5,236)	5,396
	(146,191)	(5,905)	78,317
Net cash (used in)/provided by operating activities before tax	(127,708)	4,051	73,164
Income tax payments	(2,552)	(7,588)	–
Net cash (used in)/provided by operating activities	(130,260)	(3,537)	73,164
Cash flows from investing activities			
Purchase of investments	(9,802)	(43,200)	(778,652)
Proceeds from sale of investments	168,776	153,340	743,885
Decrease/(increase) in trades pending settlement	3,107	(3,107)	36,686
Net cash provided by investing activities	162,081	107,033	1,919
Cash flows from financing activities			
Dividends paid	(4,444)	(6,800)	–
Net cash used in financing activities	(4,444)	(6,800)	–
Net increase in cash at bank	27,377	96,696	75,083
Cash at bank, beginning of year	172,019	75,323	240
Cash at bank, end of year	199,396	172,019	75,323

Notes to the financial statements

For the year ended 31 December 1998

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 4 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.

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PPF investiční společnost a.s.
Moravskoslezský uzavřený podílový fond
Na Pankráci 121
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(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 profit and loss. 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 profit and loss.

(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.

(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 profit and loss.

(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 recorded as part of other operating income (expense) in 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 trades at arms' length with related parties:

(TCZK)	Total sales	Total Purchases
PPF burzovní společnost a.s.	46,924	11,170

(b) Receivables

(TCZK)	1998	1997	1996
PPF investiční společnost a.s.	–	9	–

(c) Payables

(TCZK)	1998	1997	1996
PPF burzovní společnost a.s.	–	–	799
PPF investiční společnost a.s.	716	–	735

4. INCORPORATION EXPENSES

(TCZK)	1998	1997	1996
Incorporation expenses	12,706	12,706	12,706
Accumulated amortisation	(9,529)	(6,988)	(4,447)
Total	3,177	5,718	8,259

5. INVESTMENTS

The movement in the investment account is as follows:

(TCZK)	1998	1997	1996
Balance, 1 January	522,911	624,572	553,769
Additions at cost	9,802	43,200	778,652
Cost of investments sold	(189,316)	(144,861)	(707,849)
Cost of investments, 31 December	343,397	522,911	624,572
Net unrealised loss on revaluation to market value	(219,714)	(183,816)	(69,376)
Market value of investments, 31 December	123,683	339,095	555,196

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.

In accordance with local regulations, funds cannot carry forward an accumulated deficit from a previous year. Therefore in 1996, the Fund transferred an amount equal to the 1995 accumulated deficit from share premium. No such transfer was required in 1998 or 1997.

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:

(TCZK)	Net loss	Retained earnings
Statutory Accounts as at 31 December 1998	(10,070)	16,296
Adjustment to realised loss on investments transferred	–	529
Adjustment to record short term securities at market value	(744)	(744)
Adjustment to record net gain on trades pending settlement	(44)	–
Recognition of unrealised gains on forward currency contracts	6,260	6,260
Total	(4,598)	22,341

8. NET GAIN ON TRADING PORTFOLIO

(TCZK)	1998
Realised gains on sold securities	17,657
Unrealised foreign exchange rate differences	(1,164)
Market value differences	(744)
Net gain	15,749

There were no trading securities in 1997 or 1996.

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 1998 totalled TCZK 10,086 (1997 - 12,181; 1996 - 12,385).

10. TAXATION

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

(TCZK)	1998
Current tax expense	–
Change in deferred tax provision	–
Tax expense	–

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

(TCZK)	1998
Accounting loss before tax	(4,598)
Computed tax using applicable tax rate	(1,150)
Non deductible expenses and non taxable income	594
Other items for statutory purposes	556
Income tax expense	–

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.

(TCZK)	1998	1997	1996
Retained profit (loss) for the year	(4,598)	14,902	23,281
Weighted average number of shares outstanding	379,856	379,856	379,856
Earnings per share (CZK)	(12.10)	39.23	61.29

12. DEFERRED TAXATION ASSETS AND LIABILITIES

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

(TCZK)	31 December 1998		
	Assets	Liabilities	Net
Write-down of securities not deductible for tax purposes	55,406	–	55,406
Accelerated amortisation for accounting purposes	794	–	794
Unrealised forward foreign exchange contracts	–	(1,565)	(1,565)
Tax value of loss carry forwards	2,949	–	2,949
Net deferred tax assets	59,149	(1,565)	57,584

In accordance with the requirements of IAS 12, deferred tax assets of 1,565 TCZK 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. TCZK1,029 can only be utilised against future realised gains on sales of securities. The remaining tax losses can be offset against future taxable income except that 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 2,626 arose in 1998 and the remainder arose in 1997.

13. COMMITMENTS

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

(TCZK)	1998	1997	1996
Forward foreign currency sales	90,288	–	–
Forward foreign currency purchases	48,312	–	–

The Fund has recognised a net unrealised gain on the contracts totalling TCZK 6,260 at 31 December 1998.

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 199,375 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.

INVESTMENT PORTFOLIO

Issuer	Number of shares	Purchase price per share (CZK)	Book Value (TCZK)	Market price per share (CZK)	Total market value (TCZK)
Bohemia Sekt, a.s.	5,642	3,108.94	17,541	2,200.00	12,413
BOPO, a.s.	9,238	98.30	908	25.00	231
Česká pojišťovna, a.s.	19,257	4,615.05	88,872	1,350.00	25,997
Česká spořitelna, a.s.	230,999	256.61	59,278	114.00	26,334
DEZA, a.s.	1,100	2,373.00	2,610	492.00	541
Dům Módy, a.s.	5,833	850.00	4,958	600.10	3,500
GAMA, a.s.	4,856	260.00	1,262	345.60	1,678
KABLO, a.s.	11,934	1,701.25	20,303	462.80	5,523
Lázně Teplice v Čechách, a.s.	7,682	165.69	1,273	180.00	1,383
PPF investiční holding a.s.	103,606	453.25	46,960	300.00	31,082
Přerovské strojírny, a.s.	59,189	429.32	25,411	24.67	1,460
TRANSPORTA, a.s.	74,100	181.53	13,451	45.90	3,401
Závody přesného strojírenství Zlín, a.s. (ZPS Zlín)	39,000	1,553.07	60,570	260.00	10,140
Total			343,397		123,683

At the date of these financial statements, the market value of ZPS Zlín shares had decreased to CZK 90 per share, which is 35% of the market value at 31 December 1998. The Fund does not have sufficient information available to determine whether the decrease in value is permanent, and therefore whether to adjust the market value of these shares in the financial statements as at 31 December 1998.

TRADING PORTFOLIO

Debt securities

Issuer	Number of units	Purchase price per unit (CZK)	Book Value (TCZK)	Market price per unit (CZK)	Total market value (TCZK)
SD 14.85/03	2,000	11,133	22,265	12,262	24,524
SD 14.75/00	2,000	10,407	20,815	10,814	21,628
SD 10.90/03	3,000	10,872	32,615	11,066	33,198
Slovenské elektrárny 18.45/03	1,000	9,950	9,950	10,000	10,000
Citileasing 10.45/03	100	100,000	10,000	100,000	10,000
SPT TELECOM 11.30/04	1,000	10,175	10,175	10,664	10,664
Total principal			105,820		110,014
Accrued interest			7,606		7,606
Total debt securities			113,426		117,620

Equity securities

Issuer	Number of shares	Purchase price per share (CZK)	Book Value (TCZK)	Market price per share (CZK)	Total market value (TCZK)
<i>German securities</i>					
SAP AG	180	12,331.74	2,219	12,930.64	2,328
<i>Hungarian securities</i>					
Borsodchem	2,200	1,172.05	2,578	777.34	1,710
<i>US securities</i>					
AMR Corp	460	2,053.75	944	1,772.64	815
Alcatel Alsthom	940	1,500.47	1,410	729.58	686
Allstate	2,400	1,220.44	2,929	1,149.42	2,759
Centocor Inc	1,570	1,225.78	1,924	1,347.21	2,115
Excite Inc	630	1,535.92	967	1,255.78	791
Fox Entertainment Group Inc	830	723.24	600	750.11	623
Gateway 2000 Inc	1,120	1,741.11	1,950	1,528.20	1,712
HBOC	1,565	1,062.31	1,662	856.47	1,340
Philips ADR	1,370	3,169.56	4,342	2,020.81	2,769
Telekomunikacja Polska	16,300	134.04	2,184	152.26	2,482
3DFX Interactive	6,450	762.6	4,918	376.92	2,431
Xerox Corp	470	3,585.81	1,685	3,522.89	1,655
Total equity securities			30,318		24,216
Total trading portfolio			143,744		141,836

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