2002 Annual Report

National Property Fund of the Czech Republic

CONTENTS

☐ STYREN III new production unit **– Kaučuk, a. s., Kralupy nad Vltavou**

INTRODUCTION

Fond národního majetku České republiky [National Property Fund of the Czech Republic] (hereinafter referred to as FNM ČR) was established on 24 May 1991 for the purpose of providing technical implementation of individual privatization resolutions and temporary management of the state ownership interests intended for successive privatization, in compliance with the Czech National Council Act no. 171/1991 Coll. concerning the powers of the bodies of the Czech Republic in transfers of state property to other persons and the National Property Fund of the Czech Republic.

The basic function of the National Property Fund of the Czech Republic is to manage state property and its privatization in compliance with approved privatization projects. The income earned by FNM ČR in privatization does not form a part of the state budget of the Czech Republic and may only be used for the purposes as provided by the law, such as rectifying damages resulting from over forty years of state ownership, discharging companies under privatization from debts, capital consolidation, transforming and stabilizing the banking sector, strengthening the resources for sickness, health and pension insurance, etc. Financial resources from FNM ČR also flow into the state budget in the form of subsidies. Furthermore, it is also necessary to settle the costs associated with the temporary management of the property under privatization.

The National Property Fund of the Czech Republic does not have the competence to decide on the manner of privatization of state property. Its main aim is to implement privatization projects as based on the resolutions on privatization made by the Ministry of Finance of the Czech Republic (previously the Ministry for the Management of National Property and Its Privatization of the Czech Republic) or on resolutions of the Czech Government. In the case of a direct sale of the property to a predetermined transferee, FNM ČR shall execute and enter into a contract of sale; in the case of selling property in a public auction or public tender, the Fund shall secure their preparation and proceedings, etc. Should privatization be executed by investment contribution of the state property into joint-stock companies and subsequent sale of their shares, FNM ČR shall first be the founder of the joint-stock company, then its main shareholder, and finally the Fund shall sell or transfer the shares of such companies.

FNM ČR is under direct control of the Chamber of Deputies of the Parliament of the Czech Republic to whom it presents its budget and economic reports. The Chamber of Deputies also elects the supreme bodies of the Fund, i.e. the Presiding Committee and the Board of Supervisors.

□ Headquarters of the **National Property Fund of the Czech Republic**

ORGANIZATIONAL STRUCTURE OF FNM ČR

The National Property Fund of the Czech Republic is divided into seven sections:

1. *Section for Strategic Privatization*

Ensures preparation and implementation of privatization of selected strategic companies as based on the resolution on privatization issued by the Ministry of Finance or the Government, ensures co-action with selected FNM ČR consultants for individual privatization projects and cooperates with the Ministry of Finance in the preparation of government documents related to privatization of strategic companies

2. *Property Participation Section*

Ensures performance of rights and duties of the FNM ČR as a shareholder, carries out analyses of companies included into the restructuring programme, cooperates with respective departmental ministries, creditor banks and other entities in preparation of the restructuring programme for selected companies

3. *Property Sale and Restitution Section*

Has as its task implementing privatization decisions using standard methods, which include public tenders, direct sales, cost-free transfers, restitutions and sale on the capital market. The section also provides management of retracted property, ensures economic analyses of outstanding debts and suggests their handling

4. *Ecological Section*

Provides a comprehensive support in preparing, executing and checking job orders dealing with ecological burdens arisen before privatizing state property, cooperates with the Ministry of Environment and other institutions, including contracting parties participating in so-called environmental contracts and contractors employed in the removal of old ecological burdens

5. *Legal Section*

Provides legal agenda for FNM ČR connected with rendering of juridical services, including all passive and active lawsuits of FNM ČR

6. *Finance Section*

Ensures the management of separate and asset accounts of FNM ČR, conduct of bank operations, meeting the due dates for payments for sold property, recording of economic information concerning every movement of FNM ČR assets and liabilities

7. *Internal Administration Section*

Conducts activities connected with the budget of operating, labour and investment costs including a special agenda of costs related to the implementation of privatization projects, ensures personnel and wages administration of FNM ČR and controls its records archive

EXECUTIVE COMMITTEE

Is the statutory body of FNM ČR managing its activities. Its members are appointed by the Presiding Committee for a five-year term. The Executive Committee is headed by the Chairman and two Vice-chairmen. Another seven members of the Executive Committee are delegated with controlling individual sections of FNM ČR.

PRESIDING COMMITTEE

of FNM ČR has nine members and a chairman who is by law the Minister of Finance. The Vice-chairman and members of the Committee are elected by the Chamber of Deputies of the Parliament of the Czech Republic for a five-year term. The scope of powers of the Presiding Committee in particular includes appointing and managing the Executive Committee and supervising its activities, conceiving the FNM ČR statutes, approving the remuneration rules for the members of the Executive Committee of FNM ČR, drawing up a draft budget for FNM ČR and presenting it to the Government for discussion, considering the yearly statements of account of FNM ČR and annual reports of FNM ČR activities for the previous year and presenting them to the Government for discussion.

SUPERVISING COUNCIL

Consists of five members elected by the Chamber of Deputies of the Parliament of the Czech Republic for a five-year term. The task of the members of the Supervising Council is supervising the activities and management of FNM ČR, the Presiding Committee and the Executive Committee. Subject to the nature of the issue it notifies the Presiding Committee, the Ministry, the Government, Chamber of Deputies or other appropriate bodies of discovered shortcomings. The Supervising Council considers the draft budget, the yearly statement of accounts and annual report before presenting them to the Government. The employees of FNM ČR are not allowed to become members of the Supervising Council.

STATUTORY BODIES OF FNM ČR

as of 31 December, 2002

EXECUTIVE COMMITTEE

Ing. Jan Juchelka
Chairman

Ing. Pavel Suchý
1st vice-chairman

Pavel Kuta
2nd vice-chairman

Ing. Jan Škurek
Head of the Section for Strategic Privatization

JUDr. Mgr. Ing. Libor Lukášek
Head of the Property Participation Section

Ing. Miloš Ečer
Head of the Property Sale and Restitution Section

Mgr. Jaroslav Vítek
Head of the Ecological Section

JUDr. Ivan Hink
Head of the Legal Section

Ing. Jana Vernerová
Head of the Finance Section

Ing. Jaroslava Zelená
Head of the Internal Administration Section

PRESIDING COMMITTEE

Mgr. Bohuslav Sobotka
Chairman

Ing. Zdeněk Hrubý, CSc.
Vice-chairman

Bc. Ivo Hartmann, MBA
Member

JUDr. Karel Kühnl
Member

Ing. Václav Srba
Member

Ing. Pavel Šafařík
Member

Ing. Antonín Tesařík
Member

Ing. Jiří Václavek
Member

Ing. Miroslav Václavek
Member

SUPERVISING COUNCIL

Mgr. Ing. Michal Kraus
Chairman

Mgr. Oldřich Vojíř
Vice-chairman

Ing. Martin Kocourek
Member

Ing. Miloš Melčák, CSc.
Member

Changes in the structure of statutory bodies of FNM ČR during 2002

Presiding Committee 2002

Ing. František Brožík	31. 12. 2001 – 9. 10. 2002	Vice-chairman
Ing. Václav Kupka, CSc.	31. 12. 2001 – 2. 10. 2002	Member
Ing. Jiří Rusnok	31. 12. 2001 – 15. 7. 2002	Chairman
Ing. Jiří Rusnok	16. 7. 2002 – 9. 10. 2002	Member
Ing. Zdeněk Petříček	31. 12. 2001 – 9. 10. 2002	Member
Ing. Jaroslav Vrána	31. 12. 2001 – 9. 10. 2002	Member
Ing. Michal Tošovský	31. 12. 2001 – 31. 3. 2002	Member
Ing. Milada Vlasáková	31. 12. 2001 – 31. 7. 2002	Member
Ing. Jiří Václavek	31. 12. 2001 – 9. 10. 2002	Member
Ing. Jiří Václavek	22. 10. 2002 – 31. 12. 2002	Member
Mgr. Bohuslav Sobotka	16. 7. 2002 – 31. 12. 2002	Chairman
Ing. Zdeněk Hrubý, CSc.	22. 10. 2002 – 31. 12. 2002	Vice-chairman
Bc. Ivo Hartmann, MBA	22. 10. 2002 – 31. 12. 2002	Member
JUDr. Karel Kühnl	22. 10. 2002 – 31. 12. 2002	Member
Ing. Václav Srba	22. 10. 2002 – 31. 12. 2002	Member
Ing. Pavel Šafařík	22. 10. 2002 – 31. 12. 2002	Member
Ing. Antonín Tesařík	22. 10. 2002 – 31. 12. 2002	Member
Ing. Miroslav Václavek	22. 10. 2002 – 31. 12. 2002	Member

Supervising Council 2002

Mgr. Oldřich Vojíř	31. 12. 2001 – 9. 10. 2002	Chairman
Mgr. Oldřich Vojíř	22. 10. 2002 – 31. 12. 2002	Vice-chairman
Ing. Michal Kraus	31. 12. 2001 – 9. 10. 2002	Vice-chairman
Ing. Michal Kraus	22. 10. 2002 – 31. 12. 2002	Chairman
Ing. Martin Říman	31. 12. 2001 – 19. 6. 2002	Member
Ing. Martin Kocourek	31. 12. 2001 – 9. 10. 2002	Member
Ing. Martin Kocourek	22. 10. 2002 – 31. 12. 2002	Member
PhDr. Jan Stráský	31. 12. 2001 – 9. 10. 2002	Member
Ing. Miloš Melčák, CSc.	22. 10. 2002 – 31. 12. 2002	Member

INTRODUCTORY WORD OF THE FNM ČR CHAIRMAN

Ladies and gentlemen,

The benefit of the FNM ČR activities into public budgets in 2002 was again fundamental despite the fact that the period of the so-called "mass privatization", which culminated in the nineties, has ended. The above-average earnings of FNM ČR in the last year were in particular derived from successful privatization of the Czech gas industry. FNM ČR obtained a profit of 124.5 billion Czech crowns by virtue of the sale of state ownership interests in the joint-stock company Transgas and in eight regional gas-distributing companies to the German company RWE Gas.

By selling the Czech gas industry FNM ČR provided the biggest direct foreign investment for the Czech Republic implemented in the last year, and at the same time, last year brought the biggest earnings in its history, 128.9 billion Czech crowns, which resulted in an increase of total earnings of the Fund since its establishment in 1991 to 463.3 billion Czech crowns.

FNM ČR also succeeded in the preparation of the sale of the Nová huť shares to LNM Holdings N. V., which undertook to pay 9 million dollars for a 67.25 per cent share in Nová huť. The first part of the transaction, i.e. the sale of a 52.25 per cent share to the Ostrava-based steel company for 6 million dollars, was settled at the beginning of 2003.

At the beginning of January 2002, the Government of the Czech Republic allowed important strategic investors to acquire a state investment share in ČEZ, a. s., and regional power engineering distributing companies (REAS). None of the investors, however, offered a reasonable purchase price for the state majority ownership interest. In the spring of 2002 the Government thus decided to integrate the joint-stock company ČEZ with REAS, while simultaneously hiving off ČEPS, a. s., shares to a state-controlled company. Further to the resolution of the Czech Government, FNM ČR, in co-action with other parties to the transaction, prepared and subsequently subscribed pertinent contracts.

The Czech Government decided to suspend the on-coming sale of the state ownership interest in the joint-stock company Český Telecom, as the agreement with the preferred investor was not reached.

At the beginning of 2002, FNM ČR entered into a contract with Agrofert Holding on a sale of 63 per cent of shares of the joint-stock company Unipetrol. Despite the willingness of FNM ČR to settle the transaction, the transfer of Unipetrol shares to the transferee was not carried out during the year due to disagreement of the contractual parties as to meeting the suspensive conditions. The Government thus decided to cancel Unipetrol privatization into the hands of Agrofert Holding. By the end of the year the Czech Government requested FNM ČR to provide a collection of consultant firms that would assist the Government and the Fund in selecting a strategic investor in the reopened privatization of Unipetrol.

FNM ČR liberated its financial resources gained from the sale of the state property and shares in particular to eliminate the damages incurred from over a forty-year period of state ownership. Total expenses of the Fund since its foundation have amounted to 428.8 billion Czech crowns, out of which 120.1 billion was spent by the Fund in 2002.

Expenses associated with the activities of Česká konsolidační agentura [Czech Consolidating Agency] reached 15.9 billion Czech crowns last year, while the total for the overall time of existence of FNM ČR amounted to 77.3 billion. For state budget purposes the Fund has liberated 70.5 billion Czech crowns since its foundation; last year's expenses into the state budget amounted to 20.6 billion.

The State Fund for Transport Infrastructure has been given a total of 45.8 billion Czech crowns from FNM ČR, out of which 23.8 billion in the last year. The Fund's earnings from privatization thus have contributed to development, maintenance and modernization of roads, motorways, railroads and waterways.

The State Fund for Housing Development has received 27 billion Czech crowns since its establishment from FNM ČR, 17.4 billion in 2002. These resources form an overwhelming majority of the income by the State Fund for Housing Development and are used e.g. in financial support of repairs of panel buildings, construction of apartments and building of technical infrastructure in municipalities.

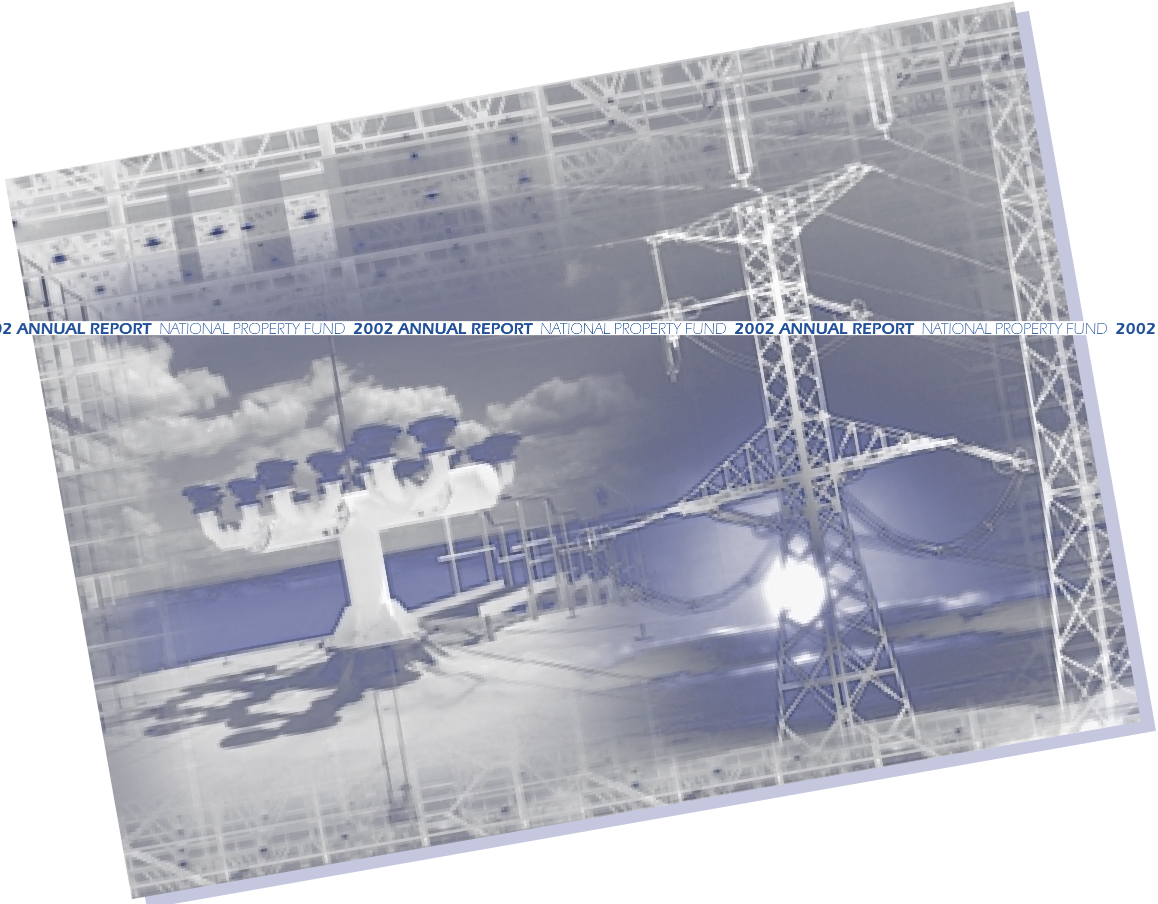
Recently, the expenses for the removal of ecological damages have started to play an important role. Last year FNM ČR liberated 3.2 billion Czech crowns for the liquidation of decades-old ecological burdens, which makes a total of 15.3 billion Czech crowns and thus contributed to improving the quality of living of Czech citizens.

FNM ČR has been so far successful in covering its expenses by its earnings. However, as the auditor warned, any other disposal of Fund resources should be carried out in a way so that the Fund would not get into a situation where it could not be able to meet its obligations. The same was declared by the Presiding Committee of FNM ČR when approving the annual report for 2002.

The year 2002 was extraordinary for FNM ČR not only from the point of view of privatization earnings, but also from the point of view of its existence. Due to the fact that this privatization agency has preponderantly accomplished its mission, the Government of the Czech Republic expressed its intention to terminate the activities of the Fund in this electoral term. The management of FNM ČR has thus actively risen to the occasion of preparing a transformation project and ensuring transparent and effective functioning of FNM ČR during its implementation.

Ing. Jan Juchelka
Chairman of the Executive Committee of FNM ČR

I. Main Activities and Systematic Spheres of Action



SALE OF SHARES ▮ SALE OF ASSETS ▮ EXERCISE OF SHAREHOLDER'S RIGHTS ▮ LEGAL PROCEEDINGS ▮ REMOVAL OF OLD ECOLOGICAL BURDENS ▮ DEALING WITH RESTITUTION CLAIMS ▮ FNM ČR CONTROLLING ACTIVITIES ▮ PROVISION OF INFORMATION IN COMPLIANCE WITH ACT No. 106/1999 ON FREE ACCESS TO INFORMATION

Dlouhé stráně pumped-storage power plant owned by **ČEZ, a. s.,** a power engineering company

SALE OF SHARES

STRATEGIC COMPANIES

In the first half of 2002 the National Property Fund of the Czech Republic (FNM ČR) achieved a material success in the sphere of privatizing **strategic companies**, when it sold ownership interests in the joint-stock company **TRANSGAS** and **eight regional gas distributing companies**. The German company RWE Gas AG paid 4.1 billion EUR for the gas company shares, which is the highest yield from privatization of Czech companies during the history of FNM ČR and the greatest yield from power engineering privatization in Central Europe.

Another successful undertaking of FNM ČR was the sale of **NOVÁ HUŤ** shares. At the beginning of 2002, the Government of the Czech Republic decided on initiating exclusive negotiations concerning the entry of LNM Holdings N. V. (LNM) into the joint-stock company NOVÁ HUŤ. After intensive discussion, in the summer of 2002 LNM submitted a bid for a purchase of 67.25 per cent equity share in the joint-stock company NOVÁ HUŤ at a price of 9 million USD. The Government accepted this bid.
In the other half of 2002 LNM and FNM ČR were meeting numerous suspensive conditions stipulated by the Contract of Purchase. Due to the complexity of the transaction, the performance of the suspensive conditions claimed full employment of all parties concerned, including the Ministry of Industry and Commerce, Ministry of Finance and creditor banks of the joint-stock company NOVÁ HUŤ. The first part of the transaction was successfully settled at the beginning of 2003, when FNM ČR acquired 6 million USD for a 52.25 per cent equity share. The remaining 15 per cent of the FNM ČR equity share in the joint-stock company NOVÁ HUŤ will be transferred to LNM after terminating legal proceedings with the limited liability company PETRCÍLE. LNM shall pay 3 million USD for this ownership interest.

At the beginning of January, the Government of the Czech Republic allowed important strategic investors to acquire state investment shares in **ČEZ**, joint-stock company, and eight **regional power engineering distributing companies** (REAS). None of the investors, however, satisfied the conditions of the tender; in particular no one offered a reasonable purchase price for the state majority ownership interest. In the spring of 2002, the Government thus decided to integrate the joint-stock company ČEZ with REAS, while simultaneously hiving off ČEPS, a. s., shares to a state-controlled company. This step resulted in completing contracts on transfer of shares of ČEZ, joint-stock company, ČEPS, joint-stock company, and REAS between individual parties to the transaction, i.e. the following companies: ČEZ, a. s., OSINEK, a. s., FNM ČR, Czech Consolidating Agency and the Ministry of Employment and Social Security of the Czech Republic. The transfer of the pertinent equity shares should be implemented, after satisfying all contractual suspensive conditions and in compliance with the resolution of the Office for the Protection of Competition, in 2003.

Privatization process in the case of **ČESKÝ TELECOM**, a.s., continued in April 2002 by selecting two international consortia, with which further discussions were held concerning the possibility of their acquiring a state equity share in the biggest Czech telecommunication company. During the whole year complex negotiations were in progress concerning the contract and solving financial issues. However, an agreement with the selected strategic partner was not reached. By the end of 2002 the Government thus decided on developing another course of action related to the ownership interest of the state in business activities of ČESKÝ TELECOM, a. s.

Early in 2002, FNM ČR, as based on a privatization resolution of the Government, entered into a Contract on purchase and sale of **UNIPETROL**, a. s., shares (the "Contract") with AGROFERT HOLDING, a. s. Despite the willingness of FNM ČR to settle the transaction, the transfer of Unipetrol shares to the transferee was not carried out during the year due to disagreement of the contractual parties as to meeting the suspensive conditions. Subsequently the joint-stock company AGROFERT HOLDING submitted a draft agreement on terminating the Contract. As based on the Government resolution on cancellation of the previous decision on privatizing the state ownership interest in the business activities of UNIPETROL, FNM ČR and the joint-stock company AGROFERT HOLDING completed the above-mentioned Agreement on Terminating the Contract. By the end of 2002 the Government of the Czech Republic decided on opening a selection procedure aimed at selecting a consultant firm that would assist FNM ČR in the reopened privatization process of UNIPETROL, a. s.

NON-STRATEGIC COMPANIES

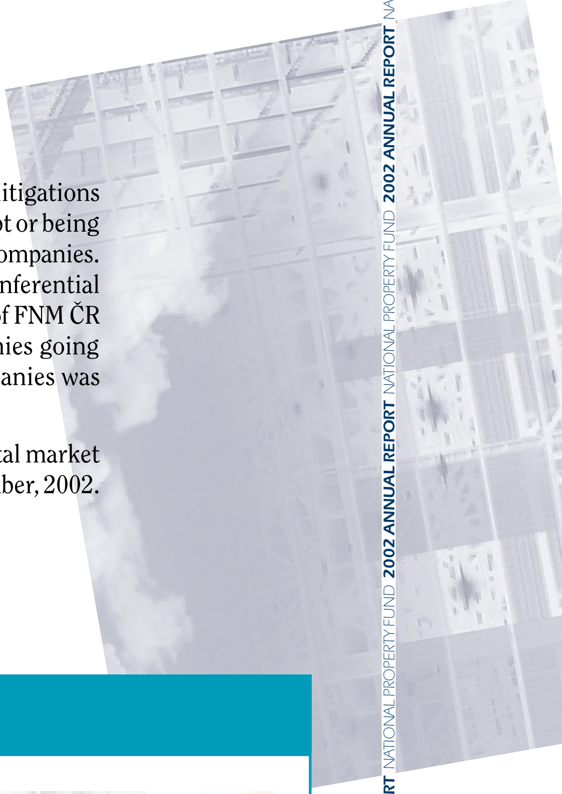
In 2002 FNM ČR implemented privatization of shares in the so-called **non-strategic companies** by means of public tenders via direct sale to predetermined transferees as based on the resolution on privatization in accordance with the Czech Government decree.
Total earnings of FNM ČR from the sale of non-strategic companies in 2002 amounted to 301 million CZK. The highest share in the total volume of earnings from privatization of non-strategic companies was acquired from the sale of the joint-stock companies Skleněná bižuterie, a. s., [Paste Jewellery, joint-stock company], KORAMO, a. s., and a part of an equity share in Pražská teplárenská, a. s., [Prague Combined Heat and Power Production Plant, joint-stock company].

Table 1

List of completed privatizations of non-strategic joint-stock companies in 2002	
NOVA, a. s.	Léčebné lázně Bohdaneč, a. s.
Hotel Montana – F, a. s.	Léčebné lázně Jáchymov, a. s.
Vinné sklepy Valtice, a. s.	SETUZA, a. s.
Agroprodukt, a. s. in bankruptcy	Kanalizace a vodovody St. Plzenec, a. s.
ČKD Slaný, a. s.	Burza cenných papírů Praha, a. s.
CHIRANA Praha, a. s.	KORAMO, a. s.
Rekord, a. s., in liquidation	Semperflex Optimit, a. s.
SAPOR, a. s., in liquidation	Hotely HBJ, a. s.
Pivovar Radegast Sedlec, a. s., in bankruptcy	Chovservis, a. s.
TOS Kuřim, a. s., in liquidation	Albatros nakladatelství, a. s.
ZEZ Hořice, a. s.	Ateliéry Bonton Zlín, a. s.
Skleněná bižuterie, a. s.	Lázně Poděbrady, a. s.
Průmysl kamene, a. s.	Priessnitzovy léčebné lázně, a. s.
PRAGOINVEST, a. s., in bankruptcy	Solné mlýny, a. s.
Lázně Libverda, a. s.	Železnobrodské sklo, a. s. *
Lázně Teplice, a. s., v Čechách	Pražské vodovody a kanalizace, a. s. *
Léčebné lázně Mariánské lázně, a. s.	Potraviny Centrum, a. s.
Sanatorium Astoria, a. s.	CVM Mokrá, a. s.
Lázně Teplice nad Bečvou, a. s.	

** share transfer without consideration*

Želivka water storage reservoir operated by **Pražské vodovody a kanalizace, a. s.**

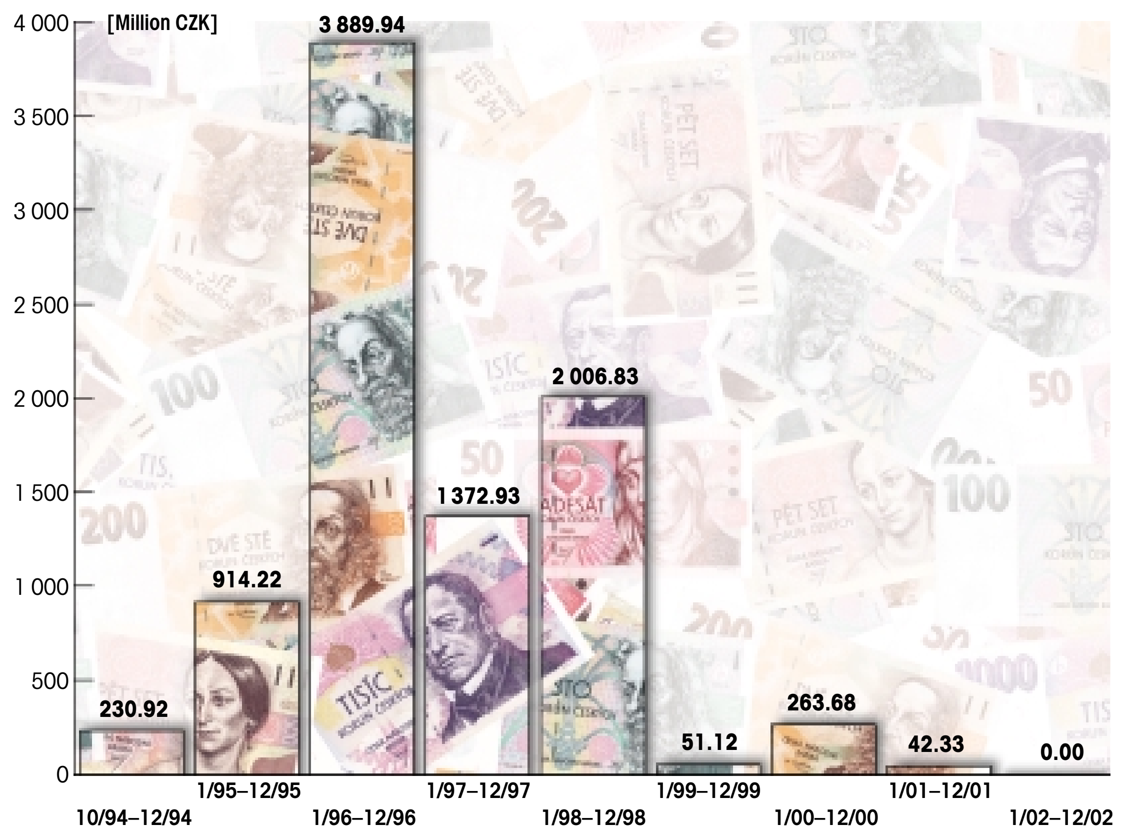


Privatization of FNM ČR equity shares still remains complicated due to unsettled litigations and the fact that particular companies from the FNM ČR portfolio are going bankrupt or being liquidated. This situation considerably impedes the efforts to sell the shares of these companies. In consideration of a continuously monitored state of bankruptcy proceedings and inferential costs connected with the sale of shares with zero value, the Executive Committee of FNM ČR ruled on 1 June, 2002 that FNM ČR should not continue to sell shares of companies going bankrupt or being liquidated, and should wait till the winding-up of these companies was concluded.

Analogous to previous years, in 2002 the trend of fewer companies sold via the capital market persisted. FNM ČR thus terminated its activities on the capital market as of 31 December, 2002. In 2002 FNM ČR did not offer anything for sale on the stock market.

Figure 1

Overview of revenues from the sale of shares on the capital market
from the beginning of privatization to the end of 2002



□ **Pražská energetika, a. s.** *headquarters*

SALE OF ASSETS

The sale of privatized assets of FNM ČR in 2002 was made in the form of direct sales and public tenders.

A total of 111 units at a total purchase price of 540 million CZK, which comprised of 26 health care institutions at 52 million CZK, was privatized by means of direct sale. The highest purchase prices were reached by selling land belonging to Palivový kombinát Vřesová [Vřesová Fuel Combine] and the sale of the Havlíčkův Brod and Jičín affiliated companies of ČSAD Hradec Králové [Czech Bus Service in Hradec Králové]. The biggest items sold concerning health care institutions were Poliklinika [Health Centre] in Veselí nad Moravou and Balneoprovoz Lázně VI [Balneology Centre-Resort VI] in Karlovy Vary. The accounting value of the sold assets was 712 million CZK.

The actual revenue from assets privatization via direct sale in 2002 amounted to a total of 735 million CZK.

A total of 30 privatization units were sold by FNM ČR at a total purchase price of 369 million CZK via public tenders, out of which 25 were tenders for a sale of assets amounting to 159 million CZK, two tenders were for the sale of shares of 176 million CZK, two tenders for the sale of a claim of 33 million CZK and one tender for the sale of the so-called retracted assets of one million CZK. From the point of view of the purchase price, the most profitable sale by FNM ČR was the sale of shares of Pražská teplárenská, a. s., [Prague Combined Heat and Power Production Plant, joint-stock company], assets of Poliklinika I [Health Center I] in Hradec Králové and Stavby železniční polikliniky [Railroad Health Centre Constructions] in Prague 4 - Bohdalec.

The actual revenue from privatization of assets via public tenders in 2002 amounted to a total of 265 million CZK.

The total purchase price is a sum total of all purchase prices in accordance with the contracts entered into in 2002. **The actual revenues from privatization** represent a sum total of all payments credited to the account of FNM ČR in 2002, i.e. including payments related to contracts concluded in previous years.

Figure 2

FNM ČR revenues from the sale of assets and shares
from the beginning of privatization to the end of 2002 (billion CZK)

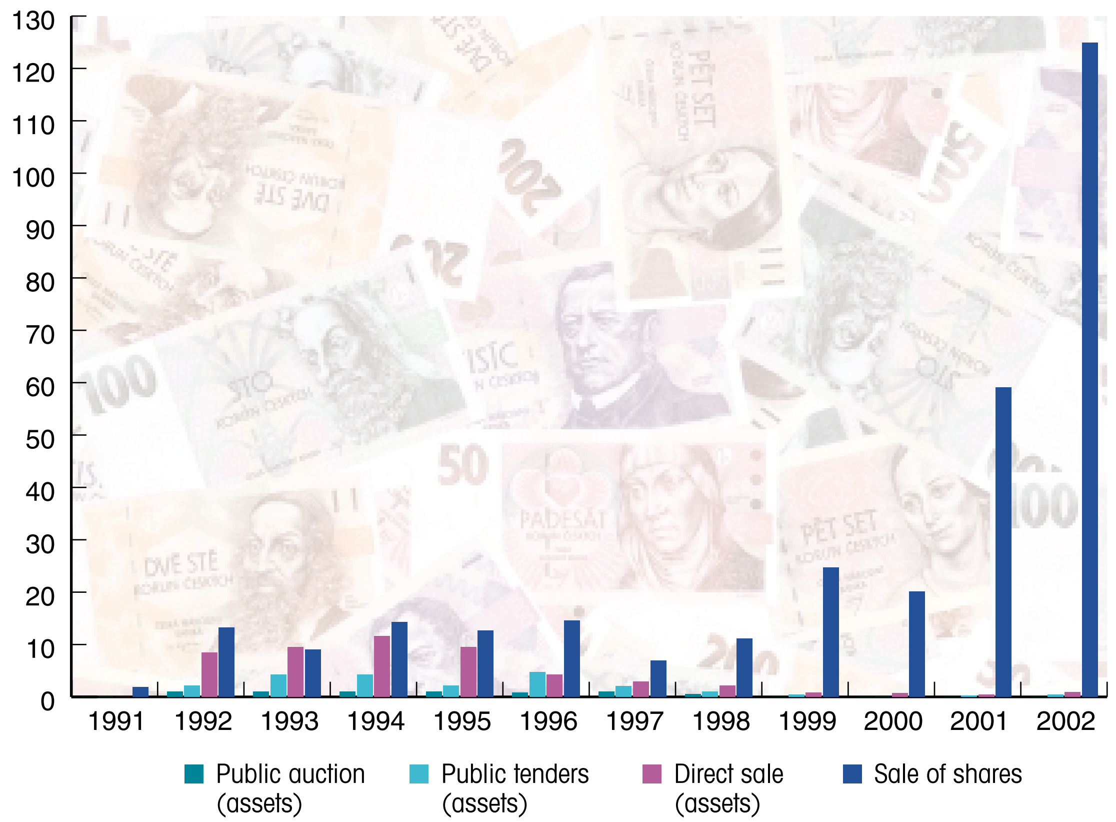
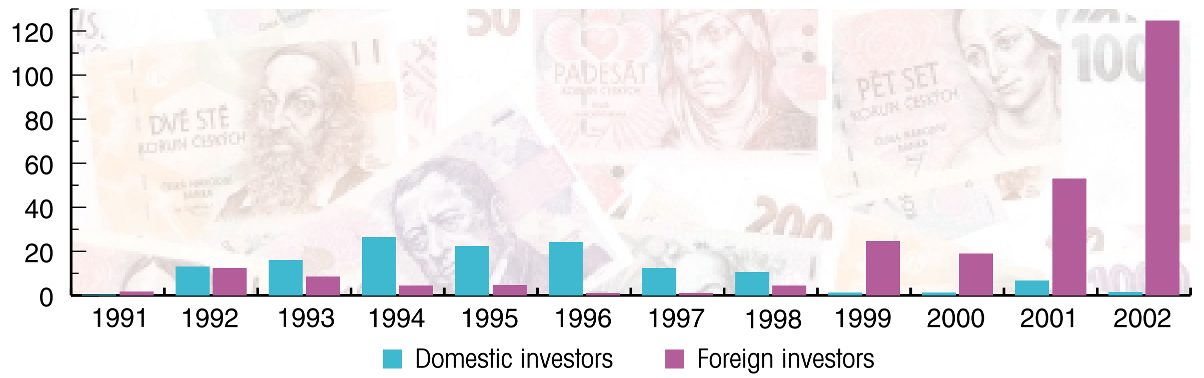


Figure 3

Revenue from the sale of assets and shares divided into domestic and foreign investors (billion CZK)



EXERCISE OF SHAREHOLDER'S RIGHTS

As of 31 December, 2002 FNM ČR owned majority or material ownership interests in 21 joint-stock companies of strategic importance of a total face value of 120.76 billion CZK. In the second quarter of 2002 FNM ČR sold ownership interests in eight regional gas distributing companies.

Table 2

List of strategic companies in FNM ČR portfolio as of 31 December, 2002

Name of the joint-stock company	Total share holding (face value) (thsd. CZK)	Ownership in reg. capital (%)
ČEPRO, a. s.	2 660 000.000	100.00
České aerolinie, a. s.	1 556 980.000	56.92
ČESKÝ TELECOM, a. s.	16 458 795.000	51.10
ČEZ, a. s.	40 028 551.500	67.61
Jihočeská energetika, a. s.	920 946.000	48.06
Jihomoravská energetika, a. s.	1 647 785.000	46.66
MERO ČR, a. s.	8 430 921.000	100.00
NOVÁ HUŤ, a. s.	7 710 973.000	67.25
OKD, a. s.	11 149 594.000	45.88
Pražská energetika, a. s.	1 864 798.000	48.19
Severočeská energetika, a. s.	1 565 344.000	48.05
Severočeské doly, a. s.	4 983 167.000	55.38
Severomoravská energetika, a. s.	1 658 783.000	48.66
Sokolovská uhelná, a. s.	3 302 594.000	48.69
Středočeská energetická a. s.	1 871 746.000	58.30
ŠKODA PRAHA, a. s.	305 351.000	54.77
Transgas, a. s.	1 096 512.000	3.00
UNIPETROL, a. s.	11 422 403.800	62.99
VÍTKOVICE, a. s.	89 378.540	67.31
Východočeská energetika, a. s.	1 265 178.000	49.62
Západočeská energetika, a. s.	775 245.000	48.28
Total of 21 joint-stock companies	**120 764 697.840**	

As of 31 December, 2002 FNM ČR registered in its portfolio a total of 168 non-strategic joint-stock companies with a total face value of shares amounting to 17.5 billion CZK. Out of this number FNM ČR keeps a register of 64 companies for the assets of which petitions in bankruptcy have been filed by the court or that are under liquidation. In 37 companies the respective founding ministries insist on shareholding with special rights.

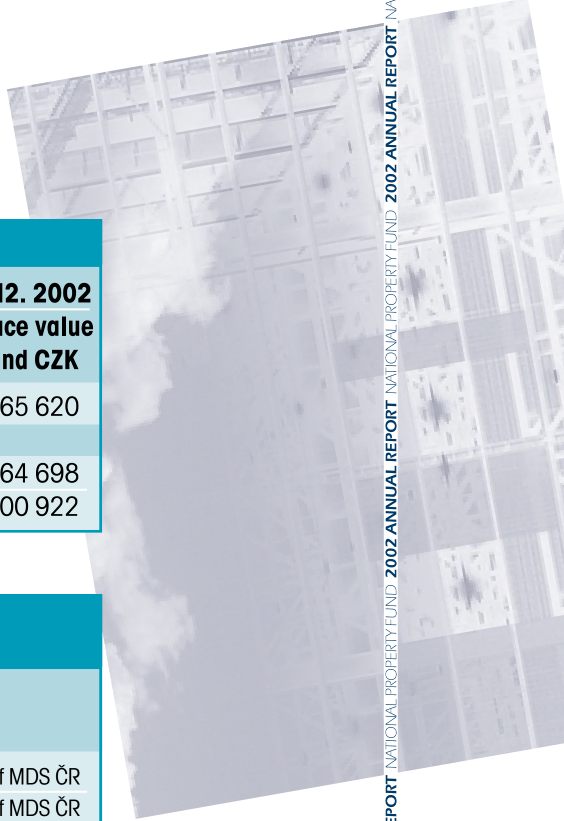


Table 3

FNM ČR share portfolio structure				
FNM ČR OWNERSHIP	**State as of 31. 12. 2001**		**State as of 31. 12. 2002**	
	No. of a. s.*	**Share face value thousand CZK**	**No. of a. s.***	**Share face value thousand CZK**
Total joint-stock companies	**234**	184 639 694	**189**	138 265 620
Out of which:				
1. Strategic companies	**29**	169 144 897	**21**	120 764 698
2. Non-strategic companies	**205**	15 494 797	**168**	17 500 922

** a. s. = joint-stock company*

Joint-stock companies in which the founding ministries insist on shareholding with special rights

Name of Company	Pcs in FNM ownership	Note
České přístavy, a. s.	1	exercise of shareholder rights of MDS ČR
Českosl. plav. labská, a. s., bankrupt	1	exercise of shareholder rights of MDS ČR
Geofyzika, a. s.	1	exercise of rights of MŽP ČR
Hřebčín Napajedla, a. s.	1	exercise of rights of MZe ČR
Jan Becher-KV Becherovka, a. s.	1	exercise of rights of MZe ČR
Chebské vodovody a kan., a. s.	1	exercise of rights of MZe ČR
Chodské vodárny a kan., a. s.	1	exercise of rights of MZe ČR
Plzeňský Prazdroj, a. s.	1	exercise of rights of MZe ČR
Severočeská vodáren. spol., a. s.	1	exercise of rights of MZe ČR
Slovácké vodárny a kan., a. s.	1	exercise of rights of MZe ČR
Ústav jader. výzkumu ŘEŽ, a. s.	1	exercise of rights of SÚJB
Ústav nerostných surovin, a. s.	1	exercise of rights of MŽP ČR
Vodárenská a kan., a. s., Plzeň	1	exercise of rights of MZe ČR
Vodárny Kladno-Mělník, a. s.	1	exercise of rights of MZe ČR
Vodohosp. a obch. spol., a. s., Jičín	1	exercise of rights of MZe ČR
Vodohosp. spol. Olomouc, a. s.	1	exercise of rights of MZe ČR
Vodohosp. spol. Vrchlice, a. s.	1	exercise of rights of MZe ČR
Vodohosp. zař. Šumperk, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Beroun, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Bruntál, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Břeclav, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. H. Králové, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Havl. Brod, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Hodonín, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Chrudim, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Jablonné, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Kroměříž, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Ml.Bol., a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Náchod, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Nymburk, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Pardubice, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Prostějov, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Přerov, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Trutnov, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Vsetín, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Vyškov, a. s.	1	exercise of rights of MZe ČR
Vodovody a kan. Zlín, a. s.	1	exercise of rights of MZe ČR
Total 37 joint-stock companies		

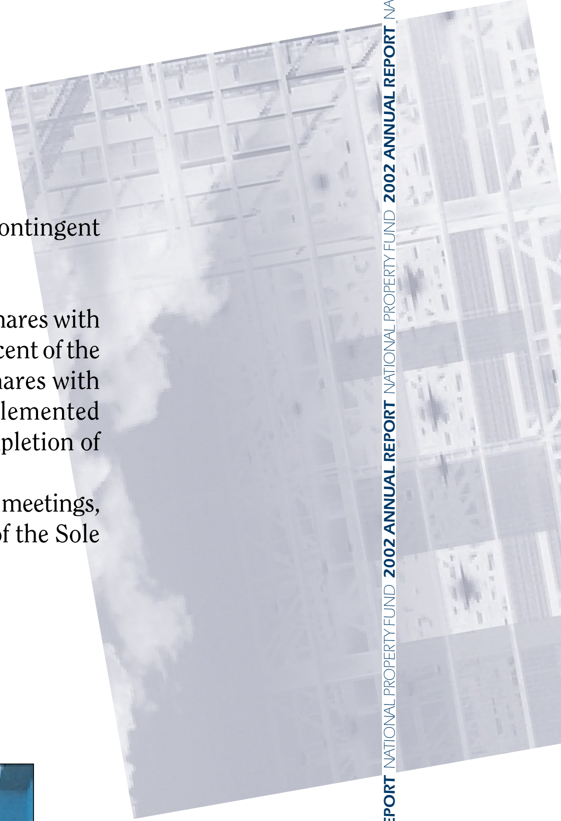
MDS ČR= Ministry of Transport and Communications of the Czech Republic
MŽP ČR = Ministry of Environment of the Czech Republic
MZe ČR = Ministry of Agriculture of the Czech Republic
SÚJB = State Office for Nuclear Safety

Table 4

"Golden" shares – state of holding all shares with special rights as of 31 December, 2002	
Companies in which the founding ministries insist on maintaining "golden" share rights:	**Companies in which the "golden" share was invalidated and a respective change in the Articles of Association was made:**
České přístavy, a. s.	AB BARRANDOV, a. s.
Československá plavba labská, a. s., bankrupt	ALBATROS, nakladatelství, a. s.
Geofyzika, a. s.	Anenské slatinné lázně, a. s.
Hřebčín Napajedla a. s.	Ateliéry Bonton Zlín, a. s.
Chebské vodovody a kanalizace, a. s.	Bohemia-lázně, a. s.
Chodské vodárny a kanalizace, a. s.	Centrum stavebního inženýrství, a. s.
Jan Becher – Karlovarská Becherovka, a. s.	Cinemart, a. s.
Plzeňský Prazdroj, a. s.	Imperiál Karlovy Vary, a. s.
Severočeská vodárenská společnost, a. s.	KINOTECHNIKA, a. s.
Slovácké vodárny a kanalizace, a. s.	Lázně Libverda, a. s.
Ústav jader. Výzkumu ŘEŽ, a. s.	Lázně Poděbrady, a. s.
Ústav nerostných surovin, a. s.	Lázně Teplice nad Bečvou, a. s.
Vodárenská a kanalizace, a. s., Plzeň	Lázně Teplice v Čechách, a. s.
Vodárny Kladno-Mělník, a. s.	Léčebné lázně Bohdaneč, a. s.
Vodohospodářská a obchodní společnost, a. s., Jičín	Léčebné Lázně Jáchymov, a. s.
Vodohospodářská společnost Olomouc, a. s.	Léčebné lázně Mariánské Lázně, a. s.
Vodohospodářská společnost Vrchlice, a. s.	Léčiva, a. s.
Vodohospodářská zařízení Šumperk, a. s.	Priessnitzovy léčebné lázně, a. s.
Vodovody a kanalizace Beroun, a. s.	Sanatorium Astoria, a. s.
Vodovody a kanalizace Bruntál, a. s.	Solné mlýny, a. s.
Vodovody a kanalizace Břeclav, a. s.	SVÚSS, a. s.
Vodovody a kanalizace Hradec Králové, a. s.	Editio Praga, a. s., v likvidaci
Vodovody a kanalizace Havlíčkův Brod, a.s.	INFUSIA, a. s.
Vodovody a kanalizace Hodonín, a. s.	Lázně Františkovy Lázně, a. s.
Vodovody a kanalizace Chrudim, a. s.	Lázně Luhačovice, a. s.
Vodovody a kanalizace Jablonné, a. s.	Lázně Velichovky, a. s.
Vodovody a kanalizace Kroměříž, a. s.	Léčebné lázně Konstantinovy Lázně, a. s.
Vodovody a kanalizace Mladá Boleslav, a. s.	TERPLAN, a. s.
Vodovody a kanalizace Náchod, a. s.	Vědeckovýzkumný uhelný ústav, a. s.
Vodovody a kanalizace Nymburk, a. s.	**Companies in which the "golden" share is to be invalidated:**
Vodovody a kanalizace Pardubice, a. s.	ČESKÝ TELECOM, a. s. *
Vodovody a kanalizace Prostějov, a. s.	BASK, a. s., v likvidaci *
Vodovody a kanalizace Přerov, a. s.	Jihočeská energetika, a. s. *
Vodovody a kanalizace Trutnov, a. s.	Jihomoravská energetika, a. s. *
Vodovody a kanalizace Vsetín, a. s.	Pražská energetika, a. s. *
Vodovody a kanalizace Vyškov, a. s.	Severočeská energetika, a. s. *
Vodovody a kanalizace Zlín, a. s.	Severomoravská energetika, a. s. *
** Companies in which special rights of the "golden" share will be cancelled in connection with privatization or completed liquidation*	Středočeská energetická, a. s. *
	Východočeská energetika, a. s. *
	Západočeská energetika, a. s. *

In 2002 FNM ČR also ensured the exercise of shareholder's rights in companies, where it has a stake exceeding ten per cent of the registered capital. For that reason the Fund cooperated with the founding ministries, the Ministry of Finance of the Czech Republic and the Czech Consolidating Agency.

The representatives of FNM ČR, while exercising its shareholder's rights, are obliged, in particular at general meetings, to pursue the interests of FNM ČR, ensure its tasks and see to it that the rights of FNM ČR as a shareholder are not invaded or abridged. FNM ČR, in the first place, has taken part in general meetings of those companies, where it holds



shares with special rights (so-called "golden shares"). The Fund thus anticipated contingent undesirable curtailment of the rights related to this share.

The Government Decree no. 119 of 7 February, 2001 imposed invalidation of the shares with special rights in 29 joint-stock companies in which FNM ČR holds less than ten per cent of the registered capital with a settlement day up to 31 December, 2002. By that day shares with special rights were invalidated in all 29 companies. During 2002 FNM ČR implemented additional privatization of these shares via direct sales or public tenders. The completion of sale shall subsequently continue in 2003.
In 2002 FNM ČR ensured the exercise of shareholder's rights in sessions of 122 general meetings, and in the role of the sole shareholder the Fund made more than 20 Resolutions of the Sole Shareholder when executing the authority of the general meeting.

Pražské vodovody a kanalizace, a. s. – Podolí waterworks interior

□ View from a tank in the Cerekvice storage facility (above) and a pipeline in the Střelice – **Čepro, a. s.** storage facility

LEGAL PROCEEDINGS

As of 31 December, 2002 FNM ČR filed a total of 3 702 lawsuits out of which 983 (26.57 %) lawsuits were filed as active, 2400 (64.80 %) as passive, and 319 (8.63 %) were bankruptcy proceedings.

Most lawsuits were staffed by the legal section of FNM ČR. FNM ČR employees presented 75.54 % cases, the services of external lawyers were employed in 20% of cases and court distrainers presented 4.46% of cases on behalf of FNM ČR.

Out of the total of 983 lawsuits in which FNM ČR is the claimant (**active lawsuits**) 66.12 %, i.e. 650 lawsuits, were not terminated by the end of 2002. In the last year FNM ČR entered 70 new lawsuits, while the number of unsettled cases rose by 69 in the last year.

When classifying unsettled active lawsuits, a paramount share pertained to debt collection by reason of unpaid purchase prices, while 200 cases were still unsettled (30.77 % from unsettled active disputes). Numerous active lawsuits also included recovery of appurtenances in 189 unsettled cases (29.08 % from unsettled active disputes), and recovery of unpaid non-interest-bearing loans from the programme of an all-state reduction of secondary financial insolvency with 91 cases to be settled (14 % from unsettled active disputes). The remaining unsettled lawsuits are disputes for different legal reasons, mostly due to unpaid rent for using Fund's assets, inflicted damages, non-payment of awarded dividends, declaratory actions, etc.

Out of 319 bankruptcy proceedings, where FNM ČR is one of the creditors, a preponderant part, 270 cases, has not been settled, i.e. 84.59 %. The yield of bankruptcy proceedings is rather low by experience, at least recently the rate of bankruptcy proceedings has increased and the number of settled bankruptcy proceedings is rising.

In 2002 the number of legitimately decided cases further increased in which it is possible to sue for awarded claims in executory proceedings. However, it is necessary to point out that in numerous cases the claims end up as utterly unrecoverable, in particular due to the duration of discovery proceedings, when actions initiated in 1994 to 1995 that still have not reached final judgment are not exceptional. The duration of the discovery proceedings affects the fruitfulness of the executory proceedings, i.e. both court executions and executions carried out by private executors whose services FNM ČR started to employ last year. It is not an exceptional case when the debtor, a legal person, at the time when it is finally possible to proceed with the execution of judgment, is in possession of virtually nothing, manages no accounts and even his whereabouts are unknown, with the registered seat of his company abandoned long ago, the statutory bodies of the debtor have changed their places of residence and even the courts are unsuccessful in their summoning in relation to a contingent declaration of assets.

Out of a total of 2 400 lawsuits in which FNM ČR is a defendant (**passive lawsuits**), 35.24 % has not been settled, i.e. 847 suits.

Lawsuits by virtue of liability prevail in unsettled passive actions in court. 211 cases remain to be settled, which is 24.97 % from unsettled lawsuits. Restitutions rank second in light of percent occurrence with 88 lawsuits and their share in unsettled lawsuits is 10.41 %. Lawsuits over invalidity of purchase contracts include 44 cases with a share in unsettled suits of 5.09 %. The remaining unsettled lawsuits are of different nature, e.g. proposals for preliminary rulings, declaratory actions, proposals for share issue, etc.

The absolute number of unsettled lawsuits has decreased compared to the previous year, where 1 935 lawsuits were not settled as of 31 December, 2001 out of a total of 3 542 suits and 1 767 lawsuits were unsettled as of 31 December, 2002 out of a total of 3 702 lawsuits.

Currently the trend that has started in the past years keeps continuing, where the number of lawsuits in which the Fund is sued increases, and the number of lawsuits in which FNM ČR institutes legal proceedings gradually decreases. However, it is necessary to mention that even in newly arising passive lawsuits there is no exception where the plaintiff has filed his petition a couple of years ago (often in 1999-2000) and only now the courts have come to the point of starting to perform first acts in re: requests for opinions, appointments of the hearing. It mostly concerns lawsuits about the occurrence of which FNM ČR was not informed in advance. New claims arise less often and they mostly involve claims by reason of contractual fines, interest on late payment, rent, damage or unjustified enrichment. There is a simultaneous increase in cases that are solved in a different manner than by debt collection per curiam, in particular the practice of entering into agreements concerning schedule of payments in the form of a notarial protocol with direct enforceability has proved successful.

REMOVAL OF OLD ECOLOGICAL BURDENS

In 2002 FNM ČR continued in implementing the Czech Government Decree by entering into Contracts on Settlement of Ecological Liabilities arisen before privatization between FNM ČR and transferees of the privatized assets or their successors in title (hereinafter referred to as Environmental Contract). The Czech Government Decree no. 51 of 10 January, 2001 and the Principles of Settlement of Ecological Burdens Arisen before Privatization are applied in Environmental Contracts. FNM ČR, in compliance with Act no. 92/1991 Coll. on conditions of transfer of state assets to other persons, as amended, and in compliance with Act no. 199/1994 Coll. on procurement of public orders, as amended, commits itself to the transferee of the privatized assets or his successor in title to remove – to finance – his "ecological liability" towards the pertinent state administrative body (generally towards the Czech Environmental Inspection), which issues the pertinent administrative resolution to rectify the detrimental situation. FNM ČR covenants to pay to the contractor the price of the rendered work representing purposefully and effectively incurred costs for satisfying ecological obligations, in close cooperation of FNM ČR and the Ministry of Environment of the Czech Republic, which plays an unsubstitutable role of an expert guarantor in the process of removing old ecological burdens. When selecting contractors, FNM ČR acts upon the above-mentioned acts and by-laws, in particular in compliance with the Act on procurement of public orders. Transferees or successors in title covenant namely to satisfy all conditions stipulated by the administrative resolution and endure all work necessary to perform the Environmental Contract, while they are obliged to provide any co-action necessary for performing the Environmental Contract and supervise the purposefulness and effectiveness of the work carried out in compliance with the implementation project of corrective actions.

In 2002 13 Environmental Contracts were entered into with FNM ČR guarantees in a total amount of 1.064 billion CZK. Significant contracts include e.g. environmental contracts with Severočeské doly, a. s. [North Bohemian Mining, joint-stock company], Středočeská energetická, a. s. [Central Bohemian Power Engineering joint-stock company] and Transgas, a. s. In the aggregate FNM ČR has 267 Environmental Contracts registered from 1991 to 31 December, 2002 with guarantees amounting to 142.692 billion CZK. Costs for the removal of old ecological burdens arisen before privatization associated with environmental contracts reached 15.33 billion CZK, out of which 3.23 billion CZK was incurred in 2002.

In 2002 FNM ČR and the Land Fund of the Czech Republic entered into an agreement that resulted in a successful transfer of environmental contracts under direct authority of FNM ČR. The agenda associated with removing ecological damages to agricultural property arisen before privatization was thus centralized by FNM ČR on grounds of the necessity to apply the above-mentioned acts and government decrees (no. 51/01), and further with the aim of direct control of the spent financial resources.

In 2002 FNM ČR consistently continued in applying a new regime following from the force of legislation of Act no. 199/94 Coll. on procurement of public orders, as amended, and the Principles stipulated by the Government Decree no. 51/01 into previously concluded contractual relations that were valid and effective before the force of legislation of Act no. 28/2000 Coll., on procurement of public orders, as amended. These changes constitute a necessary contractual condition that precedes the need for opening selection procedures - public commissioning for implementation of corrective actions, in particular redevelopment work. Despite considerable administrative and negotiating difficulties of the above-mentioned task, 73 pertinent amendments to environmental contracts were concluded in 2002; a total of 108 amendments to environmental contracts have been concluded. If we include in the above-given enumeration a total of 26 environmental contracts that comprise the above-mentioned stipulations, FNM ČR thus registers a total of 134 environmental contracts that fully comply with the 2002 standard base and form a foundation for a transparent, flexible and effective process for the removal of ecological damages.

Contractual alterations in 2002 triggered a desirable decrease in FNM ČR aggregate guarantees bound for removal of old ecological damages. This is the total sum of guarantees of environmental contracts that were withdrawn due to legal grounds or terminated in a standard manner in compliance with the Directive of FNM ČR and the Ministry of Environment no. 1/2001 and as based on a previous agreement between FNM ČR, the Ministry of Environment and the Czech Environmental Inspection, i.e. a total of 21 environmental contracts with an overall guarantee amounting to 3.818 billion CZK, with factual savings of locked-up financial resources in the amount of 3.564 billion CZK. A component part of the long-term process of reducing FNM ČR aggregate guarantees also incorporated reducing the guarantee by means of an agreement between FNM ČR and the transferee in the form of an addendum to the environmental contract as based on a previous approval by the Ministry of Environment, in particular after completing the first implementation stage: risk analysis up-dating. The aforesaid procedure will consequently gain importance in the years to come in connection with the continuation of redevelopment work with individual transferees.

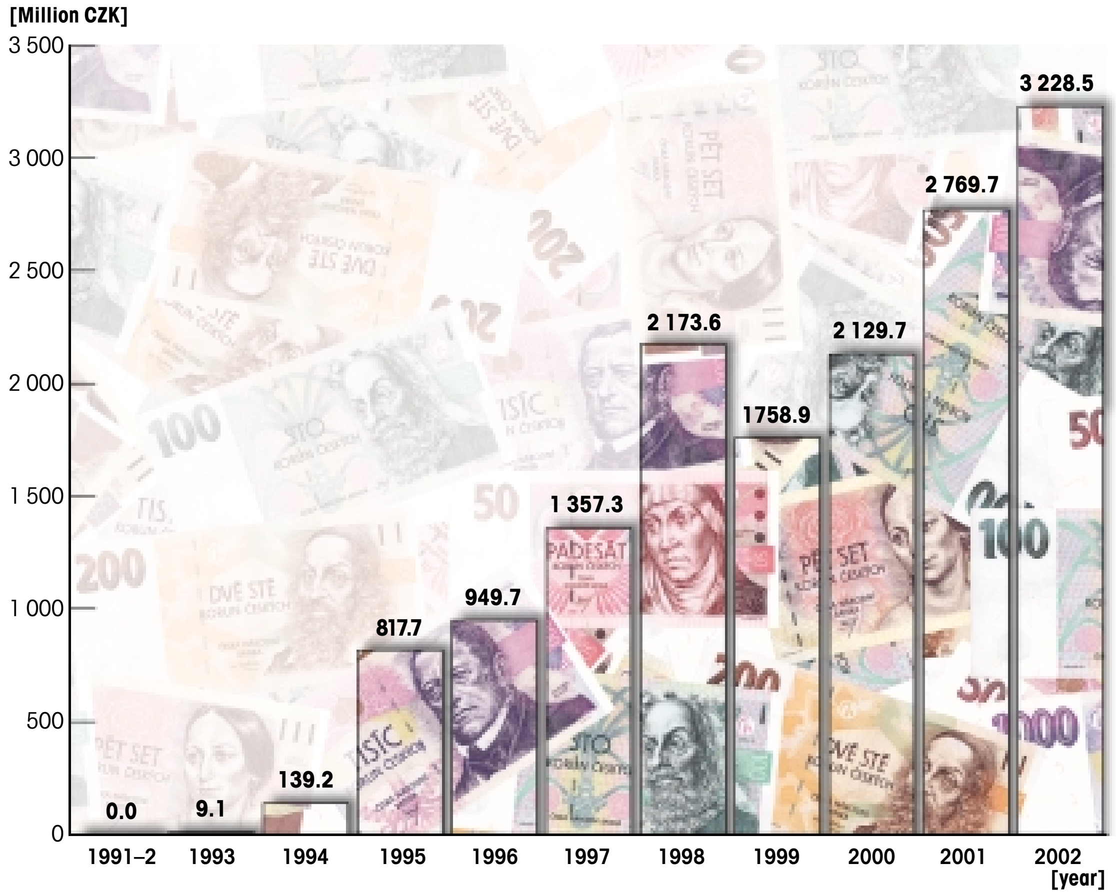
It may be said that the overall increase in guarantees in 2002 subject to the pertinent government decrees (1.064 billion CZK) was covered as based on the aforementioned enhanced effectiveness of the whole process, by significant savings (3.564 billion CZK).

FNM ČR was in 2002 under an obligation stipulated by the Czech Government Decrees no. 272/2002, no. 551/2002 and 592/2002 to remove ecological damages arisen from activities of coal mining companies in the regions of Ústí nad Labem, Karlovy Vary and Pardubice and the Moravian-Silesian region, and to revitalize the area concerned at a maximum of 35.054 billion CZK. In 2002 the whole process was initiated in compliance with the aforementioned government decrees connected with the removal of ecological damages to these areas; the amount of contracted commissions for these purposes amounted to 67.88 million CZK as of 31 December, 2002. In 2003 FNM ČR plans to spend a total of 2 billion CZK from its balance to reach the aforementioned target. FNM ČR may proceed with the already initiated work by means of reclamation and revitalization without delay when the amendment to the Act no. 171/1991 Coll. comes into force concerning the authority of the Czech Republic bodies regarding transfers of state assets to other persons and concerning the National Property Fund of the Czech Republic, as amended.

In order to select suppliers of the aforementioned projects, the Government of the Czech Republic has set up interdepartamental committees and committees on assessment and evaluation of presented offers of jobs aimed at removing the damages in relation to the bid price of the subject matter. FNM ČR ensures, in compliance with Act no. 199/1994 Coll., on procurement of public orders as amended, the execution of the whole process. It includes preparation of documentation of tender and bidding requirements for individual precautionary projects approved by the interdepartamental committee for implementation. Consequently the Fund organizes sessions of the commissions until the final conclusion of contracts for work with the contractors, aimed at satisfying the needs of the areas concerned. Providing supervising activities of the work in progress constitutes an integral part of the overall process.

Figure 4

The amount of settlement by FNM ČR for liquidation of ecological burdens
from the beginning of privatization to the end of 2002



DEALING WITH RESTITUTION CLAIMS

In 2002 FNM ČR continued in the settlement of restitution claims by entitled persons in compliance with Act no. 87/1991 Coll., on extra-judicial rehabilitations and Act no. 229/1991 Coll., on adjustment of proprietary relations to land and other agricultural assets. Restitution claims were solved by issuing promissory sight bills, whose validity always started four months after the date of issuance.

As based on instructions by statutory entities, which are the Ministry of Finance, Ministry of Agriculture and the Land Fund of the Czech Republic, FNM ČR issued in 2002 a total of 2 990 bills amounting to 553 970 423 CZK.
From 22 June, 1999 to 31 December, 2002 FNM ČR issued 17 403 bills of a total value of
3 076 609 726 CZK.

FNM ČR CONTROLLING ACTIVITIES

As based on complaints, submissions (both subscribed and anonymous), requirements of state bodies and requirements of members of the FNM ČR Executive Committee, the controlling and consolidation department of FNM ČR has carried out 81 checks concerning the observance of law on terms of transferring state assets to other persons and the law on the jurisdiction of the Czech Republic bodies regarding the transfer of state assets to other persons and on FNM ČR and further incidental regulations and decrees of the Government of the Czech Republic.

At the request of the bodies acting in criminal proceedings, the controlling and consolidation department drew up 45 working papers. Moreover, the department provided consultations for these bodies.

The controlling and consolidation department guaranteed cooperation of FNM ČR employees with the control group of the Supreme Board of Control when checking FNM ČR management of claims, and further processing of complaints and appeals related to the findings of the Supreme Board of Control.

The controlling and consolidation department also carried out continuous check-ups of the treatment of contributions of the Endowment Investment Fund, which FNM ČR, as based on contracts entered into in compliance with the decrees of the Chamber of Deputies of the Parliament of the Czech Republic no. 413/1999 and no. 1946/2001 and Czech Government Decree no. 1025/2001, provided to 74 foundations and endowment funds in the first and second stages.

PROVISION OF INFORMATION IN COMPLIANCE WITH ACT no. 106/1999 ON FREE ACCESS TO INFORMATION

FNM ČR in 2002 was not subject to Act no. 106/1999 on free access to information.

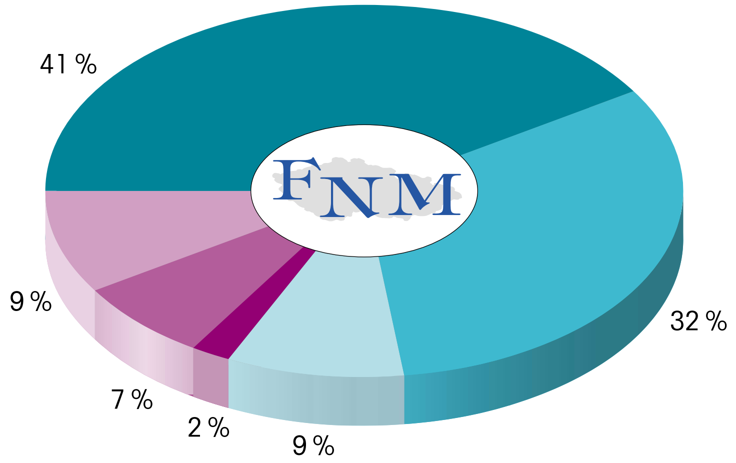
II. State of Implementing Privatization Projects as of 31 December, 2002

☐ Steel lattice tower for external power lines – ***Vítkovice Steel, a. s.***

During 2002, FNM ČR was given 112 privatization projects by the Ministry of Finance to be implemented, containing 164 privatization units of a total accounting value of 1 517.73 million CZK. During that year FNM ČR implemented 120 privatization projects with 182 privatization units with an accounting value (according to privatization projects) of 1 749.72 million CZK.

Figure 5

Privatization units committed for privatization according to the type of transformation from the beginning of privatization to the end of 2002

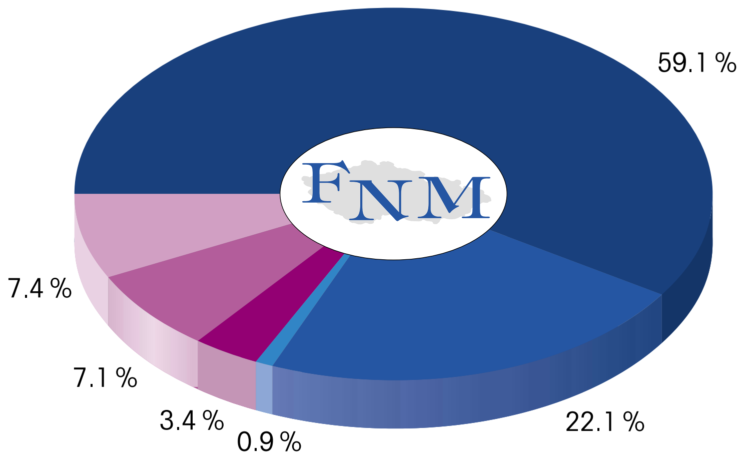


- 7 % Public auctions
- 9 % Public tenders
- 41 % Direct sales
- 32 % Transfer without consideration, restitutions, restitutions with documents
- 9 % Transfer from state-owned enterprise to joint-stock company
- 2 % Transfer from joint-stock company to joint-stock company

Since the beginning of privatization (since 1991) FNM ČR has taken over a total of 6 732 privatization projects from the Ministry of Finance with 16 558 privatization units. Privatization was completed in 16 313 privatization units. As a whole, privatization was completed in 6 560 privatization projects, i.e. a total of 97.44% of the taken over privatization projects was implemented. As of 31 December, 2002, 182 projects with 245 privatization units remain in process.

Figure 6

Face value of the assets handed over for privatization
according to the type of transformation by the end of 2002 (in %)



- 0.9 % Public auctions
- 3.4 % Public tenders
- 7.1 % Direct sales
- 7.4 % Transfer without consideration, restitutions, restitutions with documents
- 59.1 % Transfer from state-owned enterprise to joint-stock company
- 22.1 % Transfer from joint-stock company to joint-stock company

A detailed history of privatization including data on used transformation methods is shown in Table 5:

IMPLEMENTATION OF PRIVATIZATION PROJECTS AND THE USE OF TRANSFORMATION METHODS

Table 5a

I. State of implementation of privatization projects

Projects	From the beginning of privatization to 31 Dec., 2002				Out of which in 2002			
	Transferred (no. of projects)	**Assets** (thousand CZK)	**Completed** (no. of projects)	**Assets** (thousand CZK)	**Transferred** (no. of projects)	**Assets** (thousand CZK)	**Completed** (no. of projects)	**Assets** (thousand CZK)
	6 732	983 126 288	6 560	979 603 463	112	1 517 737	120	1 749 718

Table 5b

II. State of implementation of individual transformation methods

1. Sale of assets and restitutions

Type of trans-formation	From the beginning of privatization to 31 Dec., 2002				Out of which in 2002			
	Transferred (no. of projects)	**Assets** (thousand CZK)	**Completed** (no. of projects)	**Assets** (thousand CZK)	**Transferred** (no. of projects)	**Assets** (thousand CZK)	**Completed** (no. of projects)	**Assets** (thousand CZK)
Public auctions	1 210	8 495 341	1 200	8 434 676	0	0	1	10
Public tenders	1 400	34 058 712	1 358	33 305 634	23	227 491	32	516 248
Direct sale	6 801	69 613 278	6 654	67 833 081	125	1 099 770	130	963 731
Sh.transfer w/o consider.,rest. w doc.,restit.	5 274	72 713 468	5 229	71 835 872	15	187 698	18	266 951
Total	**14 685**	**184 880 799**	**14 441**	**181 409 263**	**163**	**1 514 959**	**181**	**1 746 940**

2. Establishment of joint-stock companies and take-over of ownership interests

Type of trans-formation	From the beginning of privatization to 31 Dec., 2002				Out of which in 2002			
	Transferred (no. of projects)	**Assets** (thousand CZK)	**Completed** (no. of projects)	**Assets** (thousand CZK)	**Transferred** (no. of projects)	**Assets** (thousand CZK)	**Completed** (no. of projects)	**Assets** (thousand CZK)
Transfer of s. p. to a. s.	1 552	580 728 550	1 551	580 677 261	1	2 778	1	2 778
Transfer from a. s. to a. s.	321	217 516 939	321	217 516 939	0	0	0	0
Total	**1 873**	**798 245 489**	**1 872**	**798 194 200**	**1**	**2 778**	**1**	**2 778**
Total 1 + 2	**16 558**	**983 126 288**	**16 313**	**979 603 463**	**164**	**1 517 737**	**182**	**1 749 718**

Explanatory notes: s. p. = state-owned enterprise
a. s. = joint-stock company

Note:

A commissioned project is a project for which the Government of the Czech Republic or the Ministry of Finance has issued a resolution on privatization, and FNM ČR has taken it over for implementation.

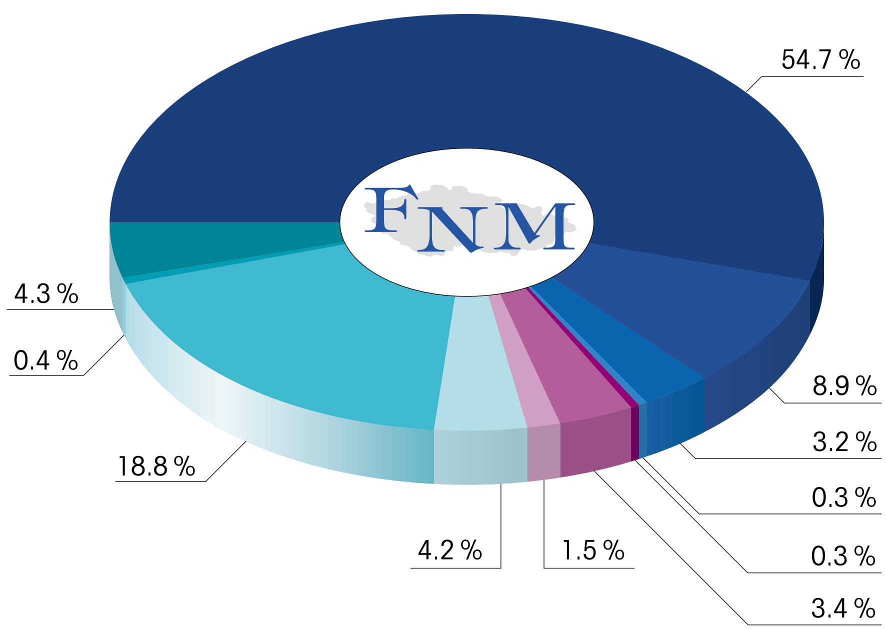
A completed privatization project from the point of view of FNM ČR is a project in compliance with which a purchase contract has been entered into or an agreement on parting with chattel or a contract on transfer of assets or shares without consideration has been concluded, or in compliance with which an auction has been terminated. In those cases where, as based on a privatization project, or rather a privatization unit, a new joint-stock company is established, the establishment of a joint-stock company is assumed to be the completion of the project (only for the purposes of this table).

In privatization projects on privatization of previously established state joint-stock companies (for the purposes of this table), the project is considered complete by the assumption of the state ownership interest from the founder.

The value of assets given in this table has been taken from updated privatization projects and thus does not comply with the actual value of the privatized assets, which is subsequently ascertained from final accounts of the privatized entities. The values of these assets as of the date of their transfer to FNM ČR are given in the third section of this Annual Report (Report on Financial Management of FNM ČR).

Figure 7

Type of share privatization from the beginning of privatization to the end of 2002 (in % of face value)



- 4.2 % Open bid
- 18.8 % Direct sale to foreign or domestic applicants
- 0.4 % Employee shares
- 4.3 % Public tenders
- 54.7 % Coupons
- 8.9 % Share transfer without consideration
- 3.2 % Shares for Restitution Investment Fund
- 0.3 % Restitutions
- 0.3 % Transfer to Endowment Investment Fund a. s., through open bid
- 3.4 % Agricultural and silvicultural guarantee relief fund, others
- 1.5 % Restitution Investment Fund a. s. shares

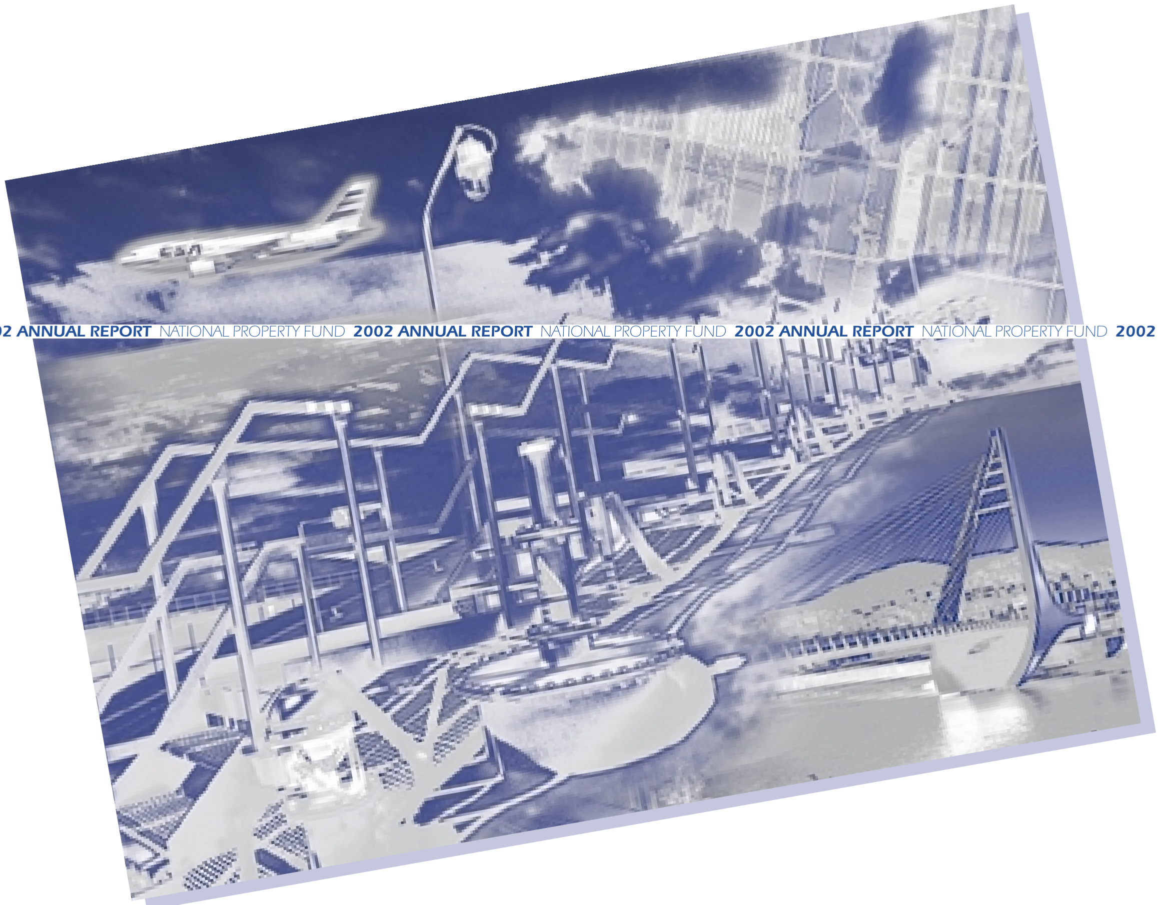
Table 6

Overview of privatization of joint-stock companies at the end of 2002			
Structure of shares and type of their privatization	**thousand CZK of the face value**		
	as of 31. 12. 2001	**as of 31. 12. 2002**	**2002**
SHARES TAKEN OVER BY FNM ČR	**763 432 707**	**752 675 042**	**–10 757 665**
PRIVATIZATION OF SHARES	**574 084 883**	**615 082 326**	**41 001 184**
Total shares for sale	**132 874 519**	**172 114 163**	**39 239 644**
out of which: Open bid	27 343 252	26 074 293	–1 268 959
Direct sale to foreign or domestic applicants	76 943 703	117 315 087	40 371 384
Employee shares	2 228 572	2 238 244	9 672
Public tenders	26 358 992	26 486 539	127 547
Total shares for transfer without consideration	**441 210 364**	**442 968 163**	**1 761 540**
out of which: Coupons	341 873 387	341 873 387	0
Share transfer without consideration	55 666 521	55 935 895	269 374
Shares for RIF	19 827 733	19 827 733	0
Restitutions	1 841 389	1 837 648	
Transfer to NIF a. s., implemented by open bid	1 784 294	1 772 884	–11 410
Agricultural and silvicultural guarantee relief fund, others	20 217 040	21 720 616	1 503 576
Out of which decrease in the registered capital	–7 974 343	-7 974 343	0
RIF a. s. shares	**9 590 001**	**9 590 001**	**0**

NIF = Endowment Investment Fund • RIF = Restitution Investment Fund

Marian Bridge in Ústí nad Labem built by **Vítkovice, a. s.**

III. Report on Financial Management of FNM ČR as of 31 December, 2002



SUMMARY OF MONETARY REVENUE AND EXPEDITURES OF FNM ČR ▮ SURVEY OF OVERALL BALANCE OF FNM ČR ASSETS ▮ OVERVIEW OF FNM ČR GUARANTEES FOR THE REMOVAL OF OLD ECOLOGICAL DAMAGES

☐ **České aerolinie, a. s. [Czech Airlines, joint-stock company]**

1. SUMMARY OF MONETARY REVENUE AND EXPEDITURES OF FNM ČR AS OF 31 DECEMBER, 2002

1.1 LARGE-SCALE PRIVATIZATION

Overview of monetary receipts and expenditures as of 31 December, 2002 and from the beginning of FNM ČR existence in CZK

Table 7

Monetary revenues and expenditures as of 31 December, 2002 from the beginning of FNM ČR existence

	1991–2001	2002	Total
Revenue from the sale of assets and shares	263 512 499 419	125 774 345 093	389 286 844 512
Revenue from credit	36 410 267 000	–	36 410 267 000
Other revenue	34 461 523 811	3 143 840 017	37 605 363 828
Total revenue	**334 384 290 230**	**128 918 185 110**	**463 302 475 340**
Total expenditures	**308 709 201 733**	**120 058 673 443**	**428 767 875 176**
CLOSING BALANCE	**25 675 088 497**		**34 534 600 164**

The balance of financial resources from large-scale privatization as of 1 January, 2002 was 25 675 088 497 CZK. In 2002 the total revenue was 128 918 185 110 CZK, out of which the revenue from the sale of assets and shares amounted to 125 774 345 093 CZK. After the deduction of 2002 expenses (120 058 673 443 CZK), FNM ČR shows a closing balance of financial resources from large-scale privatization as of 31 December, 2002 of 34 534 600 164 CZK.

Revenues from the sale of assets and shares in 2002 and from the beginning of FNM ČR existence according to individual types of transformation – CZK

Table 8

Revenues from the sale of assets and shares in 2002 and from the beginning of FNM ČR existence

	1991–2001	2002	Total
Public auction (sale of assets)	7 076 910 683	–464 551	7 076 446 132
Public tender (sale of assets)	20 628 800 108	265 044 393	20 893 844 501
Direct sale of assets	50 153 247 474	734 588 094	50 887 835 568
Sale of shares	185 653 541 154	124 775 177 157	310 428 718 311
TOTAL	**263 512 499 419**	**125 774 345 093**	**389 286 844 512**

FNM ČR sold its assets and shares in 2002 at 125 774 345 093 CZK, which makes a total of 389 286 844 512 CZK from the beginning of FNM ČR existence.

Overview of acquired financial resources from the beginning of FNM ČR existence according to individual types of transformation; domestic and foreign – CZK

Table 9

Resources acquired from the beginning of FNM ČR existence according to their origin		
Type of transformation	**Sale DOMESTIC**	**Sale FOREIGN**
Public auction (sale of assets)	6 987 946 132	88 500 000
Public tender (sale of assets)	20 858 844 501	35 000 000
Direct sale of assets	45 638 522 926	5 219 312 642
Sale of shares	58 844 649 180	251 614 069 131
TOTAL	**132 329 962 739**	**256 956 881 773**

FNM ČR acquired by foreign sales of its assets and shares a total of 256 956 881 773 CZK, i.e. 66.01 % of the revenues from privatization of assets and shares.

Table 10

Other revenues from the beginning of FNM ČR existence			
Dividends	15 770 493 671	1 856 840 528	17 627 334 199
Yield from sales of investment coupons	8 765 495 169	–	8 765 495 169
Interest	**6 171 037 090**	**1 127 588 975**	**7 298 626 065**
Miscellaneous	**3 754 497 881**	**159 410 514**	**3 913 908 395**
TOTAL	**34 461 523 811**	**3 143 840 017**	**37 605 363 828**

☐ Sunrise over **Nová huť, a. s.**

Table 11

FNM ČR expenditures

	1991–2001	2002	Total
Payment in compliance with the State Budget Act	38 539 000 000	–	38 539 000 000
Allocation to State Fund for Transport Infrastructure	22 000 000 000	23 800 000 000	45 800 000 000
Česká inkasní, s. r. o.	38 563 754 349	2 750 000 000	41 313 754 349
Monetary deposit - subscription of shares, purchase of shares	37 429 203 811	3 510 129 967	40 939 333 778
Installments on credit	14 200 000 000	22 210 267 000	36 410 267 000
State budget - for sickness, pension and health insurance	11 367 462 764	20 600 000 000	31 967 462 764
Allocations to State Fund for Housing Development	9 560 000 000	17 440 000 000	27 000 000 000
Securities payment "discharge from debts of companies"	22 200 000 000	–	22 200 000 000
Payment of privatized entity liabilities – *ecological liabilities*	12 053 930 077	3 228 464 500	15 282 394 577
– *other liabilities acc. to privatization projects and Gov. Decrees*	2 506 776 620	–12 092 028	2 494 684 592
ČKA stabilization program of the banking sector (Česká finanční)	8 646 296 784	8 893 058 215	17 539 354 999
Payment of short bonds "Consolidation of ČKA reserve fund"	16 000 000 000	–	16 000 000 000
Securities payment "Consolidation of ČKA reserve fund"	15 000 000 000	–	15 000 000 000
ČKA restructuring of KB, a. s., assets (KONPO, s. r. o.)	9 571 421 567	4 863 615 564	14 435 037 131
Difference in rates due to conversion from EUR to CZK	–7 348 972	7 824 419 412	7 817 070 440
ČKA restructuring of ČS, a. s. assets	6 981 617 978	1 648 300 787	8 629 918 765
Securities payment of "bank recapitalization"	7 800 000 000	–	7 800 000 000
Interest on bonds	7 537 915 464	–	7 537 915 464
Payment of agricultural company liabilities acc. to Gov. Decree	7 051 000 000	–	7 051 000 000
Transfer of finances to FNM ČR account in trust	2 980 847 058	1 159 163 391	4 140 010 449
Securities payment of "ČKA capital consolidation"	3 000 000 000	–	3 000 000 000
Settlement of restitution compensations, FNM ČR bills	2 317 176 468	568 111 396	2 885 287 864
Interest on credits	1 492 856 288	833 633 304	2 326 489 592
Subsidies for management of remanent state-owned enterprises	1 768 136 002	27 263 553	1 795 399 555
Transfer of resources from NIF share sales to foundations	783 796 000	825 425 771	1 609 221 771
Subsidies to Land Fund budget	1 130 094 286	–	1 130 094 286
Difference in rates due to revaluation of privatization account in foreign currency	974 229 491	–1 330 004 772	-355 775 281
Miscellaneous	7 261 035 698	1 218 917 383	8 479 953 081
TOTAL	**308 709 201 733**	**120 058 673 443**	**428 767 875 176**

ČKA = Czech Consolidating Agency • NIF = Endowment Investment Fund • KB, a.s. = Commercial Bank, joint-stock company

□ Prague-Podolí waterworks – **Pražské vodovody a kanalizace, a. s.**

1.2 SMALL-SCALE PRIVATIZATION

Overview of monetary revenues and expenditures of a "separate account" from small-scale privatization - CZK

Table 12

Revenues and expenditures of a "separate account" from small-scale privatization			
	1991–2001	**2002**	**Total**
Revenues from small-scale privatization (incl. other revenues)	33 979 092 739	130 233 241	34 109 325 980
Interest	15 038 565 643	171 198 586	15 209 764 229
Supplemental interest charges	–194 972 063	879 630	–194 092 433
Total revenue	**48 822 686 319**	**302 311 457**	**49 124 997 776**
Costs for district privatization committees	266 416 998	–	266 416 998
Restitutions	1 943 961 457	3 401 381	1 947 362 838
Costs for liquidation of state-owned enterprises	2 776 882 102	805 000	2 777 687 102
Subsidies to preferential loans in health service privatization	521 583 873	31 564 182	553 148 055
State Fund for the Environment	6 100 000 000	–	6 100 000 000
Ministry of Education	3 000 000 000	–	3 000 000 000
Flood damage repair	9 000 000 000	–	9 000 000 000
Easements	13 814 000 000	–	13 814 000 000
Water Act and Act on Water Supply and Sewage Companies	–	2 000 000 000	2 000 000 000
Road construction for ice-hockey arena	–	1 000 000 000	1 000 000 000
Other expenditures	1 248 908 530	2 153 471	1 251 062 001
Term deposit loss in Podnikatelská banka	96 040 000	–	96 040 000
Total expenditures	**38 767 792 960**	**3 037 924 034**	**41 805 716 994**
Unreturned term deposits from banks	2 704 000 000	-32 358 656	2 671 641 344
CLOSING BALANCE	**7 350 893 359**	**–**	**4 647 639 438**

☐ **Transgas, a. s.** – natural gas underground reservoir in Háje - Příbram

2. SURVEY OF OVERALL BALANCE OF FNM ČR ASSETS AS OF 31 DECEMBER, 2002

The accounting value of FNM ČR assets as of 31 December, 2002 was 186 791 153 thousand CZK, out of which the accounting value of the assets subject to FNM ČR trusteeship was 10 572 850 thousand CZK (Federal Fund of National Property and a separate account of the Ministry for the Management of National Property and Its Privatization - "small-scale privatization").

For a more detailed assessment of the accounting value of the assets, it is necessary to take into account two risk items in FNM ČR assets (shares and claims), which are kept correctly in the accounting records of FNM ČR (at face value), but their actual value expressed in a market evaluation considerably differs from the face value. The face value of shares of "non-strategic" joint-stock companies as of 31 December, 2002 was approx. 10.7 billion CZK higher in comparison to the market evaluation of these shares.

It is very difficult to determine the market value of shares in strategic companies, but their sale above face value can be presumed. Total claims of FNM ČR were approx. 12.864 billion CZK as of 31 December, 2002, out of which 7.122 billion CZK were claims resulting from contracts, claims for non-transferred shares of joint-stock companies and ownership interest amounted to 2.505 billion CZK and other claims reached 3.237 billion CZK. The result of the market evaluation taking into account the difficulty of recovering claims shows a presumptive loss compared to their nominal value of approx. 10.7 billion CZK.

STRUCTURE OF FNM ČR ASSETS AS OF 31 DECEMBER, 2002 (thousand CZK)

Table 15

Structure of FNM ČR assets as of 31 December, 2002 (thousand CZK)

	FNM ČR	MSNMP * separate acc., small-scale privatization	Federal Fund of National Property	FNM ČR Total
Securities	137 980 517	–	285 103	138 265 620
Financial resources	34 552 789	4 647 639	2 216 273	41 416 701
Valuables	22	–	–	22
Claims	6 934 282	–	187 897	7 122 179
Claims for non-transferred shares of joint-stock companies	2 504 554	–	–	2 504 554
Other claims	3 235	3 233 545	–	3 236 780
Principal capital for "FNM ČR trusteeship" purposes	407 088	–	–	407 088
Non-privatized assets	77 326	–	–	77 326
FNM ČR assets under lease	133 822	–	–	133 822
TOTAL assets	**182 593 635**	**7 881 184**	**2 689 273**	**193 164 092**
	FNM ČR	**MSNMP * separate acc., small-scale privatization**	**Federal Fund of National Property**	**FNM ČR Total**
Issued unpaid securities	–	–	–	–
Liabilities	6 375 332	–7 178	4 785	6 372 939
Credit	–	–	–	–
TOTAL liabilities	**6 372 939**	**–7 178**	**4 785**	**6 372 939**
Accounting value of the assets (Assets - Liabilities)	**176 218 303**	**7 888 362**	**2 684 488**	**186 791 153**

** MSNMP = Ministry for Management of National Property and Its Privatization*

3. OVERVIEW OF FNM ČR GUARANTEES FOR THE REMOVAL OF OLD ECOLOGICAL DAMAGES

Redevelopment of old ecological damages arisen before privatization in the 4th quarter of 2002 and generally from 1991 to 31 December, 2002

Table 17

Redevelopment of old ecological damages			
State of contractual guarantees for the removal of old ecological damages		**4th quarter 2002**	**Total from 1991 to 31 Dec., 2002**
Contractual guarantees approved by the Government	Number	1	264
	guarantees (mil. CZK)	9.25	142 705.73 *)
Concluded environmental contracts and liabilities resulting from purchase contracts	Number	2	267
	guarantees (mil. CZK)	286.83	142 692.15 *)
Out of which: **Withdrawn environmental contracts**	Number	0	5
	guarantees (mil. CZK)	0	2 173.46
Terminated environmental contracts	Number	7	16
	Unused guarantees = savings (mil. CZK)	1 053.60	1 390.37
	guarantees (mil. CZK)	1 129.02	1 645.46
Current state of guarantees and contractual obligations	Number	–	246
	guarantees (mil. CZK)	–	138 873.23
Payment from FNM ČR resources (mil. CZK)	For supervision	21.51	418.63
	Redevelopment and other work	830.48	14 914.70
	Total	851.99	15 333.33

*) – as a minimum, to be specified during implementation

Table 17 characterizes the state of approved contractual guarantees and drawing of financial resources for ecological purposes in the 4th quarter of 2002 and generally from 1991 to 31 December, 2002.

From 1 October, 2002 to 31 December, 2002 the Government of the Czech Republic did not approve FNM ČR contractual guarantees. Total FNM ČR guarantees from 1991 to 31 December, 2002 approved by the Czech Government amounted to 142 705.73 million CZK.
Total FNM ČR expenditures for redevelopment of old ecological damages arisen before privatization from 1991 to 31 December, 2002 reached approx. 15 333.33 million CZK, out of which approx. 851.99 mil. CZK was used for the settlement of these damages from FNM ČR resources in the fourth quarter of 2002.

FNM ČR guarantees for the removal of old ecological damages and for countryside revitalization (Table 18).

On 16 January, 2002 the Government of the Czech Republic adopted Decree no. 50 to the report on economic situation of the Ústí nad Labem region (amended by Decree no. 189 of 20 February, 2002), on 27 February, 2002 adopted Decree no. 198 to the report on the economic and social situation of the Karlovy Vary region, on 18 March, 2002 Decree no. 272 to the proposal for drawing of financial resources to deal with ecological damages arisen before privatization of lignite mining companies in the Ústí nad Labem and Karlovy Vary regions, on 29 May, 2002 Decree no. 551 on dealing with topical problems of the Pardubice region and on 12 June, 2002 Decree no. 592 on proposals of priority projects for revitalizing the Moravian-Silesian region.

In these Decrees the Government of the Czech Republic approved guarantees of FNM ČR resources for the removal of old ecological damages and for countryside revitalization in the Pardubice, Ústí nad Labem, Karlovy Vary and Moravian-Silesian regions in a total amount of 35.054 billion CZK (see Table 18).

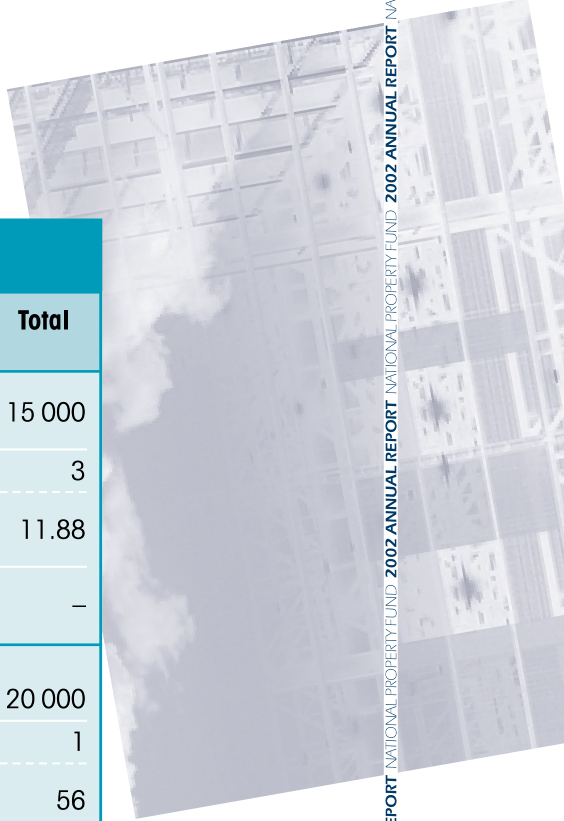


Table 18

FNM ČR guarantees for the removal of old ecological damages and countryside revitalization

Region			4th quarter 2002	Total
Ústí nad Labem and Karlovy Vary	Guarantees approved by the Government	Guarantees (mil. CZK)	15 000	15 000
	Procured public orders	Number	3	3
		orders (mil. CZK)	11.88	11.88
	Payment made from FNM ČR resources	Payment (mil. CZK)	–	–
Moravian-Silesian	Guarantees approved by the Government	Guarantees (mil. CZK)	20 000	20 000
	Procured public orders	Number	1	1
		orders (mil. CZK)	56	56
	Payment made from FNM ČR resources	Payment (mil. CZK)	–	–
Pardubice	Guarantees approved by the Government	Guarantees (mil. CZK)	54	54
	Procured public orders	Number	–	–
		orders (mil. CZK)	–	–
	Payment made from FNM ČR resources	Payment (mil. CZK)	–	–

Transgas, a. s. – natural gas underground reservoir in Háje - Příbram

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