PN-ABN-309

ŠKODA PLZEŇ

PHASE I: RESTATEMENT

Part I of the Report dated 21 April 1992

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&Lybrand

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The Project Managers:
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21 April 1992

Gentlemen

Re Škoda Concern, Plzeň, Ltd

TERMS OF REFERENCE

1 We report in connection with the proposed privatisation of Škoda Plzeň, Concern, Ltd ("Škoda Plzeň" or "the Company") in accordance with the contract dated 19 November 1991 between Škoda Plzeň, Coopers & Lybrand and International Finance Corporation ("IFC"). IFC are parties to the contract in their capacity as executing agent for the Agency for International Development ("AID") which has provided a grant for certain professional services to be rendered by Coopers & Lybrand.

Modifications to the scope of work

2 The scope of the work set out in the aforementioned contract has been modified by discussions with the IFC project managers, being Mr Mike Tiller, Mr Ken Assall and Mr Doug Lister, during the ten weeks ended 31 January 1992.

RESTATEMENT OF CZECHOSLOVAK FINANCIAL STATEMENTS

3 We have restated the Czechoslovak financial statements of Škoda Plzeň for the nine months ended 30 September 1991 for both:

- The Company as a whole
- Each of the operating divisions and the cost centres,

so as to reflect certain of the International Accounting Standards ("IAS") and the EC Fourth Directive for the presentation of financial information ("the adjusted consolidated financial statements" and "the adjusted divisional financial statements", respectively).

4 We have not restated the balance sheet at 1 January 1991 and note that certain of the IAS adjustments, or parts thereof, may relate to the trading results of prior accounting periods.

Allocation exercise

5 Although divisional profit and loss accounts exist, historically no divisional balance sheets have been prepared. After consultation with ourselves, the management of Škoda Plzeň delegated preparation of divisional balance sheets to the Central Finance and Accounting Departments. The preparation of divisional balance sheets has taken approximately two months and the majority of balances have been separately identified, rather than allocated. The remainder have been allocated on a rational, consistent basis. We have not verified the accuracy or otherwise of any working papers prepared by these Departments for the purposes of the allocation exercise.

6 We draw to your attention that the majority of purchases and cash flows are managed by the Centre. The implication of this, combined with the filing of 14 alternative privatisation plans, some by divisional management (that is, alternative to that submitted by Central Management for the whole Company), is that it is highly likely that individual divisional management will not concur with the allocation exercise performed.

Extent of compliance with IAS

7 We note that in the aforementioned contract, we agreed that we would not comply with IAS No 29 entitled "Accounting in conditions of hyper-inflation".

8 The structure of certain long term manufacturing contracts, the approach to valuing certain categories of inventories, and the recording of intra-company transactions have resulted in certain IAS adjustments, relating to both income and profit recognition, being impossible to quantify. We have set out in the attached report a detailed description of the non compliance with IAS and an indicative estimate of the magnitude of the misstatement wherever possible.

9 Finally, we draw to your attention that one of the fundamental principles underlying IAS is the concept of a "going concern". The Company has negative cash flows; many of the Company's historical markets, particularly former COMECON countries, are experiencing significant liquidity problems; and, a number of long-term manufacturing contracts, to which Škoda Plzeň is a party, expose the Company to potentially large, but at the present time, unrealised losses.

10 We have not reviewed any projections for the whole or any part of the Company and therefore express no opinion as to whether the Company, in whole or in part, is a going concern. We do, however, draw your attention in paragraphs 11 and 12 below, to two factors which may significantly effect the future viability of the Company, or parts thereof.

Prospective joint ventures

11 The Company signed agreements in principle in December 1991 with Siemens in relation to two prospective joint venture agreements with the largest of the Company's operating divisions. The cashflow consequences of the prospective joint ventures are unclear.

"Forgiveness" of bank debt

12 The Company has been advised that it is due to receive a "forgiveness" of bank debt to the extent of 1.1 billion Czechoslovak krowns ("k") by means of a debt-equity swap.

Materiality

13 We have used a materiality criterion which is lower than that which would be appropriate for the consolidated financial statements, but significantly higher than that which would be appropriate for an individual operating division or cost centre. We note that there is a significant disparity in size between individual operating divisions and cost centres, both in terms of net assets and profitability.

HISTORICAL STATEMENT OF MOVEMENT IN FUNDS

14 The aforementioned contract requires that the management of the Company prepare, and we review, a statement of movement in funds for the year ended 31 December 1991.

15 No such statement, together with supporting schedules, was prepared as the Centre's accounting resources were already very stretched by the demands of the restatement and allocation exercises. In addition, we note that such statement would not be particularly meaningful as we did not restate the opening balance sheet. Further, significant cash flows relate to the manufacture of the nuclear block reactors for Temelín and Mochovce and given both the degree of completion of these contracts and uncertainty with respect to their completion and financing of work performed by subcontractors such as Škoda Plzeň, the historical cash flows are not helpful for the purposes of projecting future cash flows.

FACTORS RELATING TO PROJECTED MOVEMENTS IN FUNDS

16 We have prepared a list of important factors that should be considered in the compilation of any projected statement of movement in funds. This list has been prepared without consultation with management and is general in nature.

PROVISION OF INFORMATION BY MANAGEMENT AND ACCESS

17 We estimate that we have spoken to approximately 150 employees and directors of the divisions and Centre. We set out in Appendix A a list of the key contacts.

18 Given the submission of the alternative privatisation plans, the decentralised structure of the Company, and the uncertainty of the future viability of some of the Company's activities, the extent of access at the various operating divisions and cost centres has varied considerably.

RISK OF READING SECTIONS RELATING TO INDIVIDUAL DIVISIONS WITHOUT REFERENCE TO THE REST OF OUR REPORT

19 The majority of operating divisions are dependent on other operating divisions and cost centres for provision of materials and services, or sale of materials, manufactured goods and services. In light of the inter-dependency of the divisions,

the nature of the allocation exercise (discussed above) and the absence of a discussion on accounting policies except in the section of the report dealing with the consolidated financial statements, we do not recommend that the divisional adjusted financial statements are read in isolation from the rest of our report.

NO AUDIT PROCEDURES

20 We have not performed an audit or otherwise checked the veracity of any information provided to us by the management of the Company.

EXECUTIVE SUMMARY

21 We draw your attention to the Executive Summary where we set out our principal observations and findings.

THREE VOLUMES

22 We draw to your attention that our report is contained within three bound volumes.

CIRCULATION OF DRAFT REPORT

23 A draft report was circulated on 12 February 1991 to Škoda Plzeň and IFC. Comments received by IFC in mid December 1991 and by Škoda Plzeň mid April 1992 have been included in the final report. A list of changes between draft and the final reports are included in a separate letter to the same addressees as for this, and the draft, report.

NO UPDATE SINCE ISSUANCE OF THE DRAFT REPORT

24 Under the terms of the aforementioned contract there was no provision for an update in the event of a significant delay between release of the draft report and receipt of comments from the addressees for our report. In the absence of an update, we are unable to comment as to whether or not there has been a significant deterioration in the business since 12 February 1992, either in terms of its operating results or liquidity. In addition, we are unable to comment whether current

developments would justify a different view to be taken on certain net realisable value, particularly with respect to the manufacture of locomotives, or unrealised loss provisions for long term contracts.

CONFIDENTIALITY

25 Under the terms of the aforementioned contract, this report shall not be made available to any other party in whole or in part without our prior written consent. Such consent will not be unreasonably withheld.

26 No persons other that those to whom this report is addressed or to whom it has been released with our consent may rely upon it for any purpose whatsoever.

QUESTIONS AND FURTHER ASSISTANCE

27 If you have any questions or if we may be of any further assistance please do not hesitate to contact either John Hunter or Catherine Drayton, of our Prague office.

Yours sincerely

John Hunter, Partner-in-charge for the Coopers & Lybrand Czechoslovak practice

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CONTENTS

1

COST CENTRES:

PART III: APPENDICES (separate volume)

EXECUTIVE SUMMARY

Diversified product base

1. Škoda Plzeň is a heavy engineering conglomerate based in West Bohemia, with a very diversified product base.

Inter-dependency of divisions

2. It comprises 22 operating divisions, many of which share a site in central Plzeň and are highly inter-dependent, both in terms of inputs and outputs.

Effect of policy of decentralisation and the privatisation process

3. Škoda Plzeň has actively pursued a policy of decentralisation of responsibility over the last two years. This policy, combined with the submission of alternative privatisation plans by certain divisional management, which differ in material respects to the privatisation plan submitted for Škoda Plzeň as a whole, has resulted in:

- Internal political friction
- Difficulty in identifying decision makers
- Fragmentation of financial and commercial knowledge.

Problems experienced in major markets

4. The Company has depended in the past on the domestic and the former COMECON market. The domestic market is in recession following the disintegration of the former COMECON bloc and the "shocks" resulting from the introduction of price liberalisation, limited internal convertibility and other monetary, fiscal and structural policies which were adopted in the beginning of 1991 as part of the State's commitment to developing a market economy in Czechoslovakia. The former COMECON countries are also experiencing similar "shocks" in their domestic markets and an inability to find sufficient hard currency in which to trade.

Profitability

5. The unadjusted consolidated financial statements of Škoda Plzeň show profit before tax and allocations of 687 million k and profit after tax and allocations of 206 million k for the nine months ended 30 September 1991.

Losses in individual divisions per the unadjusted divisional profit and loss accounts

6. Divisional profit and loss accounts are prepared for each of the operating divisions and cost centres. Of the 22 operating divisions, three show a loss according to the Czechoslovak divisional profit and loss accounts (Nuclear, Dýšina and Welfare). The loss in Nuclear per the Czechoslovak divisional profit and loss account for the nine months ended 30 September 1991 was 592 million k.

Losses on a consolidated basis after adjustments to reflect certain International Accounting Standards ("IAS")

7. After adjusting the consolidated Czechoslovak profit and loss account to reflect certain of the International Accounting Standards, there is a loss (before tax on the Czechoslovak tax base) of 1,837 million k. The principal reasons for the change from a profit in the Czechoslovak consolidated profit and loss account to a loss in the consolidated adjusted profit and loss account are the creation of:

- A minimum provision for the unrealised losses on Temelín and Mochovce (see below) (1,375 million k)
- A doubtful debts expense (based on ageing and extent of subsequent receipts) (708 million k)
- A write off of surplus fixed assets identified by the management (83 million k)
- A write off of certain other non-productive assets (97 million k)
- A write off of surplus inventories identified by the management (288 million k)

  partially offset by:
- A write back of a hidden provision relating to warranties (161 million k)

  Reclassification of the consideration received on sale of the rights to the Škoda tradename and trade marks from deferred income to extraordinary income (330 million k).

Subjective nature of IAS adjustments

8. The above adjustments have been made on the basis of information provided by the management of the Company and are subjective in nature.

Other factors which may considerably impact on the perceived profitability of the Company

9. There are other factors which may have considerable impact on the perceived profitability of the Company, these include:

- Sales and margins recognised at the point of transfer between operating divisions for which insufficient information exists to enable their elimination
- Unrealised losses on long term contracts (other than Temelín and Mochovce) and the delay of a decision with respect to the electronic control system for Temelín (see below)
- The risk of cancellation where the customer will not accept increased input costs
- The risk of not being paid for certain orders which are currently being produced for customers in either Czechoslovakia or the former COMECON bloc.

Significant numbers of loss making divisions following restatement in accordance with IAS

10. We set out below a table of the profit before tax of both the Czechoslovak and the adjusted divisional profit and loss accounts, for each of the 22 operating divisions and the costs centres for the nine months ended 30 September 1991. Following restatement in accordance with certain IAS, and certain modifications to the allocation exercise performed by the Company, there are 11 loss-making operating divisions, and a loss in the consolidated cost centres of 124 million k.

	Czechoslovak profit/(loss) before tax million k	Adjusted profit/(loss) before tax million k
Operating divisions:		
Nuclear	(592)	(2,039)
Turbines	56	(8)
ETD	64	25
Locomotives	409	365
Automation	12	(2)
Heavy Engineering	43	(102)
Forgings	74	(22)
Castings	155	14
Erection and Engineering	17	(26)
Tools	31	24
Machine Tools	60	7
Gears	27	12
Tobacco Machines	25	30
Klatovy	27	(15)
Ejpovice	24	(6)
Ostrov	62	45
Rotava	3	(28)
Dýšina	(11)	(38)

	Czechoslovak profit/(loss) before tax million k	Adjusted profit/(loss) before tax million k
Repairs	5	2
Energy	60	60
Maintenance	14	5
Welfare	(10)	(17)
Total	555	(1,714)
Cost centres:		
Central Purchasing Department	8	43
Foreign Trade Department	31	28
Hotels	1	1
Air	9	7
Research	(2)	(2)
Transport	11	10
Design	3	3
House of Culture	(13)	(262)
Other Cost Centres	84	49
Total	132	(123)
Consolidated	687	(1,837)

Elimination of intra-company transactions

11. We draw to your attention that certain intra-company transactions are designed either not to eliminate or to only partially eliminate; that is, to the extent of any margin recognised on the transfer of goods or services between divisions. We have discussed this in detail in Section 4 and we are unable to quantify the extent of the distortion that this creates.

Net assets

12. At 30 September 1991, the net assets of the Company according to the consolidated Czechoslovak and adjusted balance sheet were 7,457 million k and 6,066 million k, respectively.

Allocation of consolidated balances

13. No divisional balance sheets have been prepared in the past, except for some isolated divisions, on an ad hoc basis. After consultation with ourselves, the Central Accounting and Finance Departments have prepared pro-forma divisional balance sheets for this restatement exercise. The majority of balances have been separately identified, rather than allocated. The remainder have been allocated on a rational, consistent basis with the exception of the treatment of inventories and accounts payable relating to divisions with warehousing facilities (which we discuss in full in Section 5). We do not consider that the distortions which are created by this inconsistency, unduly misstate the adjusted divisional balance sheets.

Technical insolvency in divisions viewed on a stand-alone basis

14. Of the 22 operating divisions two (Locomotives, Erection and Engineering) show negative net assets, or would appear to be technically insolvent if viewed on a stand alone basis, per the Czechoslovak balance sheet. This increases to three with the addition of Nuclear in the adjusted balance sheets.

	Czechoslovak net assets/ (liabilities) million k	Adjusted net assets/ (liabilities) million k
Operating divisions:		
Nuclear	585	(922)
Turbines	391	348
ETD	679	792
Locomotives	(118)	(105)
Automation	110	95
Heavy Engineering	236	97
Forgings	704	590
Castings	628	474
Erection and Engineering	(108)	(159)
Tools	74	65
Machine Tools	560	507
Gears	145	117
Tobacco Machines	61	63
Klatovy	106	58
Ejpovice	212	184
Ostrov	463	419
Rotava	104	69
Dýšina	218	172
Repairs	12	13
Energy	420	419

	Czechoslovak net assets/ (liabilities) million k	Adjusted net assets/ (liabilities) million k
Maintenance	22	23
Welfare	307	304
Total	5,811	3,623
Cost centres:		
Central Purchasing Department	337	35
Foreign Trade Department	241	163
Hotels	(1)	35
Air	23	22
Research	77	75
Transport	114	114
Design	1	1
House of Culture	264	14
Other Cost Centres	590	1,984
Total	1,646	2,443
Consolidated total	7,457	6,066

Illiquidity

15. The Company is very dependent on bank loans to finance its activities and to some extent it has become a "bank" itself for its customers. From mid July, Škoda Plzeň has not paid any amounts due, except those which are considered to be high priority; that is, wages, interest, loan repayments, tax and suppliers who are either highly dependent on the Company or on whom the Company is highly dependent.

Negative monthly consolidated cashflows

16. We set out below the monthly consolidated cashflows for each month from June to December 1991 which were prepared by the management of the Company at our request:

	Actual						Estimate
	June	July	Aug	Sept	Oct	Nov	Dec
Receipts (in millions)							
Accounts receivable	740	1,700	818	720	1,056	727	605
New bank loans	507	151	2	-	310	147	257
Other	40	157	39	36	139	113	100
Total	1,287	2,008	859	756	1,505	987	962
Payments (in millions):							
Accounts payable	(692)	(663)	(303)	(428)	(874)	(501)	(690)
Repayment of bank loans	(390)	(41)	(96)	(308)	(316)	(187)	(95)
Interest payments	(201)	(40)	(36)	(180)	(34)	(32)	(160)
Wages and payroll tax	(161)	(140)	(163)	(152)	(162)	(188)	(197)
Profit and wages tax	(102)	(69)	(110)	(79)	(127)	(141)	(140)
Other	(5)	(33)	(24)	(11)	(30)	(22)	(16)
Total	(1,551)	(986)	(732)	(1,158)	(1,543)	(1,071)	(1,298)
Net positive/(negative) cashflow	(264)	1,022	127	(402)	(38)	(84)	(336)

Factors which may significantly effect future liquidity

Prospective joint ventures

17. The energy-related divisions (Nuclear, Turbines, Automation and part of ETD), as well as the transport-related divisions (Locomotives and part of ETD) are due to enter into joint ventures with Siemens from 1 July 1992. The cashflow implications of these transactions are, as yet, unclear.

"Forgiveness" of bank loans

18. The State has allocated 50 billion k for what is popularly referred to as a "forgiveness" of bank loans. The mechanism by which such "forgiveness" will be effected is, in fact, a debt-equity swap post privatisation. The Company applied for "forgiveness" of 1,880 million k, and it has been advised that it will receive 1,121 million k. We do not know if any conditions attach to this "forgiveness" or whether the advice received is preliminary or final in nature.

Inter-dependency of operating divisions and the possibility of a "domino effect"

19. We draw to your attention that if the market for a division selling a particular product to an external customer deteriorates, there may be a "domino effect" with respect to those divisions who supply goods and services to the that division.

Unrealised loss relating to Temelín and Mochovce

20. Finally, we note that with respect to the two nuclear reactor blocks for Temelín and the four nuclear reactor blocks for Mochovce, the minimum unrealised loss provision calculated by the management of the Nuclear Division, for which we provided, assumed that:

- These contracts would be completed
- The decision on the electronic control system for Temelín would be made, and it would be installed, by April 1992 at the latest
- There is an 80% probability of obtaining management's estimated cost-plus price (excluding those costs which under residual price controls cannot be passed on).

21. We stress that the calculation of costs to complete included in the calculation of the unrealised loss provision did not include as yet unused raw materials in either the Nuclear Division or any other divisions to which work is subcontracted. It also did not include any work-in-progress in those divisions to which the Nuclear Division subcontracts.

22. We draw to your attention that if there is no successful renegotiation of price, and:

- The sales price for both Temelín and Mochovce, in the absence of a price in the contract, is assumed to be the operating budget, which is denominated in 1989 prices
- The operating budget for Mochovce is amended to reflect the cost-plus price of certain components which we understand to have been successfully negotiated,

then management estimate the unrealised loss to be approximately 3 billion k as compared with our minimum calculation of 1,375 million k.

23. The cashflow on completion of these contracts will be the sales price less advances and progress payments received.

Conclusion

24. We have not reviewed any projections for either the whole, or any part, of the Company. Notwithstanding that, it would seem that the Company is not a going concern. We draw to your attention that the adjusted consolidated and divisional financial statements are pro-forma in nature and that certain IAS have not been complied with due to lack of appropriate information.

SECTION 1: OVERVIEW OF OPERATIONS

101 In this section we set out an overview of the operations of Škoda Plzeň including information relating to the locations and business activities of the operating divisions and cost centres, employee numbers, markets and market share, customers, competitors and suppliers. We include this information in order to provide a background against which the adjusted financial statements may be viewed.

102 Škoda Plzeň is a heavy engineering conglomerate located in West Bohemia, in Czechoslovakia.

103 Until 1 April 1990, Škoda Plzeň was part of a larger organisation called VHJ or Production and Economic Complex ("the old Škoda Association"). At the date the old Škoda Association was disbanded.

Location

104 The Company is comprised of 22 operating divisions and tens of cost centres. We note that the word "cost centre" is widely used, many of these units are either profit or investment centres.

105 The vast majority of the production and administrative facilities are located in the Škoda complex in the centre of Plzeň.

106 There are some production workshops (being part of certain operating divisions) which are located outside this complex, but in Plzeň:

- Doudlevce
- Bolevec
- Skvrňany
- Kotěrov
- Sedlec.

107 In addition, there are some production workshops or operating divisions located outside Plzeň:

- Rokycany
- Blovice
- Stříbro

- Chrast
- Břasy
- Ostrov
- Rotava
- Dýšina
- Klatovy
- Ejpovice.

Business activities and average employee numbers

108 We set out below a table showing a list of the operating divisions and cost centres, together with a brief description of their activities and we indicate in brackets the average number of full time equivalent employees for the nine months ended 30 September 1991:

Name	Abbreviation used in our report	Activity
Operating divisions:		
Jaderné Strojírenství	Nuclear	Manufactures and installs pressurised water reactors and primary circuits for nuclear power plants (Soviet design) (1,931)
Turbíny	Turbines	Manufactures and assembles steam turbines (11,566)
Electrotechnický Závod Doudlevce	ETD	Manufactures and assembles electric motors, large generators, transformers, switchgears, as well as producing compensators and traction motors (3,909)
El. Lokomotívy	Locomotives	Manufacturers and assembles electric locomotives (2,033)
Automatizace	Automation	Designs, manufactures and assembles electronic instruments and controls (884)
Těžké Stojírenství	Heavy Engineering	Manufactures rolling mills, hydraulic presses, sugar cane mills and stage theatre equipment (1,761)

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Name	Abbreviation used in our report	Activity
Kovárny	Forgings	Manufactures hammer forgings, crankshafts, rolls for rolling mills, die forgings, springs, rotors, aluminium and cooper forgings (1,670)
Hutě	Castings	Manufactures steel, grey iron castings, steel castings, aluminium castings, cooper castings, ingots and machinery parts (3,338)
Diz Plzeň	Erection and Engineering	Implements capital investment projects: provides engineering, commercial and design services, together with specialised teams for erection, testing, commissioning, assembling (1,295)
Nářadí	Tools	Manufactures tools which are used as parts of larger drilling machines (885)
Obráběcí Stroje	Machine Tools	Manufactures and assembles horizontal boring and milling machines (1,752)
Ozubená Kola	Gears	Manufactures and assembles gears and gearboxes (543)
Tabákové Stroje	Tobacco Machines	Manufactures, assembles and installs cigarette making and packaging machines (531)
Klatovy	Klatovy	Designs, manufactures and installs industrial furnaces (753)
Ejpovice	Ejpovice	Manufactures and assembles components for electric locomotives (laminated vessels etc), as well as electric cars (878)
Ostrov	Ostrov	Manufactures and assembles trolley buses (1,591)
Rotava	Rotava	Manufactures and assembles curing and vulcanising presses (785)

Name	Abbreviation used in our report	Activity
Dýšina	Dýšina	Manufactures and assembles mobile compressors (603)
Ústřední Opravna Strojů	Repairs	Repairs of machines (304)
Energetický	Energy	Provides energy and heating in the Plzeň complex and for flats, located near the Plzeň complex, of both employees and the general public (1,071)
ZVÚ	Maintenance	Reconstructs/improves, repairs and maintains buildings (1,530)
Péče o Pracující	Welfare	Provides social and welfare services to employees (Not given)

Cost centres:

Ústřední Zásobování	Central Purchasing Department	Operations of a specialist purchasing department
Odbor Zahraníčního Obchodu	Foreign Trade Department	Operations of a specialist import/export department
Hotely Škoda	Hotels	Operations of three hotels, five cottages and one villa
Škoda Air	Air	Operations of a fleet of seven small airplanes
Ústřední Výzkumný Ústav	Research	In-house research and development facilities
Dopravní Odbor	Transport	Operations of a fleet of delivery vehicles
Projektový Ústav	Design	In-house technical design facilities
Dům Kultury	House of Culture	Operations relating to a building in central Plzeň which provides cultural, educational and entertainment facilities

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Name	Abbreviation used in our report	Activity
Ostatní	Other	Including: • Administration • Variance • Sports facilities • Screw manufacturing • Apprentice training

109 The average number of full time equivalent employees for the Company for the nine months ended 30 September 1991 was 34,610.

Domestic and export sales

110 We set out below an analysis of domestic and export sales. We note that this analysis was prepared for the State Statistical Office and includes part of sales and other income per the adjusted profit and loss account.

	million k	%
Domestic	5,946	66
Export	3,027	34
Total	8,973	100

Domestic

111 We have been advised by the management of the Company that the major domestic customers are as follows:

- VT Chomutov
- ČKD Blansko
- I. Brněnská strojírna
- Škoda Mladá Boleslav
- Škoda Praha
- ČEZ Praha
- SEP Bratislava
- JE Bohunice
- JE Dukovany
- Sigma Lutín

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- VP Frýdek - Místek
- VSŽ Košice
- Vítkovické železárny
- Kovohutě Děčín
- ČSD
- Žd'árské strojírny
- Slovchema Bratislava
- Elektrovod Praha
- OSAN Praha
- Papírna Štětí

112 Management have provided the following information on the domestic market share of their products (using the statistical three digit industry classifications):

	Industry classification	Market share in Czechoslovakia %	
Steel (unprocessed)	125	19.2	
Castings	162	5.6	
Steel forgings	163	8.2	
Machine parts	319	17.6	
Gear boxes	338	22.6	
Electrical equipment and instruments	358	5.4	
Electrical engines	359	3.7	
Power generating equipment	361	41.5	*
Transformers	362	22.6	
Rolls	419	40.4	*
Compressors	427	13.1	
Fuel furnaces	434	76.9	*
Trolley buses	448	97.4	*
Electric locomotives	456	100.0	*
Steam turbines	485	36.7	*
Nuclear reactors	488	14.1	*
Rolling equipment	502	9.8	
Foundry equipment	503	75.3	*
Rubber processing machines	509	12.2	
Machine tools	512	2.7	

* = Products where the management of the Company perceive that Škoda Plzeň has a dominant or monopolistic position

113 We do not know how the above market shares were calculated, but include this information in order to give an overview of market dominance.

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Export

114 For the nine months ended 30 September 1991, 82% of export sales were denominated in a hard currency, whilst 18% were in non-convertible currencies. Sales with the USSR represented 14% and 19% of the hard and non-convertible currency sales, respectively:

Nine months ended 30 September 1991					
Hard currency			Non convertible currencies		
USSR million k	Other million k	Total million k	USSR million k	Other million k	Total million k
338	2,146	2,484	101	442	543
%	%	%	%	%	%
14	86	100	19	81	100

115 The management of the Company have provided us with the following list of countries to which they export. We were not given any information as to relative importance of these countries, however we understand that historically, the principal export markets have been in the former COMECON bloc:

USSR (the former)	Denmark
Hungary	Sweden
Poland	
Rumania	China
	South Korea
Germany	Indonesia
Austria	
France	
Italy	USA
Greece	Canada
Switzerland	Argentina

116 It is not yet clear what the effect of the disintegration of the USSR will have on Škoda Plzeň's export sales.

Competitors

117 The management of the Company have identified their principal competitors (both domestic and foreign) in those industry classification groupings where they have a dominant or monopolistic domestic market share:

Industry classification	Domestic competitors	Foreign competitors
361: Power generating equipment	MEZy ČKD	Siemens Ellin ABB Elektrosila Mitsubishi
419: Rolls	Poldi Kladno VŽS Vítkovice	Dawy Rolls Vereinigte Schneiderwerke Echevaria Bilbao
434: Fuel furnaces	VŽS Vítkovice	Loi Ebner Ital-Imanti
448: Trolley buses	None	Ikarus Mercedes Renault Volvo ZIL
456: Electric locomotives	None	ASEC ABB Elektrosila GEC Alsthom Siemens GEC
485: Steam turbines	IBS Brno	Siemens ABB Alsthom Ansaldo Westinghouse
488: Nuclear reactors	None	Siemens Framaton Westinghouse Ižora

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Industry classification	Domestic competitors	Foreign competitors
503: Foundry equipment	None	BMO Georg Fisher BMM Wheston

Suppliers

118 We set out below a list of both the major domestic and foreign suppliers:

Domestic:

Vítkovice Ostrava
VSŽ Košice
SONP Kladno
ČKD Praha-Eletrotechnika
Kablo Kladno
Elcom
TŽ Třinec
ŽBC Hrádek
Elektromont (Teplice, Praha, Brno, Bratislava)
Kablo Malacky
Gumon Bratislava
Válcovny plechu F-M
I. Brněnská strojírna
DFZ Istebné
Ferromet praha
Žiar nad Hronom
Niklová huť Sereď
Vzduchotechnické závody (Janka Radotín, Liberec, Klima Prachatice)
SES Tlmače
Dřevařské podniky v ČSFR
Benzina Praha

Foreign:

Siemens
Philips
Bosch
Mannesmann
Ringsdorf
Sigri
Union Carbide
Bohler

Walter
Frank Schulte
Plamsee

119 We understand that imports are limited to high technology components and other items which cannot be sourced domestically. Imports may also be made when the domestic supplier(s) is capacity constrained.

,2

SECTION 2: MACROECONOMIC CHANGES IN 1991

201 In this section we set out an overview of some of the more significant changes in the structure of trade and the macroeconomic environment which have significantly affected the Company, together with its customers and suppliers. We include this brief section in order to highlight the reasons why the financial results and position of the Company for the period under review are not comparable to 1990 or prior periods, and in particular some of the factors which are contributing to Škoda Plzeň's lack of liquid resources.

Price liberalisation

202 The first wave of price liberalisation occurred in Czechoslovakia during the second half of 1990. The first prices for which controls were relaxed and indirect subsidies withdrawn or reduced related to foodstuffs. Subsequently, in November 1990 other prices were liberalised, principally crude oil and related products.

203 A more comprehensive and wide ranging wave of price liberalisation occurred on 1 January 1991.

Complimentary monetary, fiscal and structural policies

204 Concurrently with the second wave of price liberalisation, a complimentary package of monetary, fiscal and structural policies were introduced, including:

- Liberalisation of foreign trade and the abolition of the monopolistic position previously held by State owned foreign trade organisations
- Devaluation of the krown (28 December 1990) and the introduction of limited internal convertibility
- The effective abolition of the transferable rouble except for the "run-out" of existing contracts and protocols
- Adoption of a non-interventionist policy by the State and the cessation of the requirement for production targets
- Continued fragmentation of large manufacturing, wholesaling and retailing associations and the encouragement of small, private companies.

Break-up of the former COMECON bloc

205 The former COMECON bloc, Škoda Plzeň's historical trading partners, has been in the process of breaking up since the late 1980s. Škoda Plzeň, has been particularly affected by the disintegration of the multi-lateral programme for nuclear power whereby Škoda Plzeň had been "assigned" a monopolistic position in the former COMECON region for manufacture of technical components for the primary circuit in nuclear power reactors.

206 All Škoda Plzeň's larger former COMECON bloc trading partners are experiencing liquidity problems due to domestic recession in each of the relevant countries, in addition to the problem of finding hard currency in which to trade with Czechoslovakia.

Domestic recession in Czechoslovakia

207 Prior to 1991, no official inflation statistics were prepared though it is widely accepted that there was significant inflationary pressure due to factors such as excess demand and the first wave of price liberalisation.

208 We set out below the movement in the consumer price index for each of the nine months January through September 1991 and the average for that period. The inflationary pressure resulting from price liberalisation in particular, is evident from this data:

1991 (100 = December 1990)									
Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Average for the nine months ended 30 September
125.8	134.6	140.9	143.7	146.7	149.2	149.2	149.1	149.5	143.2

209 The rate of growth of insolvency was significant in the first three quarters of 1991 due to either loss of market, or alternatively due to an inability to collect from customers.

210 Although the interest rate has been negative in real terms, the interest rate has also increased and the results of most Czechoslovak enterprises and companies reflects the existence of substantial bank loans relative to net assets and high

servicing costs. We set out below the movement in the base bank rate for new commercial loans for short term loans for each of the nine months January through September 1991 and the average for that period:

1991 (% per annum)			
1-15 Jan	16 Jan - 9 Sept	10 Sept - 15 Oct	Average for the nine months ended 30 September
15	16.5	14	16.5

211 We note that the penalty interest rate on late payment of trade balances, which was introduced in 1991, is lower than the base bank rate.

Non comparability with 1990 and reasons for growing illiquidity

212 In conclusion, the changes in the macroeconomic environment, particularly in 1991, have resulted in a lack of comparability between the trading results of, and the financial position of, an enterprise or company in 1991 relative to 1990 or prior periods.

SECTION 3: MANAGEMENT AND ORGANISATIONAL STRUCTURE

301 In this section we set out a brief description of the current management and organisational structure and comment on the more significant changes which have occurred since the beginning of 1990.

Organisational structure

302 We set out at the end of this section a diagrammatical representation of the organisational structure of Škoda Plzeň as at 30 September 1991 (extracted from a business plan prepared in support of an application to the State owned banks for "forgiveness" of certain loans (see Section 4)).

303 Following the disbanding of the old Škoda association on 1 April 1990, a policy of decentralising responsibility for trading activities (but not cash flow management (see below)) was gradually implemented. This has gained significant momentum during 1990 and 1991 in the build up to privatisation and in an effort to identify those businesses which are and will continue to be, economically viable.

304 On 1 January 1991, the former Energy Division was divided into two operating divisions: Nuclear and Turbines. At the same time, a new division, Automation, was split out from ETD.

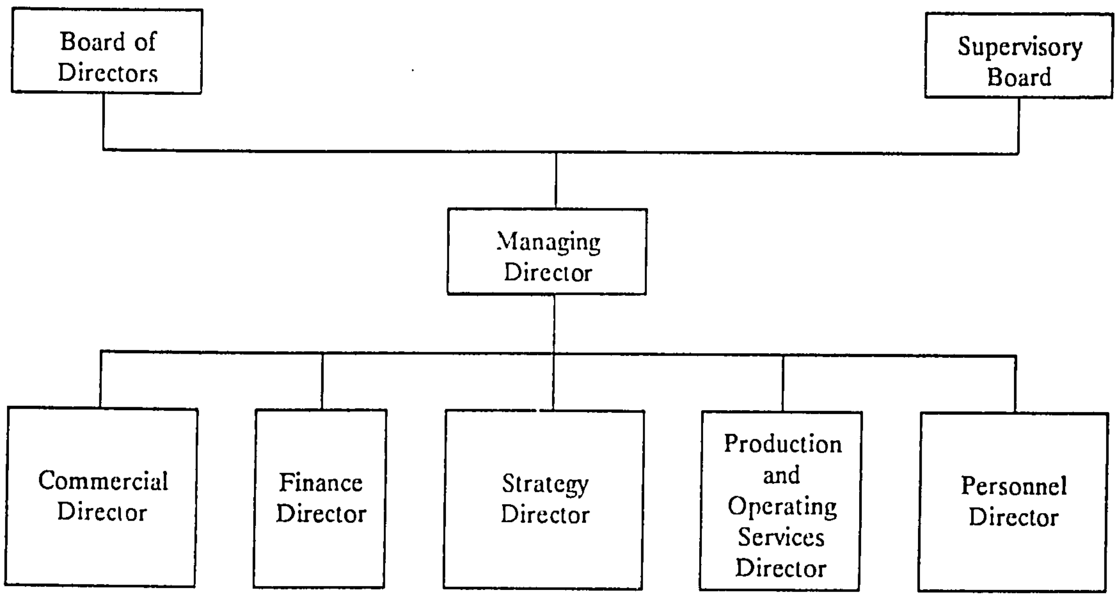
305 On the same date, Škoda Plzeň changed its legal status from a state owned enterprise to a wholly owned joint stock company.

306 During the third quarter of 1991, two new cost centres were created:

- The apprentice training facilities were split out from the Tobacco Machine Division.
- Škoda Sports was established following the gifting of the two stadiums (ice hockey and football) by the State to Škoda Plzeň.

Management structure

307 We set out below the current management structure for the Company:



Changes in senior management of the Company

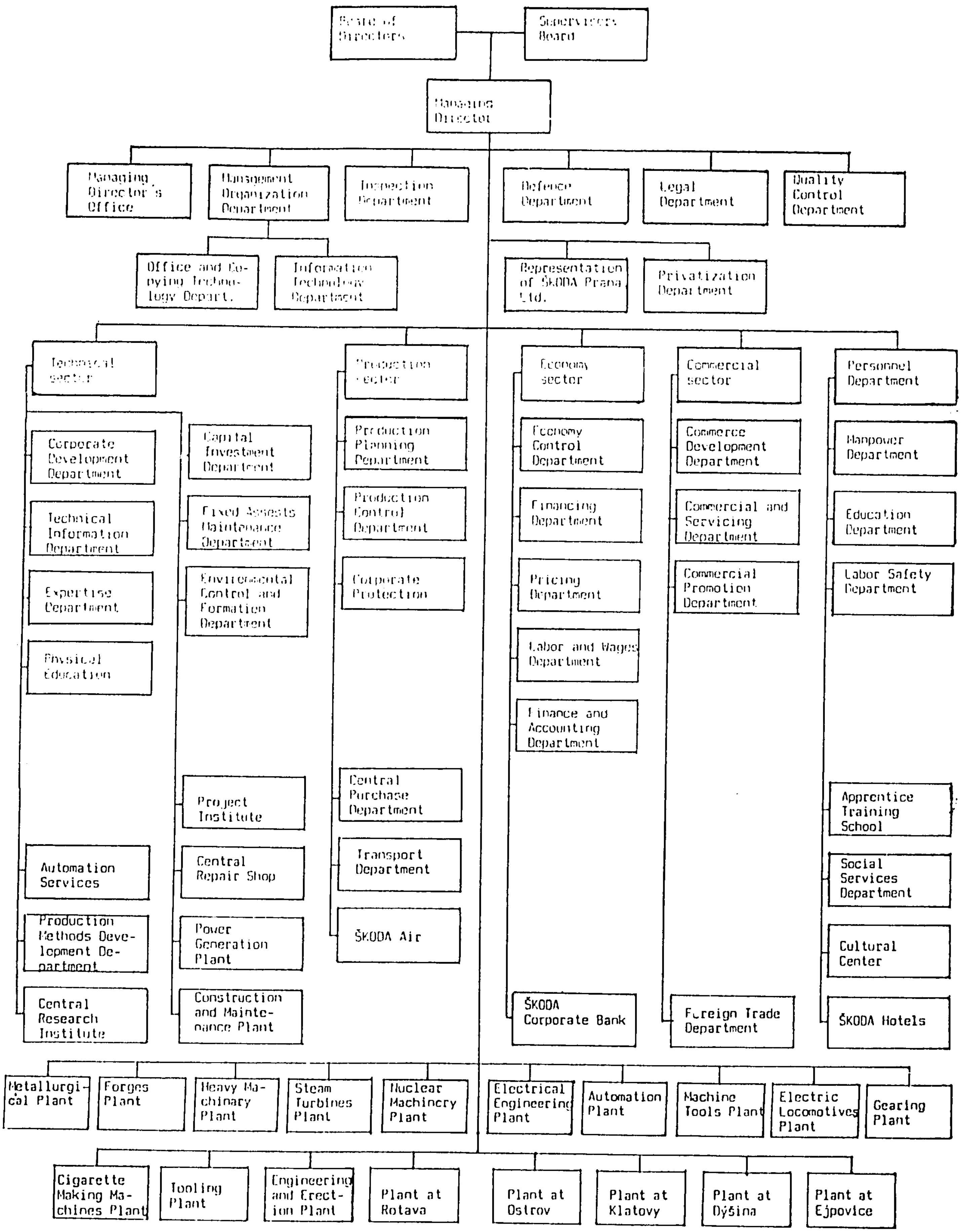
308 We note that, as with many Czechoslovak companies seeking to respond to the market reform, there have been significant changes in senior management. We set out below the period to 30 September 1991 for which the senior management of the Company have been in their current positions:

Name	Position	Date commenced current position
Prof. Ing. Zdeněk Vostracký	Chairman of the Board Director	
Ing. Ladislav Novotný	Managing Director	February 1990
Ing. Jaroslav Měšťánek	Commercial Director and first deputy of the Managing Director	April 1990
Ing. Jaroslav Ebenstreit	Finance Director	October 1990
Ing. Jiří Bis	Strategy Director	February 1990

Name	Position	Date commenced current position
Ing. Jan Hakr	Production and Operating Services Director	January 1992
Ing. Miloslav Habán	Personnel Director	January 1990

309 We note that the Finance Director, who was past retirement age, left the Company in February 1992.

310 The divisional management structure mirrors that of the Company as a whole, except for the Strategy Director. Comparable information is contained in Part II for each of the operating divisions.


Board of Directors
Supervisory Board
Managing Director
Managing Director's Office
Management Organization Department
Inspection Department
Defence Department
Legal Department
Quality Control Department
Office and Copying Technology Depart.
Information Technology Department
Representation of ŠKODA Praha Ltd.
Privatization Department
Technical sector
Production sector
Economy sector
Commercial sector
Personnel Department
Corporate Development Department
Technical Information Department
Expertise Department
Physical Education
Capital Investment Department
Fixed Assests Maintenance Department
Environmental Control and Formation Department
Project Institute
Central Repair Shop
Power Generation Plant
Construction and Maintenance Plant
Automation Services
Production Methods Development Department
Central Research Institute
Production Planning Department
Production Control Department
Corporate Protection
Central Purchase Department
Transport Department
ŠKODA Air
Economy Control Department
Financing Department
Pricing Department
Labor and Wages Department
Finance and Accounting Department
ŠKODA Corporate Bank
Commerce Development Department
Commercial and Servicing Department
Commercial Promotion Department
Foreign Trade Department
Manpower Department
Education Department
Labor Safety Department
Apprentice Training School
Social Services Department
Cultural Center
ŠKODA Hotels
Metallurgical Plant
Forges Plant
Heavy Machinery Plant
Steam Turbines Plant
Nuclear Machinery Plant
Electrical Engineering Plant
Automation Plant
Machine Tools Plant
Electric Locomotives Plant
Gearing Plant
Cigarette Making Machines Plant
Tooling Plant
Engineering and Erection Plant
Plant at Rotava
Plant at Ostrov
Plant at Klatovy
Plant at Dýšina
Plant at Ejpovice

SECTION 4: RESTATEMENT OF CONSOLIDATED CZECHOSLOVAK FINANCIAL STATEMENTS AND DISCUSSION OF THE DIFFERENCES BETWEEN CZECHOSLOVAK ACCOUNTING PRINCIPLES AND INTERNATIONAL ACCOUNTING STANDARDS

401 In this section, we set out the consolidated balance sheet for the Company at 30 September 1991, together with a discussion of the differences between Czechoslovak accounting principles and International Accounting Standards ("IAS").

Adjusted consolidated balance sheet at 30 September 1991

402 The adjusted consolidated balance sheet at 30 September 1991 is as follows:

	para ref	million k	grouping ref (Appendix E)
LONG TERM ASSETS			
Tangible fixed assets	407	8,177	(a)
Intangible assets	441	10	(b)
Investments	444	70	(c)
Total long term assets		8,257	
CURRENT ASSETS			
Cash and cash equivalents	451	305	(d)
Accounts receivable (domestic)	455	2,767	(e)
Accounts receivable (foreign)	475	84	(f)
Other accounts receivable (domestic)	477	18	(g)
Other accounts receivable (foreign)	480	6	(h)
Inventories	481	10,258	(i)
Total current assets		13,438	
TOTAL ASSETS		21,695	
CURRENT LIABILITIES			
Accounts payable (domestic)	A29	1,071	(j)
Accounts payable (foreign)	A40	23	(k)
Accrued expenses, provisions and deferred income)	A42	553	(l)
Short term portion of bank loans	A78	2,126	(m)
Other accounts payable	A60	255	(n)
Total current liabilities		4,028	

	para ref	million k	grouping ref
ADVANCES AND PROGRESS PAYMENTS RECEIVED	A61	5,847	(o)
PROVISION FOR UNREALISED LOSSES	6A43	1,375	(p)
LONG TERM LIABILITIES			
Long term portion of accounts payable (foreign)	A40	17	(q)
Long term portion of accrued expenses and provisions	A42	149	(r)
Long term portion of other payables	447	18	(s)
Long term portion of bank loans	A78	4,195	(t)
Total long term liabilities		4,379	
TOTAL LIABILITIES		15,629	
NET ASSETS		6,066	

Overview

403 The consolidated adjusted balance sheet at 30 September 1991 reflects:

- Significant illiquidity
- Capital intensive nature of the business
- High inventories, despite the fact that no revaluation occurred post price liberalisation, particularly with respect to the nuclear reactor blocks for both the Temelín and Mochovce nuclear power plants which are currently under construction.

Illiquidity

404 With respect to the illiquidity of the Company we note the following:

- Bank loans totalling 6,321 million k, which represent 104% of the consolidated net assets
- Gross trade accounts receivable relating to domestic customers and foreign trade organisations of 3,475 million k against which a provision of 708 million k or 20% has been made. The extent of the provision for

debts of doubtful collectibility would have been higher had the Company not arranged, bills of exchange with respect to 626 million k of it the domestic trade receivables at 30 September 1991

- Net trade receivables of 2,851 million k which exceed trade payables of 1,094 million k by 1,757 million k or 61%

- Cash and cash equivalents of 305 million k which represent only 0.5% of net assets.

Capital intensive nature of the business

405 With respect to the capital intensive nature of the business we draw to your attention that fixed assets of 8,257 million k represent 38% of total assets (21,695 million k). We note that excluding the non-depreciable classes of assets, being land (1,412 million k) and capital expenditure projects which have not yet been completed (937 million k), 28% of completed fixed assets (cost: 15,200 million k) were completely written off as at 30 September 1991.

High inventories

406 Of 10,258 million k inventories carried by the Company at 30 September 1991, a significant proportion relate to the work-on-progress and bought-in-items held by the Nuclear Division for the nuclear reactor blocks for Temelín and Mochovce. These inventories are to a large extent financed by advances and progress payments.

Tangible fixed assets

407 Tangible fixed assets at 30 September 1991 are comprised as follows:

	million k
Fixed assets at cost	16,612
Accumulated depreciation	(9,372)
Net book value (of "completed fixed assets")	7,240
Fixed assets in the course of construction	708
Payments on account of fixed assets in the course of construction	229
Total	8,177

27

Completed fixed assets

408 We set below an analysis of the cost and net book value of completed fixed assets by major category of asset, as at 30 September 1991:

	Cost million k	Accumulated depreciation million k	Net book value million k
Land	1,412	-	1,412
Buildings	5,205	(2,345)	2,860
Structures	1,657	(823)	834
Energy and power driving machines	948	(624)	324
Production machines and equipment	4,541	(3,163)	1,378
Instruments and special technical devices	1,576	(1,154)	422
Transport vehicles	1,195	(823)	372
Furniture, fixtures and fittings	78	(52)	26
Subtotal	16,612	(8,984)	7,628
Write off of surplus fixed assets (see below)	-	(83)	(83)
Write down of the House of Culture (see below)	-	(249)	(249)
Write off of the sports stadiums (see below)	-	(56)	(56)
Total	16,612	(9,372)	7,240

409 The fixed asset categories shown above correspond to a classification prescribed by the State for all industries.

Accounting policy: valuation

Definition of cost

410 Fixed assets are valued at cost and Czechoslovak accounting regulations do not allow revaluation of fixed assets by wholly State owned companies or enterprises.

411 Prior to 1991, when the fixed price regime applied, the cost of fixed assets was the fixed domestic manufacturers' price, inclusive of the prescribed margin.

Interest

412 In addition, the cost of fixed assets includes the interest charges on loans financing the acquisition or construction (prior to transfer from the non-depreciable class: "fixed assets in the course of construction" (see below)). IAS 23 entitled "Capitalisation of borrowing costs" states that "an enterprise which has borrowing costs... on assets that take a substantial period of time to get them ready for their intended use should adopt a policy of either capitalising... or not capitalising borrowing costs for those assets...and [such] a policy should be consistently applied".

413 The Company has consistently applied this policy and in a suppliers' market, where significant time was normally required to obtain and assemble all the related parts of a fixed asset, the adoption of such a policy would seem reasonable.

Own manufactured fixed assets

414 In the case of own manufactured fixed assets, up until the end of 1990 the State required that the fixed assets were valued in the same manner as if they had been purchased from a third party; that is, at fixed domestic manufacturers' price, inclusive of the prescribed margin.

415 From 1 January 1991, the Czechoslovak accounting regulations were modified and own manufactured fixed assets are required to be valued at manufacturing cost, exclusive of a margin.

416 Prior to 1 October 1991, the Company was not in compliance with the revised accounting regulations and continued to capitalise the related margin.

417 The Company is unable to estimate the total amount of margin capitalised in the fixed assets balance, however it has identified that own manufactured additions to fixed assets in the nine months ended 30 September 1991 amounted to 187 million k and have estimated the related margin to be 8%.

418 There are two divisions which perform the majority of own-manufactured fixed assets: first, Erection and Engineering and second, Maintenance.

419 Finally we note that under both the old and revised Czechoslovak accounting regulations, own-manufactured fixed assets are accounted for as an external sale and are not eliminated. There is insufficient information available at the Company to enable quantification of the amount of own manufactured fixed assets by division. At the point of manufacture, an operating division (such as the Tools Division) will not necessarily know if the item they are manufacturing will be sold to a third party or be used by another division as a fixed asset. As a consequence, the consolidated sales for the nine months ended 30 September 1991 are overstated by 187 million k.

Land

420 In the past land was not included in Czechoslovak financial statements. The State now requires all enterprises and companies to include land in the balance sheet by 1 January 1992. Notional rates for valuing land for accounting purposes were prescribed by the State in the beginning of 1991. New notional rates were issued for use subsequent to 1 November 1991. Land is included in the adjusted consolidated balance sheet at the new, higher rates. The value of land using the old and new rates is 308 million k and 1,412 million k, respectively (refer Appendix B). The Czechoslovak balance sheet included land at the lower rates and we have adjusted fixed assets to reflect the higher rate.

421 We draw to your attention that the notional rates prescribed by the State bear no relationship to market value, as indicated by the limited number of property transactions executed in Czechoslovakia to date.

422 We note that the Company has been advised of restitution claims amounting to 15 million k (refer Appendix B). The issue of ownership has not yet been resolved.

Write off of recreational facilities

423 From 1 January 1991 State owned enterprises or companies were required to write off recreational and other welfare facilities, together with civil defence assets, to nil book value. As a consequence the Company wrote off fixed assets with a net book value of 97 million k as follows:

	million k
Recreational and other welfare facilities	38
Civil defence assets	59
Total	97

424 These assets were written off in 1990 instead of 1991 as specified in the accounting regulation. In addition, the write off was against funds. We have adjusted the equity bought forward at 1 January 1991 accordingly and have reflected the write off as an exceptional item in the profit and loss account for the nine months ended 30 September 1991.

Write off of the House of Culture

425 The House of Culture had a cost and net book value of 283 million k and 259 million k, respectively at 30 September 1991. In December 1991, this building was sold for 10 million k. We have decreased the net book value of fixed assets accordingly, and disclose the write down as an "exceptional" item.

Write off of the sports stadiums

426 The ice hockey and sports stadiums were given to Škoda Plzeň in 1990 by the association which had previously been responsible for sports facilities. The State could not afford to finance its operations, and the Company seemed to be in the best position to fulfil this public obligation being the largest employer in Plzeň. They are making significant losses and there is no likelihood of selling or giving them away. We have decreased the net book value of fixed assets by 56 million k so as to fully write off the stadiums.

Write off of surplus fixed assets

427 As part of the Company's privatisation plan, the first version of which was filed on 1 November 1991, the Company was required to estimate surplus fixed and other assets. This was prepared by the Privatisation Department from information provided by divisional management. We understand that this was not reviewed in detail at the Centre. Subsequently, a regulation was promulgated whereby wholly State owned joint stock companies could write off surplus fixed and other assets against funds when the Company passed into the hands of the National Property Fund. The management of the Company prepared two revisions to the list of surplus fixed and other assets. The second revised list was given to us at the end of January 1992 and we have adjusted the net book value of fixed assets accordingly, and we have written these assets off (cost: 157 million k; net book value: 83 million k) through the profit and loss account as an exceptional item. We note, however, that we have been unable to ascertain whether the second revised list has been approved by the Managing Director of the Company. Further, we draw to your attention that we do not know what criteria were used in compiling these lists or whether any such criteria were consistently applied.

428 We note that prior to adjusting for the House of Culture and surplus fixed assets, and excluding land, the proportion of completed fixed assets which were 100% written down as at 30 September 1991, by major category of asset, were as follows:

	Cost (in millions)		% fully
	100% written down	Total	written down
Buildings	581	5,205	11
Structures	298	1,657	18
Energy and power driving machines	288	948	30
Production machines and equipment	1,874	4,541	41
Instruments and special technical devices	648	1,576	41
Transport vehicles	523	1,195	44
Furniture, fixtures and fittings	18	78	23
Total	4,230	15,200	28

Accounting policy: depreciation

429 Depreciation is charged on a straight line basis so as to write completed fixed assets off over their estimated economic lives. The State prescribes, in considerable detail, the estimated economic lives of assets. In 1991, a new set of shorter economic lives was published and its adoption was optional. Škoda Plzeň elected to use the new, higher rates.

430 We set out below the range of depreciation rates, together with the average depreciation rate for the third quarter of 1991, for each major category of fixed assets:

Asset category	Range %	Average rate for the third quarter of 1991 %
Land	Not applicable	
Buildings	1.3 - 4.0	1.8
Structures	1.0 - 5.0	2.5
Energy and power driving machines	2.0 - 20.0	6.2
Production machines and equipment	4.0 - 25.0	8.8
Instruments and special technical devices	6.0 - 20.0	13.3
Transport vehicles	3.0 - 20.0	6.7
Furniture, fixtures and fittings	4.0 - 10.0	6.5
Total	1.0 - 25.0	
Total average		5.2

431 We draw to your attention that whilst the depreciation rates used are relatively low, there is a strong tradition of repairs and maintenance in Czechoslovakia and large stocks of spare parts are maintained. We have made no adjustment to the estimated economic lives adopted by the Company, accumulated depreciation at 30 September 1991 or the depreciation charge for the nine months ended 30 September 1991.

Non productive assets

432 In addition to the recreational, welfare etc facilities that have been written off, there are a considerable number of non productive fixed assets. We refer to the largest below:

Division/ cost centre	Net book value at 30 September 1991 million k	Comments
Welfare	457	Includes 63 blocks of employee flats (268 million k), canteens and similar (108 million k) and medical facilities (36 million k)
Hotels	31	Three hotels, five cottages and one villa
Other cost centres	319	Includes apprentices' training facilities (48 million k), shared assets (roads, sewerage, lighting, railway sidings, administrative buildings and similar) (290 million k)

Fixed assets in the course of construction

433 When a fixed asset is purchased it is placed into the non-depreciable class, "fixed assets in the course of construction", and is only transferred to fixed assets when it is placed in use, inspected and all invoices have been received.

Costs to complete

434 We set out below an analysis of the largest components of fixed assets in the course of construction:

Division	Project	Costs to 30 September 1991 million k	Costs to complete per operating budget (in 1991 prices) million k
ETD	Traction engines, TBA 1000; development of new production facility	221	185
Locomotives	Modernisation of plant	112	39
Machine Tools	New building (Waldrich)	79	68
Energy	Reconstruction of boiler	28	448
Various	Interest capitalised	66	N/A
Other (all small projects)		202	65
Total		708	805

N/A = Not applicable

435 We have not been provided with an analysis of the costs to complete (shown above) between firm contractual commitments and commitments where there is no contractual obligation.

436 Due to illiquidity, the management of the Company has indicated that some of the projects (none of which have been specifically identified) may have to be cancelled in the future. All the material related contracts were signed prior to 1991 and Škoda Plzeň could use price increases as a justification for cancellation without incurring a penalty. The Company may try and cancel part only and ensure that any work is stopped at a point so that the facilities finished to date could be put into operation, although the original project would not be fully completed. The decision as to which projects will be completed is to be delegated to the operating divisions. In light on the above, it is not possible to indicate whether or not it would be appropriate to write off any of the costs incurred to 30 September 1991.

437 The decision as to whether to proceed with the reconstruction of the boiler may well be affected by whether both the City of Plzeň and the Company decide to proceed with the Siemens designed nuclear heating plant. We note that some environmentalists are opposing an nuclear based facility in such a densely populated area.

Leases

438 Under the Czechoslovak accounting regulations, all leases, whether finance or operating in nature are off-balance sheet. We have obtained a list of leased assets from the management of the Company. None of these leases are material except for a lease signed in September 1991 with CAC Leasing, a Czechoslovak-Austrian company, for an ICL data processing system. This is a finance lease and will take effect upon delivery and acceptance. Delivery has not yet occurred. The value of the system is specified in the lease agreement to be 890,000 DM (or approximately 16.2 million k).

Payments on account

439 Certain payments on account have been made with respect to the first five capital expenditure projects referred to above:

	million k
ETD (two projects)	61
Locomotives	43
Machine Tools	108
Energy	12
Total	224

440 We draw to your attention that when parts of capital expenditure projects are supplied, and the acceptance protocol is signed, in certain circumstances the supplier may have a right to require a payment on account, notwithstanding that an invoice will only be raised on completion.

Intangible fixed assets

441 We set out below an analysis of the net book value of intangible fixed assets by type at 30 September 1991:

	Net book value million k
Licences (lump sum consideration only)	7
Works of art	2
Software	1
Total	10

442 Intangible assets are stated at cost and amortised on a straight line basis in order to write them off over their estimated economic lives (maximum of five years, even if the period of the licence is in excess of this limit).

443 In the original privatisation project submitted at the end of October 1991, there were 58 Czechoslovak registered trademarks valued at 18.3 billion k by lawyers Advokátní kancelář Horejš, Čermák, Vrba. These have not been included in either the adjusted or Czechoslovak balance sheets.

Investments

444 We set out below an analysis of the investments held by the Company at 30 September 1991:

	No. of shares	Paid million k
Domestic:		
Foreign Trade Organisations:		
Škodaexport	1,500	15
Strojimport	2,000	30
Technoexport	62	6
State owned bank:		
ČSOB	60	6
Joint venture:		
Geistransport	N/A	2
Subtotal		59
Foreign:		
Škoda Ural trading	N/A	9
Interatomenergo	N/A	2
Subtotal		11
Total investments		70

N/A = Not applicable, not joint stock companies

Domestic investments

445 The largest percentage shareholding with respect to the domestic investments is 11% (Škodaexport). Management inform us that no control is exercised and therefore we have not equity accounted for any of these investments.

446 Škoda Plzeň is a customer of both the foreign trade companies and the bank.

447 FINOP, the holding company for the State owned foreign trade organisations, paid 30 million k, being the par value of the 2,000 shares held by Škoda Plzeň, on the Company's behalf. The Company is obliged to repay 6 million k per annum. At 30 September 1991, the investment in Strojimport is shown at 6 million k in the Czechoslovak balance sheet. We have increased the value of the investment by 24 million k and set up a short and long term loan of 6 million k and 18 million k, respectively.

Foreign investments

448 Škoda Ural trading is a joint venture to which both Škoda Plzeň and Uralmash, a Soviet legal entity, are a party. Each party has a 50% share, however we have not equity accounted for this transaction due to the immaterial size of the joint venture.

449 The percentage investment in Interatomenergo ("IAE") is not known by the management of the Company but the size of this "international economic association" does not justify equity accounting. The nature of, and status of the investment in, IAE is unclear. Originally it was a form of non-profit organisation, the members of which were manufacturers of nuclear machinery and equipment for the former COMECON bloc.

450 Finally, we note that there is no effective market for dealing in securities and that the par value of both categories of investments, at which value they are shown in the balance sheet, may exceed their market value.

Cash and cash equivalents

451 Cash and cash equivalents at 30 September 1991 are comprised of the following:

		million k
Cash in hand		1
Cash at bank	- current account	310
	- special account	14
Petrol vouchers		1
Cash in transit		(21)
Total		305

452 With the exception of the Foreign Trade Department, Hotels and Ejpovice, all cash flows are controlled by the Centre through a current account with Komerční banka. Although the other operating divisions and certain of the workshops (being part of an operating division) which are located outside the Plzeň complex have their own current accounts, all the cashflows are orchestrated centrally. The bank accounts are with a variety of banks.

453 Following the introduction of limited internal convertibility, all bank accounts are denominated in krowns.

454 We note that the special account is a residue from the requirement to keep a separate bank account being cash equivalent to the balance of the Welfare Fund. In effect, the cash equivalent of the Welfare Fund (with a balance at 30 September 1991 of 49 million k) is monies held on trust by Škoda Plzeň on behalf of its employees. The monies in the special account have been used for general purposes during the nine month period and the legal status of the 49 million k cash resources is unclear.

<u>Accounts receivable (domestic)</u>

455 Accounts receivable (domestic) (2,767 million k) include receivables secured by way of bills of exchange, which are due by 30 September 1992 (626 million k).

456 We set out the gross and net values of accounts receivable (domestic) at 30 September 1991:

	Gross million k	Provision million k	Net million k
Unsecured	2,849	(708)	2,141
Secured	626	-	626
Total	3,475	(708)	2,767

Unsecured

Intra-company transactions

457 We note that in the Czechoslovak balance sheet, amounts receivable by the Foreign Trade Department from operating divisions for imports (104 million k) and amounts receivable by operating divisions from the Foreign Trade Department for exports made on their behalf (36 million k) are included as external accounts receivable (domestic). We have not re-defined this 140 million k balance, together with the corresponding amount in accounts payable (domestic) (refer paragraph A33) as intra-company, and eliminated it on consolidation, as we have been unable to obtain information from either the Foreign Trade Department or individual operating divisions for the amount of sales for the nine months ended 30 September 1991 relating to these types of transactions.

458 The structure of the accounting records at the operating divisions is such that quantification would be difficult. However, this information should be readily available from the Foreign Trade Department. The Foreign Trade Department desires to be an independent legal entity and the management of that department have submitted an alternative privatisation plan. They were not prepared to disclose this information to us, despite pressure from senior management of the Company as a whole.

Composition of the balance

459 Unsecured accounts receivable (domestic) at 30 September 1991 consist of:

	million k
Aged receivables listing	2,788
Receivables not included on the above listing	24
Penalties receivable for late payment of accounts payable (domestic)	37
Total	2,849

Aged receivables listing

460 The statutory collection period for accounts receivable (domestic) is two weeks and three days. There are no cash sales.

461 The ageing of the gross value of unsecured accounts receivable (domestic) at 30 September 1991 is as follows:

	million k	%
Current	1,633	59
Overdue less than 30 days	370	13
Overdue less than 60 days	178	6
Overdue less than 90 days	124	4
Overdue less than 180 days	269	10
Overdue more than 180 days	214	8
Overdue gross unsecured	1,155	41
Total	2,788	100

462 The ageing reports prepared by the Company identify the reasons for late payment of the 1,155 million k balance as follows:

	million k
Liquidity problems	1,098
Court proceedings	58
Unidentified reasons	28
Claims	6
Negative items	(35)
Total	1,155

463 We note that the Company did not write off any accounts receivable in the nine months ended 30 September 1991.

464 We have provided against those accounts receivable at 30 September 1991 that are still outstanding at 31 December 1991 and which are 90 days overdue at that date:

At 31 December 1991:	million k
90 to 180 days overdue	455
Overdue more than 180 days	253
Total provision against unsecured accounts receivable (domestic)	708

465 Of the 253 million k being overdue more than 180 days at 31 December 1991, 40 million k relate to invoices raised in 1989 and 1990.

466 Of the 1,155 million k overdue at 30 September 1991, nine customers had overdue balances in excess of 20 million k, and represented 553 million k of the overdue amount. The two customers with the largest overdue balances are ČSD, the State monopoly railway (197 million k) and Válcovny strojírny Chomutov, a large steel works (113 million k), both of which are suppliers to, and customers of, Škoda Plzeň.

467 We note that had bills of exchange not been obtained, the extent of any provision would have been significantly greater.

468 We draw to your attention that the provision we have made is an estimate only based on both the age of receivables and the extent of subsequent collection. A large number of enterprises and companies in Czechoslovakia, as well as foreign trade organisations, are experiencing significant liquidity problems and their debts may subsequently prove to be uncollectible.

Receivables not on the aged listing

469 This balance represents 24 million k exports for Machine Tools Division via Strojexport, which at 30 September 1991 the management of the Company intended to net off against amounts due to be invoiced to Strojexport with respect to imports on Heavy Engineering's behalf. This netting off occurred in November 1991.

Penalties receivable

470 We have been informed that all of the penalties receivable (37 million k) were overdue as at 30 September 1991. We have not made any provision against collectability, as we do not know the degree to which they are overdue, or the level of subsequent receipts. As a consequence, it may be that we have provided for certain accounts receivable but not the related penalty due from the customer for late payment.

Secured

471 Bills of exchange have been theoretically possible in Czechoslovakia for decades, however they have not been used, except for foreign trade, in the recent past.

472 Interest of 18% per annum (compared to the current bank base rate of 14% per annum for short term commercial loans) is included in the bills of exchange. We note that whilst interest expense is accrued, interest income is only recognised when the cash is received.

473 Of those bills which have fallen due since 30 September 1991, all have been discharged. As a consequence, we have not provided against those accounts receivable which have been secured in this manner.

474 We note that the Company does not currently factor its bills of exchange.

Accounts receivable (foreign)

475 Accounts receivable (foreign) (84 million k) is comprised of amounts due from foreign customers for the export of Škoda's products, either by the Foreign Trade Department or by those divisions which export on their own account (Machine Tools, Ejpovice and Automation).

476 Management have informed us that these trading balances are secured by letters of credit and therefore there are no debts of doubtful collectability.

Other accounts receivable (domestic)

477 Other accounts receivable (domestic) are made up as follows:

	million k
Social security refundable	12
Expense advances and rent receivable on Company flats	6
Total	18

Social security refundable

478 When an employee is ill or similar, the Company does not pay the employee his agreed wage, rather the State is responsible for providing a substitute income which is based on a percentage of his agreed wage adjusted for certain items. The employer pays the social security to the employee on the State's behalf and is reimbursed every month in arrears.

479 We note that such social security payment is funded indirectly from the 50% payroll tax paid (20% in certain limited cases) by the Company every month, on behalf of its employees.

Other accounts receivable (foreign)

480 Other accounts receivable (foreign) at 30 September 1991 of 6 million k are primarily advances to employees and directors for travelling when abroad.

Inventories

481 We set out below an analysis of inventories at 30 September 1991:

57

	Gross million k	%	Provision million k	Net million k
Raw materials in stock and in transit	1,459	14	(115)	1,344
Supplies in use	82	1	-	82
Bought-in-items	5,481	52	-	5,481
Work-in-progress and semi finished products	3,094	29	(159)	2,935
Finished goods	430	4	(14)	416
Total	10,546	100	(288)	10,258

482 We note that the Nuclear Division and ETD account for 5,015 million k (48%) and 968 million k (9%) of the gross value of inventories at 30 September 1991, respectively.

Raw materials in stock and in transit

Accounting policy: valuation

Cost

483 Raw materials in stock and in transit are accounted for at the invoiced purchase price. Delivery costs which are not included in the invoiced price were included in inventories for the first quarter of 1991, but this policy was changed in the second and third quarters of 1991 and delivery costs were expensed as, and when, they were incurred.

484 The management of the Company estimate that there approximately 120,000 raw material line items differing by type, size and quality.

485 We note that prior to 1 January 1991, raw material inventories were valued at standard costs which reflected the fixed domestic manufacturers' prices prescribed by the State Price Control Office. The Company's price list was published at the beginning of the year and, in the case of significant changes in the fixed, prescribed prices, amended price lists were released. We note that for the year ended 31 December 1990 fixed, prescribed prices exceeded the Company's standard costs by an amount equivalent to 2.2% of the value of raw materials and fuel consumed in production during that year.

54

486 The management of the Company have informed us that the average purchase price of raw materials rose sharply in January 1991. The fluctuations in the following months were not dramatic.

487 Although Škoda Plzeň revalued certain categories of raw materials in November and December 1990 (crude oil and related products) in order to reflect the consequences of the first wave of price liberalisation (see above in Section 2), we have been informed that, they did not, unlike many Czechoslovak enterprises and companies, revalue inventories in the beginning of 1991 after the second, more comprehensive wave of price liberalisation.

488 The new inventory valuation accounting regulations effective from 1 January 1991 required an enterprise or company to elect LIFO, FIFO or weighted average and apply that policy consistently throughout the calendar year. A new election could then be made in the beginning of 1992. Effectively, prior to 1991, with the existence of fixed, domestic prices, weighted average was used.

489 The Company's inventory system specifically identifies those raw materials which were purchased prior to 1 January 1991, both revalued in the fourth quarter of 1990 and not revalued. For raw materials purchased in 1991, the Company initially adopted a system whereby the raw materials purchased in 1991 were coded "1", purchases at a new revised price where then coded "2", "3" etc. This system proved to be administratively too demanding and the Company adopted a standard cost system from the beginning of the second quarter of 1991.

490 The management of the Company is unable to state whether FIFO or LIFO was adopted during the first quarter of 1991. It would appear that the decision was at the discretion (by default) of the supervisors of the Company's warehouses. It is also not clear whether a consistent approach was adopted within a given warehouse.

491 The standard costs established in 1 April 1991 were a weighted average of the purchases during 1991. The weighted average or standard cost did not include the price of raw materials purchased prior to 1 January 1991, but not consumed by 31 March 1991. These standard costs are recomputed monthly (with the exception of the month in which the annual stocktake takes place).

492 In light of the above, it is not possible to comment on the accuracy of the valuation of:

- Raw material inventories at 30 September 1991

- Materials included in work-in-progress and finished goods at 30 September 1991

- Raw materials consumed in production during the nine months ended 30 September 1991.

493 The difference between the standard costs adopted from the beginning of the second quarter of 1991 and the actual cost of raw material purchases during that same period, is taken to a price differential account. The price differential account for the nine months ended 30 September 1991 had a net credit balance of 1 million k.

494 There is one exception to the costing approach described above. The Tools Division is responsible for supplying tools, both own-manufactured and purchased from third parties, to other divisions. The records are kept manually for approximately 30,000 line items. Standard costs were only introduced from the beginning of the second quarter of 1991 and the weighted average or standard cost includes both purchases in 1990 and 1991. We understand that the standard costs established on 1 July 1991 have not been revised to reflect purchases in the three months ended 30 September 1991.

Lower of cost and net realisable value

495 Under International Accounting Standards, raw material inventories should be valued at the lower of cost and net realisable value. We have been informed that the majority of raw material inventories at 30 September 1991 are steel and other non-ferrous metal products such as sheets, rods, tubes and similar. We note that until the first operation is performed (cutting, moulding, bending etc) the Company's raw materials could be used for a wide variety of products.

496 After the performance of the first operation, this flexibility is eroded to a greater or lesser degree. In light on the deterioration of both Škoda Plzeň's domestic and former COMECON markets, it is not possible to come to a view on the potential net realisable value of raw materials without considering projected material usage data which is integrated into revenue and profit projections.

Stock holding gain

497 The Company has attempted to quantify the stock holding gain relating to raw material inventories and has valued it at 240 million k, with reference to the actual cost of raw materials, consumption data and the weighted average or standard cost

for the month of September 1991. Given the confusion relating to the calculation of the weighted cost and the valuation of raw materials (that is, either FIFO or LIFO was adopted in the first quarter of 1991) this figure should be viewed as an indicative estimate only. Further, we note, that the Company, is not able to estimate the extent to which such stock holding gain has been realised in the nine months ended 30 September 1991. In some cases, Škoda Plzeň's customers have negotiated a price lower than that sought by the Company, arguing that the Company probably used materials purchased in 1990 in manufacturing the items they are seeking to purchase.

498 The management of the Company inform us that it would not be possible to quantify the stock holding gain relating to work-in-progress and finished goods.

Bought-in-items

Accounting policy: valuation

Cost

499 Under Czechoslovak accounting regulations, bought-in-items are a special category of inventory relating to turn-key manufacture. Bought-in-items are completed manufactured units which either are purchased from an external supplier or are own-manufactured and "sold" by one division, or part of a division, to another division or another part of the same division, respectively. The Company will include these bought-in-items in a larger piece which is then sold to an external customer.

A1 We set out below an analysis of the split between externally purchased and own manufactured bought-in-items at 30 September 1991:

	million k
Externally purchased bought-in-items	2,689
Own-manufactured bought-in-items	2,759
Other	33
Total	5,481

A2 Bought-in-items from external suppliers are valued at cost. When the larger piece is subsequently sold by Škoda Plzeň to an external customer, the cost of the bought-in-item is released through the profit and loss account as "cost of bought in items sold" which is netted off the sale proceeds to give a type of gross margin.

51

A3 Own-manufactured bought-in-items are valued at cost plus margin. An external sale is recognised and the margin does not eliminate on consolidation. In contrast, an automatically eliminating intra-company receivable and payable is set up. This treatment is in compliance with Czechoslovak accounting regulations. There is no problem with income and profit recognition if the transfer to the final selling division and the sale to the external customer is effected with the same period. However, there is often a significant delay (years) between these two transactions and the result is that:

- Part of the total margin (being the difference between cost and the sale price to the external customer) is recognised on transfer between or within divisions ("the transfer margin"), whilst the remainder is recognised on sale to the external customer.

- Similarly, the recognition of sales revenue is split.

- Bought-in-items, as with own-manufactured fixed assets, are overstated by the amount of the margin recognised on the transfer between or within divisions.

A4 The only way in which it would be possible to:

- Redefine the transfer bought-in-item as an intra-company sale

- Eliminate the transfer margin on consolidation

- Exclude the transfer margin from inventories,

would be to analyse the supporting documents relating to bought-in-items at 1 January 1991 and changes in work-in-progress in the manufacturing division and changes in bought-in-items in the final selling division during the nine months ended 30 September 1991. This exercise was not performed due to the time constraints already placed on the Central Finance Department and as a consequence we have not made any adjustments.

A5 For the nine months ended 30 September 1991, sales of 1,047 million k related to own manufactured bought in-items.

A6 We note that there is a statutory requirement to retain accounting documents for five years. In some cases, the time lag between transfer to the final selling division and the sale to the external customer is in excess of five years.

A7 Finally, we note that the cash flow relating to bought-in-items does not correspond to the point of sale either for externally purchased or own-manufactured bought-in-items (refer to "Advances and progress payments received" below).

A8 The majority of own-manufactured bought-in-items are in three divisions:

	million k
Nuclear	2,141
ETD	324
Erection and Engineering	214
Heavy Engineering	61
Other	19
	2,759

Lower of cost and net realisable value

A9 Prima facie, the market for a bespoke, highly specialised item, such as part of the primary circuit (Nuclear), is necessarily very limited. All of the long term manufacturing contracts for which these bought-in-items have been produced or purchased were signed prior to 1991. We have assumed that no contracts will be cancelled, however we have performed a conventional contract analysis with an indicative estimate of costs to complete and any consequential unrealised loss (refer below).

Work-in-progress and semi-finished products

A10 Generally speaking, the Company does not use the finished goods category and sells its inventories direct from work-in-progress.

A11 The basis for valuing work-in-progress and finished goods is the same being direct manufacturing costs, together with production and administrative overheads.

A12 Overheads are allocated on the basis of direct wages; that is, the bare wage for production workers and does not include bonuses, benefits, payroll tax or similar. As a consequence the overhead allocation percentages appear to be very high (for example, 4,000 % for the Nuclear Division).

59

A13 The Company's internal accounting regulations require that inventories are adjusted monthly for any under or over absorbed overheads. As with many of the larger enterprises, Škoda Plzeň makes no such adjustment and, as a consequence, inventories are misstated and the timing of recognition of costs is distorted. We note that the difference between the overheads absorbed and the actual overheads incurred, is taken to the profit and loss account and that actual overheads exceeded the amount absorbed by 1.5 billion k for the nine months ended 30 September 1990. The management of the Company is unable to quantity the extent to which work-in-progress and finished goods are understated at 30 September 1991.

Other intra-company transactions relating to inventories

A14 In addition to own manufactured bought-in-items for turnkey contracts, there are two other types of intra-company transactions which effect the valuation of inventories, but which cannot be eliminated (see paragraph A114):

- Transfer of own-manufactured goods for export to the Foreign Trade Department
- Capitalisation of materials.

<u>Transfer of own-manufactured goods for export to the Foreign Trade Department</u>

A15 Where goods are manufactured and transferred to the Foreign Trade Department, as opposed to a foreign trade organisation or direct sale on their own account by the operating division, an external sale, inclusive of a "transfer margin" is recognised. Unlike own-manufactured bought-in-items relating to turnkey contracts, the time lag between the transfer and the subsequent sale to an external customer, is not unduly long. Sales relating to these transfers amounted to 183 million k for the nine months ended 30 September 1991 and inventories of goods for export at 30 September are included in externally purchased bought-in-items and represent 19 million k of the 2,689 million k balance (see paragraph A1).

<u>Capitalised materials</u>

A16 Capitalised materials is a transfer from work-in-progress to either raw materials or work-in-progress of another operating division. In the latter case, it is reflected in the profit and loss account through change in work-in-progress. Unlike own-manufactured bought-in-items relating to turnkey contracts or transfer of goods for export to the Foreign Trade Department, the "transfer margin" eliminates on consolidation. As a consequence, there is no misstatement of inventories, however, an external sales is recognised on transfer, and this is not eliminated on consolidation. Sales relating to capitalised material for the nine months ended 30 September 1991 amounted to 942 million k.

Surplus inventories

A17 We note that in the nine months ended 30 September 1991, the Company wrote off 417 million k of inventories to the profit and loss account. Of this, 342 million k (82%) related to bought-in-items and work-in-progress for the third and fourth nuclear reactor block which had been commissioned for Temelín (refer the Section 6A on the Nuclear Division, Part II).

A18 In the Czechoslovak financial statements there is a line item "prepaid expenses" at 30 September 1991 of 64 million k being a mock nuclear fuel casket which was purchased for use in the testing of 1,000 MW USSR designed nuclear reactors. The nuclear reactor blocks for Temelín and Mochovce are the first 1,000 MW reactors to be produced and following the breakup of the multilateral former COMECON nuclear programme, it is reasonably likely that no other such reactors will be built. The management have decided to amortise this balance in 1992. In light of the above, we have written off this item to the profit and loss account and include it in "inventories written off".

A19 As discussed above in paragraph relating to tangible fixed assets, the management of the Company have recently compiled a list of surplus inventories in consultation with divisional management (288 million k). We refer you to the comments we made on the compilation of this list in the context of fixed assets (paragraph 427).

A20 We note that the annual stocktake was performed at the end of October and observations made on the quality and usability of inventories would have been reflected in the list of surplus inventories received by us at the end of January.

Inventories held on trust

A21 We note that there are 704 million k of inventories held in trust as an off balance sheet item, being goods invoiced but not delivered to customers.

A22 The balance of inventories held on trust fell to 404 million k by 31 October 1991. We have been lead to understand that maintaining records of this off balance sheet item are not viewed as a high priority and that their accuracy is only checked in conjunction with the annual stocktake, which occurred in October 1991.

A23 The largest divisional components of inventories held on trust at 31 October 1991 are as follows:

	million k
Heavy Engineering	119
Nuclear Engineering	68
Turbines	57
ETD	53
Machine Tools	45
Other	62
Total	404

A24 We draw to your attention that some of the invoices to which these inventories relate are very old:

	Invoices (in million k)				
	Pre 1990	1990	Nine months ended 30 Sept.1991	October 1991	Total
Heavy Engineering	18	32	51	18	119
Nuclear Engineering	64	-	-	4	68
Turbines	16	1	32	8	57
ETD *					
Machine Tools	-	2	25	18	45

* No information provided by management on the dates of invoices

A25 The 32 million k inventories held on trust by Heavy Engineering with invoices dating from 1985 to 1990 relate primarily to goods sold through Technoexport and Škodaexport.

A26 The 64 million k inventories held on trust by Nuclear Engineering invoiced at the end of 1988 relate to an export sale made through Škodaexport for the nuclear power plant Zarnowiec, Poland. We understand that this power plant has been discontinued.

A27 The inventories held on trust by Turbines include 39 million k invoiced to Škoda Praha. We note that there may be a relation between these invoices and the discontinuance of the multi-lateral nuclear programme of the former COMECON bloc.

A28 We are not in a position to comment on the significance of the age of these invoices, however it may be that an opportunity exists to buy back certain inventories which had been manufactured using the low fixed, domestic prices which applied prior to 1991.

Accounts payable (domestic)

A29 Accounts payable (domestic) at 30 September 1991 is made up as follows:

	million k
Accounts payable - trade	921
Accounts payable - trade (goods, but no invoice, received)	119
Accounts payable relating to fixed assets in the course of construction	31
Total	1,071

A30 The statutory payment terms for all accounts payable (domestic) are two weeks and three days.

Intra-company transactions

A31 Accounts payable-trade (domestic) includes a debit balance of 199 million k being refundable advances paid by operating divisions to the Foreign Trade Department to finance imports on their behalf.

A32 The related payable by the Foreign Trade Department to the operating divisions (199 million k) is included in other payables (domestic) (see paragraph A60).

A33 Accounts payable-trade (domestic) includes a credit balance of 140 million k which relates to the intra-company receivable discussed in paragraph 457.

Ageing

A34 There is no detailed ageing analysis maintained by the Company, however the management does monitor the extent to which they exceed the statutory collection period:

	Statutory collection period		
	Within	Outside	Total
Accounts payable (domestic) - trade	201	720	921
Accounts payable - trade (goods, but no invoice, received)	119	-	119
Accounts payable relating to fixed assets in the course of construction	-	31*	31
Total	320	751	1,071
Percentage of total	30 %	70 %	100 %

* = We have assumed that this balance is outside the statutory collection period

A35 At 30 September 1991, in contrast with accounts receivable (domestic) the Company had not offered any bills of exchange to its suppliers.

A36 Up until the middle of the second quarter of 1991, Komerční banka maintained a file of all invoices due to be paid and would make the appropriate payments at the expiration of the statutory collection period. As the illiquidity of the Company increased (due to factors such as the domestic recession, liquidity problems with their historical customers in the former COMECON bloc, cancellations and similar) the bank passed responsibility for managing the Company's cash flow back to the management. In August, the management of the Company established a cash flow management committee consisting of representatives from the following departments: Accounting, Finance and Central Purchasing. This committee meets weekly and the scope of its brief is limited to planning cashflows for the forthcoming week, as well as monitoring the level and sourcing of raw material purchases. We are unaware of the existence of any cash flow projections or management mechanism with a time horizon beyond one week.

A37 We have been informed that suppliers were largely paid up to mid July 1991 and subsequent to that time only high priority payments are made, principally: tax, wages, interest and loan repayments, small private suppliers who are dependent on Škoda Plzeň and those suppliers for which no alternative source is available.

A38 Up until 1992, there was no serious risk of a major supplier ceasing deliveries of key raw materials to the Company. However, we note that in the last few weeks, the Steel Works VSŽ Košice, one of Škoda Plzeň's largest suppliers, has formally threatened to stop supply.

A39 We note that there is no comprehensive list of amounts due to any given supplier and we have formed the impression that the relevant records are not maintained in a condition which readily facilitates control. The accounts payable clerk has analysed the overdue portion of accounts payable (domestic) into the following elements:

	million k
Accounts payable	1,007
Penalties payable	38
Debit notes receivable	(158)
Unidentified	(167)
Total	720

Accounts payable (foreign)

A40 Accounts payable (foreign) are amounts due by the Foreign Trade Department to foreign suppliers for imported goods. We have been informed by the management of the Company that 23 million k fall due prior to 30 September 1992, whilst 17 million should be classified "long term".

A41 This analysis was prepared two months ago. The Accounting Department has come to the conclusion that the unidentified debit balance of 167 million k is probably accounts receivable from suppliers which have been offset against payables due from Škoda Plzeň and not netted off specific invoices from suppliers. There is no detailed analysis to support this supposition and although this explanation is plausible it could equally be that this debit balance is uncollected accounts receivable, against which a provision may be appropriate, and that accounts payable are understated by the same amount.

Accrued expenses, provisions and deferred income (short and long term)

A42 Accrued expenses, provisions and deferred income of 788 million k at 30 September 1991 is made up as follows:

	Short term million k	Long term million k
Accruals and provisions:		
Wages	77	-
Premiums	14	-
Wage tax	28	-
Payroll tax	7	-
Payroll tax receivable	(6)	-
Local levies	2	-
Repairs	57	-
Risks	5	-
Warranties	74	149
Research and development	54	-
Interest	98	-
Profit tax	37	-
Welfare fund	49	-
Bonus fund	26	-
Subtotal	522	-
Deferred turnkey commission	31	-
Total	553	149

Accrued wages

A43 Accrued wages at 30 September 1991 relate to that part of the September monthly wage which is paid in arrears.

Accrued premiums

A44 Accrued premiums at 30 September 1991 relate to the premiums which are paid quarterly and are almost a guaranteed part of an employees wage.

Accrued payroll tax and payroll tax receivable

A45 Accrued payroll tax is the 50% tax relating to accrued premiums. The payroll tax receivable is an overpayment due to be refunded to the Company.

66

Accrued repairs and accrued research and development

A46 Both accrued repairs and accrued research and development represent three-quarters of the annual budget for these types of expenditures less the actual costs incurred to 30 September 1991.

Warranty provision

A47 Warranties are normally granted for six months to one year. The duration of extended warranties are negotiated individually. For example, warranties for locomotives may be as long as 15 years.

A48 The 223 million k provision for warranties at 30 September 1991 is comprised of two components:

- A monthly accrual calculated as a percentage of sales (such decision being delegated to the Central Trade (Selling) and Finance Departments) (3 million k)

- An accrual equal to the invoiced surcharge for extended warranty periods (for single pieces and turnkey contracts) (220 million k).

A49 Both elements of the provision are net of the actual costs incurred.

A50 We note that the Czechoslovak balance sheet at 30 September 1991 included a warranty provision of 384 million k compared to 35 million k at 31 December 1990. The 384 million k provision included 335 million k for the Locomotives Division. In effect, a hidden reserve had been created during the nine month period, and the provision was released by the Company at the end of 1991. As a consequence, we have reduced the amount of the provision by 161 million k to the sum of the invoiced surcharge less costs incurred to 30 September 1991. The related profit and loss account adjustment is to change accruals and provisions.

A51 The Czechoslovak balance sheet does not identify the short and long term elements of assets and liabilities. The majority of extended warranty agreements are for three years. We have shown one-third and two-thirds of the total warranty provision as short term (74 million k) and long term (149 million k), respectively.

Accrued interest

A52 Accrued interest at 30 September 1991 relates to the quarterly interest charges due for the three months ended 30 September 1991.

Accrued profit tax

A53 Profit tax relates to the September tax instalment.

Welfare and bonus funds

A54 The welfare and bonus funds are, in effect, accruals relating to types of employee remuneration. It is probable that part of this accrual should be shown as long term. However, quantification of such a split would have to be performed with reference to both manning and profit projections.

Deferred turnkey commission

A55 A turnkey commission is paid to cover administrative and similar costs relating to turnkey contracts. The commission is invoiced on completion of a specific stage of work. A disproportionate amount of administrative costs are incurred at the end of the life cycle of such contracts and, as a consequence, the commission is invoiced prior to the incurrence of the related expenses.

Sale of tradename to Škoda Mladá Boleslav

A56 During 1991, Škoda Plzeň sold the exclusive right to use the Škoda tradename and trademarks to Škoda Mladá Boleslav, the car manufacturer.

A57 In exchange for this exclusive right, 330 million k was received. The Company classified this consideration as "deferred income" which would be amortised over a ten year period. The related "deferred income" at 30 September 1991 in the Czechoslovak balance sheet was 297 million k.

A58 We note that in the fourth quarter of 1991, the Company was granted permission to take the 330 million k directly to the reserve fund, thereby incurring no tax charge.

A59 We have reclassified the consideration received as "extraordinary" income for the nine months ended 30 September 1991 and have adjusted accruals, provisions and deferred income and change in accruals, accordingly.

Other accounts payable

A60 Other accounts payable at 30 September 1991 of 255 million k includes:

- 199 million k advances received by the Foreign Trade Department from the operating divisions in order to finance imports. These advances are refundable by the Foreign Trade Department. The related receivable is discussed in paragraph A32.
- 6 million k being monies due to FINOP for the Strojimport shares and payable within 12 months (refer paragraph 447).

Advances and progress payments received

A61 For long term manufacturing contracts signed prior to 1 May 1990, the investor would finance work performed under that contract by means of a progress payment, payment of which was triggered by the acceptance of a specific piece of work. For contracts signed subsequent to 1 May 1990, or where the parties to the contract agreed, the investor would provide financing in the form of an advance. Such advance may not necessarily bear a direct correlation to the work performed.

A62 We have not been provided with an analysis of advances and progress payments received at 30 September 1991 into these two categories.

A63 The majority of this balance (4,467 million k or 76% relates to the Nuclear Division (refer the divisional report in Part II).

Bank loans

A64 All of the 6,321 million k of bank loans outstanding at 30 September 1991 are with Czechoslovak banks, however, 31 million k are denominated in foreign currencies.

Loans by purpose

A65 We set out below an analysis of the bank debt by purpose:

	million k	%
To finance:		
Inventories	3,728	59
Fixed assets	1,244	20
Accounts receivable and other current assets	901	14
Other	448	7
Total	6,321	100

Banks providing financing

A66 The outstanding loans are due to the following banks:

	million k
Konsolidační	3,100
Komerční	2,451
Investiční	718
ČSOB	32
Agrobanka	20
Total	6,321

TOZ: loans to finance "permanently turning" inventories

A67 We draw to your attention that in the past the State required all enterprises to borrow money in order to finance their "permanently turning" inventories. The State, through State owned banks, could therefore monitor the level and mix of stocks. This unique credit arrangement was called the TOZ. During the first quarter of 1991 it became apparent that all enterprises in the supply chain were experiencing liquidity problems: manufacturers could not sell their products and wholesalers and retailers were overstocked due to speculation prior to price liberalisation on 1 January 1991. As a consequence, in March 1991, a significant proportion of the TOZ for all enterprises (80% for Škoda Plzeň) was frozen and transferred from commercial banks to a bank specially formed for the purpose (Konsolidační banka).

Security for loans

A68 Normally loans given by Czechoslovak banks are not secured. However, during 1991 Komerční banka required security to be provided for certain loans. A valuation of the land, buildings and structures of both ETD and the Ostrov Division was performed by KPMG. We note, that the loans obtained from Komerční banka were only partially used to finance the activities of the divisions providing the security.

A69 The land, buildings and structures of both ETD and the Ostrov Division secured loans with an outstanding balance of 1,179 million k and 528 million k, respectively, at 30 September 1991.

A70 Finally we note that the 9 million k loan taken by Ejpovice for the development and manufacture of electromobiles is secured over the recreational facility "Lesana" in Pec p/Cerchovem.

"Forgiveness" of bank loans

A71 The State has allocated 50 billion k for "forgiveness" of bank loans in Czechoslovakia: the share allocated to enterprises and companies in the Czechlands is approximately 30 billion k. The mechanism for what is popularly referred to as "forgiveness" is, in fact, a debt-equity swap post privatisation.

A72 The criteria for "forgiveness" include:

- Loans taken prior to 31 December 1989
- Loans (medium: 1-3 years; long: over 3 years) where repayment is required within four years
- Wholly state owned enterprises or companies with a loan/funds and reserves ratio in excess of 50%.

A73 At 30 September 1991, the loan/funds and reserves ratio was 80% per the Czechoslovak balance sheet.

A74 Škoda Plzeň applied for "forgiveness" of 1,880 million k, and the Company has been advised that it will receive 1,121 million k. We do not know if any conditions attach to this proposed "forgiveness" or whether the advice received by the Company of such "forgiveness" is preliminary or final in nature:

	Application million k	Awarded million k	Variance million k
TOZ: Konsolidační			
"Forgiveness" financed through:			
Komerční	910	151	(759)
Investiční	267	267	-
Subtotal	1,177	418	(759)
Other loans:			
Komerční:			
Prepaid expenses*	116	116	-
Employee flats	136	136	-
Capital expenditure	299	299	-
Other	19	19	-
Subtotal	570	570	-
Investiční:			
Capital expenditure	133	133	-
Total	**1,880**	**1,121**	**(759)**
By bank:			
Komerční	1,480	721	
Investiční	400	400	
	1,880	1,121	

* = Under Czechoslovak finance and accounting regulations, prepaid expenses comprise start-up costs

A75 Instead of "forgiveness" of 38 % of the frozen portion of the TOZ, only 13 % would appear to have been granted.

A76 The 1,121 million k "forgiveness" represents 18 % of the total bank indebtedness at 30 September 1991.

A77 We have not reduced the bank loans outstanding at 30 September 1991 by the amount of this prospective "forgiveness".

Repayment of loans

A78 Of the 6,321 million k, 2,116 million k or 33% is due within the 12 months ending 31 October 1992.

Interest

A79 The average interest rate for the nine months ended 30 September 1991 was 15% - 16% per annum, compared with 7% - 8% per annum for the year ended 31 December 1990.

A80 The increased interest rates reflect a number of factors including:

- Higher rates charged with respect to long term loans which had been negotiated and fixed prior to any inflationary pressures, but with respect to which the banks took the opportunity to renegotiate when the Company changed its legal status from a state enterprise to a wholly State owned joint stock company on 1 January 1991.

- Increases in the bank base rate.

A81 During the month of September 1991, the banks' interest rates on the Company's loans ranged from 13% (for the frozen portion of the TOZ) to 22% (for a "tide-over" loan). In September, the base bank rate for loans less than 12 months was 14%.

A82 The interest charge relating to the bank loans for the nine months ended 30 September 1991 is 753 million k.

Contingent liabilities

A83 A contingent liability is not a known and accepted concept in Czechoslovakia and as a consequence their identification through inquiry can be problematic.

A84 The only contingent liabilities which have come to our attention relate to restitution claims and a lump sum licence.

A85 We discussed restitution claims in paragraph 422 above, but note that in the privatisation project for the Company, the State prescribed 3% has been set aside in order to enable compensation to be made by way of issue of shares. We understand that the Company would like to put an additional 5% aside for "contingent" restitution claims. The privatisation plan has not yet been finalised.

A86 Some years ago a licence was purchased by the Company from GEC Alsthom with respect to 500 MW turbines. A lump sum of 55 million k was payable when Škoda Plzeň commenced manufacture. Škoda Plzeň has not manufactured, and now does not intend to manufacture, this type of turbine. We understand that GEC Alsthom may seek compensation from the Company.

Adjusted consolidated profit and loss accounts for the nine months ended 30 September 1991

A87 The adjusted consolidated profit and loss account is as follows:

	para ref	million k	grouping ref (Appendix E)
Sales	A94	10,625	(u)
Change in work-in-progress and finished goods	A116	125	(v)
Cost of bought-in-items and surplus raw materials sold	A118	(2,167)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	A119	(4,344)	(x)
Other operating costs	A123	(3,589)	(y)
Depreciation	429	(417)	(z)
Interest (net)	A125	(771)	(Ia)

74

	para ref	million k	grouping ref (Appendix E)
Exceptional costs	A126	(3,262)	(Ib)
Other income	A129	1,633	(Ic)
Loss from ordinary activities		(2,167)	
Extraordinary income	A132	330	(Id)
Loss for the nine month period		(1,837)	
Profit tax	A134	(378)	(Ie)
Loss after tax for the nine month period		(2,215)	

* = Profit tax on the Czechoslovak tax base. Profit tax is included for completeness, but it is not directly referable to the adjusted trading results.

Overview

A88 The adjusted loss both before and after tax for the nine months ended 30 September 1991 is 1,837 million k and 2,215 million k, respectively. We do not believe that the relationship of these results to sales are meaningful percentages due to the inability to gross down sales for certain types of intra-company transactions. More specifically, sales include 2,181 million k of identified intra-company transactions. However, we cannot identify the location of the equal, and opposite, transaction, nor can we comment as to its completeness.

A89 The loss is driven by a wide variety of factors including:

- The creation of a minimum unrealised loss provision for the Temelín and Mochovce nuclear reactor block contracts
- The write off of debts of doubtful collectibility
- The write off of surplus fixed assets and inventories identified by the management of the Company
- The write off of certain non-productive fixed assets (that under Czechoslovak accounting regulations were written off directly to funds)
- The high cost of financing accounts receivable and inventories.

A90 The extent of the loss was partially offset by the stock holding gain which arose from consumption of materi..ls purchased at the lower fixed domestic prices during the nine months ended 30 September 1991. The management of the Company have been unable to estimate the extent to which any stock holding gain has been realised at that date (see paragraph 497).

In addition, the extent of the loss was partially offset by the consideration received from Škoda Mladá Boleslav for the exclusive rights to use the Škoda trade name and trade marks (330 million k).

Structure of the Czechoslovak profit and loss account

A91 The structure of the Czechoslovak profit and loss account is complicated when there is significant intra-company activity, a wide range of products and services, and the manufacture for turnkey contracts. In particular, we note that for certain types of transactions, sales less the cost of goods sold are shown in the Czechoslovak profit and loss account. For other activities, a different structure is adopted and the cost of raw materials consumed, together with changes in related work-in-progress and finished goods are disclosed. In addition, the Czechoslovak accounting regulations are such that certain types of intra-company activities are supposed to be fully or partially eliminated on consolidation, whilst others are to be shown as if they were transactions with third parties. Both the structure of the Czechoslovak financial statements and the general ledger is prescribed by the State The structure of the accounts does not require detailed information to be retained with respect to those classes of intra-company transactions which either are not intended to be eliminated or which are only intended to be eliminated to the extent of any transfer margin. As a consequence it is not possible to identify the amount of the intra-company sales revenue and transfer margin recognised and treated as external.

A92 We set out below in paragraph A114 a detailed description of the main categories of intra-company transactions and whether they were designed to be eliminated on consolidation or shown as external.

A93 We understand that the underlying rationale for this accounting treatment is as follows:

- A centrally planned economy is production driven. The two production statistics against which a company's performance used to be measured, and to which bonuses and similar related, were gross production and production of goods. The second statistic was the most important and only completed goods were included. When an intra-company transfer of a manufactured product was treated as an external sale, they could be included in the category " production of goods". We note that "production of goods" is still the first piece of information included in the Company's management reports.

- The State as owner is interested in maximising its return in the short term via the tax system.

Discussion of individual line items

Sales revenue

A94 Sales are recognised when an invoice is raised.

Long term manufacturing contracts

A95 There are long term manufacturing contracts in eight operating divisions, however in the case of Automation and Maintenance, they are not significant:

- Nuclear
- ETD
- Turbines
- Heavy Engineering
- Klatovy
- Erection and Engineering.

A96 IAS No 11 entitled "Accounting for construction contracts" requires that "in accounting for construction contracts ... either the percentage of completion method or the completed contract method may be used". Under the percentage of completion method the amount of revenue recognised is determined by reference to the stage of completion of the contract activity at the end of each accounting period. In contrast, under the completed contract method revenue is recognised on completion.

A97 The structure of the long term manufacturing contracts entered into by Škoda Plzeň is such that revenue is recognised on completion. However, certain design, assembly or related services, together with turnkey commission (refer paragraph A55) are invoiced and recorded as sales (and classified as "other income") during the life cycle of the long term contract.

A98 The life cycle of the long term manufacturing contracts differs substantially between operating divisions depending on Škoda Plzeň's position in the chain of subcontractors.

A99 The general structure of long term manufacturing contracts is that there is a general supplier for each of the following:

- Design
- Construction
- Technical components.

A100 The general supplier will then subcontract to a final supplier (which may also be the general supplier) and the final supplier will subcontract certain subparts and so on.

A101 With the exception of the Nuclear Division, Heavy Engineering and Erection and Engineering, Škoda Plzeň is not the final supplier of technical components.

A102 As a final supplier, the life cycle of that part of the turnkey contract for which the operating division is responsible, is longer and the responsibility for co-ordination of subcontractors and carrying inventories (bought-in-items) is more substantial. In contrast, the general supplier does not carry inventories but (theoretically) facilitates their transfer to the investor's construction site as well as the flow of financing down the supply chain.

A103 A contract analysis for larger, long term contractual commitments is included in the divisional sections of Part II, together with an analysis of sales by customers and any other relevant observations.

Uncertainty with respect to prices

A104 Prior to 1991, as a consequence of a centrally planned economy, specification of the price in a contract (long-term or otherwise) was not a significant term and frequently no price or price formula was included. It was, however, a requirement to have an agreed operating budget, which was intended to operate as a limit on the costs which could be incurred in fulfilling the contract.

A105 The operating budget reflected the fixed, domestic prices which applied prior to 1991. The ease with which the operating budget could be modified to reflect changes in technical specifications, design and sourcing, depended on the size and political sensitivity of the project.

A106 Prior to 1991, the question of whether the operating budget could be modified to reflect increased domestic prices was not an issue.

A107 Similarly, due to the monopolistic position of many specialist suppliers and manufacturers, the risk of cancellation was minimal.

A108 In some larger contracts, such as the nuclear reactor blocks for Temelín and Mochovce, the contract merely states that the price shall be determined with reference to the rules, regulations and principles of the State Price Control Office.

A109 Following price liberalisation, the State Price Control Office ceased to exist and the Czech and Slovak Ministries of Finance fulfil the administrative role with respect to any residual price controls.

A110 As mentioned in Section 2, input costs have increased significantly as a result of both price liberalisation and the devaluation of the krown. Certain costs, such as crude oil and energy related products, have also been effected by the breakdown of the former COMECON bloc. Labour costs have been artificially restrained by the introduction of an incomes policy whereby remuneration above certain limits is penalised by a prohibitive tax.

A111 Price controls continue to exist with respect to a limited number of products and services, and the form of the price control varies from an absolute prohibition for passing on certain categories of costs or cost increases, ceilings on price increases to minimum advance notice requirements.

A112 Škoda Plzeň is particularly effected by residual price controls relating to any turnkey contracts signed prior to 1991 which are still governed by the old commercial code which reflected the principles of the command economy. We discuss the consequences of this in the report on the Nuclear Division, Section 6A, Part II, where such residual controls have a material effect on the profitability, or otherwise, of the contracts relating to Temelín and Mochovce.

Pressure on sales revenue due to customer illiquidity

A113 Customer illiquidity has resulted in certain orders being cancelled during the nine months ended 30 September 1991. In addition, customers have either challenged the validity of certain provisions in contracts or binding orders such as delivery dates or, in one extreme case, the legal competence of the customer itself to enter into such contract. Subsequent to 30 September 1991, signing of the

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acceptance protocol is also being artificially delayed (both former COMECON and domestic customers). We discuss the consequences of this in the report on the Locomotives Division, Section 6D, Part II).

Intra-company transactions

A114 There are three classes of intra-company transactions. The sales value for the nine months ended 30 September 1991 for the transferring operating division or cost centre is shown in brackets:

- **Class I: Transactions where an external sale, inclusive of a margin is recognised on transfer:**

  * Own manufactured fixed assets (refer paragraph 414) (187 million k)

  * Own manufactured bought-in-items (refer paragraph A3) (1,047 million k)

  * Own manufactured goods for export sold via the Foreign Trade Department (refer paragraph (A15) (183 million k)

- **Class II: Transactions where an external sale, inclusive of a margin is recognised but the margin is eliminated on consolidation (via the variance cost centre):**

  * Capitalised materials (refer paragraph A16) (942 million k)

- **Class III: Transactions which are accounted for as intra-company, inclusive of a margin or structured as a fee, which eliminate on consolidation. The margin is either recorded in a separate line item within the eliminating intra-company section of the Czechoslovak profit and loss account or the elimination occurs in the variance cost centre:**

  * Transfer of labour or manufactured (value-added) items:

    - Co-operation (labour only) and "tangible" services (such as energy and transport) (transfer from work-in-progress to work-in-progress (1,461 million k) (margin: 35 million k) (self-eliminating)

    - Transfer of engineering products (transfer from work-in-progress to work-in-progress) (1,308 million k) (margin: 34 million k) (elimination via the variance cost centre)

40

- Transfer of finished goods (transfer from finished goods to finished goods) (440 million k) (margin unknown) (self-eliminating)

  Two types:

  - Transfer of finished goods for inclusion with another finished goods (such as crates)

  - Transfer of finished goods by an operating division or cost centre which does not have its own selling department to the Central Selling Department

* Fees levied for services provided:

* Administrative and material supply fee (charged by the Central Purchasing and Foreign Departments, as well as those operating divisions with warehousing facilities which are utilised by others, dependent on amount of adminstration and processing performed) (148 million k) (self-eliminating)

* Administrative overhead or management fee charged by the Centre (201 million k) (self-eliminating)

* Fees redistributed:

  - Partial redistribution of the above management fee for welfare purposes (104 million k)

A115 With respect to Class I and Class II intra-company transactions, insufficient information exists to enable elimination and as a consequence all the related profit and loss and balance sheet items, with the exception of receivables and payables, are grossed up. In the case of Class I, the amount of the transfer margin cannot be quantified.

Change in work-in-progress and in finished goods

A116 Change in work-in-progress and in finished goods at 30 September 1991 is made up as follows:

	million k
Decrease in work-in-progress	(209)
Increase in finished goods	334
Net increase	125

A117 The above balances correspond to the movement in work-in-progress and finished goods from 31 December 1990 to 30 September 1991.

Cost of bought-in-items and surplus raw materials sold

A118 Cost of bought-in-items and surplus raw materials sold is comprised of the following elements:

	million k
Cost of:	
Externally purchased bought-in-items:	
Relating to turnkey contracts	450
Relating to goods imported by the Foreign Trade Department and sold to:	
Operating divisions/cost centres	569
External customers	95
Total	664
Total externally purchased	1,114
Own manufactured bought-in-items:	
Relating to turnkey contracts	717
Relating to export goods transferred to, and sold by, the Foreign Trade Department	177
Total own-manufactured	894
Canteen supplies sold	6
Surplus raw materials sold	153
Total	2,167

Purchased raw materials, purchased finished and semi-finished goods and manufactured semi-finished goods consumed in production

A119 This item is comprised of the following:

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	million k
Purchased raw materials consumed in production	1,882
Purchased semi-finished and finished goods consumed in production	1,585
Manufactured semi-finished goods consumed in production	877
Total	4,344

A120 With respect to purchased raw materials consumed in production, we refer you to the discussion on raw material inventories and the adoption of LIFO, FIFO or weighted average which commences paragraph 483. Raw materials consumed in production includes 146 million k waste capitalised.

A121 We note that movements in manufactured, as opposed to purchased, semi-finished and finished goods is included in the line item "change in work-in-progress and finished goods".

A122 Manufactured semi-finished goods consist primarily of forgings and castings, which are capitalised materials (refer paragraph A16).

Other operating costs

A123 Other operating costs for the nine months ended 30 September 1991 are made up as follows:

	million k
Fuel	218
Energy	264
Delivery costs (provided from an external source only)	66
Subcontracting and other material costs	123
Repairs and maintenance (provided from an external source only)	129
Postal charges	24
Write off of supplies	155
Wages costs	1,200
Payroll tax (at 50%)	612
Other	798
Total	3,589

84

A124 Other operating costs include:

- The Czechoslovak cost category "intangible costs" of 262 million k consisting primarily of rentals and travelling costs

- Movement in accruals of 344 million k, including:

  * Research and development (48 million k)
  * Warranties (296 million k)

- Write off of inventories arising from scrapping etc of 77 million k.

Interest paid (net)

A125 Interest paid (net) for the nine months ended 30 September 1991 represents:

	million k
Interest paid on bank loans (refer paragraph A79)	776
Interest received on bank accounts	(5)
	771

Exceptional costs

A126 Exceptional costs for the nine months ended 30 September 1991 are made up as follows:

	Para ref	million k
Write off of certain bought-in-items and work-in-progress relating to the cancelled third and fourth nuclear reactor block for Temelín	A17	342
Write off of the mock nuclear fuel rod for 1,000 MW reactor blocks	A18	64
Write off of certain inventories identified by the management of the Company	A19	288

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	Para ref	million k
Write off of the House of Culture	425	249
Write off of recreational facilities	423	97
Write off of the sports stadiums	426	56
Write off of surplus fixed assets identified by the management of the Company	427	83
Write off of accounts receivable of doubtful collectibility	464	708
Minimum unrealised loss on Temelín and Mochovce	6A43	1,375
Total		3,262

A127 International Accounting Standards do not include a pronouncement relating to the definition of exceptional and extraordinary items. Under UK GAAP, the above items would be classified as "exceptional" in nature as they relate to normal operating activities and their size is significant in relation to the adjusted consolidated loss for the Company.

A128 We note that neither US or German GAAP use an "exceptional" item and the definition of "extraordinary" is very narrow.

Other income

A129 Other income of 1,647 million k at 30 September 1991 consists of the following:

	million k
Foreign trade transactions (export and import)	932
Turnkey commission and revenue from provision of technical service (eg. assembly supervision)	394
Sale of surplus inventories	162
Revenue from catering (hotels, employee meals)	104
Other	41
Total	1,633

A130 Of the other income arising from foreign trade transactions, 921 million k (99%) relates to the Foreign Trade Department (refer Section 6X, Part II).

A131 The majority of the other income relating to turnkey commission and provision of technical services relates to the Nuclear Division (137 million k) (35%), Erection and Engineering (54 million k) (14%) and Heavy Engineering (37 million k) (9%).

Extraordinary income

A132 Extraordinary income for the nine months ended 30 September 1991 of 330 million k relates to the consideration received on the sale of the exclusive rights to use the Škoda tradename and trademarks to Škoda Mladá Boleslav on cars. We note that in addition to this lump sum consideration, Škoda Plzeň is entitled to receive 4.74 DM for every car manufactured (included in "other income").

A133 In the fourth quarter of 1991, the Company obtained an exception to the Czechoslovak accounting regulations and was allowed to credit the 330 million k directly to funds and thereby no incur any tax charge thereon.

Profit tax

A134 The profit tax charge for the nine months ended 30 September 1991 was 378 million k. The Czechoslovak profit tax base was 687 million k. The corporate tax rate for Czechoslovak wholly State owned enterprises and companies is 55%. There is no difference between the national tax rate and the rate actually levied.

ŠKODA PLZEŇ

PHASE I: RESTATEMENT

Part II of the Report dated 21 April 1992

Coopers & Lybrand

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21 April 1992

Gentlemen

Re Škoda Concern, Plzeň, Ltd

1. The following is Part II of our report.

2. We report in connection with the proposed privatisation of Škoda Plzeň, Concern, Ltd ("Škoda Plzeň" or "the Company") in accordance with the contract dated 19 November 1991 between Škoda Plzeň, Coopers & Lybrand and International Finance Corporation ("IFC"). IFC are parties to the contract in their capacity as executing agent for the Agency for International Development ("AID") which has provided a grant for certain professional services to be rendered by Coopers & Lybrand.

3. We refer you to the covering letter to Part I of our report and in particular, to the comments on reading divisional reports on a "stand-alone" basis and without reference to Part I of our report.

Yours sincerely

John Hunter, Partner-in-charge for the Coopers & Lybrand Czechoslovak practice

CONTENTS

PART II: ALLOCATION AND DIVISIONAL FINANCIAL STATEMENTS

COST CENTRES:

SECTION 5: APPROACH TO ALLOCATION OF CONSOLIDATED BALANCE SHEET AND ADJUSTMENTS INITIATED BY COOPERS & LYBRAND TO THE ALLOCATIONS MADE BY THE ACCOUNTING AND FINANCE DEPARTMENTS

501 In this section we set out the approach adopted by the Central Accounting and Finance Departments, in consultation with ourselves, to the allocation of the consolidated balance sheet, together with modifications to those allocations initiated by ourselves.

Approach to allocations

502 We draw to your attention that the vast majority of balances were separately identified, as opposed to allocated on a rational and consistent basis (for example, based on sales or employees).

503 Normally a unique numbering system exists which enables separate identification.

504 We discuss below any allocations which were made on a consistent and rational basis, rather than separately identified, together with any allocations which were contentious.

Non contentious allocations

Land

505 Land was allocated to "other cost centres" which includes "Administration".

Investments

506 Investments were allocated on the basis of:

- The specialisation of the foreign trade organisation
- The original purpose of the joint venture
- The primary user of the bank.

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Current bank account and cash in transit

507 The current bank account and cash in transit were separately identified with respect to the balances relating to those operating divisions and cost centres which maintain their own current account (Hotels, House of Culture. Ejpovice and the Foreign Trade Department). The balance of the current account (133 million k) was allocated to "other cost centres" (Administration). Similarly, the balance of the cash in transit which, after adjusting for a misposting was a credit balance of 21 million k, was allocated to "other cost centres" (Administration).

Special bank account

508 The special bank account was allocated to "other cost centres" (Administration) since the majority of the Welfare Fund is held centrally (refer paragraph A54, Section 4, Part I).

Other accounts receivable (domestic)

509 Expense advances and rent receivable from employees were allocated on the basis of employee numbers.

Inventories

510 Inventories were separately identifiable, however certain reallocations were performed, which we discuss below.

511 Raw material inventories are held in operating divisions and cost centres that have warehousing facilities:

- Central Purchasing Department
- Foreign Trade Department
- Tools
- Castings
- Automation
- Maintenance
- Energy
- Welfare
- Other cost centres (four Central departments within Administration)

512 Only the raw material inventories of the Central Purchasing Department, and certain of the raw material inventories of the Foreign Trade Department, have been reallocated.

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513 We describe this reallocation in detail below.

Central Purchasing Department

514 Approximately 80 % of the raw materials at 30 September 1991 had been ordered by operating divisions and 20 % were raw materials of general use. The raw materials for which purchase signed requisition orders existed were specifically identified. The raw materials of general use, were allocated on the basis of the historical consumption evident in the third quarter of 1991.

Foreign Trade Department

515 Prior to the allocation exercise, the inventories of the Foreign Trade Department at 30 September 1991 were made up of three elements:

- Raw materials imported for operating divisions (75 million k). There were no raw materials imported for third parties
- Finished goods imported for resale either to operating divisions or to third parties
- Finished goods manufactured by operating divisions for export.

516 The second and third categories amounted to 18 million k at 30 September 1991.

517 Only the first category, raw materials imported for operating divisions was allocated. The basis of allocation was the signed requisition order.

Margin relating to "transfer of engineering products" and "capitalised materials"

518 In addition to the reallocation of raw material inventories relating to the Central Purchasing and Foreign Trade Departments, a second allocation adjustment to inventories was made. The margin relating to both:

- transfer of engineering products
- capitalised materials

was allocated to the work-in-progress at 30 September 1991 of the operating divisions to which they related.

Bank loans

519 The TOZ is the largest element of bank loans. Prior to 1 January 1991, the prescribed financing structure for "permanently turning inventories" was the TOZ (refer paragraph A67, Section 4, Part I) and the turnover fund. From 1 January 1991, the turnover fund was abolished as part of a general restructuring of funds. The loans relating to the TOZ have been allocated on the basis of the sum of the TOZ and the turnover fund as at 31 December 1990. Both the TOZ and the turnover fund were separately identifiable by division at this date.

Contentious allocations

Accounts payable (domestic)

520 As mentioned above, several operating divisions and cost centres have warehousing facilities. As with raw material inventories, the accounts payable relating to raw material purchases of the Central Purchasing Department and certain of the accounts payable relating to raw material purchases of the Foreign Trade Department, have been reallocated.

521 An inconsistency exists however, with respect to the allocation of the raw material inventories and accounts payable for raw material inventories of the other operating divisions and cost centres with warehousing facilities. That is, for inventories no reallocation has been made whilst for accounts payable a reallocation has been made. We set out below a detailed description of the basis of allocation and the impact of this inconsistency.

522 The Central Accounting Department presented us with three possible allocations of accounts payable.

523 The first basis allocated accounts payable, plus penalties payable, less debit notes receivable, to the operating division or cost centre which carried in their warehouse the particular type of raw material. This allocation was performed with reference to the purchase order on the supplier invoice. In contrast, accounts payable relating to services were allocated to the operating division or cost centre which benefited, or was due to benefit, from that service.

524 The second basis allocated accounts payable, plus penalties payable, less debit notes receivable to the operating division or cost centre which had used, or were due to use, the related raw materials. This allocation was performed with reference to the requisition order signed by the operating division etc. As with the first basis, accounts

payable relating to services were allocated to the operating division or cost centre which had benefited, or was due to benefit, from that service.

525 The third basis allocated accounts payable within the statutory collection period of two weeks and three days, but no penalties payable or debit notes receivable, to the warehousing operating division or cost centre. The accounts payable outside the statutory collection period, together with the penalties payable and the debit notes receivable, were allocated to the operating divisions or cost centres which had requisitioned them. Accounts payable for services were allocated as per the first and second bases.

526 The adjusted balance sheet reflects the second option which was preferred by both ourselves and the Chief Accountant. In contrast, the Central Finance Department had a definite preference for the third option.

527 In the case of both the supplier invoice and the requisition order, documents over 50,000 k were examined. The remaining balance was allocated pro-rata in accordance with the allocation resulting from the review of documents for larger amounts.

528 We do not believe that the inconsistency referred to above is unduly significant. We note that of the 467 million k of accounts payable relating to raw materials reallocated from the operating divisions and cost centres with warehousing facilities, only 75 million k did not relate to the Central Purchasing and Foreign Trade Departments:

	million k
Central Purchasing Department	321
Foreign Trade Department	71
Tools	6
Other cost centres	69
Total accounts payable reallocated	467

Modifications to allocations initiated by Coopers & Lybrand

529 We set out below the balance sheet allocations which were initiated by Coopers & Lybrand.

Interest capitalised (fixed assets in the course of construction)

530 The balance sheet for "other cost centres" (Administration) included 66 million k being an unanalysed amount of interest capitalised prior to 1 January 1991 relating to fixed assets in the course of construction. We obtained an analysis of the projects to which this related and allocated it to divisions accordingly.

Prepaid expenses

531 The balance sheet for "other cost centres" (Administration) included 42 million k being debit balance relating to the risk fund which was abolished on 1 January 1991, when the funds were restructured. We reversed this amount back to the operating divisions to which it had initially related and then wrote this item ("prepaid expenses" in the Czechoslovak balance sheet) off, together with the existing balances in certain operating divisions and cost centres.

Interest accrual

532 The interest accrual for the whole Company at 30 September 1991 resides in the variance cost centre. It was comprised of two components:

- Accrual for interest on the loans with Investiční banka for the third quarter of 1991 (23 million k). We allocated this to the operating divisions and cost centres on the basis of the interest paid for the second quarter of 1991

- Accrual for interest on other loans (75 million k) which we allocated on the basis of average interest charges for the year.

533 We set out below the allocation adjustments initiated by Coopers & Lybrand to the divisional profit and loss accounts.

Interest payable

534 Interest is charged by the Central Finance Department to the operating divisions and cost centres in accordance with a formula. This formula uses a single interest rate and does not therefore recognise that some divisions have inventories financed by low interest bearing TOZ, whilst others are financed by shorter term, higher interest bearing loans.

535 In addition, the Centre charges a penalty interest for inventory or accounts receivable balances in excess of plan.

536 As a consequence of the above, the allocation of interest charges (net) to the operating divisions and cost centres exceeds the actual charge incurred and there is a 289 million k credit balance in the variance cost centre. We have reallocated the interest charge for the nine months ended 30 September 1991 on the basis of average interest on the average loan balance.

Intra-company margin

537 The intra-company margin on both:

- transfer of engineering products
- capitalised materials,

which resides in the variance cost centre, was reallocated to the division to which it related.

SECTION 6A: NUCLEAR

6A01 We set out below an overview of the activities of Závod Jaderné Strojírenství (or "the Nuclear Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6A02 The Nuclear Division manufactures and installs pressurised water reactors and primary circuits for nuclear power plants (designed by the former USSR).

6A03 This design is perceived by the nuclear industry as a whole to be antiquated and potentially unstable, primarily as a result of the incident at Chernobyl.

Description of production facilities

6A04 The Nuclear Division is located at two sites. The Bolevic site is 10 km from the main Plzeň complex and includes administrative offices, product and system design and manufacturing facilities for the control system. The "Nuclear Hall", which is located inside the Plzeň complex is used for the production of reactor pressure vessels.

Organisation structure and employees

6A05 The organisation structure of the Nuclear Division is based on the standard Plzeň reporting format (see Section 3, Part I).

6A06 We note that on 1 January 1991, the Nuclear Division split away from the Turbines Division. Many of the existing management team held senior positions in the previously combined division.

6A07 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,931, of which 829 were factory workers (direct and indirect).

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Sales and customers

6A08 The Nuclear Division have, in total, manufactured and installed three plants with a combined total of 12 reactors. Two of these plants are located in Czechoslovakia, and the third is in Hungary. There are currently two plants under construction, for which the Nuclear Division is manufacturing four nuclear reactor blocks: Temelín, in the Czechlands and Mochovce, in Slovakia.

6A09 Approximately three years ago, reflecting the multi-lateral former COMECON bloc programme on nuclear energy, the Nuclear Division had planned to produce for a further 20 plants. In the division's recent past, three export contracts have been cancelled in Poland, Bulgaria and the former East Germany. The first two were cancelled due to financing problems and the third due to considerations of the planned plant's safety.

6A10 We draw to your attention that Škoda Plzeň has been severely hit by the break-down of the multi-lateral nuclear capital expenditure plans as the Company was the monopolistic supplier for the former COMECON bloc of certain components relating to nuclear power stations.

6A11 We note that Škoda Praha is the monopolistic domestic customer for nuclear reactor blocks; that is, they are the general supplier of technological components for all domestically produced nuclear power plants.

Contracts

6A12 Both the contracts for Temelín and Mochovce were signed, and continue to be governed by, the law applicable 1 May 1991 (" the old law").

6A13 We set out below a description of these contracts and thereafter the summarised results of conventional contract analysis, together with the resultant unrealised losses on those contracts.

Temelín

First and second nuclear reactor blocks

6A14 The contract for the first and second nuclear reactor blocks was part of a turnkey contract signed in June 1987 between the following parties:

, 911

Energoprojekt Praha	Design and project manager
Nuclear Division	Final supplier of technical components
Škoda Praha	Customer, being general supplier of technical components
Vodní stavby-výstavba JETE Týn nad Vltavou	Supplier of construction components
CEZ Praha k.p: JETE v Českých Budějovicích	Ultimate investor and customer

6A15 The subject matter of the contract includes:

- Design on the basis of the Soviet model
- Provision of machines and equipment, including assembly and trial runs
- Technical documentation
- First set of spare parts sufficient for two years' operations
- Documentation on quality and nuclear safety
- Software for control systems.

6A16 The work commenced on the first and second reactor blocks, with the purchase of related raw materials, in 1985.

6A17 The first and second reactor blocks were due to start their trial run in November 1992 and May 1994, respectively.

6A18 The trial period was contracted to commence on the signing of the acceptance protocol, and a 12 month warranty period (6 months for spares and moth-balled fixed assets) would run from the date of expiration of the trial period. Subsequently, the warranty period was extended to 18 months.

6A19 Škoda Plzeň was advised by Škoda Praha, the general supplier of technological components, and formerly a division of Škoda Plzeň, to cease production pending selection of a new supplier for a non-Soviet designed system. This decision to change the electronic system has resulted in significant slippage and it is now anticipated that the first and second nuclear reactor blocks will be completed in December 1994 and June 1996, respectively. This represents two years slippage relative to the dates specified in the contract.

6A20 As at the date of this report, no decision on the supplier of the electronic control system has been made. However, we note that ABB and Westinghouse have been shortlisted. In addition, we note that a new supplier of nuclear fuel needs to be found and no decision on this issue has yet been taken.

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6A21 The slippage costs comprise:

- Additional costs in administration of the contract, including maintenance and warehousing

- Additional interest charges arising from carrying inventories for a longer period of time

- Cost relating to purchased bought-in-items where the supplier's warranty has expired.

6A22 The contract is structured such that, with the exception of turnkey commission and certain design and technical services, a sales invoice is raised when the contract is completed. Sales revenue ("other revenue") recognised for the nine months ended 30 September 1991 was 40 million k turnkey commission and 8 million k relating to design and technical services.

6A23 The latest, revised operating budget for the first and second reactor blocks (in 1989 prices) is 5.3 billion k.

6A24 This operating budget is divided into subparts and a record of work done is compared to the budget for a particular sub-part, and then a progress payment, being 95% to 98% of the protocol, is payable to Nuclear Division. Subsequent to signing the contract, the parties agreed that two advances of 600 million k each would be paid to the Nuclear Division and that the division would pay interest of 4.5% per annum. These advances, totalling 1,200 million k, were then reduced by the progress payments that the Nuclear Division would have been entitled to under the law prior to 1 May 1990.

6A25 Payments received on account, net of payments passed to subcontractors, was 1,459 million k at 30 September 1991.

6A26 We note that there is no sales price in the contract. Rather, the contract merely states that the price will be determined with reference to the rules, regulations and principles prescribed by the State Price Control Office. The contract does, however, refer to the existence of the operating budget. We note that the State Price Control Office no longer exists and that any residual price controls are now administered by the National Ministries of Finance.

6A27 Under the old law, it is not possible for a supplier to pass on increased input costs without the customer's consent. The input costs are higher than budget due to price liberalisation and the effect of the devaluation of the krown on the cost of imports. No such consent has been given. In addition, there are some residual price controls operating with respect to this, and the Mochovce contract. Under these price controls neither interest costs nor changed margin expectations, may be included in the price sought from the customer.

Third and fourth nuclear reactor blocks

6A28 A contract was never signed for the third and fourth nuclear reactor blocks, which it had also been planned to commission.

6A29 Notwithstanding the above, because of the long lead times which apply in Czechoslovakia, the Nuclear Division commenced the purchase of the related raw materials in 1986. In February 1990, the State decided that these reactor blocks were not required and work ceased. Minimal committed expenses were incurred subsequent to this date. In the nine months ended 30 September 1991, the division wrote off work-in-progress and bought-in-items relating to the third and fourth blocks amounting to 342 million k. The management believe that any residual raw materials, work-in-progress and similar can be used in fulfilling either the Temelín or Mochovce contract.

Mochovce

6A30 There are two contracts relating to the Mochovce plant: one for the first and second nuclear reactor blocks, and one for the third and fourth.

6A31 The contract for the first and second nuclear reactor blocks, and the third and fourth nuclear reactor blocks, were signed in April 1987 and November 1988, respectively. The parties were the same as for the Temelín contract except for:

Hydrostav Bratislava	Supplier of construction components
JEMO	Ultimate customer and investor.

6A32 The subject matter of the contracts included the same items as for Temelín (refer paragraph A15).

6A33 The first, second, third and fourth nuclear reactor blocks were due to start their trial runs in October 1989, October 1990, July 1991 and July 1992, respectively.

6A34 Work commenced on the first and second, and third and fourth reactor blocks in 1983 and 1985, respectively.

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6A35 As with Temelín, an invoice was due to be raised on the acceptance of the blocks and no sales prices were included in the contracts. Sales revenue ("other income") recognised for the nine months ended 1991 was 2 million k relating to design and technical services.

6A36 Slippage has occurred on these contracts for the same reason as Temelín. However, in contrast to Temelín, a decision has been made with respect to the supplier of the new electronic control system: Siemens. Unlike Temelín, the former USSR will continue to be the supplier of the nuclear fuel.

6A37 Again, unlike Temelín, the first and second nuclear reactor blocks are almost complete. However, the work on the third and fourth blocks is not so far progressed and as a consequence the exposure in terms of increased input costs is more substantial.

6A38 The Nuclear Division anticipate that completion will now be as follows:

First	December 1993
Second	July 1994
Third	May 1995
Fourth	December 1995.

6A39 Compared to the original contract there is projected to be a four year slippage.

6A40 Payments received on account, net of payments passed to subcontractors, was 2,894 million k at 30 September 1991.

6A41 The revised operating budgets for the first and second, and third and fourth nuclear reactor blocks are 2.6 billion k and 2.4 billion k, respectively. Unlike Temelín, for which the revised operating budget is in 1989 prices, the revised operating budget for Mochovce includes re-negotiation of the cost of certain components post price liberalisation on a cost-plus basis.

Summary of contract analysis for Temelín and Mochovce

6A42 The management of the Nuclear Division have performed a conventional estimate of the unrealised loss on both Temelín and Mochovce, using the formula:

Sales price less accumulated costs to date and costs to complete

	Temelín million k	Mochovce million k	Total million k
1. Selling price			
A. Operating budget (price level 1989)	5,258	4,992	10,250
B. Updated budget (prices of certain components/units re-negotiated) Mochovce only	N/A	5,047	N/A
C. Estimated selling price: cost plus (based on cost calculation) reflecting price control rules (interest, slippage, defects costs may not be passed to the customer) provided the customer does not dispute any price increases	7,209	5,375	12,584
D. Same as C, assuming 80% success rate in price negotiations with the customer (percentage based on 1991 experience and assessment of the financial position of the investor)	6,802	5,188	11,990
2. Accumulated costs to 31 December 1991	(2,534)	(3,282)	(5,816)
3. Costs to complete	(5,253)	(2,296)	(7,549)
4. Unrealised loss:			
using - A	(2,529)	(586)	(3,115)
- B	N/A	(531)	N/A
- C	(578)	(203)	(781)
- D	(985)	(390)	(1,375)

6A43 We have provided for the minimum unrealised loss calculated by the management of the Nuclear Division of 1,375 million k.

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6A44 We note that the management of the division assumed that the installation of the electronic control systems in Temelín will commence by April 1992 at the latest and that the contracts will not be cancelled by either party.

6A45 We note that accumulated costs do not include unused raw materials in either the Nuclear Division or any other operating division to which work is subcontracted. In addition, it does not include work-in-progress in any other division.

6A46 Accumulated costs include own-manufactured bought-in-items. The own-manufactured bought-in-items attributable to Temelín include a negative amount of 2.9 million k which has been described to us as a transfer to another contract, not being Mochovce.

Ability of investors to pay

Temelín

6A47 The management of the Nuclear Division believe that the risk of JETE being unable to pay its contractors is not unduly great, for the following reasons:

- The Czech Energy Works (CEZ), a union of power generating companies in the Czechlands, of which JETE is a member, was the most profitable company in Czechoslovakia in 1991

- There is the possibility that CEZ could secure World Bank financing to assist in environmental programmes relating to the operation of low quality, brown coal burning conventional power plants. We understand that the World Bank may finance such projects up to 250 million US dollars provided that Czechoslovakia makes a contribution equivalent to 50% of that provided by the Bank. Such arrangement would minimise CEZ's commitments.

- If Temelín is declared a "safe" nuclear power plant, the World Bank monies may be used to finance the construction of Temelín.

- CEZ have no large projects under construction, except for Temelín.

6A48 CEZ's ability to finance Temelín will, however, be effected by the cost of the electronic control system which will now be imported from a hard currency country and such cost may be influenced by any further devaluation of the krown.

Mochovce

6A49 The management of the Nuclear Division believe that the risk of JEMO being unable to pay its contractors is somewhat larger due to its relatively weak financial position, however they stated that the Slovak government is more active in its support of Mochovce than the Czech Government is of Temelín, due to:

- The desire for Slovakian independence: the energy producing capacity in Slovakia is smaller than that in the Czechlands, and Slovakia currently depends on imports from both the Czechlands (for transmission of electricity) and the former USSR (for supply of crude oil)
- There are more severe unemployment problems in Slovakia than in the Czechlands, and several businesses, including the Slovak aluminium smelter, are dependent on State guaranteed low electricity prices.

6A50 JEMO is anticipating a significant budget over-run on Mochovce: 19 billion k. The management of the Nuclear Division noted that the Slovak Government has guaranteed a loan of 2.6 billion k from a Czechoslovak consortium of banks. In addition, foreign loans have recently been negotiated with a consortium of German Energy Companies, apparently with Italian bank backing. 240 million DM are committed of which 50 million DM has been received and the balance is due to be paid by the end of February 1992.

Suppliers

6A51 The Nuclear Division buys raw materials and bought-in-items via the Central Purchasing Department. Metallurgical materials are purchased from the Castings and Forgings Divisions, together with a number of external suppliers, principally Vítkovice Železárny Ostrava. Sheet metal is purchased externally from Košice, Bohumín and SONP Kladno. However, the principal supplier of sheet metal is also Vítkovice. The most significant material purchases are of tubes which are sourced from Chomutov.

6A52 We note that the most important subcontractors are Sigma Lutín (pumps), Modranské stojárne (an engineering company) and Elektrosystémy Bratislava (electrical components, Mochovce only). None of the subcontractors have significant financial problems except Modranské stojárne. We have been informed that 40% of this company's capacity is filled by orders from Škoda Plzeň. We further understand that this company is due to receive some "forgiveness" of loans from the 50 billion k fund referred to in Section 4, Part I. Even if the company does not remain solvent, it may be possible for Škoda Plzeň to employ their welding employees to ensure completion of these contracts.

THE ADJUSTED BALANCE SHEET OF THE NUCLEAR DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	712,853	(a)
Intangible assets	881	(b)
Investments	8,612	(c)
Total long term assets	722,346	
CURRENT ASSETS		
Accounts receivable (domestic)	343,348	(e)
Other accounts receivable (domestic)	1,075	(g)
Other accounts receivable (foreign)	205	(h)
Inventories	5,031,692	(i)
Total current assets	5,376,320	
TOTAL ASSETS	6,098,666	
CURRENT LIABILITIES		
Accounts payable (domestic)	(198,247)	(j)
Accrued expenses, provisions and deferred income)	(70,047)	(l)
Short term portion of bank loans	(361,540)	(m)
Other accounts payable	(1,731)	(n)
Total current liabilities	(631,565)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(4,467,114)	(o)
PROVISION FOR UNREALISED LOSSES	(1,375,000)	(p)
LONG TERM PORTION OF BANK LOANS	(547,063)	(t)
TOTAL LIABILITIES	(7,020,742)	
NET LIABILITIES	922,076	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF THE NUCLEAR DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	447,696	(u)
Intra-company sales [2]	30,840	(ua)
Change in work-in-progress and finished goods	39,429	(v)
Cost of bought-in-items and surplus raw materials sold	(129,943)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(199,080)	(x)
Other operating costs	(236,325)	(y)
Intra-company purchases [3]	(95,975)	(ya)
Depreciation	(52,825)	(z)
Interest (net)	(108,645)	(Ia)
Exceptional costs	(1,839,794)	(Ib)
Other income	105,337	(Ic)
LOSS FOR THE NINE MONTH PERIOD	2,039,285	

[1] "Sales" include non-eliminating intra-company transactions of 227,709,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6B: TURBINES

6B01 We set out below an overview of the activities of Závod Turbíny (or the "Turbines Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6B02 The principal activities of the Turbines Division are the manufacture and assembly of steam turbines. The Company has been manufacturing steam turbines since 1904.

6B03 The Turbines Division is one of four turbine manufacturers in the former COMECON bloc: the other three are in Poland (up to 200 MW), Hungary (up to 50 MW) and the former East Germany (up to 60 MW). All three have established joint ventures with ABB.

6B04 The Turbines Division produce four main types of steam turbines with an output range of between 110 and 1,000 MW, principally condensing and back-pressure thermal turbines for district heating and industrial use, including both fossil fuel and nuclear power plants.

6B05 The division concentrates its manufacturing activity on the following types:

- Condensing steam turbines (500 MW)
- Condensing bleeding turbines for district heating (130 MW)
- Condensing steam turbines with reheating (250 MW)
- Condensing steam turbines for saturated steam intended for nuclear power stations (1,000 MW).

6B06 In addition, the Turbines Division provides design services, service and spares, technical assistance, service and operational diagnostics, as well as performing reconstructions and modernisations.

Description of production facilities

6B07 The division is primarily located in the Plzeň complex, however the blade shop is situated in Koterov, a suburb of Plzeň.

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6B08 The main facility in the Plzeň complex comprises a turbine manufacturing hall and a welding shop. In addition, the Turbines Division has an administrative building and leases floor space in the "Nuclear hall" for assembly, as well as space in some smaller warehouses in Plzeň.

Organisational structure and employees

6B09 The organisational structure of the Turbines Division is based on the standard Plzeň reporting format (see Section 3, Part I).

6B10 The average number of full time equivalent employees for the nine months ended 30 September 1991 were 1,567, of which 789 (50%) were classified as factory workers (direct and indirect).

6B11 We note that many of the top and middle management of the Turbines Division have been in the Company for a considerable period of time, however the time which they have held their current positions is relatively short due to restricting of the energy related divisions in the beginning of 1991:

Name	Position	Years in the Company	Years in the Division	Years in position
Ing. Pokorný	Managing Director	26	19	1.3
Ing. Vosejpka	Technical Director	28	18	1.6
Ing. Rišský	Production Director	23	19	1.3
Ing. Tesařová	Economic Director	15	3	3.0
Ing. Bureš	Sales and Marketing Director	31	21	1.0
Ing. Dlouhý	Personnel Director	15	15	1.9

6B12 The Managing Director is fully occupied with the current negotiations with Siemens, and it is intended that he should be the Managing Director of Škoda Energo. He has been temporarily replaced by Ing. Tetak, the Head of Quality Control.

Dependency on other operating divisions

Inputs

6B13 The Turbines Division is significantly dependent on services performed by other divisions and cost centres: inter-company transfers to the division for the nine months ended 30 September 1991 were 257 million k compared with the value of materials consumed in production purchased from third parties, 87.5 million k.

6B14 In particular, the principal resources provided by other divisions are:

Type of resource	Division	Value
Castings	Hutě	76.8
Electro-hydraulic control systems	ETD	14.9
Forgings	Kovárny	84.5

6B15 We draw to your attention the discussion in Section 4, Part I to the different classes of intra-company transactions. The information above relates to Castings and Forgings consumed in production and to "transfer of engineering products".

Outputs

6B16 Earnings from sales to other divisions were 69 million k at 30 September 1991. The only significant amounts are to ETD (17.6 million k) and to Heavy Engineering (35.7 million k). These sales are relate primarily to the category "transfer of engineering products".

6B17 The principal products sold to these divisions are oil cooling systems (of differing sizes) and tubing systems.

Structure of sales

6B18 We have been informed that the average production cycle for a steam turbine is approximately two years from the receipt of the order to the production of the turbine.

Customers and contracts

6B19 The Turbines Division sells the majority of its thermal turbines to Škoda Praha, which provides engineering, general contracting, project management and erection services to both fossil fuel and nuclear power stations on a turnkey basis. These thermal turbines are sold together with generators manufactured by ETD.

6B20 We set out below the sales for the nine months ended 30 September 1991, which are classified as being either through Škoda Praha or through a foreign trade organisation, and indicate either the relevant power plant in Czechoslovakia or, in the case of export, the country of the ultimate purchaser together with the relevant power plant abroad:

Sales via Škoda Praha:

	Turbines million k
Domestic:	
Temelín	142
Mochovce	13
Tisová	33
Počerady	8
Průvěrov	12
Vojong	44
Nováky	20
Export:	
Eygpy (Talka)	20
Denmark (Amager)	53
Other sales	50
Total sales to Škoda Praha	395

6B21 Sales other than to Škoda Praha for the nine months ended 30 September 1991 are made up as follows:

	million k
Sales via Škodaexport	35
Sales via Technoexport	15
Total	50

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6B22 These other sales are predominantly exports of spare parts. In contrast, other domestic sales include approximately 10 million k of spare part sales.

6B23 Export sales have traditionally been to the former COMECON and other socialist countries (principally China, Rumania, Cuba, Poland, the former East Germany, and the former USSR) as well as smaller, developing countries such as Thailand and Nepal.

Pricing

6B24 The price for a turbine is well below world market levels. Management have informed us that in some cases the division's prices are 60% to 80% cheaper than their competitors.

Long term manufacturing contracts

6B25 The management of the Turbines Division have performed the following conventional contract analysis for all long term manufacturing contracts with a contract value in excess of 20 million k:

	Export million k	Mochovce million k	Temelín million k	Other million k	Total million k
Price	495	220*	1,192	409	2,316
Accumulated costs	(133)	(72)	(325)	(189)	(719)
Costs to complete	(194)	(294)	(491)	(175)	(1,154)
Unrealised profit/ (loss)	168	(146)	376	45	443
Invoiced	183	32	233	157	605
Advances/progress payments	-	-	84	100	184

* = The price included in the above contract analysis is the original contract price. The Turbines Division is in a different position with respect to Mochovce and Temelín than the Nuclear Division. The Turbines Division is a subcontractor of Škoda Praha who is both the final supplier of mechanical components and the general supplier of technical components. As such the Turbines Division invoices as each

piece of subcontracted work is completed. The price of the original contract is currently being re-negotiated. The division has successfully invoiced Škoda Praha for increased input costs and therefore the management believe that it is unlikely that the negotiations will not be successful. If the negotiations are successful and the new contract price is 440 million k, then the management of the division believe that there will be an unrealised gain of 74 million k. As a consequence, we have not created a provision for an unrealised loss. Finally, we note that there may be changes in specifications when a new electronic control system is introduced for the Temelín and Mochovce nuclear power plants.

Suppliers

6B26 We set out below the division's principal external suppliers, all of which are domestic:

Type of product	Name
Armatures, pumps and tubing	Sigma
Tubing	VTZ Chomutov
Electric motors	MEZ
Springs	PROSTĚJOV
Apparatuses	ZPA Metra
Materials for blades	ZBC Hrádek
Manometers	Chirana St. Turá
Plastics	Řempo
Sheet metal	Vítkovické Želeárny
	Válcovna Plechu

THE ADJUSTED BALANCE SHEET OF THE TURBINES DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	421,523	(a)
Intangible assets	1,973	(b)
Investments	7,500	(c)
Total long term assets	430,996	
CURRENT ASSETS		
Accounts receivable (domestic)	211,421	(e)
Other accounts receivable (domestic)	808	(g)
Other accounts receivable (foreign)	122	(h)
Inventories	421,839	(i)
Total current assets	634,190	
TOTAL ASSETS	1,065,186	
CURRENT LIABILITIES		
Accounts payable (domestic)	(77,686)	(j)
Accrued expenses, provisions and deferred income)	(26,684)	(l)
Short term portion of bank loans	(154,822)	(m)
Other accounts payable	(1,107)	(n)
Total current liabilities	(260,299)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(144,360)	(o)
LONG TERM PORTION OF BANK LOANS	(312,650)	(t)
TOTAL LIABILITIES	(717,309)	
NET ASSETS	347,877	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF THE TURBINES DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	490,692	(u)
Intra-company sales [2]	53,477	(ua)
Change in work-in-progress and finished goods	77,584	(v)
Cost of bought-in-items and surplus raw materials sold	(57,054)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(194,363)	(x)
Other operating costs	(119,872)	(y)
Intra-company purchases [3]	(167,575)	(ya)
Depreciation	(38,043)	(z)
Interest (net)	(59,105)	(Ia)
Exceptional costs	(45,000)	(Ib)
Other income	50,898	(Ic)
LOSS FOR THE NINE MONTH PERIOD	8,361	

[1] "Sales" include non-eliminating intra-company transactions of 12,811,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6C: ETD

6C01 We set out below an overview of the activities of Elektrotechnický Závod Doudlevce ("ETD"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6C02 The principal activities of ETD are the manufacture and assembly of electric motors (31% of production), large generators (21%), transformers (18%), and switchgears (11%). ETD also produces compensators and traction motors.

6C03 ETD is comprised of a central management and six operating subdivisions, among which the manufacture of ETD's products is divided:

Subdivision	Products	Sector served
Large generators	Turbo-generators Hydro-generators Direct current machines Rolling-mill drives Synchronous compensators Rotary exciters	Energy
Motor plant	Asynchronous motors Commutator motors Direct current main and auxiliary traction motors Starting motors for hydro-alternators	Transport
Switchgears	Power circuit breakers Service stations for circuit breakers Instruments for electrical traction	Energy and transport
Transformers	Block, main, instrument, and distribution transformers Locomotive transformers and chokes Reactors for limiting short-circuit currents	Energy
Blovice	70% low voltage equipment for locomotives and trolleybuses 30% small components for transformers and high voltage equipment	Transport

Sedlec	Disconnecters Earth return brushes Low-oil volume circuit breakers
Management	General management and administration

6C04 The average production cycle is 24-30 months for generators, 14-24 months for motors, 14-19 months for switchgears and 12-15 months for transformers. In the past, a significant proportion of the production cycle reflected the long lead times for raw materials.

Description of production facilities

6C05 ETD is primarily located in Doudlevce, 3 km from the main Škoda Plzeň complex, occupying about 170,000 square meters in 10 buildings. Two subdivisions are located in outlying areas, in Blovice and Sedlec which are respectively 25 km and 10 km from the Doudlevce location. Two non-related divisions are also located on ETD's Doudlevce facility, namely the Automation Division and the Central Purchasing Department for electrical engineering-related materials.

Organisational structure and employees

6C06 The organisation structure of ETD at 30 September 1991 is based on the standard Plzeň reporting format (see Section 3, Part I).

6C07 Prior to 1 January 1991, the Automation Division was part of ETD. The two divisions continue to be very interdependent (see below).

6C08 In line with the Company's policy of decentralisation, as from 30 September 1991, each manufacturing subdivision's own commercial, production, and technical departments are responsible for that subdivision's activities. Each subdivision is also responsible for determining its own production process, technical specifications, and prices.

6C09 The accounting, contract negotiation, and interdivisional purchasing functions remain under the divisional centre. The divisional centre also provides maintenance and welding services to the operating units.

6C10 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 3,909, of which 2,561 (66%) were classified as factory workers (direct and indirect).

6C11 We note that many of the top and middle management of ETD have been in the Company for a considerable period of time however, the time which they have held their current position is relatively short:

Name	Position	Years in the Company	Years in the Division	Years in Position
Ing. Moravec	Director	23	2	1.5
Ing. Vltavský	Commercial Director	24	24	2
Ing. Aulík	Production Director	26	26	2
Mr. Šlajs	Economic Director	31	31	1.5
Ing. Šašek	Technical Director	28	28	0.5
Ing. Skalská	Personnel Director	26	26	2
Ing. Mueller	Director, Generator Plant	31	31	1
Ing. Svoboda	Director, Motor Plant	24	24	1
Ing. Suchý	Director, Switchgears Plant	27	27	1
Ing. Ferus	Director, Transformer Plant	27	27	1
Ing. Zálešák	Director, Blovice Plant	12	12	1
Ing. Kesl	Director, Sedlec Plant	16	16	3

6C12 The decentralisation is also complicating ETD's marketing efforts. As authority is passed down to subdivisions, the two-person marketing department must convince subdivision managers of the importance of meeting customer needs and pricing competitively. While the subdivisions are responsible for determining prices, negotiation of the contracts based on these prices continues to be handled by the divisional centre.

Dependency on other operating divisions

Inputs

6C13 ETD purchases principally from the Turbines and Automation Divisions, 33 million k and 37 million k, respectively for the nine months ended 30 September 1991. We draw your attention to the discussion in Section 3, Part I on the different classes of intra-company transactions. The information above relates to "transfer of engineering products".

Outputs

6C14 ETD relies heavily on sales to other operating divisions, especially the Locomotives Division:

Division	Product/subdivision	million k
Locomotives	Motors (63 - motor plant)	489.2
Ejpovice (component parts for locomotives)	Switchgears (65 - switchgears)	52.4
Ostrov (trolley buses)	Motors (63 - motor plant)	48.2
Machine Tools	Motors (61 - generators)	16.1

6C15 ETD also provides assistance to other operating divisions such as welding and stamping services to Automation, which is located on ETD's premises.

Customers and markets

6C16 ETD's main domestic customers are CKD Blansko (monopolistic customer for hydro-generators), Locomotives Division, Turbines Division, and First Brno Engineering (steam generators).

6C17 The major domestic invoices raised in the first nine months of 1991 are as follows:

		million k
Transformers:		
ELV Bratislava		34.2
CHZ Nováky		7.6
Chemopetrol Bratislava		6.3
ZCE Plzeň		4.9
SME Ostrava		4.8
ELV Bratislava		4.8
ZSE Bratislava		2.5
Other products:		
EGV Praha	switchgears	23.5
Klima Prachatice	Motors	14.2
VE Škoda	components for Mochovce nuclear plant	13.0
IBS Brno	Turbo generator	4.2
CKD Blansko	Hydro-alternator	3.5
Various domestic	Switchgears	29.5
Various domestic	Circuit breakers	85.9

6C18 ETD's major export sales are as follows:

		million k
Škodaexport (Poland)	Switches	132.2
Germany	Copper conductors and coiling machine	5.1
Technopol (Switzerland)	Heater	2.7
Škodaexport (Romania)	Generator components	1.9
Škodaexport (Hungary and Pakistan)	Turbo-generator spares	1.6

6C19 Until recently, all of the division's customers were recurring due to the monopoly structure of the Czechoslovak economy. The division continues to sell to its traditional customers, such as electricity companies and power plants, and other operating divisions.

6C20 All products for export are sold through Škodaexport.

6C21 The main customers of the individual subdivisions are:

Generators	90% - 95% External 10% - 5% Locomotives Division (mostly spare and replacement parts)
Motors	80% - 85% Locomotives Division 20% - 15% External sales of spare and replacement parts
Switchgears	66% External sales of high voltage circuit breakers 34% Locomotives Division (low voltage electrical traction equipment)
Transformers	80% - 90% External 20% - 10% Locomotives Division
Blovice:	
Low voltage equipment	80% internal sales Locomotives Division and Ostrov
Small components for transformers	10% internal sales to transformer subdivision
High voltage equipment	10% External
Sedlec:	
silencers, disconnecters, and earth return brushes	100% External

Long term manufacturing contracts

6C22 The management of ETD have analysed approximately 290 contracts, many of which are related, and the majority of which are for the supply of generators (both nuclear and conventional power plants: Temelín, Mochovce and Gabčíkovo) and locomotive engines (the former USSR, Bulgaria and ČSD). The sum of sales price less accumulated costs and costs to complete, set out on the following page, does not indicate any need for any unrealised loss provision. The management of the division are, however, concerned over the liquidity of the former USSR and Bulgarian customers.

	Total	Including:							
		Bulgaria	USSR	Temelín	Gabčíkovo	Pakistan	Dlouhé Stráně	ŠKODA Plzeň	Other contracts
	million k	million k	million k	million k	million k	million k	million k	million k	million k
Price	3,235	133	541	229	377	207	436	192	1,120
Accumulated costs	(392)	(26)	(16)	(50)	(31)	(75)	(8)	(29)	(157)
Costs to complete	(2,241)	(88)	(448)	(155)	(290)	(102)	(365)	(131)	(662)
Unrealised profit	602	19	77	24	56	30	63	32	301
Invoiced	407	3	-	112	53	11	-	11	217

Suppliers

6C23 The management of the division provided us with the following breakdown of major inputs used in the nine months ended 30 September 1991:

	million k
Castings and forgings	70
Sheet Metal - steel	90
Sheet Metal - aluminum, copper, brass	160
Transformer oil	30
Electric motors, switchgears, pumps, ventilators	50
Insulation materials	80
Porcelain insulators	30
Conductors	90
Total	600

6C24 These inputs are sourced as follows:

Item	Source
Castings and forgings	80% from the Castings & Forgings Divisions 20% domestic external: Škoda Ceske Budejovice Vz Ostrava Kut.ıa Hora
Sheet metal - steel	100% domestic external: VSZ Kosice VSZ Chomutov VZ Vitkovice Kladno Drin
Sheet metal - aluminum, copper, brass	Majority domestic external: Povazske strojarne Kovohute Celakovice Small amounts of hollow conductors and sheets of copper imported from: Otokumpu Porrcooper (Finland) Weln Munchen BRD

Transformer oil	100% domestic external: Petrochema Dubova Elkom
Electric motors, switchgears, pumps, ventilators	Majority domestic external Pumps for transformers imported from: Tramal Italiana
Insulation materials	Majority domestic external: EI Tabor Gumon Bratislava Kablo Malacky Special material imported: Isovola-Werke Micafil AG Weidman TBA MEZ Italiano
Porcelain insulators	Majority domestic external: Ceram as CAB EPL Louny Special material imported: Frauenthal Keramik (Austria) Passoni Villa Milano
Conductors	90% domestic external: Kablo Kladno Kablo Malacky 10% imported from Austria

THE ADJUSTED BALANCE SHEET OF ETD AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	827,090	(a)
Intangible assets	20	(b)
Total long term assets	827,110	
CURRENT ASSETS		
Accounts receivable (domestic)	126,464	(e)
Other accounts receivable (domestic)	1,630	(g)
Other accounts receivable (foreign)	139	(h)
Inventories	1,109,669	(i)
Total current assets	1,237,902	
TOTAL ASSETS	2,065,012	
CURRENT LIABILITIES		
Accounts payable (domestic)	(108,722)	(j)
Accrued expenses, provisions and deferred income)	(20,441)	(l)
Short term portion of bank loans	(165,668)	(m)
Other accounts payable	(2,055)	(n)
Total current liabilities	(296,886)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(230,049)	(o)
LONG TERM PORTION OF BANK LOANS	(746,010)	(t)
TOTAL LIABILITIES	(1,272,945)	
NET ASSETS	792,067	

ADJUSTED PROFIT AND LOSS ACCOUNT OF ETD FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	702,665	(u)
Intra-company sales [2]	720,819	(ua)
Change in work-in-progress and finished goods	(113,210)	(v)
Cost of bought-in-items and surplus raw materials sold	(62,135)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(597,724)	(x)
Other operating costs	(252,965)	(y)
Intra-company purchases [3]	(228,042)	(ya)
Depreciation	(32,720)	(z)
Interest (net)	(99,572)	(Ia)
Exceptional costs	(29,000)	(Ib)
Other income	17,049	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	25,165	

[1] "Sales" include non-eliminating intra-company transactions of 207,963,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6D: LOCOMOTIVES

6D01 We set out below an overview of the activities of Závod Elektrické Lokomotívy (or the "Locomotives Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted profit and loss account for the nine months ended 30 September 1991.

Principal activities

6D02 The principal activities of the Locomotives Division are the manufacture and assembly of electric locomotives. The division enjoys a monopolistic position in Czechoslovakia.

6D03 The division produces fifteen types of electric locomotives: four are for use in shunting yards, whilst eleven are for pulling passenger and freight carriages. The Locomotives Division concentrates its manufacturing activity on the following types:

Type	Voltage	Power	Speed	Weight	Length
80E	3 kV 15 kV 16 2/3 Hz	3,080 kW	120 km/h	84 t	16.8 m
76E	3 kV	3,080 kW	120 km/h	84 t	16.8 m
98E	3 kV	3,480 kW	140 km/h	85 t	16.8 m
99E	3 kV	3,480 kW	140 km/h	85 t	16.8 m

6D04 The division has the facilities to design bespoke variants on the above product range.

Description of production facilities

6D05 The Locomotives Division is primarily located in the Plzeň complex, however an assembly hall and two machine shops are located in Rokycany, which is 12 km from Plzeň.

6D06 The Plzeň facility comprises two production, assembly and finishing centres which are interlinked. It is the largest production facility within the Škoda group:

- Building no. 116 (45,608 square metres) is where the chassis of the locomotive is manufactured and where final assembly occurs

- Building no. 58 (12,300 square metres) is a workshop for locomotive components.

Organisational structure and employees

6D07 The organisational structure of the Locomotives Division is based on the standard Plzeň reporting format (see Section 3, Part I).

6D08 We note that many of the top and middle management of the Locomotives Division have been in the Company for a considerable period of time, however the time which they have held their current position is relatively short due to the significant restructuring which occurred during 1990:

Name	Position	Years in the Company	Years in the division	Years in position
Ing. Čechura	Managing Director	32	26	1
Ing. Vrba	Economics Director	15	13	4
Ing. Silovský	Personnel Director	24	23	4.5
Ing. Folk	Technical Director	8	26	1.5
Ing. Müller	Commercial Director	NO	NO	NO

NO = Not obtained

6D09 The average number of full time equivalent employees for the nine months ended 30 September 1991 were 2,033, of which 1,364 or 67% were classified as factory workers (direct and indirect). One-third of the workforce were therefore classified as white collar reflecting high numbers of employees in the technical design, research and development and quality control departments.

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Dependency on other operating divisions

Inputs

6D10 The Locomotives Division is highly dependent on services performed by other divisions and cost centres: inter-company transfers to the Locomotives Division are 709 million k for the nine months ended 30 September 1991, compared with 614 million k materials consumed in production which have been purchased from third parties.

6D11 In particular, the principal resources provided by other divisions are:

Type of resource	Division	million k
Traction motors, compressor sets, inductors and resistors	ETD	486
Cabins and instrumental blocks	Ejpovice	146
Electronic instruments	Automation	62
Tools	Tools	5

Outputs

6D12 In contrast, the Locomotives Division does not provide any significant resource to any other operating division or cost centre.

Structure of sales

6D13 We have been informed that the average production cycle for an electric locomotive is between 100 and 120 working days. All production, both now and in the past, is according to orders received and locomotives are not produced for stock. As a consequence, sales are irregular and on a consignment basis.

Income recognition

6D14 Income is recognised when an invoice is raised. The price indicated on the invoice is in accordance with a fixed price specified in a contract. Management have informed us that no contracts which were completed in 1991 incorporated cost escalation clauses.

Customers and markets

6D15 The largest customers during the nine months ended 30 September 1991 are as follows:

Name	Industry	Country	Sales million k	%
ČSD	State railway (monopolistic)	ČSFR	1,265	49
Deutsche Reichbahn	State railway	Former East Germany	882	34
Subtotal			2,147	83
Other sales			434	17
Total sales			2,581	100

6D16 Other sales for the nine months ended 30 September 1991 are made up as follows:

	Sales million k
Spares	
Domestic:	
ČSD	63.3
North Bohemian Coal Mines	12.6
Foreign:	
USSR	108.8
Bulgaria	16.4
Poland	9.9
Other:	0.6
Included in Locomotive sales	55.0
Extended warranties	167.4
Total	434.0

6D17 The sales to ČSD and Deutsche Reichbahn ("DR") for the nine months ended 30 September 1991 represent sales of 74 and 19 electric locomotives, respectively.

6D18 Prior to the introduction of limited internal convertibility in Czechoslovakia in the beginning of 1991, the USSR, in the form of the Soviet State railway was the Locomotives Division's major customer. The USSR purchased two types of electric locomotives: 81E and 82E. For the five years ended 31 December 1990, sales to the three customers were as follows:

	No. of electric locomotives				
	1986	1987	1988	1989	1990
ČSD	51	29	74	50	35
DR	-	-	1	-	-
USSR	75	70	57	57	71
Total	126	99	132	107	106

6D19 We understand that in the past the orders from USSR exceeded the available capacity but locomotives were also needed by the Czechoslovak state which meant that production was split between these two customers.

6D20 All export sales are organised through Škodaexport which currently charges a commission rate of 2.2% on electric locomotives and 1% on spare parts.

Sales and production

6D21 The division sold 93 electric locomotives during the nine months ended 30 September 1991. However, 101 were finished during that period. Of these 101 locomotives, 63 and 24 were in work-in-progress at 1 January 1991 and 30 September 1991, respectively.

6D22 There are 8 electric locomotives in finished goods at 30 September 1991. These relate to an order placed by ČSD on 16 November 1990 for 60 99E1s ("the 99E1 order"), 40 of there were to be delivered in 1991. As at 30 September 1991, the 8 electric locomotives in finished goods together with 22 of the 24 electric locomotives in work-in-progress represent work done to fulfil the order for 40 which were due to be delivered in 1991.

6D23 We note that, the first invoices for these locomotives were issued in November 1991.

6D24 The sales to ČSD for the nine months ended 30 September 1991 comprise the balance (14 76E1s) of an earlier order which had been placed on 1 June 1990, and an order for 60 98E1s ("the 98E1 order") also placed on 16 November 1990.

Problems with ČSD

The 98E1 order

6D25 Of 74 electric locomotives sold to ČSD in the nine months ended 30 September 1991, 25 were sold and the related invoices amounting to 411.5 million k were overdue at 30 September 1991. Of these 25, 13 (220 million k) are secured by a bill of exchange due 30 June 1992. The remaining 12 with an invoiced value of 191.5 million k are not covered by a bill of exchange or secured in any way.

6D26 ČSD has claimed that the contract relating to the 98E1 order was not valid and that ČSD themselves were not legally competent to enter into a purchase agreement.

6D27 The Arbitration Court made a decision in 1991 with respect to the validity of this contract, but as yet this finding has not been published. Until the decision is published and the prescribed challenging period has past, the decision (which is in the Company's favour) is not legally binding. Further, the Arbitration Court was abolished at the end of 1991 and a new commercial court structure is to be introduced. These new courts will probably not be operational until the second quarter of 1992.

6D28 The strategy of ČSD is clearly to delay the process as long as possible, as their cash resources are very limited. Representatives of the Company are currently negotiating with ČSD's founding ministry to ensure payment.

The 99E1 order

6D30 ČSD claimed that the delivery date for this order was 1992 and not 1991. The Arbitration Court decided in September 1991 in favour of the Company. ČSD then challenged this decision claiming that the contract did not exist and then subsequently, that they were not legally competent to enter into such a contract.

6D31 On 3 January 1992, the Arbitration Court returned ČSD's claim for a revision to the description of the contracting parties. As a consequence of the above unresolved dispute, the decision made by the Arbitration Court is not legally binding.

6D32 Anticipating that ČSD would effect some means of delaying a decision until post 1991 when the Arbitration Court would be abolished and a new system introduced, the Company filed a new claim on 27 December 1991. Given that only four days remained in 1991, the Company did not seek delivery of the 40 in 1991. Instead they sought delivery of all 60 98E1s in 1992.

Bulgarian contract

6D33 An export order for sale of 50 locomotives (20 56E1 and 30 75E) to Bulgaria was organised through Škodaexport: the Company signed an agreement with Škodaexport, who in turn signed an agreement with the Bulgarian customer. Under the agreement, no risk passes to Škodaexport and the risk of default, non payment, non acceptance etc remains with Škoda Plzeň.

6D34 The contract for the 56E1s with Bulgaria was signed in transferable roubles. Subsequent to signing this contract, a currency protocol was entered into by the Bulgarian customer, Škodaexport and Škoda Plzeň whereby the contract price was to be denominated in US dollars. Such a protocol is a normal procedure for effecting such changes however under Czechoslovak law it does not form part of the contract.

6D35 It may be that the Bulgarian customer will claim that the currency protocol is not legally binding and insist that the artificially low exchange rate (transferable rouble: US dollar) which are published by the Czechoslovak State Bank are used. Alternatively, they may offer payment in the form of barter.

6D36 For the 50 locomotives two contracts were signed:

- 20 locomotives type 56E to be delivered in December 1991
- 30 locomotives type 75E to be delivered in the first half of 1992.

6D37 On 20 December 1991, Škoda Plzeň and Škodaexport signed an addendum to the first contract changing the delivery date of the 20 56E locomotives from December 1991 to the first quarter of 1992. Price negotiations were scheduled for Škoda Plzeň, Škodaexport and the Bulgarian customer for late January 1992 with the objective to sign an addendum to the contracts with the prices quoted in hard currency. We have information on the current status of these negotiations.

6D38 The risks relating to the Bulgarian contract are as follows:

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- Non agreement re price reached, payment denominated in transferable roubles

- Non payment

6D39 Costs relating to the Bulgarian contracts as at 30 September 1991 have been quantified by the management of the Locomotives Division as follows:

	000 k
Locomotives Division:	
Raw materials	5,845
Work-in-progress	11,180
	17,025
ETD:	
Work-in-progress	4,700
	21,725

The total cost of 20 56E's is estimated to be 160 million k.

USSR contract

6D40 The contract with the former USSR was signed in December 1989 and is for 60 82E9s.

6D41 The first part of this order is due for delivery in March 1992 and the contract is denominated in US dollars.

6D42 As with the Bulgarian order, there are doubts as to the customer's ability to pay. We have been informed that this customer ceased paying for other orders of spare parts in the second half of 1991.

6D43 Finally, we note that the contracting party, a USSR foreign trade organisation, does not now exist. A necessity may arise to sign new contracts with the individual republics of the former USSR (primarily the Russian Federation). The Managing

Director of the Locomotives Division will be a member of a government delegation which will discuss the future of Czechoslovak-Russian trade.

6D44 The costs relating to the contract with the former USSR as at 30 September 1992 have been quantified by the management of the Locomotives Division at:

Raw materials	6,704
Work-in-progress	10,215
	16,919

6D45 Notwithstanding the potential risks of both prices not being re-negotiated and non payment, work on the 75ES has not ceased.

Pricing

6D46 The prices which are negotiated for locomotives are based on the Technical Department's estimates of the expected material, wages and overhead costs at current prices. The Planning Department then incorporates a percentage which allows for inflationary movements in prices. The final price is determined at this stage. Prices for export are normally significantly higher than for the domestic market. The locomotives which were sold to former East Germany were almost 200% more expensive than the equivalent locomotive sold to ČSD.

Suppliers

6D47 We set out below the division's principal external suppliers:

Type of product	Name	Country	Purchases per locomotive 000k
Castings	Škoda České Budějovice	ČSFR	280
Transistor circuits	ČKD Elektrotechnika	ČSFR	4,600
Fans	Klimo Prachatice	ČSFR	430

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THE ADJUSTED BALANCE SHEET OF THE LOCOMOTIVES DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	424,903	(a)
Intangible assets	41	(b)
Total long term assets	424,944	
CURRENT ASSETS		
Accounts receivable (domestic)	348,160	(e)
Other accounts receivable (domestic)	969	(g)
Other accounts receivable (foreign)	56	(h)
Inventories	501,263	(i)
Total current assets	850,448	
TOTAL ASSETS	1,275,392	
CURRENT LIABILITIES		
Accounts payable (domestic)	(167,671)	(j)
Accrued expenses, provisions and deferred income)	(55,217)	(l)
Short term portion of bank loans	(514,854)	(m)
Other accounts payable	(4,894)	(n)
Total current liabilities	(742,636)	
Long term portion of accrued expenses and provisions	(149,000)	(r)
Long term portion of bank loans	(488,922)	(t)
Total long term liabilities	(637,922)	
TOTAL LIABILITIES	(1,380,558)	
NET LIABILITIES	105,166	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF LOCOMOTIVES DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	2,582,056	(u)
Intra-company sales [2]	(2,531)	(ua)
Change in work-in-progress and finished goods	(53,970)	(v)
Cost of bought-in-items and surplus raw materials sold	(499)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(612,588)	(x)
Other operating costs	(349,753)	(y)
Intra-company purchases [3]	(879,623)	(ya)
Depreciation	(20,900)	(z)
Interest (net)	(117,596)	(Ia)
Exceptional costs	(183,000)	(Ib)
Other income	3,124	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	364,720	

[1] "Sales" include non-eliminating intra-company transactions of 1,270,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6E: AUTOMATION

6E01 We set out below an overview of Závod Automatizace (or the "Automation Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6E02 The principal activities of the Automation Division are the design, manufacture and assembly of electronic instruments and controls. Its product line consists of three main product categories: industrial control systems 25%, electric devices, sensors and converters 55%, and power thyristor converters and controlling drives 15%.

6E03 Smaller projects undertaken include work on ultrasound equipment for agricultural applications and temperature measuring equipment. The Automation Division also produces switchboards, panels, and consols; develops software related to industrial control systems; and, consults on the industrial application of control systems and electric drives.

6E04 The average length of the production cycle is between one year and 18 months.

Description of production facilities

6E05 The Automation Division has seven buildings totalling approximately 8,000 square metres on the ETD site at Doudlevce, as well as a further facility at Stříbro, 30 km to the west, totalling 5,662 square metres.

Organisational structure and employees

6E06 The Automation Division was established on 1 January 1991. Previously, the manufacture of electronic instruments and controls was defined as an operating unit of ETD.

6E07 The organisational structure of the Automation Division is based on the standard Plzeň reporting format (see Section 3, Part I).

6E08 As a result of the structural changes on 1 January 1991, all the division's managers are new to their positions, however we note that several top and middle management have been in the Company for a considerable period of time:

Name	Position	Years in the Company	Years in previous position Division/Position/Years
Ing. Sluka	General Manager	23	ETD/Deputy Director, Automation/1 year
Ing. Louda	Personnel Director	17	Centre/Technical Dept/4 years
Ing. Hruska	Information Management and Organisation Manager	21	UVZU (R&D)/Group Director/5 years
Ing. Nosek	Commercial Director	24	ETD/Director, Commercial Dept/3 years
Ing. Houska	Economic Director	3	UVZU/Economic Dept/1 year
Ing. Fiedler	Technical Director	31	ETD/Director, Construction/ 20 years
Ing. Curda	Production Director	15	ETD/10 years

6E09 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 884, of which 446 (50%) were classified as factory workers (direct and indirect). A further 270 (29%) are engineers and technicians relating to research and development and product design.

Dependency on other operating divisions

Inputs

6E10 The Automation Division purchases small quantities from other operating divisions, mainly switchgears and transformers from ETD.

Outputs

6E11 In contrast,the earnings of the Automation Division are highly dependent on other divisions, particularly:

- Locomotives (devices, sensors, converters)
- ETD (control systems and thyristor converters)
- Turbines (control systems)

6E12 We draw to your attention the discussion in Section 4, Part I on the different classes of intra-company transactions. The information above relates to "transfer of engineering products" only.

Structure of sales

6E13 Production is generally to order and to formal specification. The average order size is between five and ten million k.

Customers and markets

6E14 Only 20% of Automation Division's sales are to external customers. 80% is intra-company (28%: the energy related divisions; 52% to the Locomotives Division). The Automation Division is generally not a final supplier for Škoda Plzeň's contracts with external customers and external sales relate primarily to secondary product lines.

Prices and contracts

6E15 The purchase price levied on other divisions is based on a cost-plus formula and reflects a 20% profit margin.

6E16 Production for another division is not based on a contract but rather on customer order cards. We have been informed that the loss on an external contract which is cancelled after the product has been transferred is borne exclusively by the final selling division. If the contract between the final selling division and the external customer is cancelled whilst the Automation Division holds the related work-in-progress then the Automation Division will attempt to recover costs incurred to that date from the external customer via the final selling division. The Company's internal regulations govern the distribution of any resultant losses among the effected divisions. However, the Automation Division has no legal recourse if a contract is cancelled or delayed and they suffer consequential financial loss.

6E17 Contracts have been signed with external customers and the normal duration term is six to 18 months. Generally, neither cancellation clauses nor inflation clauses are incorporated into these contracts.

Suppliers

6E18 The Automation Division has its own purchasing department for electronic components. The division purchases 30% of its own requirements. The department charges other divisions a 5% handling charge similar to the Central Purchasing and Foreign Trade Departments.

6E19 The Automation Division's main supplier is Tesla, a manufacturer of various electronic products. Half of all its inputs are purchased from Tesla. However, management is not satisfied with Tesla's service due to that company's perceived financial instability, poor product quality, and long lead times (on average three years).

6E20 Other large suppliers of components include ČKD (semi-conductors), PUD Příbram (metal cabinet console frames), Kablo Kladno (cables), and ZPA Trutnov (switches and connectors). These five suppliers comprise a total annual volume of 80 million k.

6E21 Major foreign suppliers include Intel, Motorola, and Toshiba, from whom the Automation Division purchases micro computer chips. Tesla's economic instability has induced the division to increase its usage of foreign electronic components. This has resulted in increased production costs but also higher quality products.

THE ADJUSTED BALANCE SHEET OF THE AUTOMATION DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	47,151	(a)
Intangible assets	24	(b)
Total long term assets	47,175	
CURRENT ASSETS		
Accounts receivable (domestic)	4,336	(e)
Accounts receivable (foreign)	8,809	(f)
Other accounts receivable (domestic)	411	(g)
Other accounts receivable (foreign)	120	(h)
Inventories	166,657	(i)
Total current assets	180,333	
TOTAL ASSETS	227,508	
CURRENT LIABILITIES		
Accounts payable (domestic)	(10,736)	(j)
Accrued expenses, provisions and deferred income)	(2,660)	(l)
Short term portion of bank loans	(22,962)	(m)
Other accounts payable	(459)	(n)
Total current liabilities	(36,817)	
LONG TERM PORTION OF BANK LOANS	(95,417)	(t)
TOTAL LIABILITIES	(132,234)	
NET ASSETS	95,274	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF THE AUTOMATION DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	26,525	(u)
Intra-company sales [2]	134,923	(ua)
Change in work-in-progress and finished goods	17,954	(v)
Cost of bought-in-items and surplus raw materials sold	(140)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(66,254)	(x)
Other operating costs	(50,241)	(y)
Intra-company purchases [3]	(29,484)	(ya)
Depreciation	(4,565)	(z)
Interest (net)	(15,153)	(Ia)
Exceptional costs	(17,000)	(Ib)
Other income	1,629	(Ic)
LOSS FOR THE NINE MONTH PERIOD	1,806	

[1] "Sales" include non-eliminating intra-company transactions of 6,838,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6F: HEAVY ENGINEERING

6F01 We set out below an overview of Závod Těžké Strojírenství (or the "Heavy Engineering Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6F02 The principal activities of Heavy Engineering Division are the manufacture and assembly of rolling mills, hydraulic presses, sugar cane mills and theatre stage equipment. Design for any bespoke variants on the above product range is also undertaken.

6F03 HE has a nine category production programme for rolling mills (which comprise approximately 55% of revenues for the nine months ended 30 September 1991):

- Continuous billet mills, including equipment for rolled stock finishing
- Two-high or four-high mills for cold or hot sheet and strip rolling
- Twenty-high rolling mills for cold strip rolling
- Equipment for plate finishing
- Heat treatment lines for transformer and dynamo sheet
- Milling lanes for blooms, slabs, and strips
- Shearing lines for necks and blooms
- Complete electric driving systems and automation systems for rolling mills
- Equipment for rolling mills (for example coilers, uncoilers, shears, straighteners, gear boxes, etc.)

Description of production facilities

6F04 The Heavy Engineering Division is primarily located in the Plzeň complex. The two main production centres (buildings no. 34 and 73) are situated in Plzeň. There is also a small office in Prague which is rented along with the Tobacco Machines Division and Erection Division where approximately 35 technical staff are employed.

Organisational structure and employees

6F05 The organisational structure of the Heavy Engineering Division is based on the standard Plzeň format (see Section 3, Part I).

6F06 We note that many of the top and middle management of the Heavy Engineering Division have been in the Company for a considerable period of time, however the time which they have held their current position is relatively short due to the significant changes in manning policy after January 1990:

Name	Position	Years in Company	Years in Division	Years in Position
Ing. Linhart	Managing Director	33	21	1.2
Ing. Smazel	Technical Director	28	33	1.5
Mr. Kodytek	Production Director	38	32	6.5
Ing. Stary	Commercial Director	23	18	3.0
Ing. Matyastik	Economic Director	19	14	2.5

6F07 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,761, of which 786 (45%) were factory workers (direct and indirect).

Dependency on other operating divisions

Inputs

6F08 The Heavy Engineering Division purchases mainly gear boxes and cog wheels from the Gears Division. Purchases for the nine months ended 30 September 1991 are as follows:

Division	Purchases million k
Gears	40,166
Turbines	15,412
ETD	9,575
Repairs	6,500
Tools	3,695
Castings	3,031
Maintenance	1,676
Other	8,449
Total	88,504

6F09 We draw to your attention the discussion in Section 4, Part I, on the different classes of intra-company transactions. The information above relates to "transfer of engineering products".

Outputs

6F10 No material sales are made to other divisions.

6F11 Other operating divisions rent space in Heavy Engineering's facilities. The largest single area rented is 877 square metres (Forgings and Castings Divisions) for an annual charge of 496,000 k.

Structure of sales

6F12 We have been informed that the average production cycle for a rolling mill is 18 months. Production in the past has been tailored to orders but inventory levels have increased in 1991 due to the increasing volume of cancellations with respect to both domestic and export (former COMECON) customers (see below).

Customers and markets

6F13 Sales for the nine months ended 30 September 1991 divided across the five types of production are as follows:

	million k
Rolling mills:	
Domestic and export	214
Hydraulic presses:	
Domestic and export	60
Sugar mills:	
Export	138

	million k
Theatre Equipment:	
Domestic	54
Other:	
Domestic	33
Total	499

6F14 All sugar cane mills are exported, whilst 60%-70% of rolling mills are exported. The markets for the rolling mills have been the former Soviet Union, Poland, former East Germany and Hungary. The sugar mills have been exported to Indonesia, Taiwan, and Cuba.

6F15 The majority of export sales are handled by Škodaexport and Technoexport. The major domestic customer is VP Frýdek Místek (31 million k for the nine months ended 30 September 1991).

Contracts

6F16 The management of the Heavy Engineering Division have performed a conventional contract analysis for the 34 contracts with a contract value of at least 5 million k. Eleven of the 34 contracts were turnkey contracts.

Consolidated domestic contracts:

		million k
Price	773	
Accumulated costs		(114)
Costs to complete		(556)
Unrealised profit		103
Invoiced		54
Advances/progress payments received		131

Export contracts:	Cuba million k	Pakistan million k	Thailand million k	USSR Lipeck million k	Iljič million k
Price	6	20	114	742	196
Accumulated costs	(2)	-	(89)	(206)	(2)
Costs to complete	(4)	(16)	(10)	-	(194)
Unrealised profit	-	4	15	536	-

6F17 The management of the Heavy Engineering Division inform us that there are contractual risks associated with Lipeck and Iljič. The price of these contracts is denominated in transferable roubles ("TR") and the division is using an exchange rate of 11.18 k = 1 TR. There are no protocols or addendums stating either the contract price in hard currency or prescribing the exchange rate to be used.

6F18 In the case of Lipeck, the USSR customer has required all work to stop 1994 when it will resume after ceratin design changes have been made. We have been informed that under the old law, Škoda Plzeň is bound to comply with the customer's wish. The management of the division are confident that they will be able to successfully renegotiate the contract price to reflect the changes in technical parameters.

6F19 In the case of Iljič, which is a contract for spare parts, division has informed Škodaexport that it will not proceed unless the contract is denominated in US dollars and it is claiming reimbursement for costs of 2.5 million k at 30 September 1991.

Order book

6F20 We understand that contracts to the value of 485 million k have been signed for 1992 but the majority are destined for the domestic market.

Suppliers

6F21 All raw material purchases are made through the Central Purchasing Department. The management of the division state that they are not overly dependent on any one supplier. We set out below the division's principal external suppliers:

Type of product	Name	Country
Electrical equipment	EJF Brno	CSFR
On site installation	Hutní Montáže	CSFR
Pneumatic equipment	ZVVZ Milevsko	CSFR
Chemical equipment:	Kovofiniš	CSFR
	Gunov Hradec	CSFR
	Mitas Praha	CSFR
	MEZ	CSFR
	ČKD Praha	CSFR

THE ADJUSTED BALANCE SHEET OF THE HEAVY ENGINEERING DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	153,515	(a)
Investments	15,619	(c)
Total long term assets	169,134	
CURRENT ASSETS		
Accounts receivable (domestic)	118,371	(e)
Other accounts receivable (domestic)	835	(g)
Other accounts receivable (foreign)	129	(h)
Inventories	278,561	(i)
Total current assets	397,896	
TOTAL ASSETS	567,030	
CURRENT LIABILITIES		
Accounts payable (domestic)	(38,323)	(j)
Accrued expenses, provisions and deferred income)	(16,450)	(l)
Short term portion of bank loans	(83,248)	(m)
Other accounts payable	(1,378)	(n)
Total current liabilities	(139,399)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(136,790)	(o)
LONG TERM PORTION OF BANK LOANS	(194,017)	(t)
TOTAL LIABILITIES	(470,206)	
NET ASSETS	96,824	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE HEAVY ENGINEERING FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	716,126	(u)
Intra-company sales [2]	15,348	(ua)
Change in work-in-progress and finished goods	42,369	(v)
Cost of bought-in-items and surplus raw materials sold	(213,721)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(176,516)	(x)
Other operating costs	(143,815)	(y)
Intra-company purchases [3]	(189,079)	(ya)
Depreciation	(12,347)	(z)
Interest (net)	(49,623)	(Ia)
Exceptional costs	(140,000)	(Ib)
Other income	49,170	(Ic)
LOSS FOR THE NINE MONTH PERIOD	102,088	

[1] "Sales" include non-eliminating intra-company transactions of 195,637,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6G: FORGINGS

6G01 We set out below an overview of the activities of Závod Kovárny (or the "Forgings Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6G02 The principal acitivities of the Forgings Division are the manufacture of hammer forgings, crankshafts, rolls for rolling mills, die forgings, springs, rotors, aluminium and copper forgings.

6G03 Production is both piece (large hammer forgings, crankshafts, rolls) and serial (die forgings).

6G04 Products may be heat processed, hardened, rough machined and finalised according to the specific requirements of the customers.

Description of production facilities

6G05 The Forging plant is located in the Plzeň complex and production is situated in three workshops that are closely connected with a total area of 250,000 square metres.

6G06 Workshop no. 78 principally produces large hammer forgings (piece production) and provides customers with heat processing of delivered products.

6G07 Workshop no. 79 produces mainly die forgings, springs, aluminium and copper forgings (serial production).

6G08 Workshop no. 95 arranges machine processing, both rough machining and finalising of crankshafts, rolls and rotors.

Organisational structure and employees

6G09 The organisational structure at 30 September 1991 is based on the standard Plzeň model (see Section 3, Part I).

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6G10 We note that many of the top and middle management of the Forgings Division have been in the Company for a considerable period of time, however the time which they have held their current position is relatively short due to the significant restructuring of the Company which occurred in 1990:

Name	Position	Date joined Company	Date commenced present position
Ing. Frycek	General Director	1956	May\1990
Ing. Král	Technical Director	1960	March\1990
Ing. Bosman	Commercial Director	1962	July\1990
Ing. Poddaný	Economic Director	1952	March\1990
Ing. Rada	Export Manager	NO	NO\1991
Ing. Vavroch	Domestic Trade Manager	1975	NO/1991

NO = Not obtained

6G11 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,669, of which 1,264 (76%) were classified as factory workers (both direct and indirect) and 405 (24%) were classified as administrative workers.

6G12 The number of employees has been reduced from 2,000 at the beginning of the year. We have been informed that this has been achieved through natural attrition.

Dependency on other divisions

Inputs

6G13 The Forgings Division purchases significant quantities of raw materials from the Castings Division. In volume terms this represented 15,503 tons of hot ingots and 1,262 tons of cold ingots for the nine months ended 30 September 1991.

6G14 The Forgings Division also purchases electricity and gas from the Energy Division in significant quantities. In the nine months ended 30 September energy purchased from this source was 144 million k.

Outputs

6G15 Sales to other divisions were made principally to Turbines, Heavy Engineering, Electric Locomotives and Ostrov. We draw to your attention to the discussion in Section 4, Part I, of the different classes of intra-company transactions.

Structure of sales

6G16 We have been informed that production is based on orders which have been received and that nothing is produced for stock.

6G17 There are currently no contracts where delivery is expected in more than 12 months time.

Income recognition

6G18 Income is recognised on the raising of an invoice.

6G19 We note that contracts include cost escalation clauses, so that when input prices increase significantly the Forgings Division is able to pass these costs onto the final customer.

Customers and markets

6G20 We list below the largest domestic customers by main product types and the value of sales in the nine months ended 30 September 1991:

Product	Company	Sales (million k)	
Rolls	VSŽ Košice	137	
	NH Ostrava	61	
	Frýdek Místek	13	
	Beroun	5	
	Subtotal	216	
	Percentage of total sales	95%	
	Total sales of rolls		227

Product	Company	Sales (million k)	
Die forgings	Škoda Mladá Boleslav	71	
	AVIA Hrádek n. Nisou	20	
	LIAZ	18	
	TAZ Trnava	7	
	Subtotal	116	
	Percentage of total sales	67%	
	Total sales of die forgings		172
Machined forgings	VT Chomutov	20	
	IBS	9	
	Modřanské strojírny	7	
	Uničov	3	
	Subtotal	39	
	Percentage of total sales	93%	
	Total sales of machined forgings		42
Crankshafts	ČKD Hradec Králové	154	
	Subtotal	154	
	Percentage of total sales	100%	
	Total sales of crankshafts		154
Hammer forgings (from Workshop no. 78)	ZVÚ Hradec Králové	8	
	FEROX Děčín	4	
	Modřanské strojírny	4	
	ZDAS Žďár	3	
	Subtotal	19	
	Percentage of total sales	63%	
	Total sales of hammer forgings (no.78)		30

Product	Company	Sales (million k)	
Hammer forgings (from Workshop no. 79)	DESTA Děčín	4	
	ČKD Kompresory	3	
	ČKD Blansko	2	
	PPS Detva	2	
	Subtotal	11	
	Percentage of total sales	92%	
	Total sales of hammer forgings (no.79)		12
Total domestic sales			637

6G21 We list below the major export customers and the value of sales for the nine months ended 30 September 1991:

	Sales (million k)
Dungivaros (Hungary)	9
Riva Calzoni (Italy)	5
GFM Germany	5
Wildau Berlin	3
HDW Kiel	3
HEIM Stahl	2
Kwarnes Eureka (Norway)	2
Krupp Polysius	2
Subtotal	31
Percentage of total export sales	39%
Total export sales	79

Suppliers

6G22 We list below the principal external suppliers and the volume purchased for the nine months ended 30 September 1991:

Supplier	Material purchases	Tons
POLDI Kladno	Rolled material	4,235
Trinec	Rolled material	2,350
Hradek	Rolled material	2,350
VZ Ostrava	Rolled marerial	470

6G23 There are no significant foreign suppliers.

THE ADJUSTED BALANCE SHEET OF THE FORGINGS DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	678,334	(a)
CURRENT ASSETS		
Accounts receivable (domestic)	215,970	(e)
Other accounts receivable (domestic)	834	(g)
Other accounts receivable (foreign)	26	(h)
Inventories	230,863	(i)
Total current assets	447,693	
TOTAL ASSETS	1,126,027	
CURRENT LIABILITIES		
Accounts payable (domestic)	(44,009)	(j)
Accrued expenses, provisions and deferred income)	(63,243)	(l)
Short term portion of bank loans	(176,964)	(m)
Other accounts payable	(1,060)	(n)
Total current liabilities	(285,276)	
LONG TERM PORTION OF BANK LOANS	(250,617)	(t)
TOTAL LIABILITIES	(535,893)	
NET ASSETS	590,134	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE FORGINGS DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	1,082,878	(u)
Intra-company sales [2]	83,045	(ua)
Change in work-in-progress and finished goods	(68,183)	(v)
Cost of bought-in-items and surplus raw materials sold	(1,391)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(521,477)	(x)
Other operating costs	(166,327)	(y)
Intra-company purchases [3]	(224,057)	(ya)
Depreciation	(46,014)	(z)
Interest (net)	(55,263)	(Ia)
Exceptional costs	(108,000)	(Ib)
Other income	2,483	(Ic)
LOSS FOR THE NINE MONTH PERIOD	22,306	

[1] "Sales" include non-eliminating intra-company transactions of 367,097,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6H: CASTINGS

6H01 We set out below an overview of Závod Hutě (or the "Castings Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6H02 The principal activities of the Casting Division are the manufacture of steel, grey iron castings, steel castings, aluminium castings, copper castings, ingots and machinery parts.

6H03 All production is geared towards the production of steel.

6H04 Products may be heat processed, hardened and finalised according to the specific requirements of the customers.

Description of production facilities

6H05 Production takes place in six workshops which have a combined area of 294,420 square metres. All but one workshop is in the Plzeň complex.

6H06 Workshop no. 71 produces steel and its production capacity consists of five electric arc furnaces (with capacities of 25, 25, 14, 14 and 7 tons) and two open hearth furnaces (each with a capacity of 60 tons). The total annual capacity for the workshop is between 180,000 and 200,000 tons.

6H07 Workshop no. 76 is a steel foundry. Castings (carbon and low or high alloyed) of between 0.5 kg and 150 tons in weight are produced. The total annual capacity (technological) is 30,000 tons.

6H08 Workshops no. 75 and 97 are grey iron foundries. The total annual capacity is 15,000 tons in workshop no. 75 and 7,000 tons in workshop no. 97 (Rokycany).

6H09 Workshop no. 77 is an aluminium and copper foundry. The total annual capacity is 2,200 tons and 1,000 tons of aluminium and copper castings, respectively.

6H10 The most significant workshop is no. 71 which needs to be modernised if the Castings Division is to be able to produce large castings economically.

Organisational structure and employees

6H11 The organisational structure is based on the standard Plzeň model (see Section 3, Part I).

6H12 We note that many of the top and middle management have been in the Company for a considerable period of time, however the time which they have held their current position is relatively short due to the significant restructuring of the Company which occurred in 1990:

Name	Position	Date joined the Company	Date commenced position
Ing. Flandera	General Director	1965	NO
Ing. Plesr	Technical Director	1969	NO
Ing. Bartůněk	Personnel Director	1973	NO
Ing. Borusik	Sales and Production Director	1967	NO
Ing. Fessl	Sales Manager	1965	NO
Ing. Chlan	Marketing Manager	1974	NO
Ing. Krauz	Price Manager	1980	NO
Ing. Kropáček	Finance Director	NO	NO

NO = Not obtained

6H13 For the nine months ended 30 September 1991 the average number of full time equivalent employees was 3,338, of which 2,682 (80%) were classified as factory workers (both direct and indirect).

Dependency on other divisions

Outputs

6H14 We were provided with a split of sales to operating divisions for four types of castings. The largest sales are to ETD, Heavy Engineering, Locomotives, Dýšina, Gears, and Turbines:

	Grey Iron	Steel	Aluminium	Copper
	000 k	000 k	000 k	000 k
ETD	3	21	11,839	8,739
Heavy Engineering	1	34	59	4,775
Locomotives	3	-	2,894	1,953
Dýšina	3	-	2,075	3,298
Gears	4	19	1	3,694
Turbines	3	58	358	2,087

Structure of sales

6H15 We have been informed that the average production cycle is:

- Four-eight months for steel castings (according to the weight)
- Three months for grey iron castings
- Three months for copper and aluminium castings
- One-two months for wooden models.

6H16 Production is dependent on orders received and no goods are produced for stock.

Income recognition

6H17 Income is recognised when an invoice is raised.

6H18 The contracts include cost escalation clauses, and as a consequence the final invoiced price may be higher than the contracted price where there has been a significant increase in input prices.

Customers and markets

6H19 We list below the largest external, domestic customers according to the different products from each workshop for the nine months ended 30 September 1991:

	Tons		Sales (million k)	
Workshop No. 75				
TOS Holice	59		2	
ČKD Choceň	24		1	
Subtotal	83		3	
As a % of total sales	32%		50%	
Total sales		259		6
Workshop No. 97				
Frigera Kolín	214		6	
Kovosvit Holoubkov	103		2	
Agrokombinát Tachov	91		2	
TOS Trenčín	104		1	
Ferox Šluknov	66		1	
Subtotal	578		12	
As a % of total sales	47%		63%	
Total sales		1,230		19
Workshop No. 76				
SZ Brno	317		44	
ČKD Blansko	504		19	
Sigma Lutín	141		19	
First Brno	316		15	
Sigma D. Benešov	115		5	
VT Chomutov	91		3	
PS Přerov	26		1	
Subtotal	1,150		106	
As a % of total sales	33%		57%	
Total sales		4,613		186

	Tons		Sales (million k)	
Workshop No. 77 (Aluminium)				
ZTS Martin	177		34	
TAZ Trnava	64		8	
EJF Brno	57		7	
ZTS Hrinova	34		6	
ČKD Hradec Králové	68		6	
ZPA Pecky	35		4	
Subtotal	435		65	
As a % of total sales	83%		87%	
Total sales		521		75
Workshop No. 77 (Copper)				
ZTS Hrinova	29		4	
VSŽ Košice	19		3	
VT Chomutov	16		2	
Zdas Žďár	13		1	
Chodos Chodov	9		1	
ČKD Blansko	8		1	
Subtotal	94		12	
As a % of total sales	51%		48%	
Total sales		183		25
TOTAL		6,806		311

6H20 We list below the largest export customers by country for the nine months ended 30 September 1991:

	Sales (million k)
Germany:	
Krupp Polysius	12
SMS Schloemann-Siemag	27
Siemens KWU	10
SMS Hasenclever	10
Beche & Grohs	6
	65

	Sales (million k)	
Austria:		
J. M. Voith St. Poelten	4	
Voest Alpine	1	
Boehler Pneumatic Int.	1	
		6
Switzerland:		
Sulzer Escher Wyss Zurich		2
Denmark:		
F. L. Smidth		5
Sweden:		
Kamewa		3
Subtotal		81
Other		14
Total		95

6H21 All the export trade is arranged through one of the following:

- Foreign Trade Department
- Technopol
- Montan.

Suppliers

6H22 We list below the principal external suppliers of the Castings Division for the nine months ended 30 September 1991:

	million k
Ferromet Praha	39
Vítkovice	39
Oravské ferroslitinářské závody Istebné	68
Kovohutě Mníšek	9
Kovohutě Velvary	9
Závody SNP Žiar n. Hronom	34
Ni works Sereď	19
Kovohutě Krompachy	9
Kovošrot Plzeň	91
Kovošrot Praha	14
Kovošrot Děčín	25
Subtotal	356
Other	256
Total	612

6H23 There are no significant foreign suppliers.

THE ADJUSTED BALANCE SHEET OF THE CASTINGS DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	530,127	(a)
CURRENT ASSETS		
Accounts receivable (domestic)	333,777	(e)
Other accounts receivable (domestic)	1,893	(g)
Other accounts receivable (foreign)	146	(h)
Inventories	316,972	(i)
Total current assets	652,788	
TOTAL ASSETS	1,182,915	
CURRENT LIABILITIES		
Accounts payable (domestic)	(133,580)	(j)
Accrued expenses, provisions and deferred income)	(41,213)	(l)
Short term portion of bank loans	(260,838)	(m)
Other accounts payable	(2,541)	(n)
Total current liabilities	(438,172)	
LONG TERM PORTION OF BANK LOANS	(271,449)	(t)
TOTAL LIABILITIES	(709,621)	
NET ASSETS	473,294	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE CASTINGS DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	1,509,575	(u)
Intra-company sales [2]	85,053	(ua)
Change in work-in-progress and finished goods	29,135	(v)
Cost of bought-in-items and surplus raw materials sold	(27,223)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(701,755)	(x)
Other operating costs	(319,862)	(y)
Intra-company purchases [3]	(337,791)	(ya)
Depreciation	(33,935)	(z)
Interest (net)	(69,857)	(Ia)
Exceptional costs	(151,000)	(Ib)
Other income	31,192	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	13,532	

[1] "Sales" include non-eliminating intra-company transactions of 579,671,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6I: ERECTION AND ENGINEERING

6I01 We set out below an overview of the activities of Závod DIZ Plzeň (or "Erection and Engineering"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6I02 The principal activity of Erection and Engineering is the implementation of investment projects, covering various industrial fields. One part of the division is engaged in engineering, commercial and designing activities whilst the second half is made up of specialised teams for erection, testing, commissioning and putting the equipment of complete projects into operation.

6I03 More specifically the activities of the division include:

- Marketing and consulting
- Arranging for the production technology
- Compiling the project documentation for the whole investment project
- Completing and delivering technological and auxiliary equipment as well as distribution systems: power, compressed air, steam, water, heating oil, gas etc.
- Storing the supplied equipment in the division's stores or at the construction site
- Transporting equipment into the erection zone
- Completing erection of the supplied machinery and connecting distribution network
- Testing
- Commissioning.

Description of production facilities

6I04 Erection and Engineering is located in several areas in and around Plzeň. The main sites are in the Plzeň complex, and in Karlov there are assembly halls and offices.

Organisational structure and employees

6I05 The organisational structure of the division is based on the standard Plzeň reporting structure (see Section 3, Part I).

6I06 We note that many of the top and middle management of Erection and Engineering have been in the Company for a considerable period of time, however the time which they have held their current position is relatively short due to the significant restructuring of the Company which occurred in 1990:

Name	Position	Years in the Company	Years in the Division	Years in Position
Ing. Filip	Managing Director	33	20	1.6
Ing. Wild	Non-Industrial Director	38	32	1
Ing. Vasak	Industrial Director	38	38	0.9
Ing. Benes	Technical Director	31	16	NO
Ing. Vojtech	Economic Director	22	5	5
Ing. Honicky	Personnel Director	16	16	NO

NO = Not obtaind

6I07 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,295, of which 762 (58%) were factory workers (direct and indirect).

Dependency on other operating divisions

Inputs

6I08 Erection and Engineering does not source materials or similar from other operating divisions.

Outputs

6I09 Similarly, Erection and Engineering does not make sales to other divisions.

\\^

Long term manufacturing contracts

6I10 The management of Erection and Engineering have performed a conventional contract analysis of all these contracts which either are large in value terms or which have a customer in the former COMECON bloc. This analysis indicates that a provision for an unrealised loss of 33 million k may be appropriate. However, we note that in some cases management have successfully re-negotiated a cost-plus price, but have only included such price in their calculation when an invoice has been both raised and paid subsequent to reaching that new agreement. As consequence, we have made no provision for an unrealised loss.

Suppliers

6I11 We set out below the division's principal external suppliers, all of which are domestic:

Type of product	Name
Electronic equipment	ZEZ Praha
Air conditioning	Zafyzeni Milevsko
Pipelines	Regula Praha

THE ADJUSTED BALANCE SHEET OF ERECTION AND ENGINEERING AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	48,688	(a)
Intangible assets	9	(b)
Total long term assets	48,697	
CURRENT ASSETS		
Accounts receivable (domestic)	227,368	(e)
Other accounts receivable (domestic)	619	(g)
Other accounts receivable (foreign)	263	(h)
Inventories	512,031	(i)
Total current assets	740,281	
TOTAL ASSETS	788,978	
CURRENT LIABILITIES		
Accounts payable (domestic)	(164,690)	(j)
Accrued expenses, provisions and deferred income)	(20,273)	(l)
Short term portion of bank loans	(22,720)	(m)
Other accounts payable	(4,141)	(n)
Total current liabilities	(211,824)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(652,257)	(o)
LONG TERM PORTION OF BANK LOANS	(83,677)	(t)
TOTAL LIABILITIES	(947,758)	
NET LIABILITIES	158,780	

ADJUSTED PROFIT AND LOSS ACCOUNT OF ERECTION AND ENGINEERING FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	746,095	(u)
Intra-company sales [2]	22,209	(ua)
Change in work-in-progress and finished goods	6,004	(v)
Cost of bought-in-items and surplus raw materials sold	(563,053)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(55,184)	(x)
Other operating costs	(145,721)	(y)
Intra-company purchases [3]	(20,459)	(ya)
Depreciation	(4,452)	(z)
Interest (net)	(13,770)	(Ia)
Exceptional costs	(53,000)	(Ib)
Other income	55,042	(Ic)
LOSS FOR THE NINE MONTH PERIOD	26,289	

[1] "Sales" include non-eliminating intra-company transactions of 127,672,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6J: TOOLS

6J01 We set out below an overview of the activities of Závod Nářadí (or the "Tools Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6J02 The principal activities of the Tools Division are the manufacture of tools which are used as parts of larger drilling machines. The division also purchases tools on behalf of other operating divisions.

6J03 The Tools Division's product range comprises:

- Milling and cutting tools
- Thread cutting tools
- Turning tools
- Broaching tools
- Tools for holes
- Woodworking tools
- Tool holders
- Tooling systems
- Chucking tools
- Special tools
- Hand tools
- Measuring, checking and drawing instruments.

6J04 In addition, the Tools Division has the facilities to design bespoke variants.

Description of production facilities

6J05 The Tools Division is located in the Plzeň complex. There are three main buildings:

- Building no.65, a production hall (5,123 square metres)
- Building no.57, a production hall and adminstration offices (4,922 square metres)
- Building no.58, a production unit, which is rented from the Locomotives Division (1,483 square metres)

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Organisational structure and employees

6J06 The organisational structure is based on the standard Plzeň reporting format (see Section 3, Part I) except that the Commercial and Economic Departments are under one director.

6J07 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 885, of which 618 (70 %) were classified as factory workers (both direct and indirect).

6J08 We note that many of the top and middle management of the Tools Division have been in the Company for a considerable period of time, however the time which they have held their current positions is short due to the significant restructuring of the Company which occurred in 1990:

Name	Position	Years in the Company	Years in the Division	Years in present position
Ing. Hajsman	Managing Director	20	1.5	1.5
Ing. Gotschy	Personnel Director	9	6	1
Ing. Fiala	Economic Director	27	1.5	1.5
Ing. Beranek	Technical Director	20	1.5	1.5

Dependency on other divisions

Inputs

6J09 The Tools Division does not make any material purchases from the other divisions although it does use the services of the Central Purchasing Department and is dependent on the energy supplied within the Plzeň complex.

Outputs

6J10 In contrast, the Tools Division sells tools to a number of other divisions, principally the Machine Tools Division:

	Sales for the nine months ended 30 September 1991 000 k
Machine Tools	17,526
ETD	5,961
Nuclear	5,095
Locomotives	3,389
Dýšina	2,776
Forgings	2,753
Heavy Engineering	2,667
Gears	2,492
Others	8,682
Total intra-company sales	51,341

6J11 We draw your attention to the discussion in Section 4, Part I on the different classes of intra-company transactions. The information above relates to "transfer of engineering products" only.

Structure of sales

6J12 Management have informed us that the average production cycle for tools is six weeks for simple tools and as much as six months for tools where the technical design is more complex.

6J13 The Tools Division normally produces to order although due to recent cancellations, primarily due to customer illiquidity, inventory levels are higher than had been anticipated.

Income recognition

6J14 Income is recognised when an invoice is raised.

6J15 When a new contract is under negotiation the structure of the price depends on the division's experience in manufacturing the tool. If management are uncertain of the final cost, a cost-plus price formula will be quoted based on the total direct costs or the cost of time expended on the production.

6J16 We were informed that contracts are signed in advance of the commencement of production.

Customers and markets

6J17 We have been informed that the majority of orders are placed by recurring customers. The principal customers during the nine months ended 30 September 1991 were as follows:

	Sales (million k)
Osan Praha	44,772
Strojimport	8,100
NHKG Ostrava	6,700
VTZ Chomutov	4,500
Škoda Mladá Boleslav	1,900
Liaz Jablonec n. Nisou	1,600
Subtotal	67,572
Percentage of total external sales	71 %
Total external sales	94,737

6J18 Osan Praha is the largest customer of the Tools Division and is a trading company. Management are aware that Osan are currently experiencing liquidity problems and that it may not survive as an independent company. The Tools Division will need to find alternative customers if it is to maintain its current trading position.

6J19 Exports represent 10 % of total sales of which approximately half are through Osan Praha.

Sales and production

6J20 Management informed us that the average stock turnover is approximately six months.

6J21 The level of sales has been affected by cancelled contracts which management estimated to be between five and ten million k.

Pricing

6J22 The Tools Division have attempted to use full cost pricing since 1 January 1991. The profit margin which the division attempts to obtain is either 20% of full costs or 34% of direct costs.

Competitors

6J23 The principal competitors of the Tools Division are as follows:

- Batulot
- TOS Čelákovice
- Zbrojovka Brno
- ČKD Praha

Suppliers

6J24 We set out below the division's principal external suppliers:

Type of product	Name	Country
Hand tools	Technomat	ČSFR
Special tools	Osan Praha	ČSFR
Bricks	Osan Vsetín	ČSFR
Steels	SONP Kladno	ČSFR
Steels	Ferona Olomouc	ČSFR
Special tools	Imports	Various

6J25 Ferona is a large supplier of ferrous and non-ferrous metals and the Tools Division does not envisage that it will have to find alternative sources.

THE ADJUSTED BALANCE SHEET OF THE TOOLS DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	49,486	(a)
Intangible assets	12	(b)
Total long term assets	49,498	
CURRENT ASSETS		
Accounts receivable (domestic)	17,262	(e)
Other accounts receivable (domestic)	457	(g)
Inventories	76,318	(i)
Total current assets	94,037	
TOTAL ASSETS	143,535	
CURRENT LIABILITIES		
Accounts payable (domestic)	(14,717)	(j)
Accrued expenses, provisions and deferred income)	(4,309)	(l)
Short term portion of bank loans	(12,145)	(m)
Other accounts payable	(456)	(n)
Total current liabilities	(31,627)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(215)	(o)
LONG TERM PORTION OF BANK LOANS	(47,005)	(t)
TOTAL LIABILITIES	(78,847)	
NET ASSETS	64,688	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE TOOLS DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	98,855	(u)
Intra-company sales [2]	74,048	(ua)
Change in work-in-progress and finished goods	(3,290)	(v)
Cost of bought-in-items and surplus raw materials sold	(910)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(40,202)	(x)
Other operating costs	(61,034)	(y)
Intra-company purchases [3]	(22,010)	(ya)
Depreciation	(4,720)	(z)
Interest (net)	(7,774)	(Ia)
Exceptional costs	(11,000)	(Ib)
Other income	2,482	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	24,445	

[1] "Sales" include non-eliminating intra-company transactions of 4,118,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6K: MACHINE TOOLS

6K01 We set out below an overview of the activities of Závod Obráběcí Stroje (or the "Machine Tools Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6K02 The principal activities of the Machine Tools Division are the manufacture and assembly of horizontal boring and milling machines. The division also manufactures a small number of heavy lathes. It enjoys a monopolistic position in Czechoslovakia.

6K03 The Machine Tools Division produces six types of horizontal boring and milling machines:

- W 160 HC
- W 200 HC
- W 250 HC
- W 160 HB NC
- W 200 HB NC
- W 180 A NC

Description of production facilities

6K04 The Machine Tools Division is located in the Plzeň complex and consists of four workshops, the two principal production centres being building no. 45 (27,731 square metres) and building no. 43 (11,755 square metres).

Organisational structure and employees

6K05 The organisational structure at 30 September 1991 is based on the standard Plzeň reporting format (see Section 3, Part I).

6K06 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,752, of which 1,081 (62%) were classified as factory workers (direct and indirect).

6K07 We note that many of the top and middle management of the Machine Tools Division have been in the Company for a considerable period of time, however the time which they have held their current positions is relatively short due to the significant restructuring of the Company which occurred in 1990:

Name	Position	Years in the Company	Years in the Division	Years in present position
Ing. Čadek	Technical Director	28	28	1.5
Ing. Blažek	Economic Director	20	1.5	0.1
Ing. Vackar	Commercial Director	32	27	6
Mr. Cejka	Production Director	32	32	1.3
Ing. Bakule	Managing Director	NO	NO	NO

NO = Not obtained

6K08 The Economic Director left the division subsequent to 30 September 1991, but has been replaced.

Dependency on other divisions

Inputs

6K09 The Machine Tools Division is particularly dependent on sourcing tools and electrical equipment from ETD (18 million k and 16 million k, respectively for the nine months ended 30 September 1991).

6K10 Although the division also purchases significant volumes from the grey-iron foundry (Castings Division) the management believe that this supply could be replaced from external suppliers due to the current excess of foundry capacity within ČSFR.

Outputs

6K11 A relatively small proportion of machine tools are sold to other operating divisions.

Structure of sales

6K12 We have been informed that the average production cycle for a machine is between 24 and 30 months. In the past, production could be continued with the knowledge that the former Soviet market would always purchase any excess. As 70% of trade was conducted with the former USSR in recent years, the collapse of this market has led to high inventory levels as sales to new markets have had to be found.

Income recognition

6K13 Income is recognised when an invoice is raised.

6K14 The price indicated on the invoice is in accordance with a fixed price specified in a contract. Management informed us that there are no cost escalation clauses included in their contracts.

Customers and markets

6K15 The largest customers during the nine months ended 30 September 1991 were as follows:

Country	million k
Switzerland	94,154
Germany	59,281
Italy	29,500
China	79,580
Czechoslovakia	91,409
USSR (the former)	7,395

Austria	30,548
Taiwan	50,006
Turkey	28,759
France	23,024
Brazil	31,777
Japan	24,941
India	23,888
Other	63,826
Total	638,088

6K16 In 1991 the Machine Tools Division has relied on exports to other than the former COMECON bloc. The majority of export sales are handled by Strojimport.

Sales and production

6K17 The Machine Tools Division has sold 47 machines during the nine months ended 30 September 1991. However, 66 machines were finished during that period and work-in-progress at 30 September 1991 includes 12 horizontal boring machines.

6K18 The management of the division estimate that the decline in sales for 1991 year will be in the order of 28% in volume terms: 91 machines were sold in 1990 whereas approximately 65 is projected to be sold this year. Although the switch away from the COMECON market has been rapid, the division has continued to produce for stock.

Order book

6K19 The management of the Machine Tools Division have indicated that they still envisage producing approximately 60 machines in 1992. Confirmed orders for 1992 represent 255 million k or 26.8 % of the available capacity .

Pricing

6K20 In the world market for machine tools it is evident that the division has a price advantage as it can sell at one third of the price of its competitors. The division attempts to make a 25% profit margin on the sale of its machines.

Suppliers

6K21 We set out below the division's principal external suppliers

Type of product	Name	Country	Estimated purchases million k
Electrocomponents	Siemens *	Germany	62
	EZ Teplice	CSFR	12
	MEZ Vsetín	CSFR	2
Mechanical parts	TOS Kouřim	CSFR	6
Materials	ČKD Blansko	CSFR	10
	Slévárna Budějovice	CSFR	2

* = Including control systems

Competitors

6K22 There are no domestic competitors. Competition from abroad is follows:

Name	Country
Scharmann	Germany
Toshiba	Japan
Mandelli	Italy
Ingersoll	U.S.A.

6K23 During 1991, the division signed a co-operation agreement with Dorries Scharmann of Germany whereby each party become an agent for the other in their respective operating territories. In 1991 sales to this company were valued at 1.8 million k and there are signed contracts for 4.2 million k of sales in 1992.

THE ADJUSTED BALANCE SHEET OF THE MACHINE TOOLS DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	385,745	(a)
Intangible assets	11	(b)
Investments	30,000	(c)
Total long term assets	415,756	
CURRENT ASSETS		
Accounts receivable (domestic)	110,755	(e)
Accounts receivable (foreign)	12,361	(f)
Other accounts receivable (domestic)	939	(g)
Other accounts receivable (foreign)	204	(h)
Inventories	470,347	(i)
Total current assets	594,606	
TOTAL ASSETS	1,010,362	
CURRENT LIABILITIES		
Accounts payable (domestic)	(58,746)	(j)
Accrued expenses, provisions and deferred income)	(35,783)	(l)
Short term portion of bank loans	(100,638)	(m)
Other accounts payable	(7,075)	(n)
Total current liabilities	(202,242)	
LONG TERM LIABILITIES		
Long term portion of other payables	(18,000)	(s)
Long term portion of bank loans	(282,632)	(t)
Total long term liabilities	(300,632)	
TOTAL LIABILITIES	(502,874)	
NET ASSETS	507,488	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE MACHINE TOOLS DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	612,939	(u)
Intra-company sales [2]	48,864	(ua)
Change in work-in-progress and finished goods	72,051	(v)
Cost of bought-in-items and surplus raw materials sold	(5,133)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(312,271)	(x)
Other operating costs	(157,353)	(y)
Intra-company purchases [3]	(115,284)	(ya)
Depreciation	(21,416)	(z)
Interest (net)	(47,047)	(Ia)
Exceptional costs	(74,000)	(Ib)
Other income	5,982	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	7,332	

[1] "Sales" include non-eliminating intra-company transactions of 8,061,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6L: GEARS

6L01 We set out below an overview of Závod Ozubená Kola (or the "Gears Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6L02 The principal activities of the Gears Division are the manufacture and assembly of gears and gear boxes for use in all types of industries.

6L03 The Gears Division produces a wide range in terms of different outputs, speeds and ratios. They include speed increasing units with spur and epicyclic gears for high outputs and torques, bevel gear boxes with vertical shafts, globoid-worm gear units and marine gear boxes. The remaining gear boxes are intended for rolling mills, excavators, mills, metallurgical works, rail vehicles, and other special purposes.

6L04 The division concentrates its manufacturing activity on the following products:

- Spur gear boxes 0.5 gear
- Spur gear boxes 3+ gear
- High speed gear boxes
- Bevel gear boxes
- Epicyclic gear box low speed
- Special gear boxes.

6L05 The division has the facilities to design bespoke variants on the above product range. It also performs assembly and repair services.

Description of production facilities

6L06 The Gears Division is primarily located in the Plzeň complex, however a small storage facility (2,000 square metres) is located in Třemošna, 10 km north of Plzeň.

6L07 The Plzeň facility comprises inter-linked production, assembly and finishing units:

- Building no. 55 is both a boring and milling production centre and an assembly centre (8,780 square metres)

- Building no. 57 is a boring centre for larger special parts (5,750 square metres)
- Building no. 73 is a boring centre for smaller special parts (1,880 square metres).

Organisational structure and employees

6L08 The organisational structure is based on the standard Plzeň reporting format (see Section 3, Part I).

6L09 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 543, of which 349 or 64 % were classified as factory workers (direct and indirect).

6L10 We note that many of the top and middle management of the Gears Division have been in the Company for a considerable period of time, however the time which they have held their current positions is short due to the significant restructuring which occurred in 1990:

Name	Position	Years in the Company	Years in the Division	Years in present position
Ing. Frana	Managing Director	31	31	1.5
Ing. Fencl	Technical Director	31	31	1.5
Ing. Chaloupka	Personnel Director	20	15	1.5
Ing. Pachlicek	Economic Director	31	19.5	1.5
Ing. Soukup	Commercial Director	37	37	1.3

Dependency on other operating divisions

Inputs

6L11 The value of materials consumed in production for the nine months ended 30 September 1991 is 73 million k of which approximately 53 million k was purchased from other operating divisions, principally forgings and pressings (Forgings Division) and castings (Castings Division).

Outputs

6L12 The Gears Division provides resources to several other operating divisions representing a value of 65 million k for the nine months ended 30 September 1991: Heavy Engineering (40 million k) and Turbines (7 million k) are the main recipients.

Structure of sales

6L13 We have been informed that the average production cycle for gears is nine months, with a maximum of 15 months. Management have informed us that the division only produces to order except for a small number of components.

Income recognition

6L14 Income is recognised when an invoice is raised.

6L15 The price indicated on the invoice is in accordance with a fixed price specified in a contract. There are no cost escalation clauses and both sides must agree to renegotiate the price.

Customers and markets

6L16 We have been informed that the majority of orders are placed by recurring customers as opposed to one-off orders. All export sales are via the Foreign Trade Department.

6L17 The main categories of gear boxes sold, the sales value and whether the customer was internal or external for the nine months ended 30 September 1991 are shown below:

Type of gearbox	Internal million k	External million k
Spur 0.5	20.1	17.4
Spur 3+	1.4	11.6
Spur with pinion	-	4.0
Other spur	-	4.0
High speed	2.4	19.3
Bevel	3.0	38.9
Spare parts	16.4	35.8
Combined	0.3	4.2
Other combined	9.6	-
Special	-	6.9
Epicyclic high speed	-	3.7
Worm	0.3	2.6
Epicyclic low speed	-	8.7
Other various	0.9	4.1
Unidentified difference	-	5.9
	54.4	167.1

6L18 We draw to your attention to the discussion in Section 4, Part I, on the different classes of intra-company transaction. The internal sales information above relates to "transfer of engineering products" only.

6L19 The main external customers for the nine months ended 30 September 1991 are as follows:

	000 k
ČKD Praha	18.0
PS Přerov	13.7
US Uničov	16.3
Komos Most	13.2
SHR Bilina	8.6
Elitex Kdyne	3.9
Buzuluk	7.4
Poldi Kladno	1.8
TRA Chrudim	24.2
Cementárny	3.6
Subtotal	110.7
Other	56.4
Total	167.1

Sales and production

6L20 There are some contracts, signed in 1990, which are still awaiting completion. The customer has the right to demand delivery within two months of the original date stated in the contract. If delivery is not made, the customer then has a right to cancel without incurring a penalty.

6L21 A warranty of twelve months is normally given for gears and gear boxes. We have been informed by management that no warranties cost have been incurred in the nine months ended 30 September 1991 and no prolonged warranties have been issued.

Pricing

6L22 The division tries to maintain a 20% profit margin but the results indicate that this is not consistently achieved. Management indicated to us that price inflation for their materials had been 60% in 1991.

Competitors

6L23 The Gears Division has five main competitors in Czechoslovakia :

- Žďárské Strojírny
- Vítkovické Železárny
- Východoslovenské Železárny
- Přerovské Strojírny
- ČKD Hronov

6L24 There were no foreign competitors drawn to our attention.

Order book

6L25 Management have indicated that the Gears Division has a full order book for 1992.

Suppliers

6L27 We set out below the division's principal external suppliers:

Type of product	Name	Country
Pumps	Sigma Lutín	ČSFR
Thermometers	ZPA NOVÁ PAKA	ČSFR
Electric motors	MEZ Mohelnice	ČSFR
Pressure regulators	OEZ Letohrad	ČSFR

THE ADJUSTED BALANCE SHEET OF THE GEARS DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	92,359	(a)
Intangible assets	3	(b)
Total long term assets	92,362	
CURRENT ASSETS		
Accounts receivable (domestic)	58,081	(e)
Other accounts receivable (domestic)	307	(g)
Other accounts receivable (foreign)	59	(h)
Inventories	101,837	(i)
Total current assets	160,284	
TOTAL ASSETS	252,646	
CURRENT LIABILITIES		
Accounts payable (domestic)	679	(j)
Accrued expenses, provisions and deferred income)	(7,447)	(l)
Short term portion of bank loans	(39,849)	(m)
Other accounts payable	(756)	(n)
Total current liabilities	(47,373)	
LONG TERM PORTION OF BANK LOANS	(88,732)	(t)
TOTAL LIABILITIES	(136,105)	
NET ASSETS	116,541	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE GEARS DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	169,940	(u)
Intra-company sales [2]	76,940	(ua)
Change in work-in-progress and finished goods	(25,789)	(v)
Cost of bought-in-items and surplus raw materials sold	(4,029)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(72,401)	(x)
Other operating costs	(55,559)	(y)
Intra-company purchases [3]	(32,455)	(ya)
Depreciation	(11,562)	(z)
Interest (net)	(17,591)	(Ia)
Exceptional costs	(22,000)	(Ib)
Other income	6,031	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	11,525	

[1] "Sales" include non-eliminating intra-company transactions of 2,811,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6M: TOBACCO MACHINES

6M01 We set out below an overview of the activities of Závod Obráběcí stroje (or the "Tobacco Machines Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss accounts for the nine months ended 30 September 1991.

Principal activities

6M02 The principal activities of the Tobacco Machines Division are the manufacture, assembly and installation of cigarette making and packaging machines. The Tobacco Machines Division also performs servicing and repairs for the machines. It enjoys a monopolistic position in Czechoslovakia and the former COMECON countries.

6M03 The processing lines of the Tobacco Division are as follows:

- The AC11, a cigarette making line with a capacity of 3,200 cigarettes per minute, which comprises three machines: cigarette making, filter tip assembling, and magazine filler
- The ACF1, a cigarette making line with capacity of 2,000 cigarettes per minute, which comprises two machines: cigarette making and filter tip assembling
- The B250, a packaging line which can be used with either of the aforementioned cigarette making lines.

6M04 The product range is not wide and we note that no change in product mix is envisaged by the division's management. However, an intention has been expressed to concentrate in the future on the manufacture of more sophisticated (higher volume) machines.

Description of production facilities

6M05 The Tobacco Machines Division is located in the Plzeň complex. The division's facilities occupy 7,125 square metres in two manufacturing buildings. There is also an administration building which is shared with the Energy Division and some research and development facilities which occupy rented accommodation in Prague.

Organisation structure and employees

6M06 Until 1 August 1991, the Tobacco Machines Division was also responsible for apprentice training for the whole of the Company. This training unit was spun off due to the State's decision that educational and training institutions should not be privatised. A new training department was set up, but the management relating to that training unit have, to a large extent, remained in the Tobacco Machines Division. We note that the trading results for the nine months ended 30 September 1991 include the costs incurred by the training unit for the seven months ended 31 July 1991.

6M07 The organisational structure is based on the standard Plzeň reporting format (see section 3, Part I).

6M08 We note that many of the top and middle management of the Tobacco Division have been in the Company for a considerable period of time however, the time which they have held their current positions is relatively short due to the significant restructuring of the Company which occured in 1990:

Name	Position	Years in the Company	Years in the Division*	Years in Position
Mr. Rymeš	General Manager	40	13	1.6
Mr. Mečl	Technology Deputy	32	29	5.1
Ing. Novák	Production Director	36	32	1.6
Mr. Husák	Economic Director	32	32	1.5
Ing. Šochman	Commercial Director	6	0.9	0.9
Mr. Procházka	Personnel Director	28	**	**
Ing. Havlík	Head of Technology Control	18	0.8	0.8
Ing. Jícha***	Head of Assembly	16	16	0.6

* Including the former combined training and manufacturing structure
** Commenced 1 October 1991
*** Subsequently replaced by Ing. Polanka

6M09 The average number of full time equivalent employees at 30 September 1991 was 531, of which 216 (41%) were classified as factory workers (direct and indirect) and 30 research and development technicians located in Prague.

Dependency on other operating divisions

Inputs

6M10 The only intra-divisional purchases of significance in the nine months ended 30 September 1991 were 4 million k of castings (Castings Division) and 0.8 million k of electric motors from ETD.

Outputs

6M11 With the exception of the training facilities for the first seven months of 1991, none of the Tobacco Machines Division's products or services are purchased by any other operating division. The income generated by the apprentice training was approximately 4 million k.

Structure of sales

6M12 We have been informed that prior to 1991 the Tobacco Machines Division manufactured to order. In 1991, production of cigarette making lines has continued despite the failure to renegotiate price. Similarly, packaging machines have been produced for which no contract has been concluded, and the production of spares and replacements for stock was increased. In the nine months ended 30 September 1991, 33.7 million k of spares and 24.6 million k of machines were sold.

Customers and markets

6M13 Historically, the products of the Tobacco Machines Division's were sold primarily to cigarette manufacturers in the former COMECON bloc and the division had a monopoly position in this market. In the past all export sales were facilitated by Škodaexport, which was therefore the division's largest customer. However, during 1991, the Foreign Trade Department assumed responsibility for these transactions.

6M14 Recent economic developments in Eastern Europe have resulted in the marketing efforts of the division shifting to the domestic market and this is reflected in the customer analysis below. The Czechoslovak tobacco industry would appear to be relatively buoyant and there has been no problem associated with receiving payment for these contracts:

	Sales for the nine months ended 30 September 1991 000k	
Domestic:		
Tabak a.s. Kutna Hora	42,351	
CSTP Bratislava	2,737	
Subtotal		45,088
Export (by country):		
Vietnam	3,385	
Yugoslavia	2,280	
Hungary	1,879	
USSR	1,520	
Nepal	1,145	
India	1,136	
Romania	920	
Other	1,952	
Subtotal		14,217
Total sales		59,305

6M15 All the export sales shown above are for spare parts.

Sales and production

6M16 We have been informed that the average production cycle for the cigarette making and packaging lines is 18 to 24 months. This long cycle is largely due to the long lead time for delivery of raw materials. In contrast, the actual time required to manufacture the lines is 8 to 12 months.

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6M17 Following the completion manufacture of the component parts for the tobacco processing lines, the machines are tested in Plzeň and then assembled on the customer site by the division. The on-site assembly generally lasts 20 days.

6M18 In the nine months ended 30 September 1991, the Tobacco Machines Division produced 10 AC11 cigarette making lines, 10 ACF1 cigarette making lines, 10 B250 cigarette packaging lines, and 30 million k of spares and replacements. The division did not service any machines in the first nine months of 1991. This production programme fully utilised the division's capacity which management state is 20 production and 10 packaging lines per annum. One packaging machine is generally sold with each two cigarette making machines.

Pricing

6M19 While the average export price of a production line is 10.5 million k, the average sales price is significantly lower for the domestic market (5 million k). The same differential exists with respect to the packaging line; the average export and domestic prices are 9 million k and 3.3 million k, respectively.

6M20 In 1991, prices were negotiated on a case by case basis.

Income recognition

6M21 Income is recognised when an invoice is raised when the machines are shipped from Plzeň; that is, income is recognised before the lines are fully assembled on the customer's premises.

USSR contracts

6M22 After the abolition of the transferable rouble, the Tobacco Machines Division made several unsuccessful attempts to renegotiate contracts with the former USSR customers in US dollars and as a consequence there are a considerable number of completed and partially completed machines in the division's inventories.

6M23 Finished goods inventory at 30 September 1991 consisted primarily of 10 production lines originally destined for the former USSR.

pv

6M24 Furthermore, 10 lines that were sold to Škodaexport in 1990 remain in Škodaexport's inventories. Under the latest agreements between Škodaexport and Škoda Plzeň, the Foreign Trade Department assumed responsibility for the sale of these machines and although they remain the legal property of Škodaexport, the division must bear the financing and warehousing costs of holding them in stock.

6M25 The machines in stock (AC11) are more advanced than the AC1's required by the domestic market, and therefore cannot be shifted to fill current orders.

Suppliers

6M26 Diverse suppliers for all inputs are used, and in most cases the division has alternative suppliers.

6M27 The division's key supplier is MEZ Mohelnice, from whom they purchase motors. These motors, however, are widely available.

Order book

6M28 Management has provided the following information on the division's 1992 order book:

Customer	Order	Price (in million k)
Tabak AS, KH	15 production ACF1	42
	5 packaging B250	15
ČSTP Bratislava	5 production ACF1	14
OZO	5 packaging B250	15

6M29 The above production plan will fully utilise the Tobacco Division's annual capacity but will not reduce the lines carried in stock or by the Foreign Trade Department.

6M30 In addition, we note that ČSTP Bratislava has committed to purchase in 1993 five production lines for a total of 14 million k and various international contracts are under negotiation.

THE ADJUSTED BALANCE SHEET OF THE TOBACCO MACHINES DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	21,703	(a)
Intangible assets	1,302	(b)
Total long term assets	23,005	
CURRENT ASSETS		
Accounts receivable (domestic)	5,519	(e)
Accounts receivable (foreign)	-	(f)
Other accounts receivable (domestic)	244	(g)
Other accounts receivable (foreign)	45	(h)
Inventories	83,063	(i)
Total current assets	88,871	
TOTAL ASSETS	111,876	
CURRENT LIABILITIES		
Accounts payable (domestic)	(2,876)	(j)
Accrued expenses, provisions and deferred income)	(4,634)	(l)
Short term portion of bank loans	(7,555)	(m)
Other accounts payable	(233)	(n)
Total current liabilities	(15,298)	
LONG TERM PORTION OF BANK LOANS	(33,148)	(t)
TOTAL LIABILITIES	(48,446)	
NET ASSETS	63,430	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF THE TOBACCO MACHINE DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	62,741	(u)
Intra-company sales [2]	79,907	(ua)
Change in work-in-progress and finished goods	29,305	(v)
Cost of bought-in-items and surplus raw materials sold	(2,717)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(13,541)	(x)
Other operating costs	(46,178)	(y)
Intra-company purchases [3]	(74,179)	(ya)
Depreciation	(2,634)	(z)
Interest (net)	(4,726)	(Ia)
Other income	1,663	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	29,641	

[1] "Sales" include non-eliminating intra-company transactions of 265,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6N: KLATOVY

6N01 We set out below an overview of the activities of Závod Klatovy (or"Klatovy"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

6N02 The principal activities of Klatovy are the design, manufacture and installation of industrial furnaces for the domestic and export markets.

6N03 Klatovy manufactures to customers' specification although the seven basic types of furnace which are produced are as follows:

- Bell
- Walking beam
- Rotary hearth
- Roller
- Car hearth
- Box
- Chamber.

6N04 Additional activities include the manufacture of heating and cooling equipment, as well as driers for ceramics.

Description of production facilities

6N05 Klatovy is located 40 km south of Plzeň and therefore has more experience of operating independently than the majority of operating divisions.

6N06 The division has 44 buildings with a total area of 95,000 square metres.

Organisational structure and employees

6N07 The organisational structure of Klatovy is based on the standard Plzeň reporting structure (see Section 3, Part I).

6N08 We note that many of the top and middle management of Klatovy have been in the Company for a considerable period of time, however the time which they have held

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their current position is relatively short due to significant restructuring of the Company which occurred in 1990:

Name	Position	Years in the Company	Years in the division	Years in position
Ing. Prokop	Managing Director	31	31	2
Ing. Černý	Technical Director	25	25	9
Mr. Toman	Personnel Director	32	32	7
Mr. Boldan	Economic Director	37	37	12
Mr. Hofmeister	Commercial Director	30	30	2
Ing. Mudra	Personnel Director	19	19	2

6N09 The Managing Director is due to leave Klatovy on 1 April 1992 to take up a senior position at the Centre. His successor has not yet been chosen.

6N10 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 753, of which 427 (57%) were factory workers (direct and indirect).

Dependency on other operating divisions

Inputs

6N11 Klatovy purchases approximately 20% of its materials from within the Company. In particular, the principal resources provided by other divisions are:

Type of resource	million k
Castings	16.0
Forgings and pressings	1.5
Gear boxes	1.5
Electric components (ETD)	10.0
	29.0

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6N12 We draw your attention to the discussion in Section 4, Part I on the different classes of intra-company transactions. The information above relates to Castings and Forgings manufactured in production and "transfer of engineering products".

Outputs

6N13 Klatovy does not make any material sales to other divisions.

Structure of sales

6N14 We have been informed that the average production cycle for a furnace is 24 to 36 months.

Customers and markets

6N15 The largest customers during the nine months ended 30 September 1991 were as follows:

Customer	Product	Sales million k
Košice	Spares	39.9
Kinestna Vljanousk	Thermal equipment	19.3
Škoda Č. Budějovice	Box furnace	1.9
Třinec	Walking beam	4.2
Tesla Votice	Spares	4.8
Vítkovice	Walking beam	11.5
Chomutov Železárny	Roller furnace	29.0
Others		57.2
		167.8

V03

6N16 The pattern of sales in 1991 indicates that Klatovy is predominantly selling spare parts (58% in terms of sales value). The predominance of sales of spares reflects the decline of the former COMECON market and the difficulty that the division is experiencing in finding alternative markets.

Pricing

6N17 Contracts were not renegotiated following price liberalisation and Klatovy has been constrained to sell at the price negotiated at the time the contract was signed despite increases in input prices.

Long term manufacturing contracts

6N18 The management of the division have performed a conventional contract analysis for all large contracts in progress as well as those were work was completed at 30 September 1991 but for which no payment had been received. The analysis does not indicate the need for an unrealised loss provision. However, we draw to your attention that the former USSR and some domestic customers are experiencing liquidity problems.

Suppliers

6N19 We set out below the division's principal external suppliers and the purchases made in the nine months ended 30 September 1991:

Type of product	Name	Country	Purchases million k
Centrifugally cast tubes	Královopolská Brno	ČSFR	17.1
Steel products	Ferona Plzeň	ČSFR	4.5
Steel sheets	VSZ Košice	ČSFR	2.9
Measuring instruments	ZPA Nová Paka	ČSFR	3.0
Steel sheets	Vítkovice Ostrava	ČSFR	3.0
Steel sheets	VP Frýdek Místek	ČSFR	6.5

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THE ADJUSTED BALANCE SHEET OF KLATOVY AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	48,941	(a)
Intangible assets	25	(b)
Total long term assets	48,966	
CURRENT ASSETS		
Cash and cash equivalents	(12)	(d)
Accounts receivable (domestic)	29,955	(e)
Other accounts receivable (domestic)	378	(g)
Other accounts receivable (foreign)	87	(h)
Inventories	115,511	(i)
Total current assets	145,919	
TOTAL ASSETS	194,885	
CURRENT LIABILITIES		
Accounts payable (domestic)	(23,313)	(j)
Accrued expenses, provisions and deferred income)	(5,970)	(l)
Short term portion of bank loans	(12,473)	(m)
Other accounts payable	(544)	(n)
Total current liabilities	(42,300)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(28,163)	(o)
LONG TERM PORTION OF BANK LOANS	(66,291)	(t)
TOTAL LIABILITIES	(136,754)	
NET ASSETS	58,131	

ADJUSTED PROFIT AND LOSS ACCOUNT OF KLATOVY FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	215,635	(u)
Intra-company sales [2]	1,290	(ua)
Change in work-in-progress and finished goods	6,883	(v)
Cost of bought-in-items and surplus raw materials sold	(31,570)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(85,104)	(x)
Other operating costs	(57,031)	(y)
Intra-company purchases [3]	(14,527)	(ya)
Depreciation	(3,001)	(z)
Interest (net)	(9,487)	(Ia)
Exceptional costs	(45,000)	(Ib)
Other income	6,871	(Ic)
LOSS FOR THE NINE MONTH PERIOD	15,041	

[1] "Sales" include non-eliminating intra-company transactions of 43,419,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6O: EJPOVICE

6O01 We set out below an overview of the activities of Závod Ejpovice (or "Ejpovice"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6O02 The principal activities of Ejpovice are engineering (63%) and manufacture of laminated products (24%).

6O03 The engineering activities consists for the most part of the manufacture and assembly of components for electric locomotives. Plastics manufactured include laminated vessels and pipes, as well as small vessels for wine.

6O04 At the start of the second half of 1991, Ejpovice began to concentrate its resources on the assembly of electric cars. The division intends to focus on this product in the future.

Description of production facilities

6O05 Ejpovice is located 13 km east of Plzeň. There are numerous buildings on a large site (82,000 square metres). In addition, Ejpovice owns large areas of land which it is planning to sell.

Organisational structure and employees

6O06 The organisational structure of Ejpovice is based on the standard Plzeň reporting format (see Section 3, Part I).

6O07 The current management have been with the division since before it became part of Škoda Plzeň in 1982.

6O08 We note that many of the top and middle management of Ejpovice have been in the division for a considerable period of time, however the time which they have held their current position is relatively short:

Name	Position	Years in Division*	Years in Position
Ing. Kleinmond	Managing Director	23	1.5
Mr. Hirš	Commercial Directoı	24	1
Mr. Vild	Technical Director	23	0.5
Ing. Sladký	Production Director	13	2
Mr. Valenta	Economic Director	23	1.5
Mr. Pittnerová	Personnel Director	34	0.5

* Includes period prior to Ejpovice becoming part of Škoda Plzeň

6009 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 878, of which 537 (61%) were classified as factory workers (direct and indirect).

Dependency on other operating divisions

Inputs

6010 The majority of internal purchases are electronic components from ETD that will be used for locomotive components. The value of these sales is approximately 52 million k for the nine months ended 30 September 1991.

Outputs

6011 Ejpovice's sales are very dependent on the Locomotives and Turbines Divisions, which together represent 70% of its intra-company sales:

	million k
Components for Locomotives	146.6
Turbine Covers for Turbines	4.5
Circuits for Erection Engineering	0.9
Thermoplastics for various divisions	6.7
Total	158.7

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6O12 We draw to your attention the discussion in Section 4, Part I on the different classes of intra-company transactions. The information above relates to "transfer of engineering products" only.

Structure of sales

6O13 Production is made to order with contracts for laminated vessels having a cycle of between one week and two months. Other products have a production cycle of one to three months. There are no contracts which are outstanding from 1990.

6O14 A decision not to produce for stock was made at the beginning of the year. One exception to this general rule was the completion of a cancelled Polish contract. The laminated vessels relating to this contract are valued at 8.6 million k and represent 81% of the value of finished goods at 30 September 1991.

Customers and markets

6O15 In the nine months ended 30 September 1991, Ejpovice's major external customers were as follows:

	Product
Domestic:	
Mave Electric Děčín	Laminated pipes
Agra Přelouč	Laminated silos and vessels
Vzduchotechnika, Nové Město	Replacement parts for agricultural driers
Export:	
Wagner (Germany)	Welded pieces
Nord-Cap (Sweden)	Laminated vessels

6O16 Total exports for the nine months ended 30 September 1991 were 8.7 million k, of which the sale of laminated vessels were the largest element. Ejpovice exports via Technopol Bratislava and Strojexport, as well as the Foreign Trade Department.

6O17 Due to their heavy reliance on other divisions, the collapse of the plastics markets, and the loss of former COMECON markets, Ejpovice has looked at manufacturing new products. In the second half of 1991, the division entered into a contract with the Swiss company, Fridez Solar, to assemble 1,100 electric cars for the Swiss and German markets. Management hope to make this a long term arrangement.

6018 The division purchases Škoda Favorits LS and Pickups from Škoda Mladá Boleslav, removes the combustion engine and replaces it with an electric motor and batteries. The electric components are provided by the Swiss company.

6019 The technology and know-how for this project was purchased from Fridez Solar for 7.6 million k.

6020 No invoices were raised for electric cars at 30 September 1991. Work-in-progress relating to the cars was 56,000 k.

6021 We have been informed that the Ejpovice contract with Fridez Solar to supply 1,100 cars is worth 155 million k.

Pricing

6022 Ejpovice uses a cost plus system of pricing. Prices on contracts are discussed between the economic and commercial department. Prices on internal sales are negotiated with the customer division. For their sales to the locomotive division, Ejpovice generally charge a "profit" of 55% of processing costs (costs less materials).

Financing of electric cars

6023 Ejpovice have taken a 840,000 Swissfranc (16 million k) loan to fund the investment. The loan was arranged through a Swiss bank and Obchodní Banka (in Plzeň). The funds were used to purchase the know-how for the electric cars (0.4 million k) and to cover start up costs (0.4 million k).

6024 The Swiss bank is granting the actual loan, whilst Obchodní is providing the guarantee. The interest rate is 8.24% per annum, the guarantee fee 2%, and the collateral half the value of Ejpovice's land, buildings and structures. The first interest payment is due in December 1991/January 1992 and the first repayment of principal in June 1992.

Suppliers

6025 We set out below the division's principal external suppliers:

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- VSŽ Košice
- Ferona
- Mototechna
- Řempo
- Železárny Veselí
- Technomat

THE ADJUSTED BALANCE SHEET OF EJPOVICE AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	226,966	(a)
Intangible assets	65	(b)
Total long term assets	227,031	
CURRENT ASSETS		
Cash and cash equivalents	1,683	(d)
Accounts receivable (domestic)	11,109	(e)
Accounts receivable (foreign)	2,539	(f)
Other accounts receivable (domestic)	453	(g)
Other accounts receivable (foreign)	134	(h)
Inventories	54,413	(i)
Total current assets	70,331	
TOTAL ASSETS	297,362	
CURRENT LIABILITIES		
Accounts payable (domestic)	(11,486)	(j)
Accrued expenses, provisions and deferred income)	(4,432)	(l)
Short term portion of bank loans	(17,482)	(m)
Other accounts payable	(544)	(n)
Total current liabilities	(33,944)	
LONG TERM PORTION OF BANK LOANS	(79,826)	(t)
TOTAL LIABILITIES	(113,770)	
NET ASSETS	183,592	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF EJPOVICE FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	56,548	(u)
Intra-company sales [2]	210,191	(ua)
Change in work-in-progress and finished goods	(3,261)	(v)
Cost of bought-in-items and surplus raw materials sold	(5,540)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(46,488)	(x)
Other operating costs	(74,242)	(y)
Intra-company purchases [3]	(105,501)	(ya)
Depreciation	(9,428)	(z)
Interest (net)	(10,912)	(Ia)
Exceptional costs	(32,000)	(Ib)
Other income	14,357	(Ic)
LOSS FOR THE NINE MONTH PERIOD	6,276	

1) "Sales" include non-eliminating intra-company transactions with a debit balance of 332,000 k
2) "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
3) "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6P: OSTROV

6P01 We set out below an overview of the activities of Závod Ostrov (or "Ostrov"), together with both the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6P02 The principal activities of Ostrov are the manufacture and assembly of trolleybuses. The division enjoys a monopolistic position in Czechoslovakia.

6P03 Ostrov produces two types of trolleybus:

- The 14TR, a single wagon bus
- The 15TR, double wagon bus connected with an accordion elbow.

6P04 Trolleybuses represent 70% of both the division's sales and production.

6P05 Ostrov also produces foundry equipment, which consists mainly of blasting machines for foundries and glass works.

Description of production facilities

6P06 The division is located 100 km from Plzeň, 15km north of Karlovy Vary.

6P07 The site at Ostrov comprises two main production and assembly facilities for trolleybuses and blasting machines. The area is 454,000 square metres of which only 98,000 square metres are built-up.

Organisational structure and employees

6P08 The organisational structure of Ostrov is based on the standard Plzeň reporting format (see Section 3, Part I)

6P09 We note that many of the top and middle management of Ostrov have been in the Company for a considerable period of time, however the time which they have

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held their current position is relatively short due to significant restructuring of the Company which occurred in 1990:

Name	Position	Years in the Company	Years in the Division	Years in position
Ing. Macek	Managing Director	27	1.5	1.5
Mr. Juranek	Personnel Director	27	27	1.0
Ing. Dipl. Pravecek	Economic Director	27	25	1.5
Ing. Hrubec	Commercial Director	13	13	1.5
Mr. Kubik	Production Director	32	32	7.0
Mr. Tyc	Technical Director	31	31	0.3

6P10 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,591, of which 969 (61%) were classified as factory workers (direct and indirect).

6P11 The management at Ostrov believe that they have more control over their operations than other operating divisions due to their distance from Plzeň. However, they do not consider themselves able to market their products and expect to continue relying on Škodaexport to perform this function.

Dependency on other operating divisions

Inputs

6P12 Ostrov is dependent on services performed, and products provided by, other operating divisions and cost centres but not to any great extent. Intra-company transfers to Ostrov for the nine months ended 30 September 1991 are 58 million k compared with the value of materials consumed in production which have been purchased from third parties of 257 million k.

6P13 In particular, we have been informed that electric motors from ETD represent 84% of purchases referred to above. We draw to your attention the discussion in Section

4, Part I, on the different classes of intra-company transactions. The information above relates to "transfer of engineering products".

Outputs

6P14 Ostrov does not generally provide significant resources to other divisions. The exception to this are the trolley buses for an Iranian contract which have been transferred to Erection and Engineering, who is responsible for installing the bus system in Teheran.

Structure of sales

6P15 We have been informed that the average production cycle for a trolleybus is approximately six weeks. Production in the past was geared towards the former Soviet market which has now collapsed. The loss of this market has meant that the division cannot sell all its production (see below) however it continues to produce as if its markets were still intact.

Income recognition

6P16 Income from external sales is recognised on invoicing. The price indicated on the invoice is in accordance with a fixed price specified in a contract. There are no cost escalation clauses.

6P17 Internal sales are recognised upon transfer of the product to the customer division. Management estimate that over 80% of the division's intra-company sales for the nine months ended 30 September 1991 were trolleybuses bound for Teheran (124.7 million k). Erection and Engineering also utilise Ostrov's blasting machines and foundry equipment.

Customers and markets

6P18 Domestic trolleybus sales are made to city governments. At present there are 15 cities in Czechoslovakia which operate trolley buses, and who purchase, for the most part, either replacements or additions to these systems. Cities with trolley buses include Plzeň, Brno and Bratislava. We have been informed that another ten cities, including Praha, are considering adopting such a system. However, most cities cannot afford to proceed with implementation at this time.

6P19 Export sales are made either through Škodaexport, Technoexport, or the Foreign Trade Department. As mentioned above, the main export customer for trolleybuses has been the former Soviet Union. The cities which have purchased large numbers have included Kyjev, Riga, Baku, Vilnius, Tbilisi and Simferopol.

6P20 The foundry equipment is usually sold via Erections and Engineering because Ostrov does not offer an assembly service.

6P21 The largest customers during the nine months ended 30 September 1991 were as follows:

Domestic (cities):	No.of buses
Bratislava	48
Plzeň	15
Zlin	10
Pardubice	9
Brno	8
Jihlava	5
Other	12
Total	107

6P22 Of these 107 buses, 102 were 14 TR's and 5 were 15 TR's. The value of these sales was 105.6 million k.

6P23 The value of export sales to the former USSR and Iran for the nine months ended 30 September 1991 were 210 million k and 124 million k, respectively:

Export:	No. of buses
USSR	25 x 14 TRs 26 x 15 TRs
Iran	35 x 15 TR

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6P24 The composition of non trolley bus sales for the nine months ended 30 September 1991 is as follows:

	million k
Spares for buses	14.9
Foundry sales	69.9
Presses	6.1
Total	90.9

Sales and production

6P25 Inventories at 30 September 1991 are high due to the status of the contracts discussed below.

Ukrainian contract

6P26 A contract was signed between Škodaexport and its Ukrainian counterpart on 11 April 1991 to deliver 80 15TR's and 20 14 TR's by the end of 1991. This contract stipulated that the contract would not come into effect until the following agreements were concluded:

- A bilateral governmental contract
- A governmental contract relating to terms of payment
- A inter State bank agreement on financing.

6P27 The last of these three conditions has still not been fulfilled. Notwithstanding this, Ostrov commenced production of the relevant trolleybuses and at 30 September 1991 there were 20 (value unknown) buses in work-in-progress and 22 (42 million k) finished goods, respectively. We note that a statement was recently made by a member of the Czechoslovak Government in Kiev that the buses would be delivered.

Bulgarian contracts

6P28 There are currently two contracts outstanding with Bulgaria relating to the reconstruction of a foundry and some blasting equipment. As with the Ukrainian

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contract, the customer is experiencing difficulty raising the required finance. The goods involved are customer specific and could not be sold to a third party.

6P29 At 30 September 1991, the value of work-in-progress relating to these contracts is approximately 4 million k.

Cuban contract

6P30 A contract has been signed with Technoexport for blasting mill equipment and spares to be supplied to Cuba at a price of 8 million k. The contract was dependent on the establishment of a letter of credit which has not been performed. Production was commenced because Cuba is a long standing customer and the related finished goods of 8 million k were on hand at 30 September 1991.

Order book

6P31 Of the 65 trolley buses for Teheran, 35 have been delivered in 1991 and the remainder will be completed in 1992.

6P32 Ostrov are also competing for a contract to supply trolley buses to Guadalhara in Mexico. We have been informed that the funding would be through the World Bank.

Pricing

6P33 The current prices for the domestic and overseas market for trolley buses are as follows:

	Domestic million k	Export million k
14TR	1.4	3.2
15TR	2.3	5.4

6P34 The management have informed us that these prices are probably half of the western price of an equivalent product although the technical quality is probably 30% lower.

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6P35 On export contracts the normal commission charged is 7%.

6P36 Blasting machines are sold domestically for between 2 to 3 million k each. There are no export sales.

Competitors

6P37 The only other dedicated manufacturer of trolley buses is a Russian firm based in Uritcky.

Suppliers

6P38 Ostrov has its own purchasing and warehousing departments, however imports of raw materials are made through the Foreign Trade Department.

6P39 Ostrov uses approximately 35,000 suppliers and does not place undue reliance on any one supplier.

Environmental

6P40 There are high levels of radioactivity on the Ostrov site due to the now-defunct uranium mines in the area. One old tower has particularly high levels of radioactivity. The tower, which was used for sorting the uranium mined nearby, is in the middle of the factory grounds.

THE ADJUSTED BALANCE SHEET OF OSTROV AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	210,779	(a)
Intangible assets	94	(b)
Total long term assets	210,873	
CURRENT ASSETS		
Cash and cash equivalents	1	(d)
Accounts receivable (domestic)	406,405	(e)
Other accounts receivable (domestic)	849	(g)
Other accounts receivable (foreign)	5	(h)
Inventories	285,303	(i)
Total current assets	692,563	
TOTAL ASSETS	903,436	
CURRENT LIABILITIES		
Accounts payable (domestic)	(74,270)	(j)
Accrued expenses, provisions and deferred income)	(18,383)	(l)
Short term portion of bank loans	(32,219)	(m)
Other accounts payable	(2,054)	(n)
Total current liabilities	(126,926)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(190,283)	(o)
LONG TERM PORTION OF BANK LOANS	(167,252)	(t)
TOTAL LIABILITIES	(484,461)	
NET ASSETS	418,975	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF OSTROV FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	594,317	(u)
Intra-company sales [2]	131,950	(ua)
Change in work-in-progress and finished goods	21,091	(v)
Cost of bought-in-items and surplus raw materials sold	(38,405)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(259,141)	(x)
Other operating costs	(166,205)	(y)
Intra-company purchases [3]	(185,795)	(ya)
Depreciation	(13,419)	(z)
Interest (net)	(25,156)	(Ia)
Exceptional costs	(32,000)	(Ib)
Other income	17,524	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	44,761	

[1] "Sales" include non-eliminating intra-company transactions of 150,333,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6Q: ROTAVA

6Q01 We set out below an overview of the activities of Závod Rotava (or "Rotava"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991.

Principal activities

6Q02 The principal activities of Rotava are the manufacture and assembly of both curing and vulcanising presses. Some mining equipment is also produced, as well as castings from a foundry.

6Q03 The curing presses are designed for shaping and curing bias tyres or radial tyres for trucks, machines used in civil engineering, special machines and tractors.

6Q04 A limited number of water turbines are also produced which are used in small hydroelectric power plants. They have a nominal unit power output ranging from 3 to 550 KW.

Description of production facilities

6Q05 Rotava is located 30 km north of Karlovy Vary, and 120 km from Plzeň.

6Q06 The Rotava facility comprises several manufacturing and assembly halls.

6Q07 The foundry was recently closed and 80 employees were redeployed to the engineering section of the division. The foundry products are easily purchased from other sources such as České Budějovice.

Organisational structure and employees

6Q08 The organisational structure of Rotava is based on the standard Plzeň reporting format (see Section 3, Part I).

6Q09 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 785, of which 494 (65%) were classified as factory workers (direct and indirect).

6Q10 We note that many of the top and middle management of Rotava have been in the Company for a considerable period of time however the time which they have held their current position is relatively short due to significant restructuring of the Company which occurred in 1990:

Name	Position	Years in the Division	Years in Position
Ing. Hruza	Managing Director	21	6
Mr. Hynek	Commercial Director	20	*
Mr. Behina	Production Director	24	0.2
Mr. Varaus	Economic Director	28	4
Mr. Votava	Personnel Director	29	0.5

* The Commercial Director took up his appointment in December 1991.

6Q11 We note that there is currently no Technical Director.

Dependency on other operating divisions

Inputs

6Q12 Rotava is dependent on the provision of both services and materials from other operating divisions, principally Gears and ETD.

Outputs

6Q13 Rotava sells manufactured materials to several other divisions (11 million k for the nine months ended 30 September 1991) principally ETD, Forgings, Ostrov and Klatovy. We draw your attention to the discussion in Section 4, Part I, on the different classes of intra-company transactions. The information above relates to "transfer of engineering products only".

Structure of sales

6Q14 Tyre presses, which represent 60% of Rotava's sales for the nine months ended 30 September 1991, have a production cycle of four months. The mining equipment has a production cycle of two months.

Customers and markets

6Q15 The largest customers during the nine months ended 30 September 1991 were as follows:

		000 k
Domestic:		
LTZ Chomutov	Spares	8,560
Gumarny Barum-Puchov	Vulcanising press	36,200
	Rubber forms	12,619
Barum Otrokovice	Vulcanising press	2,680
Ostravsko Karvinske Doly	Spares for mining	12,000
Mitas Praha	Vulcanising press	6,750
Various domestic	Castings	40,550
Subtotal		119,359
Export:		
Liebner(Germany)	Conveyer belts	11,655
Technoexport	Presses	13,476
Others	Presses and spares	6,915
Subtotal		32,046
Other sales (domestic and export)		11,073
		162,478

6Q16 The following contractual issues have affected both sales and production for the nine months ended 30 September 1991.

Cuban contract

6Q17 A contract to supply Cuba with 17 tyre machines was signed with Technoexport. Goods to the value of 12.4 million k were invoiced in September 1991 but these are still on Rotava's site as there are problems associated with payment.

Polish contract

6Q18 There is a contract to supply two curing machines to Poland but the final customer has cancelled the contract. The value of the contract is 9.9 million k.

Order book

6Q19 Management have shown us their production programme for the year ending 31 December 1992 which indicates that there are contracts signed for 64 million k in the first quarter of 1992.

Suppliers

6Q20 We set out the division's principal external suppliers:

Type of product	Name	Country million k	Purchases
Metallurgical products	Ferona Praha	ČSFR	11.2
Valves, switches	ZPA Prešov	ČSFR	3.5
Hoses	Řempo Režie	ČSFR	2.3

THE ADJUSTED BALANCE SHEET OF ROTAVA AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	72,084	(a)
CURRENT ASSETS		
Cash and cash equivalents	5	(d)
Accounts receivable (domestic)	22,384	(e)
Other accounts receivable (domestic)	383	(g)
Other accounts receivable (foreign)	92	(h)
Inventories	53,269	(i)
Total current assets	76,133	
TOTAL ASSETS	148,217	
CURRENT LIABILITIES		
Accounts payable (domestic)	(11,731)	(j)
Accrued expenses, provisions and deferred income)	(2,731)	(l)
Short term portion of bank loans	(12,389)	(m)
Other accounts payable	(641)	(n)
Total current liabilities	(27,492)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(700)	(o)
LONG TERM PORTION OF BANK LOANS	(51,158)	(t)
TOTAL LIABILITIES	(79,350)	
NET ASSETS	68,867	

ADJUSTED PROFIT AND LOSS ACCOUNT OF ROTAVA FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	170,891	(u)
Intra-company sales [2]	14,666	(ua)
Change in work-in-progress and finished goods	(5,119)	(v)
Cost of bought-in-items and surplus raw materials sold	(7,093)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(47,237)	(x)
Other operating costs	(91,480)	(y)
Intra-company purchases [3]	(28,010)	(ya)
Depreciation	(6,398)	(z)
Interest (net)	(7,981)	(Ia)
Exceptional costs	(35,000)	(Ib)
Other income	15,141	(Ic)
LOSS FOR THE NINE MONTH PERIOD	27,620	

[1] "Sales" include non-eliminating intra-company transactions of 8,005,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6R: DÝŠINA

6R01 We set out below an overview of the activities of Závod Dýšina (or "Dýšina"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss account for the nine months ended 30 September 1991. We note that the management of Dýšina have submitted an alternative privatisation plan, and that access at this division was limited.

Principal activities

6R02 The principal activities of Dýšina are the manufacture and assembly of mobile compressors. In addition pipe and bar castings are produced and a small number of immobile compressors. Dýšina enjoys a monopolistic position with respect to mobile compressors in Czechoslovakia.

Description of production facilities

6R03 Dýšina is located 10 km north-east of Plzeň. There are three workshops: Dýšina, Chrast and Brasy. At Dýšina the chassis for the mobile compressors are manufactured. Chrast is an assembly centre and at Brasy there is a foundry.

Organisational structure and employees

6R04 The organisational structure at 30 September 1991 is based on the standard Plzeň model (see Section 3, Part I).

6R05 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 603, of which 409 (68%) were classified as factory workers (direct and indirect).

6R06 We note that many of the top and middle management of Dýšina have been in the Company for a considerable period of time, however the time which they have held their current position is relatively short due to the significant restructuring which occurred in 1990:

Name	Position	Years in the Company	Years in Position
Ing. Kotva	Managing Director	19	8
Ing. Benda	Technical Director	2	1
Ing. Cil	Commercial Director	37	6
Ing. Tryner	Economics Director	18	1
Ing. Prokes	Personnel Director	24	3

Restitution

6R07 All the workshops have been the subject of restitution claims (18 claimants). Brasy has been settled and the claimants are to receive shares in the Company following privatisation. As a result all the employees at this site were made redundant on 30 November 1991. Chrast and Dýšina have still to be settled.

Dependency on other operating divisions

Inputs

6R08 Only a very small proportion of Dýšina's raw material requirements are sourced from other operating divisions or cost centres. Divisions from which goods are purchased include Castings, ETD and Tools.

Outputs

6R09 None of Dýšina's product range is sold to other operating divisions.

Structure of sales

6R10 The customer base is diverse and non-recurring.

Customers and markets

6R11 A small proportion of Dýšina's sales are to foreign customers. In the past, export sales were handled by Pragoinvest but this foreign trade organisation went into liquidation in 1990. Dýšina is currently searching for a new agent to handle its export sales.

Suppliers

6R12 We have been informed that the division's principal external suppliers, all of whom are domestic, are as follows: Ferona Praha, ZPA Presov and Rempo Rezie.

THE ADJUSTED BALANCE SHEET OF DÝŠINA AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	92,985	(a)
Intangible assets	3,506	(b)
Total long term assets	96,491	
CURRENT ASSETS		
Cash and cash equivalents	2	(d)
Accounts receivable (domestic)	(634)	(e)
Other accounts receivable (domestic)	284	(g)
Other accounts receivable (foreign)	107	(h)
Inventories	168,304	(i)
Total current assets	168,063	
TOTAL ASSETS	264,554	
CURRENT LIABILITIES		
Accounts payable (domestic)	(19,757)	(j)
Accrued expenses, provisions and deferred income)	4,540	(l)
Short term portion of bank loans	(17,353)	(m)
Other accounts payable	(204)	(n)
Total current liabilities	(32,774)	
LONG TERM PORTION OF BANK LOANS	(59,467)	(t)
TOTAL LIABILITIES	(92,241)	
NET ASSETS	172,313	

ADJUSTED PROFIT AND LOSS ACCOUNT OF DÝŠINA FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	125,350	(u)
Intra-company sales [2]	403	(ua)
Change in work-in-progress and finished goods	70,671	(v)
Cost of bought-in-items and surplus raw materials sold	(5,240)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(97,956)	(x)
Other operating costs	(64,762)	(y)
Intra-company purchases [3]	(11,315)	(ya)
Depreciation	(5,768)	(z)
Interest (net)	(9,426)	(Ia)
Exceptional costs	(45,000)	(Ib)
Other income	4,738	(Ic)
LOSS FOR THE NINE MONTH PERIOD	(38,305)	

1) "Sales" include non-eliminating intra-company transactions of 3,706,000 k
2) "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
3) "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6S: REPAIRS

6S01 Závod Ústrední Opravna Strojů (or the "Repairs Division") performs repair services on a wide variety of machines. It is primarily oriented on servicing the requirements of the other operating divisions.

6S02 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 304.

6S03 Due to the size of this division and the fact that it almost exclusively fulfils a support function, we have not made any inquiries of management as to the division's activities.

THE ADJUSTED BALANCE SHEET OF REPAIRS AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	7,580	(a)
CURRENT ASSETS		
Accounts receivable (domestic)	4,576	(e)
Other accounts receivable (domestic)	153	(g)
Other accounts receivable (foreign)	1	(h)
Inventories	28,870	(i)
Total current assets	33,600	
TOTAL ASSETS	41,180	
CURRENT LIABILITIES		
Accounts payable (domestic)	(3,852)	(j)
Accrued expenses, provisions and deferred income)	(1,435)	(l)
Short term portion of bank loans	(3,771)	(m)
Other accounts payable	(4)	(n)
Total current liabilities	(9,062)	
LONG TERM PORTION OF BANK LOANS	(19,381)	(t)
TOTAL LIABILITIES	(28,443)	
NET ASSETS	12,737	

ADJUSTED PROFIT AND LOSS ACCOUNT OF REPAIRS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	15,300	(u)
Intra-company sales [2]	42,478	(ua)
Change in work-in-progress and finished goods	(2,965)	(v)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(14,374)	(x)
Other operating costs	(20,138)	(y)
Intra-company purchases [3]	(12,404)	(ya)
Depreciation	(1,322)	(z)
Interest (net)	(3,126)	(Ia)
Exceptional costs	(1,000)	(Ib)
Other income	9	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	2,458	

[1] "Sales" include non-eliminating intra-company transactions of 5,409,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6T: ENERGY

6T01 Závod Energetický (or the "Energy Division") provides electricity and heating to the Plzeň complex, as well as to flats, located near the complex, of both employees and the general public.

6T02 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,071.

6T03 Due to the size of this division and the fact that it almost exclusively fulfils a support function, we have not made any inquiries of management as to the division's activities.

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THE ADJUSTED BALANCE SHEET OF THE ENERGY DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	522,167	(a)
CURRENT ASSETS	1,041	
Accounts receivable (domestic)	521	(e)
Inventories	53,859	(i)
Total current assets	55,421	
TOTAL ASSETS	577,588	
CURRENT LIABILITIES		
Accounts payable (domestic)	(90,715)	(j)
Accrued expenses, provisions and deferred income)	(16,037)	(l)
Short term portion of bank loans	(11,981)	(m)
Other accounts payable	(727)	(n)
Total current liabilities	(119,460)	
LONG TERM PORTION OF BANK LOANS	(39,342)	(t)
TOTAL LIABILITIES	(158,802)	
NET ASSETS	418,786	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF THE ENERGY DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	196	(u)
Intra-company sales [2]	586,876	(ua)
Change in work-in-progress and finished goods	1,078	(v)
Cost of bought-in-items and surplus raw materials sold	(1,327)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(46,700)	(x)
Other operating costs	(412,874)	(y)
Intra-company purchases [3]	(36,850)	(ya)
Depreciation	(28,017)	(z)
Interest (net)	(3,027)	(Ia)
Other income	1,478	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	60,833	

[1] "Sales" include non-eliminating intra-company transactions of 5,409,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6U: MAINTENANCE

6U01 We set out below an overview of the activities of ZVÚ (or the "Maintenance Division"), together with the adjusted divisional balance sheet at 30 September 1991 and the adjusted divisional profit and loss accounts for the nine months ended 30 September 1991.

Principal activities

6U02 The principal activities of the Maintenance Division are the reconstruction, repair and maintenance of buildings.

Description of production facilities

6U03 The Maintenance Division is located in the main Plzeň complex. There are numerous workshops where the maintenance projects are undertaken. In total the production, administration and warehousing facilities occupy 31,120 square metres.

Organisational structure and employees

6U04 The organisational structure is based on the standard Plzeň model (see Section 3, Part I).

6U05 The average number of full time equivalent employees for the nine months ended 30 September 1991 was 1,530, of which 958 (63%) were classified as factory workers (direct and indirect).

6U06 We note that many of the top and middle management of the Maintenance Division have been in the Company for a considerable period of time, however the time which they have held their current positions is relatively short due to the significant restructuring of the Company which occurred in 1990:

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Name	Position	Years in the Company	Years in the Division	Years in Position
Ing. Kneys	Managing Director	34	34	2.5
Ing. Rybar	Technical Director	26	1.5	NO
Ing. Fremr	Commercial Director	20.5	20.5	1
Ing. Smetana	Economics Director	34	34	5.5
Ing. Vrastil	Personnel Director	23	19	1.5

NO = Not obtained

Dependency on other operating divisions

Inputs

6U07 The Maintenance Division purchases only a small proportion of its raw material requirements from other operating divisions, the majority of which comes from the Castings Division.

Outputs

6U08 In contrast, approximately 90% of the work performed by the Maintenance Division is for other operating divisions. We list below the main recipients of maintenance work in the nine months ended 30 September 1991:

	million k
Castings	33.8
Forgings	22.9
ETD	16.4
Locomotives	16.4
Total	89.5

6U09 We draw to your attention to the discussion in Section 4, Part 1 on the different classes of intra-company transactions. This information above relates to "transfer of engineering products" and "other intra-company earnings".

Structure of sales

6U10 The revenue generated by the Maintenance Division represents approximately 1,000 contracts. The highest revenue attributable to a single contract for the nine months ended 30 September 1991 was 8.5 million k (see below).

Income recognition

6U11 Income is recognised when an invoice is raised. We have been informed that there are no fixed price contracts for the work performed by the Maintenance Division and price increases are negotiated if raw material inputs increase significantly.

Customers and markets

6U12 There are only two large orders:

- The reconstruction of the sanatorium 'ZVON' in Marianske Lazne (52 million k). The revenue relating to this contract for the nine months ended 30 September 1991 is the 8.5 million k referred to above.
- The reconstruction of one of the Company's power station (42 million k).

Sales and production

6U13 The volume of work that the Maintenance Division performs is clearly dependent on the requirements of other operating divisions. Inventories, are in the form of building and construction materials, and tend to be general purpose in nature.

Order book

6U14 We have been informed by the management of the division that contracts with a value of 50 million k are due to be invoiced in 1992.

Suppliers

6U15 We set out below the principal external suppliers for the Maintenance Division:

Type of product	Name	Country
Floors,tubes	Ferona Plzeň	ČSFR
Laboratory apparatus	Cihelna Stod	ČSFR
Prefabricated sections	Prefa Hyskove	ČSFR
Cement	Stavivá Plzeň	ČSFR
Asphalt products	Chema Pardubice	ČSFR
Sand	Západokámen Plzeň	ČSFR

THE ADJUSTED BALANCE SHEET OF THE MAINTENANCE DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	42,825	(a)
Intangible assets	10	(b)
Total long term assets	42,835	
CURRENT ASSETS		
Accounts receivable (domestic)	4,269	(e)
Other accounts receivable (domestic)	243	(g)
Other accounts receivable (foreign)	537	(h)
Inventories	91,175	(i)
Total current assets	96,224	
TOTAL ASSETS	139,059	
CURRENT LIABILITIES		
Accounts payable (domestic)	(25,959)	(j)
Accrued expenses, provisions and deferred income)	(10,036)	(l)
Short term portion of bank loans	(14,904)	(m)
Other accounts payable	(871)	(n)
Total current liabilities	(51,770)	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	(365)	(o)
LONG TERM PORTION OF BANK LOANS	(64,320)	(t)
TOTAL LIABILITIES	(116,455)	
NET ASSETS	22,604	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF THE MAINTENANCE DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	116,213	(u)
Intra-company sales [2]	169,679	(ua)
Change in work-in-progress and finished goods	(17,254)	(v)
Cost of bought-in-items and surplus raw materials sold	(46,791)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(64,386)	(x)
Other operating costs	(116,978)	(y)
Intra-company purchases [3]	(20,887)	(ya)
Depreciation	(2,798)	(z)
Interest (net)	(10,250)	(Ia)
Exceptional costs	(4,000)	(Ib)
Other income	2,690	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	5,238	

[1] "Sales" include non-eliminating intra-company transactions of 58,532,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6V: WELFARE

6V01 We set out below an overview of the activities of Závod Péče o Pracující (or the "Welfare Division"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss accounts for the nine months ended 30 September 1991.

Principal activities

6V02 The Welfare Division is a non-profit making operating division according to the Škoda Plzeň organisational structure, and is part of the Administration Centre. As such the Director of Welfare reports to the Personnel Director of the Company.

6V03 The Welfare Division is responsible for a wide range of activities, including:

- Housing
- Employee meals
- Medical care
- Catering services
- Recreational facilities
- Kindergartens and nurseries.

Housing

6V04 The Welfare Division is responsible for dormitories for unmarried employees (2,342 beds) and small flats for couples (466 beds). It is also responsible for maintaining 63 blocks of flats (or 3,004 flats).

Employee meals

6V05 The division ensures that meals are prepared daily for 14,800 employees and 1,700 employees of other companies.

Kindergartens

6V06 Kindergartens and nurseries cater for 650 and 175 children, respectively.

Medical care

6V07 The division is responsible for running two hospitals (Hospital Plzeň and Hospital Letiny) with a total of 333 beds, as well as some medical centres. We have been informed that from 1 January 1992 the Hospital Plzeň was passed to the Municipal Authority, however the Company will make a contribution of 20 million k per annum to its upkeep.

Recreational facilities

6V08 The Welfare Division runs two of the Company's recreational facilities: Modrava and Belveder. The other recreational facilities belong to individual operating divisions.

Other activities

6V09 The division is responsible for other activities, including:

- Škoda-universum which facilitates sales of surplus assets and surplus inventories
- Repair shop
- Soda water facilities, confectionery shops etc

Financing

6V10 The activities of the Welfare Division are financed primarily by the Centre and contributions from the Welfare Fund are made to subsidise employee meals, purchases of medical equipment, the operating costs of recreational facilities and similar.

THE ADJUSTED BALANCE SHEET OF THE WELFARE DIVISION AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	476,140	(a)
Intangible assets	132	(b)
Total long term assets	476,272	
CURRENT ASSETS		
Accounts receivable (domestic)	1,920	(e)
Other accounts receivable (domestic)	453	(g)
Inventories	14,393	(i)
Total current assets	16,766	
TOTAL ASSETS	493,038	
CURRENT LIABILITIES		
Accounts payable (domestic)	(17,196)	(j)
Accrued expenses, provisions and deferred income)	(4,930)	(l)
Short term portion of bank loans	(20,290)	(m)
Other accounts payable	(504)	(n)
Total current liabilities	(42,920)	
LONG TERM PORTION OF BANK LOANS	(146,179)	(t)
TOTAL LIABILITIES	(189,099)	
NET ASSETS	303,939	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE WELFARE DIVISION FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	4,323	(u)
Intra-company sales [2]	67,883	(ua)
Change in work-in-progress and finished goods	89	(v)
Cost of bought-in-items and surplus raw materials sold	(4,699)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(94,934)	(x)
Other operating costs	(61,694)	(y)
Intra-company purchases [3]	(16,916)	(ya)
Depreciation	(9,252)	(z)
Interest (net)	(16,048)	(Ia)
Exceptional costs	(3,000)	(Ib)
Other income	117,138	(Ic)
LOSS FOR THE NINE MONTH PERIOD	17,110	

[1] "Sales" include non-eliminating intra-company transactions of 4,323,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6W: CENTRAL PURCHASING DEPARTMENT

6W01 We set out below an overview of the activities of Ústřední zasobování (or the "Central Purchasing Department"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss accounts for the nine months ended 30 September 1991.

Principal activities

6W02 The Central Purchasing Department is used either exclusively or partially by operating divisions and cost centres for:

- Purchases from external domestic suppliers
- Warehousing of purchased raw materials, semi-finished and finished goods.

6W02 The basic types of raw materials purchased and stocked by the Central Purchasing Department are as follows:

- Metallurgical materials
- Components for machines
- Coupling materials
- Wiring materials
- Non-metallurgical materials, such as textiles, rubber and plastics
- Cables
- Chemicals (petrol, lubricants, paints and enamels)
- Technical gases.

6W03 The management of the Company has estimated that there are 120,000 stock line items throughout Škoda Plzeň, of which the department stocks approximately 32,000.

6W04 The department has 43,000 square metres of warehousing space, together with 8,000 square metres for cutting and other first processing activities.

6W05 We have been informed that approximately one-third of purchased raw materials are cut, divided or otherwise processed (first operation) by the Central Purchasing Department.

6W06 Another one-third of purchased materials are delivered direct to the operating division who initially ordered the goods.

6W07 The remaining one-third are stocked by the department, but no initial processing is performed.

6W08 The Central Purchasing Department charges a fee to the operating divisions which is designed to cover both direct supply costs and overheads.

6W09 The rates applicable during the first nine months of 1991 were as follows:

Raw material	Fee (%)
Uncut metallurgical materials	9
Alloyed metallurgical materials	25
Cut, divided or otherwise processed metallurgical materials	22
Components and parts for machines	5
Other raw materials	5
Electrical components and parts	5
Raw materials delivered directly to the divisions (administration of the order only)	1

6W10 We draw to your attention that in the allocation of the consolidated balance sheet, the inventories of the Central Purchasing Division were allocated across the operating divisions so as to reflect the original requisition advices.

6W11 The Central Purchasing Department reports to the Production Director for the Company.

6W12 The average number of full time equivalent employees in the department for the nine months ended 30 September 1991 was 640, of which 334 were classified as workers.

THE ADJUSTED BALANCE SHEET OF CENTRAL PURCHASING DEPARTMENT AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	51,999	(a)
CURRENT ASSETS		
Cash and cash equivalents	768	(d)
Accounts receivable (domestic)	11,166	(e)
Other accounts receivable (domestic)	260	(g)
Other accounts receivable (foreign)	23	(h)
Inventories	3,348	(i)
Total current assets	15,565	
TOTAL ASSETS	67,564	
CURRENT LIABILITIES		
Accounts payable (domestic)	(5,329)	(j)
Accrued expenses, provisions and deferred income)	(6,466)	(l)
Short term portion of bank loans	(2,726)	(m)
Other accounts payable	(536)	(n)
Total current liabilities	(15,057)	
LONG TERM PORTION OF BANK LOANS	(18,018)	(t)
TOTAL LIABILITIES	(33,075)	
NET ASSETS	34,489	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE CENTRAL PURCHASING DEPARTMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	11,200	(u)
Intra-company sales [2]	119,648	(ua)
Change in work-in-progress and finished goods	1,564	(v)
Cost of bought-in-items and surplus raw materials sold	(66,430)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	5,251	(x)
Other operating costs	(54,975)	(y)
Intra-company purchases [3]	(29,417)	(ya)
Depreciation	(4,273)	(z)
Interest (net)	(2,043)	(Ia)
Exceptional costs	(11,000)	(Ib)
Other income	73,556	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	43,081	

[1] "Sales" include non-eliminating intra-company transactions of 987,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6X: FOREIGN TRADE DEPARTMENT

6X01 We set out below an overview of the activities of Odbor zahraničního obchodu (or the "Foreign Trade Department"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss accounts for the nine months ended 30 September 1991.

Principal activities

6X02 The Foreign Trade Department imports and exports goods for both the operating divisions and external customers. The operating divisions either use the department exclusively for their foreign trade activities, or use the department together with one of several foreign trade organisations.

6X03 The vast majority of the department's work is for the benefit of other operating divisions: 95% of exports and 85% of imports for the nine months ended 30 September 1991.

6X04 The management of the Foreign Trade department have submitted an alternative privatisation plan and were not prepared to disclose their commission on individual transactions or indicate the existence of any differential between that charged the operating divisions and that charged to third parties. We have, however, obtained the following information partly from Central Accounting and partly from the department, for the nine month period:

	Export million k	%	Import million k	%	Total million k	%
Sales	207	22	713	78	920	100
Cost of goods sold	(177)	21	(653)	79	(830)	100
Gross margin	30	33	60	67	90	100
As a % of sales	14.5%		8.4%		10.0%	

6X05 For the reason described above, we do not know what costs are included in the "cost of goods sold".

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6X06 The department maintains its own bank accounts and it has a positive cash flow: it requires advances from the operating divisions before it places an order for any imported goods, and it secures monies due from foreign customers of export goods by letters of credit.

6X07 Export goods include castings, steel structures, tobacco machines, gear boxes, rolling equipment and compressors.

6X08 Imported goods include:

- Data processing equipment
- Controls for locomotives
- Components for machine tools
- Conductors
- Measuring instruments
- Valves
- Filters
- Testing machines and instruments
- Graphite tubes
- Chrome sand
- Titanium tubes for nuclear reactor blocks
- Polish workforce.

6X09 We draw to your attention that in the allocation of the consolidated balance sheet, certain of the inventories of this department were allocated across the operating divisions so as to reflect the original requisition orders for the import of goods.

THE ADJUSTED BALANCE SHEET OF THE FOREIGN TRADE DEPARTMENT AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	2,012	(a)
Intangible assets	99	(b)
Investments	6,000	(c)
Total long term assets	8,111	
CURRENT ASSETS		
Cash and cash equivalents	168,244	(d)
Accounts receivable (domestic)	114,300	(e)
Accounts receivable (foreign)	60,592	(f)
Other accounts receivable (domestic)	27	(g)
Inventories	18,495	(i)
Total current assets	361,658	
TOTAL ASSETS	369,769	
CURRENT LIABILITIES		
Accounts payable (domestic)	84,584	(j)
Accounts payable (foreign)	(23,254)	(k)
Accrued expenses, provisions and deferred income)	(455)	(l)
Short term portion of bank loans	(49,791)	(m)
Other accounts payable	(200,891)	(n)
Total current liabilities	(189,807)	
LONG TERM PORTION OF ACCOUNTS PAYABLE (FOREIGN)	(16,700)	(q)
TOTAL LIABILITIES	(206,507)	
NET ASSETS	163,262	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE FOREIGN TRADE DEPARTMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	920,657	(u)
Intra-company sales [2]	7,952	(ua)
Cost of bought-in-items and surplus raw materials sold	(830,188)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	1,570	(x)
Other operating costs	(77,879)	(y)
Intra-company purchases [3]	(767)	(ya)
Depreciation	(2,664)	(z)
Interest (net)	(2,201)	(Ia)
Other income	11,625	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	28,105	

[1] "Sales" include non-eliminating intra-company transactions of 183,343 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6Y: HOTELS

6Y01 Hotely Škoda (or "Hotels") was spun off from the Welfare Division on 1 April 1991.

6Y02 Hotels provide accommodation and catering services through:

- Hotel Škoda (****)
- Hotel Cizinecký dům aka Guest House (***)
- Hotel and restaurant Alka
- Villa Lochotín
- Five huts at Bonetice.

6Y03 Owing to a shortage of hotels and other accommodation facilities in Plzeň, we have been informed that the hotels achieve approximately 80% bed occupancy.

THE ADJUSTED BALANCE SHEET OF HOTELS AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	31,003	(a)
Intangible assets	866	(b)
Total long term assets	31,869	
CURRENT ASSETS		
Cash and cash equivalents	3,607	(d)
Accounts receivable (domestic)	943	(e)
Other accounts receivable (domestic)	112	(g)
Inventories	145	(i)
Total current assets	4,807	
TOTAL ASSETS	36,676	
CURRENT LIABILITIES		
Accounts payable (domestic)	(663)	(j)
Accrued expenses, provisions and deferred income)	(733)	(l)
Other accounts payable	(56)	(n)
Total current liabilities	(1,452)	
NET ASSETS	35,224	

ADJUSTED PROFIT AND LOSS ACCOUNT OF HOTELS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Intra-company sales [1]	671	(ua)
Cost of bought-in-items and surplus raw materials sold	(2,275)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(1,088)	(x)
Other operating costs	(9,616)	(y)
Intra-company purchases [2]	(111)	(ya)
Depreciation	(303)	(z)
Interest (net)	(391)	(Ia)
Other income	14,497	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	1,384	

[1] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[2] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6Z: AIR

6Z01 We set out below an overview of the activities of Škoda Air (or "Air"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss account for the nine months ended 30 September 1991.

Principal activities

6Z02 Air has a fleet of six aircraft: five small Czech planes and one Cessna. It conducts chartered flights, both domestic and international, under medium term contracts.

6Z03 We set out below the relative importance of its customers for the nine months ended 30 September 1991:

	% of revenues
Škoda Plzeň	6
External:	
Škoda Mladá Boleslav	62
Guinea	26
Other	6
Total	100

6Z04 The division utilises the former military airport located outside Plzeň.

THE ADJUSTED BALANCE SHEET OF AIR AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	14,830	(a)
Intangible assets	9	(b)
Total long term assets	14,839	
CURRENT ASSETS		
Cash and cash equivalents	100	(d)
Accounts receivable (domestic)	7,956	(e)
Other accounts receivable (domestic)	5	(g)
Other accounts receivable (foreign)	2,194	(h)
Inventories	2,703	(i)
Total current assets	12,958	
TOTAL ASSETS	27,797	
CURRENT LIABILITIES		
Accounts payable (domestic)	(1,067)	(j)
Accrued expenses, provisions and deferred income)	(4,725)	(l)
Other accounts payable	(15)	(n)
TOTAL CURRENT LIABILITIES	(5,807)	
NET ASSETS	21,990	

ADJUSTED PROFIT AND LOSS ACCOUNT OF AIR FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	16	(u)
Intra-company sales [2]	1,328	(ua)
Change in work-in-progress and finished goods	18	(v)
Cost of bought-in-items and surplus raw materials sold		(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(91)	(x)
Other operating costs	(10,005)	(y)
Intra-company purchases [3]	(381)	(ya)
Depreciation	(1,150)	(z)
Interest (net)	(1,669)	(Ia)
Exceptional costs	(1,000)	(Ib)
Other income	19,973	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	7,039	

[1] "Sales" include non-eliminating intra-company transactions of 16,000 k

[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6a: RESEARCH

6a01 We set out below an overview of the activities of Ústřední výzkumný ústav (or "Research"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss account for the nine months ended 30 September 1991.

Principal activities

6a02 The central research institute performs both research and testing procedures for the operating divisions (approximately 80%), principally the Nuclear and Locomotives Divisions, as well as external customers.

6a03 Research facilities are located at Bolevec, Zátiší, Bartelmus and Husovo naměstí.

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THE ADJUSTED BALANCE SHEET OF RESEARCH AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	69,867	(a)
Intangible assets	15	(b)
Total long term assets	69,882	
CURRENT ASSETS		
Accounts receivable (domestic)	6,694	(e)
Other accounts receivable (domestic)	146	(g)
Other accounts receivable (foreign)	53	(h)
Inventories	7,453	(i)
Total current assets	14,346	
TOTAL ASSETS	84,228	
CURRENT LIABILITIES		
Accounts payable (domestic)	(1,046)	(j)
Accrued expenses, provisions and deferred income)	(2,105)	(l)
Short term portion of bank loans	(1,890)	(m)
Other accounts payable	(18)	(n)
Total current liabilities	(5,059)	
LONG TERM PORTION OF BANK LOANS	(3,769)	(t)
TOTAL LIABILITIES	(8,828)	
NET ASSETS	75,400	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF RESEARCH FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	292	(u)
Intra-company sales [2]	34,948	(ua)
Change in work-in-progress and finished goods	(1,182)	(v)
Cost of bought-in-items and surplus raw materials sold	(2,516)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(3,532)	(x)
Other operating costs	(25,079)	(y)
Intra-company purchases [3]	(4,147)	(ya)
Depreciation	(7,566)	(z)
Interest (net)	(461)	(Ia)
Exceptional costs	(1,000)	(Ib)
Other income	8,432	(Ic)
LOSS FOR THE NINE MONTH PERIOD	1,811	

[1] "Sales" include non-eliminating intra-company transactions of 292,000 k
[2] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
[3] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6b: TRANSPORT

6b01 We set out below an overview of the activities of Doprava (or "Transport"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss account for the nine months ended 30 September 1991.

Principal activities

6b02 The Transport Division are responsible for the railway sidings, excluding that part of the track which runs through an operating division's facilities, and 390 railway wagons. In addition, it also operates a delivery fleet, representing 21% of the Company's total inventory of trucks, lorries and vans, together with 20% of Škoda Plzeň's cars.

2 1 2

THE ADJUSTED BALANCE SHEET OF TRANSPORT AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	137,341	(a)
Intangible assets	1	(b)
Investments	1,750	(c)
Total long term assets	139,092	
CURRENT ASSETS		
Accounts receivable (domestic)	769	(e)
Other accounts receivable (domestic)	131	(g)
Other accounts receivable (foreign)	733	(h)
Inventories	6,418	(i)
Total current assets	8,051	
TOTAL ASSETS	147,143	
CURRENT LIABILITIES		
Accounts payable (domestic)	(3,846)	(j)
Accrued expenses, provisions and deferred income)	2,077	(l)
Short term portion of bank loans	(10,137)	(m)
Other accounts payable	(140)	(n)
Total current liabilities	(12,026)	
LONG TERM PORTION OF BANK LOANS	(20,275)	(t)
TOTAL LIABILITIES	(32,301)	
NET ASSETS	114,842	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF TRANSPORT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Intra-company sales [1]	62,317	(ua)
Change in work-in-progress and finished goods	279	(v)
Cost of bought-in-items and surplus raw materials sold	(229)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(5,454)	(x)
Other operating costs	(35,224)	(y)
Intra-company purchases [2]	(4,880)	(ya)
Depreciation	(7,915)	(z)
Interest (net)	(3,982)	(Ia)
Other income	5,461	(Ic)
PROFIT FOR THE NINE MONTH PERIOD	10,373	

[1] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[2] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6c: DESIGN

6c01 We set out below an overview of the activities of Projektový ústav (or "Design"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss account for the nine months ended 30 September 1991.

Principal activities

6c02 Design is responsible for the following:

- Projections of new constructions, reconstructions and modernisations of industrial, civic and ecological buildings and facilities
- Drawings of steel constructions and non-standard machinery
- Search for suppliers
- Technological supervision
- Design of heating systems, anti-fire protection and climatisation systems
- Provision of engineering technology to mechanical and metallurgical workshops
- Development of cost calculations to reflect the designs developed.

THE ADJUSTED BALANCE SHEET OF DESIGN AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	458	(a)
Intangible assets	15	(b)
Total long term assets	473	
CURRENT ASSETS		
Other accounts receivable (domestic)	49	(g)
Inventories	855	(i)
Total current assets	904	
TOTAL ASSETS	1,377	
CURRENT LIABILITIES		
Accounts payable (domestic)	(11)	(j)
Accrued expenses, provisions and deferred income)	(425)	(l)
Other accounts payable	(2)	(n)
TOTAL CURRENT LIABILITIES	(438)	
NET ASSETS	939	

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ADJUSTED PROFIT AND LOSS ACCOUNT OF DESIGN FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Intra-company sales [1]	5,286	(ua)
Change in work-in-progress and finished goods	230	(v)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(199)	(x)
Other operating costs	(8 178)	(y)
Intra-company purchases [2]	(1,063)	(ya)
Depreciation	(67)	(z)
Interest (net)	(39)	(Ia)
Other income	6,892	(Ic)
LOSS FOR THE NINE MONTH PERIOD	2,862	

[1] "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

[2] "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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SECTION 6d: HOUSE OF CULTURE

6d01 We set out below an overview of the activities of Dům Kultury (or "the House of Culture"), together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss accounts for the nine months ended 30 September 1991.

Principal activities

6d02 The House of Culture, which is located in central Plzeň, was completed in 1987 and jointly financed by the Company and the trade union. The trade union, however, lacked the resources to run the House of Culture and therefore it was transferred to Škoda Plzeň. The House of Culture was sold in December 1991 for 10 million k (net book value: 259 million k). We have written down this asset to 10 million k in the adjusted balance sheet.

6d03 The principal activities of the House of Culture for the period under review were, as follows:

- Provision and organisation of cultural and educational activities
- Provision of entertainment facilities
- Training centre for the Company's employees.

THE ADJUSTED BALANCE SHEET OF CULTURE AT 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
TANGIBLE FIXED ASSETS	11,085	(a)
CURRENT ASSETS		
Cash and cash equivalents	2,946	(d)
Accounts receivable (domestic)	233	(e)
Other accounts receivable (domestic)	43	(g)
Inventories	114	(i)
Total current assets	3,336	
TOTAL ASSETS	14,421	
CURRENT LIABILITIES		
Accounts payable (domestic)	(28)	(j)
Accrued expenses, provisions and deferred income)	33	(l)
Other accounts payable	(80)	(n)
TOTAL CURRENT LIABILITIES	(75)	
NET ASSETS	14,346	

ADJUSTED PROFIT AND LOSS ACCOUNT OF CULTURE FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Intra-company sales [1]	(58)	(ua)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(2,053)	(x)
Other operating costs	(12,440)	(y)
Intra-company purchases [2]	(340)	(ya)
Depreciation	(3,399)	(z)
Interest (net)	(127)	(Ia)
Exceptional costs	(249,000)	(Ib)
Other income	5,362	(Ic)
LOSS FOR THE NINE MONTH PERIOD	262,055	

1) "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account

2) "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

SECTION 6e: OTHER COST CENTRES

6e01 We set out below a description of the principal cost centres comprising "other cost centres", together with the adjusted balance sheet at 30 September 1991 and the adjusted profit and loss accounts for the nine months ended 30 September 1991.

Composition

6e02 Other cost centres include:

- Head office and administration
- Screw manufacturing facility
- Training centre for apprentices
- Technology department
- Ice-hockey and football stadiums.

Head office and administration

6e03 Head office comprises management of the Company and their support staff, together with departments providing certain shared services:

- Data processing
- Central accounting
- Printing etc
- Welding school
- Language translation
- Maintenance of shared fixed assets, including cleaning
- Security.

6e04 The transfer prices for the above mentioned shared services are not inclusive of a margin.

Screw manufacturing facility

6e05 The screw manufacturing facility was closed on 30 September 1991 and had been run from the Plzeň-Bory prison.

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Training centre for Apprentices

6e06 Unlike the vast majority of Czechoslovak State-owned companies, Škoda Plzeň chose not to transfer their apprentice training facilities to the State (Ministry of Education) on 1 July 1991.

Ice-hockey and football stadiums

6e07 These stadiums, which are loss-making, were passed to the Company at nil consideration by their former owner, ČSTV, the State Sports Association. We have written off these stadiums in the adjusted balance sheet.

THE ADJUSTED BALANCE SHEET OF OTHER COST CENTRES AT
30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
LONG TERM ASSETS		
Tangible fixed assets	1,765,171	(a)
Intangible assets	777	(b)
Total long term assets	1,765,948	
CURRENT ASSETS		
Cash and cash equivalents	127,658	(d)
Accounts receivable (domestic)	23,719	(e)
Other accounts receivable (domestic)	1,873	(g)
Other accounts receivable (foreign)	666	(h)
Inventories	52,245	(i)
Total current assets	206,161	
TOTAL ASSETS	1,972,109	
CURRENT LIABILITIES		
Accounts payable (domestic)	154,046	(j)
Accrued expenses, provisions and deferred income)	(112,262)	(l)
Short term portion of bank loans	(5,445)	(m)
Other accounts payable	(19,914)	(n)
Total current liabilities	27,315	
ADVANCES AND PROGRESS PAYMENTS RECEIVED	3,332	(o)
LONG TERM PORTION OF BANK LOANS	(18,745)	(t)
TOTAL LIABILITIES	11,902	
NET ASSETS	1,984,011	

ADJUSTED PROFIT AND LOSS ACCOUNT OF THE OTHER COST CENTRES FOR THE NINE MONTHS ENDED 30 SEPTEMBER 1991:

	000 k	Grouping ref. (Appendix E)
Sales [1]	69,305	(u)
Intra-company sales [2]	309,165	(ua)
Change in work-in-progress and finished goods	3,846	(v)
Cost of bought-in-items and surplus raw materials sold	(37,489)	(w)
Purchased raw materials, purchased semi-finished and finished goods, and manufactured semi-finished goods consumed in production	(15,091)	(x)
Other operating costs	(392,693)	(y)
Intra-company purchases [3]	(83,233)	(ya)
Depreciation	(26,414)	(z)
Interest (net)	(2,100)	(Ia)
Exceptional costs	(129,000)	(Ib)
Other income	22,273	(Ic)
LOSS ON ORDINARY ACTIVITIES	281,431	
EXTRAORDINARY INCOME	330,000	(Id)
PROFIT FOR THE NINE MONTH PERIOD	48,569	

1) "Sales" include non-eliminating intra-company transactions with a debit balance of 26,924,000 k
2) "Intra-company sales" include eliminating intra-company transactions in the earnings section of the Czechoslovak profit and loss account
3) "Intra-company purchases" include eliminating intra-company transactions in the costs section of the Czechoslovak profit and loss account

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ŠKODA PLZEŇ

PHASE I: RESTATEMENT

Part III: APPENDICES

Coopers
&Lybrand

Coopers
&Lybrand

management
consultants
accountants

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Czechoslovakia

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The Directors
Škoda Concern, Plzeň, Ltd
Plzeň
Czechoslovakia

The Project Managers:
Mr Mike Tiller
Mr Ken Assall
Mr Doug Lister
International Finance Corporation
1818 H Street NW
Washington DC, 20433
U.S.A

21 April 1992

Gentlemen

Re Škoda Concern, Plzeň, Ltd

1. The following is Part III of our report.

2. We report in connection with the proposed privatisation of Škoda Plzeň, Concern, Ltd ("Škoda Plzeň" or "the Company") in accordance with the contract dated 19 November 1991 between Škoda Plzeň, Coopers & Lybrand and International Finance Corporation ("IFC"). IFC are parties to the contract in their capacity as executing agent for the Agency for International Development ("AID") which has provided a grant for certain professional services to be rendered by Coopers & Lybrand.

3. We refer you to the covering letter to Part I of our report.

Yours sincerely

John Hunter, Partner-in-charge for the Coopers & Lybrand Czechoslovak practice

CONTENTS

PART III: APPENDICES

APPENDIX A

KEY CONTACTS AT THE CENTRE, THE OPERATING DIVISIONS AND THE COST CENTRES

CENTRE:

Directors of the Company:

Ing. Novotný	Managing director
Ing. Ebenstreit	Finance director

Privatisation Department:

Ing. Zídek	Head of department
Ing. Vlček	Co-ordinator for surplus assets lists

Accounting, Finance and Finance Director's Departments:

Mr. Andrlík	Chief accountant
Ing. Vaník	Project manager for this assignment
Ing. Hudec	Project manager for this assignment
Mr. Vališ	Profit and loss accountant; work-in-progress and bought-in-items: intra-company transactions
Ing. Vojta	Chief of the finance department
Ing. Milcová	Deputy of the finance department
Ing. Kohoutová	Deputy of the finance department
Mr. Laštovička	Fixed assets
Mr. Míka	Fixed assets
Mrs. Pláteníková	Balance sheet
Mrs. Stanislavová	Balance sheet
Mrs. Menclová	Raw material inventories
Mrs. Homanová	Accounts receivable
Mrs. Viková	Accounts payable

Fixed Assets and Capital Expenditure Department:

Ing. Chval	Chief of the department/shared resources
Ing. Novák	Land
Ing. Hajšman	Restitution claims
Ing. Kotrba	Capital expenditure and fixed assets in the course of construction

Ing. Venclíková	Capital expenditure and fixed assets in the course of construction
Mrs. Schlafferová	Methodology accountant/contract project team for this assignment

Internal Bank:

Ing. Kalvas	Deputy head of the Internal Bank

Commercial Department:

Ing. Páník	Nuclear contracts
Mrs. Reiserová	Off balance sheet (goods held in trust)

Pricing Department:

Ing. Svatoš	Head of pricing department/contract project team for this assignment
Ing. Štaif	Pricing department (valuation of raw material inventories)
Ing. Škopek	Organisational department

Legal Department:

Dr. Linhart	In-house lawyer

OPERATIONAL DIVISIONS:

Nuclear:

Ing. Lobovský	Commercial director
Ing. Maule	Economic director
Ing. Kotrč	Technical director
Ing. Pechan	Economic planning deputy
Dip. Ing. Hampl	Production director
Ing. Farměrová	Economic planning department
Ing. Štěpánek	Strategic planning manager
Ing. Koternoch	Plant services deputy

Turbines:

Mrs. Kudrnová	Accounts manager
Mr. Šťáhlavský	Head of economic planning
Ing. Zahánka	Head of technology department
Mr. Richter	Production line manager
Mr. Příhovský	Head of material supply/production department
Ing. Ulrich	Marketing department

ETD:

Mr. Šlais	Economic director
Mr. Beran	Economic department
Ing. Schneider	Marketing department
Ing. Smutný	Marketing department
Ing. Kuchynka	Head of purchasing

Locomotives:

Ing. Čechura	Managing director
Ing. Jelínek	Head of economic department
Ing. Podzemský	Commercial department
Ing. Vrba	Economic director
Ing. Folk	Technical director
Ing. Muller	Commercial director

Automation:

Ing. Houska	Economic director
Mr. Bel	Finance department
Mr. Parker	Assistant to the general manager

Heavy Engineering:

Ing. Linhart	Managing director
Ing. Matyáštík	Economic director
Ing. Starý	Commercial director
Ing. Karas	Finance department
Ing. Vondroušek	Finance department
Ing. Hrbáček	Exprot department

Forgings:

Ing. Frycek	General director
Ing. Král	Technical director
Ing. Bosman	Commercial and production director
Ing. Vavroch	Manager
Ing. Rada	Export manager
Ing. Mužík	Manager

Castings:

Ing. Flandera	General director
Ing. Plesr	Technical director
Ing. Bartůněk	Personnel director
Ing. Borusik	Sales and production director
Ing. Fessl	Sales manager
Ing. Chlan	Marketing manager
Ing. Krauz	Price manager

Erection and Engineering:

Ing. Vojtěch	Economic director
Mr. Zdráhal	Personnel department
Mrs. Jankechová	Personnel department
Mrs. Tatíčková	Production department
Ing. Čech	Wages department

Tools:

Ing. Hajšman	Managing director
Ing. Fiala	Economic director
Ing. Duda	Economic officer
Ing. Míč	Financial officer

Machine Tools:

Ing. Bakule	Managing director
Ing. Blažek	Economic director
Ing. Vačkář	Commercial director
Mr. Čejka	Production director
Mr. Kule	Chief of economic planning
Ing. Tomeš	Chief of production planning

Gears:

Ing. Fráňa	Managing director
Ing. Pacholíček	Economic director
Ing. Kellener	Chief of economic planning
Ing. Daněk	Automation/systems
Ing. Soukup	Head of marketing

Tobacco Machines:

Mr. Rymeš	Managing director
Mr. Husák	Economic director

Klatovy:

Mr. Boldan	Economic director

Ejpovice:

Mr. Valenta	Economic director
Mrs. Brujová	Accountant

Ostrov:

Ing. Macek	Managing director
Ing. Praváček	Economic director
Ing. Hrubec	Commercial director
Mrs. Kuchtová	Accountant

Rotava:

Ing. Hrůza	Managing director
Ing. Varaus	Economic director
Ing. Vaculík	Commercial director

Dýšina:

Ing. Tryner	Economic director
Mr. Cíl	Commercial director

APPENDIX B

LAND AND RESTITUTION CLAIMS

Land in square metre

	Thousands of square metres	million k
Land included in the balance sheet at the new notional rates prescribed for accounting purposes	8,222	1,412
Land used but not owed by the Company	526	
Land owned but not used by the Company	(320)	
Land used by the Company including:	8,427	
Built up land	1,636	

Restitution claims

1 Restitution claims are lodged with the Czech Ministry of Finance.

2 The cut off for restitution claims was originally 30 September 1991. It has been prolonged as follows:

- 31 October 1991 for claims other than land
- 31 December 1992 for land.

3 The management of the Company is aware of the following restitution claims:

Division or cost centre	Location	Thousands of square metres	Value at new notional rates (in million k)
Dýšina	Brasy	22	1.5
	Chrast	53	0.5
	Dýšina	1,141	4.6
Welfare	Letiny	67	0.4
	Žel. Ruda	54	0.2
Klatovy	Klatovy	81	7.4
Total			14.6

APPENDIX C

CZECHOSLOVAK DIVISIONAL AND CONSOLIDATED FINANCIAL STATEMENTS

C1

Czechoslovak Balance Sheets at 30/9/1991	Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Tangible fixed assets	1,813,448	934,861	1,286,478	590,562	139,588	530,613	1,660,133	1,434,599
Accumulated depreciation	(1,052,746)	(515,686)	(757,410)	(352,531)	(91,447)	(380,397)	(1,016,726)	(943,858)
Fixed assets in the course of construction	9,151	2,348	220,561	111,676	10	3,299	35,927	38,414
Payments on account	-	-	61,461	43,196	-	-	-	972
Subtotal	769,853	421,523	811,090	392,903	48,151	153,515	679,334	530,127
Intangible assets less accumulated amortisation	881	1,973	20	41	24	-	-	-
Investments (domestic)	7,500	7,500	-	-	-	6,200	-	-
Investments (foreign)	1,112	-	-	-	-	9,419	-	-
Cash in hand	-	-	-	-	-	-	-	-
Cash in bank:								
Current account	-	-	-	-	-	-	-	-
Special bank account	-	-	-	-	-	-	-	-
Vouchers	-	-	-	-	-	-	-	-
Cash in transit	-	-	-	-	-	-	-	-
Subtotal	8,612	7,500	-	-	-	15,619	-	-
Accounts receivable (domestic)	344,796	139,389	140,697	324,540	5,332	97,612	201,517	300,675
Accounts receivable (foreign)	-	-	-	-	8,809	-	-	-
Other receivables (domestic)	552	84,032	3,767	203,620	4	30,759	97,453	183,102
Other receivables (foreign)	205	122	139	56	120	129	26	146
Social security refundable	769	560	1,009	643	271	556	569	1,363
Other receivables (population)	306	248	621	326	140	279	265	530
Intra-company receivables	13,627	3,599	8,448	2,105	814	1,360	4,900	738
Subtotal	360,255	227,950	154,681	531,290	15,490	130,695	304,730	486,554
Inventories	5,015,692	441,839	967,669	480,263	175,657	383,561	245,863	308,972
Prepaid expenses	64,046	-	3,562	4,601	750	12,090	-	2,452
TOTAL ACTIVE ACCOUNTS	6,219,339	1,100,785	1,937,022	1,409,098	240,072	695,480	1,229,927	1,328,105

C2

Czechoslovak Balance Sheets at 30/9/1991		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Accruals, provisions and deferred income		56,638	13,965	(4,995)	344,656	(1,890)	(1,159)	49,056	21,332
Accounts payable (domestic)		204,180	77,686	97,779	160,113	10,734	29,256	43,223	128,182
Accounts payable re fixed assets in the course of construction		(6,073)	-	10,943	5,682	-	-	269	931
Accounts payable (foreign)		-	-	-	-	-	-	-	-
Accounts payable (goods received, no invoice)		140	-	-	1,876	2	9,067	517	4,467
Wages payable		450	3,532	7,475	4,549	1,455	4,699	3,459	7,729
Taxes payable (payroll, profit, levies)		(352)	(34)	202	295	(9)	431	(570)	(742)
		198,345	81,184	116,399	172,515	12,182	43,453	46,898	140,567
Bank loans:									
Short term portion		361,540	154,822	165,668	514,854	17,562	83,248	176,964	260,838
Long term portion		547,063	312,650	746,010	488,922	94,333	194,017	250,617	271,449
Total		908,603	467,472	911,678	1,003,776	111,895	277,265	427,581	532,287
Payments received on account		4,467,114	144,360	230,049	-	-	136,790	-	-
Bank loans (foreign currency):									
Short term portion		-	-	-	-	5,400	-	-	-
Long term portion		-	-	-	-	1,084	-	-	-
Total		-	-	-	-	6,484	-	-	-
Revaluation of inventories		-	-	-	-	-	-	-	-
Other accounts payable		1,705	1,086	2,002	4,866	447	1,354	1,038	2,496
Taxes payable (turnover and wages)		1,503	1,357	3,330	1,919	631	1,820	1,396	3,394
Other payables (population)		26	21	53	28	12	24	22	45
TOTAL PASSIVE ACCOUNTS		5,633,934	709,445	1,258,516	1,527,760	129,761	459,547	525,991	700,121
NET ASSETS/(LIABILITIES)		585,405	391,340	678,506	(118,662)	110,311	235,933	703,936	627,984

C3

Czechoslovak Balance Sheets 30/9/ 1991		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco mach. 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Tangible fixed assets		131,683	165,743	615,617	321,967	45,787	112,650	399,486	526,498
Accumulated depreciation		(87,604)	(120,499)	(416,402)	(238,416)	(31,567)	(64,658)	(179,146)	(314,395)
Fixed assets in the course of construction		4,609	4,242	78,970	8,808	7,483	949	1,013	667
Payments on account		-	-	108,560	-	-	-	613	9
		48,688	49,486	386,745	92,359	21,703	48,941	221,966	212,779
Intangible assets less accumulated amortisation		9	12	11	3	1,302	25	65	94
Investments (domestic)		-	-	6,000	-	-	-	-	-
Investments (foreign)		-	-	-	-	-	-	-	-
Cash in hand		-	-	-	-	-	-	-	-
Cash in bank:									
Current account		-	-	-	-	-	-	1,674	-
Special bank account		-	-	-	-	-	-	-	-
Vouchers		-	-	-	-	-	(12)	9	1
Cash in transit		-	-	-	-	-	-	-	-
		-	-	6,000	-	-	(12)	1,683	1
Accounts receivable (domestic)		274,086	27,248	94,255	61,917	5,510	74,868	23,890	429,983
Accounts receivable (foreign)		-	-	12,361	-	-	-	2,539	-
Other receivables (domestic)		6,282	14	26,500	14,164	9	87	(781)	422
Other receivables (foreign)		263	(1)	204	59	45	87	134	5
Social security refundable		413	318	661	221	160	259	314	597
Other receivables (population)		206	140	278	86	84	119	139	252
Intra-company receivables		2,731	612	586	262	342	-	-	432
		283,981	28,331	134,845	76,709	6,150	75,420	26,235	431,691
Inventories		503,031	73,318	488,367	108,837	79,063	116,511	71,413	297,303
Prepaid expenses		-	-	14,527	-	-	-	1,645	-
TOTAL ACTIVE ACCOUNTS		835,709	151,147	1,030,495	277,908	108,218	240,885	323,007	941,868

C4

Czechoslovak Balance Sheets 30/9/1991		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Accruals, provisions and deferred income		11,993	(655)	21,866	3,292	2,791	2,233	(1,125)	8,508
Accounts payable (domestic)		85,293	14,449	46,370	(679)	2,773	23,212	11,311	74,051
Accounts payable re fixed assets in the course of construction		-	138	12,376	-	103	31	43	209
Accounts payable (foreign)		-	-	-	-	-	-	-	-
Accounts payable (goods received, no invoice)		79,397	130	-	-	-	70	132	10
Wages payable		3,089	1,896	3,880	1,091	789	1,397	1,898	3,156
Taxes payable (payroll, profit and levies)		(292)	600	(66)	(70)	(750)	(160)	(100)	(47)
		167,487	17,213	62,560	342	2,915	24,550	13,284	77,379
Bank loans:									
Short term portion		22,720	12,145	78,228	39,849	7,555	12,473	15,682	32,219
Long term portion		83,677	47,005	282,632	88,732	33,148	66,291	79,087	167,252
Total		106,397	59,150	360,860	128,581	40,703	78,764	94,769	199,471
Payments received on account		652,257	215	-	-	-	28,163	-	190,283
Bank loans (foreign currency):									
Short term portion		-	-	22,410	-	-	-	1,800	-
Long term portion		-	-	-	-	-	-	739	-
Total		-	-	22,410	-	-	-	2,539	-
Revaluation of inventories		-	-	-	-	-	-	-	-
Other accounts payable		4,123	456	1,051	749	226	534	532	2,032
Taxes payable (turnover and wages)		1,133	726	1,453	419	290	513	709	1,274
Other payables (population)		18	12	24	7	7	10	12	22
TOTAL PASSIVE ACCOUNTS		943,408	77,117	470,224	133,390	46,932	134,767	110,720	478,969
NET ASSETS/(LIABILITIES)		(107,699)	74,030	560,271	144,518	61,286	106,118	212,287	462,899

Czechoslovak Balance Sheets at 30/9/1991	Rotava 000k	Dýšina 000k	Repairs 000k	Energy 000k	Maintenance 000k	Welfare 000k	Purchasing 000k	Foreign 000k	Hotels 000k
Tangible fixed assets	261,673	176,746	48,793	1,232,812	118,398	622,763	154,673	2,791	48,850
Accumulated depreciation	(189,651)	(101,725)	(41,213)	(755,977)	(79,474)	(165,885)	(112,190)	(779)	(17,847)
Fixed assets in the course of construction	1,062	17,964	-	33,794	3,901	17,389	9,516	-	-
Payments on account	-	-	-	11,538	-	2,873	-	-	-
	73,084	92,985	7,580	522,167	42,825	477,140	51,999	2,012	31,003
Intangible assets less accumulated amortisation	-	3,506	-	-	10	132	-	99	866
Investments (domestic)	-	-	-	-	-	-	-	6,000	-
Investments (foreign)	-	-	-	-	-	-	-	-	-
Cash in hand	-	-	-	-	-	-	-	-	-
Cash in bank:									
Current account	-	-	-	-	-	-	-	168,144	3,607
Special bank account	-	-	-	-	-	-	-	100	-
Vouchers	5	2	-	-	-	-	768	-	-
Cash in transit	-	-	-	-	-	-	-	-	-
	5	2	-	-	-	-	768	174,244	3,607
Accounts receivable (domestic)	42,376	38,324	5,576	1,030	4,163	1,515	22,160	114,300	940
Accounts receivable (foreign)	-	-	-	-	-	-	-	60,592	-
Other receivables (domestic)	8	42	-	11	1,106	405	6	-	3
Other receivables (foreign)	92	107	1	-	-	-	23	-	-
Social security refundable	259	188	105	351	537	431	245	25	32
Other receivables (population)	124	96	48	170	243	22	15	2	80
Intra-company receivables	87	108	48	874	4,207	917	1,100	2,665	-
	42,946	38,865	5,778	2,436	10,256	3,290	23,549	177,584	1,055
Inventories	66,269	172,304	26,870	49,859	81,175	14,393	293,348	93,475	145
Prepaid expenses	-	1,874	-	-	-	-	-	-	-
TOTAL ACTIVE ACCOUNTS	182,304	309,536	40,228	574,462	134,266	494,955	369,664	447,414	36,676

Czechoslovak Balance Sheets at 30/9/1991		Rotava 000k	Dýšina 000k	Repairs 000k	Energy 000k	Maintenance 000k	Welfare 000k	Purchasing 000k	Foreign 000k	Hotels 000k
Accruals, provisions and deferred income		(143)	(6,952)	127	9,022	1,733	799	4,873	-	222
Accounts payable (domestic)		9,858	19,059	3,852	87,807	25,289	10,548	(293)	(91,654)	406
Accounts payable re fixed assets in the course of construction		297	408	-	149	251	2,903	1,392	-	-
Accounts payable (foreign):		-	-	-	-	-	-	-	39,954	-
Accounts payable (goods received, no invoice)		1,576	290	-	2,759	419	3,745	4,230	7,070	257
Wages payable		1,875	1,133	694	2,306	3,119	1,891	594	83	375
Taxes payable (payroll, profit and levies)		(600)	(216)	75	(21)	59	-	190	(17)	58
		13,006	20,674	4,621	93,000	29,137	19,087	6,113	(44,564)	1,096
Bank loans:										
Short term portion		12,389	17,353	3,771	11,981	14,904	20,290	2,726	49,791	-
Long term portion		51,158	59,467	19,381	39,342	64,320	146,179	18,018	-	-
Total		63,547	76,820	23,152	51,323	79,224	166,469	20,744	49,791	-
Payments received on account		700	-	-	-	365	-	-	-	-
Bank loans (foreign currency):										
Short term portion		-	-	-	-	-	-	-	-	-
Long term portion		-	-	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-	-	-
Revaluation of inventories		-	-	-	-	-	-	-	-	-
Other accounts payable		630	196	-	712	850	502	535	200,891	36,417
Taxes payable (turnover and wages)		808	571	251	1,077	1,141	637	570	139	78
Other payables (population)		11	8	4	15	21	2	1	-	-
TOTAL PASSIVE ACCOUNTS		78,559	91,317	28,155	155,149	112,471	187,496	32,836	206,257	37,813
NET ASSETS/(LIABILITIES)		103,745	218,219	12,073	419,313	21,795	307,459	336,828	241,157	(1,137)

Czechoslovak Balance Sheets at 30/9/1991		Air 000k	Research 000k	Transport 000k	Design 000k	Culture 000k	Other 000k	TOTAL 000k	
Tangible fixed assets		44,294	207,404	343,268	682	283,228	1,251,974	15,508,062	
Accumulated depreciation		(29,948)	(140,912)	(215,301)	(224)	(23,148)	(545,888)	(8,983,650)	
Fixed assets in the course of construction		484	4,375	9,374	-	5	82,085	708,076	
Payments on account		-	-	-	-	-	-	229,222	
Subtotal		14,830	70,867	137,341	458	260,085	788,171	7,461,710	
Intangible assets less accumulated amortisation		9	15	1	15	-	777	9,890	
Investments (domestic)		-	-	1,750	-	-	-	34,950	
Investments (foreign)		-	-	-	-	-	-	10,531	
Cash in hand		-	-	-	-	-	793	793	
Cash in bank:									
Current account		-	-	-	-	2,940	133,413	309,778	
Special bank account		100	-	-	-	-	13,797	13,997	
Vouchers		-	-	-	-	6	-	779	
Cash in transit		-	-	-	-	-	25,474	25,474	
Subtotal		100	-	1,750	-	2,946	173,477	396,302	
Accounts receivable (domestic)		8,956	6,698	769	-	96	(5,075)	2,788,143	
Accounts receivable (foreign)		-	-	-	-	-	-	84,301	
Other receivables (domestic)		-	(4)	-	-	137	(10,206)	641,494	
Other receivables (foreign)		2,194	53	733	-	-	666	5,608	
Social security refundable		4	138	123	49	26	1,230	12,426	
Other receivables (population)		1	8	8	-	17	643	5,496	
Intra-company receivables		-	206	94	-	364	2,084	53,310	
Subtotal		11,155	7,099	1,727	49	640	(10,658)	3,590,778	
Inventories		2,703	7,453	5,418	855	114	(25,756)	10,545,984	
Prepaid expenses		-	-	-	-	-	(40,244)	65,303	
TOTAL ACTIVE ACCOUNTS		28,797	85,434	146,237	1,377	263,785	885,767	22,069,967	

Czechoslovak Balance Sheets at 30/9/1991		Air 000k	Research 000k	Transport 000k	Design 000k	Culture 000k	Other 000k	TOTAL 000k	
Accruals, provisions and deferred income		4,567	1,350	(3,038)	59	-	332,859	871,984	
Accounts payable (domestic)		1,067	1,046	3,846	11	28	(157,565)	921,238	
Accounts payable re fixed assets in the course of construction		-	-	-	-	-	845	30,897	
Accounts payable (foreign):		-	-	-	-	-	-	39,954	
Accounts payable (goods received, no invoice)		-	-	-	-	-	2,674	118,828	
Wages payable		111	389	364	142	190	13,021	76,831	
Taxes payable (payroll)		7	-	(74)	81	(293)	33,375	30,960	
		1,185	1,435	4,136	234	(75)	(107,650)	1,218,708	
Bank loans:									
Short term portion		-	1,890	10,137	-	-	(5,445)	2,096,154	
Long term portion		-	3,769	20,275	-	-	18,745	4,193,539	
Total		-	5,659	30,412	-	-	13,300	6,289,693	
Payments received on account		-	-	-	-	-	(3,332)	5,846,964	
Bank loans (foreign currency):									
Short term portion		-	-	-	-	-	-	29,610	
Long term portion		-	-	-	-	-	-	1,823	
Total		-	-	-	-	-	-	31,433	
Revaluation of inventories		-	-	-	-	-	(181)	(181)	
Other accounts payable		15	17	139	2	80	58,662	324,345	
Taxes payable (turnover and wages)		40	318	290	143	70	1,897	29,897	
Other payables (population)		-	1	1	-	-	63	470	
TOTAL PASSIVE ACCOUNTS		5,807	8,780	31,940	438	75	295,618	14,613,313	
NETT ASSETS/(LIABILITIES)		22,990	76,654	114,297	939	263,710	590,149	7,456,654	

C9

Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
EARNINGS									
Earnings operating		205,784	431,368	494,525	2,580,786	19,687	499,194	715,781	929,904
Cost of bought-in items sold		(115,837)	-	(58,247)	-	-	(208,984)	-	-
Other operating earnings incl.									
projects, design		4,682	-	-	-	-	23,358	-	-
carriage of freight		29	-	2	-	-	-	-	68
bought-in items sold		12,871	46,513	177	-	-	20,057	-	-
cost of bought-in items		(12,871)	(46,513)	(177)	-	-	(20,320)	-	-
other earnings		(15,515)	-	-	-	-	6,482	-	-
Other items related to operating sales		-	-	-	-	-	-	-	-
Earnings trading		1,332	-	-	-	-	1,238	-	-
Cost of goods sold		(3)	-	-	-	-	(2,461)	-	-
Earnings from catering services		-	-	-	-	-	-	-	-
Cost of goods sold		-	-	-	-	-	-	-	-
Other items related to trading earnings		-	-	-	-	-	-	-	-
Earnings non-operating		137,234	40,078	13,171	366	1,458	37,003	400	3,149
Other related items		586	1	45	308	23	237	2	16
Turnkey commission passed to subcontractors		(3,720)	-	-	-	-	(250)	-	-
Capitalised material		762	3	137	296	-	(5,044)	367,076	579,508
Sale of inventories		1,466	10,541	3,711	2,214	140	2,286	2,078	27,689
Cost of inventories sold		(1,232)	(10,541)	(3,711)	(499)	(140)	(2,276)	(1,391)	(27,223)
Sale of fixed assets		16	21	119	236	8	374	3	213
Transfer of goods and services		226,947	12,808	207,826	974	6,838	200,681	21	163
Turnover tax		-	-	-	-	-	-	-	-
Profit/(loss) on intracompany co-operation		861	(2,618)	(4,300)	(7,467)	(1,504)	(1,332)	(2,697)	(5,442)
Intra-company sale of finished goods		-	12,550	87,682	-	3,920	-	-	-
Intra-company purchase of finished goods		(171)	(4,694)	(43,844)	(50,566)	(2,449)	(23,370)	-	-

C10

Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Intra-company transfers: engineering products		6,394	32,884	612,141	1,440	126,153	4,619	43,756	62,605
Other intra-company earnings		52,660	15,969	101,011	2,880	13,142	22,805	95,443	32,361
Cost of rejects passed to another division		(48)	1,672	1,416	616	1	668	6,154	1,519
Admin and material overheads		113	-	152	-	176	-	-	920
Elimination of intra-divisional items		(29,140)	(6,980)	(77,283)	-	(6,965)	(11,412)	(59,611)	(6,910)
Change in deferred income		(19,441)	-	-	-	-	-	-	-
Change in WIP		42,490	89,479	(91,199)	(191,039)	17,332	41,908	(68,183)	30,440
Change in finished goods		939	105	(8,011)	140,069	1,622	6,461	-	(1,305)
Extraordinary income		-	257	1	-	-	-	-	57
TOTAL EARNINGS		497,188	622,903	1,235,344	2,480,614	179,442	591,922	1,098,832	1,627,732
COSTS									
Raw materials (purchased) consumed in production		126,961	46,840	215,371	108,469	7,380	29,069	141,716	784,543
Finished products (purchased) consumed in production		65,823	40,978	323,168	473,852	58,390	92,735	18,056	1,730
Castings and forgings (manuf.) consumed in production		6,927	108,066	69,726	31,869	323	59,813	395,098	2,194
Waste capitalised		(551)	(1,521)	(10,538)	(2,243)	(43)	(2,101)	(33,523)	(81,554)
Fuel		5,089	45	3,276	660	816	377	302	2,059
Price differential for raw materials and fuel		(80)	-	(3)	641	204	-	(480)	(5,158)
Energy (purchased)		7,038	1,166	28,291	1,574	2,219	116	50	2,837
Delivery costs		2,989	1,016	881	2,366	218	1,604	1,467	20,855
Subcontracting		1,577	735	4,785	4,389	433	6,524	71	1,180
Repair and maintenance		3,159	1,925	5,665	2,481	517	2,187	1,301	7,187
Postal charges		758	172	395	332	177	137	36	150
Other material costs		38,007	4,978	(34,627)	4,614	621	3,396	715	1,420
Depreciation charges		52,825	38,043	32,720	20,900	4,565	12,347	46,014	33,935
NBV of disposed fixed assets		101	126	5	-	2	3	6,012	135

C11

Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Write off of supplies		9,522	7,904	6,754	16,712	1,634	10,454	9,867	38,541
Travelling costs		7,307	1,019	2,145	1,115	511	1,465	179	579
Rentals		1,698	1,847	3,488	1,512	178	1,058	16	922
Other intangible costs		(25,531)	11,854	22,269	10,375	1,501	3,257	5,516	13,863
Intra-company transfers - engineering products		34,983	78,337	73,016	709,431	3,784	88,504	23,985	34,602
Co-operation from other plants									
- direct costs		13,419	19,722	97,362	19,434	11,764	17,890	6,788	3,766
- non-direct costs		2,267	3,483	13,136	2,857	2,426	3,524	15,057	20,330
Energy (internal)		12,901	20,454	8,411	25,122	951	20,493	144,326	203,867
Other internal costs		30,449	22,997	9,731	32,856	7,237	22,401	68,143	50,632
Elimination of intra-divisional items		(29,140)	(6,980)	(77,283)	-	(6,965)	(11,412)	(59,611)	(6,910)
Admin overheads		15,717	12,975	26,405	21,672	4,285	13,446	16,749	25,164
Material overheads		15,208	11,893	33,348	17,685	3,553	10,863	8,620	6,317
Social and welfare costs		-	-	72	-	-	-	-	23
Change in accruals:									
- repair of fixed assets		5,073	1,789	(10,170)	37	(1,592)	(4,318)	37,079	19,253
Change in prepaid expenses		68,284	-	2,138	2,761	150	8,202	-	1,471
Change in other accruals		2,327	(5,133)	2,776	308,307	(450)	3,111	6,110	1,835
Subtotal		475,107	424,730	852,713	1,819,780	104,789	395,145	860,269	1,185,768
Wages costs		70,785	55,506	132,804	71,288	27,816	62,267	58,406	131,026
Other wages (part-timers)		603	521	740	482	285	860	862	663
Change in accrued wages		2,317	303	78	(385)	(187)	(210)	601	(1,133)
Subtotal		73,705	56,330	133,622	71,385	27,914	62,917	59,869	130,556

C12

Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Insurance		2,613	562	964	511	122	384	699	756
Fees		66	38	233	879	55	45	7	132
Payroll tax		36,634	29,339	69,274	37,393	14,560	33,456	31,156	68,403
Interest		176,645	55,105	111,572	98,596	20,153	49,623	72,263	82,857
Deficit and damage		341,748	(72)	433	40,703	26	342	14	107
Fines and penalties		(231)	326	2,524	1,705	121	6,933	189	552
Other financial costs		(34,420)	142	403	224	22	132	734	3,856
Intra-company penalties		5	32	161	201	2	56	282	593
Credit notes received		(46)	(18)	(131)	(4)	-	(5)	(545)	(3)
Change in prepaid expenses		15,579	-	-	-	-	-	-	-
Change in accruals		1,395	151	39	(192)	(94)	(105)	301	(567)
Subtotal		539,988	85,605	185,472	180,016	34,967	90,861	105,100	156,686
TOTAL COSTS		1,088,800	566,665	1,171,807	2,071,181	167,670	548,923	1,025,238	1,473,010
PROFIT / (LOSS)		(591,612)	56,238	63,537	409,433	11,772	42,999	73,594	154,722

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Czechoslovak Profit and Loss Accounts		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco mach. 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
EARNINGS									
Earnings operating		272,879	94,737	604,878	167,129	56,590	167,808	55,931	429,309
Cost of bought-in items sold		(213,357)	-	-	-	-	(24,874)	-	(17,466)
Other operating earnings incl. projects, design		1,141	-	-	-	-	-	-	512
carriage of freight		2	-	-	-	-	8	1,550	84
bought-in items sold		340,194	-	-	-	2,717	4,340	949	14,675
cost of bought-in items sold		(340,194)	-	-	-	(2,717)	(4,541)	(949)	(14,598)
other earnings		4,314	-	-	-	-	-	-	-
Other items related to operating sales		-	-	-	-	-	-	-	-
Earnings trading		5,350	-	-	-	3,169	68	-	-
Cost of goods sold		(8,232)	-	-	-	-	-	-	-
Earnings from catering services		-	-	-	-	-	1,820	625	518
Cost of goods sold		-	-	-	-	-	-	-	-
Other items related to trading earnings		-	-	-	-	-	-	-	-
Earnings non-operating		54,015	1,029	801	1,105	1,284	2,732	6,943	8,873
Other related items		57	242	5	2	15	72	339	535
Turnkey commission passed to subcontractors		(3,624)	-	-	-	-	-	-	-
Capitalised material		468	4,083	1,633	2,803	265	203	(1,252)	(689)
Sale of inventories		1,284	1,211	5,133	4,029	6	2,156	4,882	6,668
Cost of inventories sold		(1,270)	(910)	(5,133)	(4,029)	-	(2,155)	(4,591)	(6,341)
Sale of fixed assets		3	-	43	895	3	78	6	302
Transfer of goods and services		127,204	35	6,428	8	-	43,216	920	151,022
Turnover tax		-	-	-	-	-	-	-	-
Profit/(loss) on intra-company co-operation		(891)	(1,149)	(2,623)	726	(383)	(594)	989	(355)
Intra-company sale of finished goods		4,183	-	39	10,665	57,256	-	52,142	130,009
Intra-company purchase of finished goods		(454)	(233)	-	-	(56,970)	-	(47,448)	(131,219)

Czechoslovak Profit and Loss Accounts	Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Intra-company transfers: engineering products	14,478	51,341	35,320	54,416	-	729	149,359	741
Other intra-company earnings	6,257	15,357	15,759	10,908	25,817	5,589	23,176	77,538
Cost of rejects passed to another division	46	366	369	225	90	33	7	1,170
Admin and material overheads	-	11,573	-	-	-	-	438	44
Elimination of intra-divisional items	(1,864)	(3,440)	-	-	(2,873)	(4,467)	(15,920)	(77,197)
Change in deferred income	(2,183)	-	-	-	-	-	-	-
Change in WIP	8,086	(3,302)	33,389	(22,278)	3,633	2,754	(10,416)	(31,691)
Change in finished goods	(1,082)	12	51,662	(511)	25,672	5,129	8,155	57,782
Extraordinary income	33	-	-	-	355	5	12	32
TOTAL EARNINGS	266,843	170,952	747,703	226,093	113,929	200,109	225,846	600,258
COSTS								
Raw materials (purchased) consumed in production	34,979	27,349	26,761	11,635	3,948	54,458	37,414	89,760
Finished products (purchased) consumed in production	19,883	7,923	163,110	21,086	8,186	12,993	8,753	138,608
Castings and forgings (manuf.) consumed in production	748	3,956	125,296	40,694	1,493	17,913	1,249	27,758
Waste capitalised	(431)	(770)	(2,896)	(1,014)	(86)	(117)	(520)	(3)
Fuel	3,480	158	399	52	21	576	6,833	5,799
Price differential for raw materials and fuel	5	1,744	-	-	-	(143)	(408)	3,018
Energy (purchased)	438	5	44	-	969	7,091	6,524	13,824
Delivery costs	2,508	352	3,890	1,285	50	1,164	639	2,314
Subcontracting	21,605	159	610	5,751	28	805	613	1,303
Repair and maintenance	2,598	2,209	3,542	836	395	1,836	1,593	10,232
Postal charges	725	41	195	21	128	604	613	1,082
Other material costs	4,939	1,191	3,567	601	233	(1,894)	143	2,556
Depreciation charges	4,452	4,720	21,416	11,562	2,634	3,001	9,428	13,419
NBV of disposed fixed assets	-	-	6	-	-	36	1	143

Czechoslovak Profit and Loss Accounts	Erection& Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Write off of supplies	3,203	3,537	6,907	2,472	4,851	1,683	2,473	6,655
Travelling costs	9,279	344	2,218	569	653	2,031	332	1,499
Rentals	592	1,083	452	264	1,188	157	1,555	(139)
Other intangible costs	1,949	1,038	2,267	1,917	2,933	1,913	2,129	16,711
Intra-company transfers - engineering products	4,169	2,608	61,121	12,321	4,799	10,638	56,053	58,335
Co-operation from other plants								
- direct costs	5,568	5,058	12,966	4,564	4,778	2,597	3,537	55,232
- non-direct costs	674	2,730	2,330	799	1,539	1,931	2,690	875
Energy (internal)	2,980	11,040	18,148	7,836	4,205	68	7,531	20
Other internal costs	8,478	3,781	20,719	6,935	4,761	3,759	4,163	17,311
Elimination of intra-divisional items	(1,864)	(3,440)	-	-	(2,873)	(4,466)	(15,921)	(77,197)
Admin overheads	5,390	4,653	14,220	4,275	3,420	2,745	2,169	5,175
Material overheads	3,883	2,341	11,598	3,097	1,440	992	690	1,311
Social and welfare costs	-	-	-	-	-	1,050	1,616	8,600
Change in accruals:								
- repair of fixed assets	(1,092)	(2,029)	(2,975)	3,032	(885)	(2,106)	(1,859)	5,284
Change in prepaid expenses	2,619	-	8,713	-	-	-	253	860
Change in other accruals	(516)	802	7,897	(8)	2,943	1,902	333	2,531
Subtotal	141,241	82,583	512,521	140,581	51,751	123,217	140,619	412,876
Wages costs	50,630	28,820	60,609	18,752	16,600	23,471	28,325	50,963
Other wages (part-timers)	248	64	447	209	147	100	285	1,058
Change in accrued wages	1,125	58	(313)	56	(142)	182	(72)	(110)
Subtotal	52,003	28,942	60,743	19,017	16,605	23,753	23,538	51,911

Czechoslovak Profit and Loss Accounts		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Insurance		289	107	606	204	90	106	228	423
Fees		107	32	81	51	3	472	341	162
Payroll tax		26,419	15,378	32,203	10,021	8,200	12,501	14,623	26,634
Interest		26,770	12,774	78,047	27,591	9,726	13,487	14,912	45,156
Deficit and damage		29	84	3,696	5	83	(108)	2,042	370
Fines and penalties		1,685	4	43	1,754	-	(433)	11	305
Other financial costs		286	27	215	42	2,572	76	247	374
Intra-company penalties		10	10	173	11	7	-	-	-
Credit notes received		-	(75)	(4)	-	(2)	(12)	(47)	(91)
Change in prepaid expenses		-	-	-	-	-	-	-	-
Change in accruals		562	29	(157)	28	(89)	91	(36)	(55)
Subtotal		56,157	28,370	114,903	39,707	20,590	26,180	32,321	73,278
TOTAL COSTS		249,401	139,895	688,167	199,305	88,946	73,150	201,478	538,065
PROFIT / (LOSS)		17,442	31,057	59,536	26,788	24,983	26,959	24,368	62,193

Czechoslovak Profit and Loss Accounts	Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
EARNINGS								
Earnings operating	162,478	118,923	9,891	-	54,118	-	-	-
Cost of bought-in items sold	-	-	-	-	(39,651)	-	-	-
Other operating earnings incl.								
projects, design	-	-	-	-	228	-	-	-
carriage of freight	234	-	-	-	49	-	-	-
bought-in items sold	408	2,721	-	-	3,563	-	-	-
cost of bought-in items	(275)	(2,721)	-	-	(6,552)	-	-	-
other earnings	-	-	-	-	29	-	-	-
Other items related to operating sales	-	-	-	-	-	404	-	-
Earnings trading	-	-	-	-	-	-	-	-
Cost of goods sold	-	-	-	-	-	-	-	-
Earnings from catering services	2,703	1,364	-	-	-	82,399	-	-
Cost of goods sold	-	-	-	-	-	(4,207)	-	-
Other items related to trading earnings	-	-	-	-	-	-	-	-
Earnings non-operating	3,989	534	5	151	1,886	29,761	19,946	5,703
Other related items	41	-	1	-	6	1,087	-	4
Turnkey commission passed to subcontractors	-	-	-	-	-	-	-	-
Capitalised material	7,258	3,660	257	196	2,683	4,323	16	(47)
Sale of inventories	8,107	2,663	-	1,327	387	2,828	-	2,572
Cost of inventories sold	(6,818)	(2,519)	-	(1,327)	(588)	(492)	-	(2,516)
Sale of fixed assets	67	168	3	-	79	57	-	4
Transfer of goods and services	747	46	5,152	-	55,849	-	-	339
Turnover tax	-	-	-	-	-	-	-	-
Profit/(loss) on intra-company co-operation	(277)	(436)	(573)	5,089	27,212	(1,417)	(9)	(162)
Intra-company sale of finished goods	11,962	224	11,783	41,233	-	-	-	-
Intra-company purchase of finished goods	(9,300)	-	(726)	-	-	-	-	-

Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
Intra-company transfers:									
engineering products		1,207	12	28,919	-	62,916	-	-	12,464
Other intra-company earnings		8,088	2,418	2,348	579,958	90,757	75,018	1,337	22,646
Cost of rejects passed to another division		138	10	1	-	-	-	-	-
Admin and material overheads		-	-	-	1,177	568	394	-	-
Elimination of intra-divisional items		(6,452)	(1,825)	-	(40,581)	(11,774)	(6,112)	-	-
Change in deferred income		-	-	-	-	-	-	-	-
Change in WIP		(4,229)	24,104	(1,959)	1,078	(16,256)	89	18	(1,182)
Change in finished goods		110	46,567	(6)	-	2	-	-	-
Extraordinary income		3	9	-	-	26	602	27	149
TOTAL EARNINGS		180,189	195,922	55,096	588,301	225,537	184,734	21,335	39,974
COSTS									
Raw materials (purchased) consumed in production		30,401	45,191	3,324	21,996	31,430	91,635	40	2,650
Finished products (purchased) consumed in production		12,404	51,312	8,944	9,256	32,336	2,746	50	301
Castings and forgings (manuf.) consumed in production		6,606	810	2,452	401	1,866	1	-	602
Waste capitalised		(2,009)	(680)	(346)	(1,789)	(1,208)	(59)	-	(21)
Fuel		4,392	3,515	28	161,752	2,105	1,481	1,943	106
Price differential for raw materials and fuel		(165)	1,323	-	16,836	(38)	611	1	-
Energy (purchased)		13,912	5,185	-	146,014	686	15,337	-	1,062
Delivery costs		2,476	2,286	233	3,232	1,022	96	2	9
Subcontracting		2,998	4,586	-	843	456	-	-	-
Repair and maintenance		4,512	6,616	126	4,688	339	3,975	1,249	223
Postal charges		399	499	-	64	22	933	178	(58)
Other material costs		331	1,239	269	11,218	10,227	884	19	214
Depreciation charges		6,398	5,768	1,322	28,017	2,798	9,252	1,150	7,566
NBV of disposed fixed assets		1	-	-	268	2	22	-	5

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Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
Write off of supplies		2,776	2,657	516	810	2,560	2,300	63	705
Travelling costs		729	632	195	95	1,336	83	127	236
Rentals		4,373	1,561	92	164	335	288	24	66
Other intangible costs		2,563	6,474	31	910	3,590	2,858	1,346	(16)
Intra-company transfers - engineering products		14,346	7,844	4,600	6,937	4,089	3,347	-	110
Co-operation from other plants									
- direct costs		5,582	1,223	2,630	793	11,161	47	16	459
- non-direct costs		460	717	324	8,833	1,841	3,899	14	181
Energy (internal)		52	33	2,622	30,893	8,581	4,720	8	1,106
Other internal costs		4,722	3,323	1,502	29,975	6,989	11,015	343	2,291
Elimination of intra-divisional items		(6,452)	(1,825)	-	(40,581)	(11,774)	(6,112)	-	-
Admin overheads		2,781	3,213	1,566	8,568	6,750	-	-	-
Material overheads		461	444	1,539	2,752	4,902	705	6	168
Social and welfare costs		779	150	-	-	-	-	-	-
Change in accruals:									
- repair of fixed assets		(768)	(7,011)	(82)	8,945	1,434	(799)	3,367	348
Change in prepaid expenses		-	563	-	-	-	-	-	-
Change in other accruals		(957)	(10)	-	-	63	-	-	-
Subtotal		114,103	147,638	31,887	461,890	123,900	149,265	9,946	18,313
Wages costs		28,999	19,537	10,158	38,920	50,366	24,974	1,115	14,018
Other wages (part-timers)		2,656	133	59	85	187	53	84	212
Change in accrued wages		81	(220)	(14)	(319)	(374)	-	-	37
Subtotal		31,736	19,450	10,203	38,686	50,179	25,027	1,199	14,267

Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
Insurance		150	157	35	516	120	376	444	92
Fees		388	157	-	22	154	38	8	2
Payroll tax		16,418	10,307	5,324	20,729	26,303	6,771	27	7,427
Interest		12,981	29,426	3,126	5,027	10,250	13,048	669	1,461
Deficit and damage		302	46	2	1	97	(25)	-	-
Fines and penalties		321	57	1	4	1	2	-	-
Other financial costs		368	177	19	1,854	270	425	3	(2)
Intra-company penalties		-	-	-	25	5	-	-	-
Credit notes received		(85)	(60)	-	-	-	-	-	-
Change in prepaid expenses		-	-	-	-	-	-	-	-
Change in accruals		40	(110)	(7)	(160)	(187)	-	-	19
Subtotal		30,883	40,157	8,500	28,018	37,013	20,635	1,151	8,999
TOTAL COSTS		176,722	207,245	50,590	528,594	211,092	194,927	12,296	41,579
PROFIT / (LOSS)		3,467	(11,323)	4,506	59,707	14,445	(10,193)	9,039	(1,605)

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Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
EARNINGS									
Earnings operating		-	-	-	(183,343)	10,213	-	95,746	7,994,316
Cost of bought-in items sold		-	-	-	-	-	-	(38,911)	(717,327)
Other operating earnings incl. projects, design		-	-	6,447	-	-	-	-	36,368
carriage of freight		3,261	-	-	-	1	-	15	5,303
bought-in items sold		-	-	-	-	-	-	483	449,668
cost of bought-in items		-	-	-	(176,764)	-	-	1,768	(627,424)
other earnings		-	-	-	-	-	-	-	(4,690)
Other items related to operating sales		-	-	-	-	-	-	131	535
Earnings trading		-	-	-	920,657	-	-	-	931,814
Cost of goods sold		-	-	-	(653,424)	-	-	(285)	(664,405)
Earnings from catering services		-	14,471	-	-	-	-	-	103,900
Cost of goods sold		-	(2,275)	-	-	-	-	-	(6,482)
Other items related to trading earnings		-	-	-	(1)	-	-	-	(1)
Earnings non-operating		1,987	26	445	1	5,235	4,182	18,481	401,973
Other related items		-	-	-	834	26	1,045	1,828	7,357
Turnkey commission passed to subcontractors		-	-	-	-	-	-	-	(7,594)
Capitalised material		-	-	-	-	987	-	(26,924)	942,661
Sale of inventories		184	-	-	-	67,466	-	524	161,552
Cost of inventories sold		(229)	-	-	-	(66,430)	-	(613)	(152,976)
Sale of fixed assets		29	-	-	-	412	-	327	3,466
Transfer of goods and services		-	-	-	183,343	-	-	-	1,230,567
Turnover tax		-	-	-	-	-	-	-	-
Intra-company items:									
Profit/(loss) on intra-company co-operation		1,815	(2)	(1)	(4)	(555)	(9)	(1,891)	-
Intra-company sale of finished goods		-	-	-	-	(736)	-	16,781	439,693
Intra-company purchase of finished goods		-	-	-	-	(10,637)	-	(57,610)	(439,691)

Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
Intra-company transfers: engineering products		-	-	-	-	736	-	12,159	1,314,789
Other intra-company earnings		60,502	673	5,287	(15)	573	-	81,486	1,447,748
Cost of rejects passed to another division		-	-	-	-	-	-	33	14,486
Admin and material overheads		-	-	-	7,971	119,630	(49)	206,673	349,780
Elimination of intra-divisional items		-	-	-	-	-	-	(6,076)	(376,882)
Change in deferred income		-	-	-	-	-	134	(297,000)	(318,490)
Change in WIP		279	-	230	-	201	-	(62,514)	(208,738)
Change in finished goods		-	-	-	-	1,363	-	(640)	334,095
Extraordinary income		-	-	-	10,791	416	1	331,519	344,296
TOTAL EARNINGS		67,828	12,893	12,408	110,046	128,901	5,304	275,490	12,989,667
COSTS									
Raw materials (purchased) consumed in production		4,917	1,051	195	444	11,941	1,395	35,305	2,028,568
Finished products (purchased) consumed in production		1,446	37	4	10	8	658	9,848	1,585,244
Castings and forgings (manuf.) consumed in production		-	-	-	-	404	-	(29,658)	876,607
Waste capitalised		(909)	-	-	-	(498)	-	(548)	(145,978)
Fuel		10,485	4	-	-	253	-	1,694	217,700
Price differential for raw materials and fuel		-	-	-	(2,024)	(17,106)	-	144	(1,078)
Energy (purchased)		54	610	-	6	670	3,757	4,507	263,986
Delivery costs		395	26	-	7,574	3,854	-	1,439	66,242
Subcontracting		-	-	-	28	255	-	397	60,131
Repair and maintenance		4,961	579	16	18	1,800	215	3,021	80,001
Postal charges		95	382	28	917	132	333	14,256	23,744
Other material costs		31	13	159	(1)	859	169	6,560	62,651
Depreciation charges		7,915	303	67	306	4,273	3,399	26,414	416,929
NBV of disposed fixed assets		122	-	-	-	242	-	87	7,319

Czechoslovak Profit and Loss Accounts	Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	**SUBTOTAL** 000k
Write off of supplies	365	4,105	53	18	2,590	274	1,771	154,732
Travelling costs	743	4	82	4,157	419	-	4,169	44,252
Rentals	42	91	131	108	349	1	3,247	26,743
Other intangible costs	622	1,232	586	11,965	1,259	1,490	81,929	190,800
Intra-company transfers - engineering products	725	9	-	-	2,562	283	6,839	1,308,377
Co-operation from other plants								
- direct costs	-	-	-	-	376	-	2,558	309,290
- non-direct costs	582	10	3	8	1,179	35	3,937	98,671
Energy (internal)	2,175	1	195	95	7,675	-	5,332	551,841
Other internal costs	1,398	91	865	664	6,988	22	13,033	397,574
Elimination of intra-divisional items	-	-	-	-	-	-	(6,076)	(376,882)
Admin overheads	-	-	-	-	-	-	-	201,338
Material overheads	859	17	15	37	629	116	2,801	148,290
Social and welfare costs	-	-	-	-	-	-	91,563	103,853
Change in accruals:								
- repair of fixed assets	(3,038)	19	59	-	3,757	(49)	(2,036)	48,667
Change in prepaid expenses	-	-	-	-	-	-	11,487	107,501
Change in other accruals	-	-	-	-	-	-	10,346	344,209
Subtotal	33,985	8,584	2,458	24,330	34,870	12,098	304,366	9,201,322
Wages costs	13,401	2,337	4,612	3,013	19,193	3,728	63,368	1,185,807
Other wages (part-timers)	53	-	8	-	80	661	1,569	13,414
Change in accrued wages	-	(174)	-	-	(72)	-	(582)	531
Subtotal	13,454	2,163	4,620	3,013	19,201	4,389	64,355	1,199,752

5/c.

Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
Insurance		208	9	1	740	208	123	(474)	11,369
Fees		88	76	-	(29)	94	-	2,069	5,771
Payroll tax		7,039	372	2,428	1,585	10,167	1,011	29,857	611,959
Interest		2,982	391	39	2,201	49,043	127	(278,000)	748,048
Deficit and damage		4	-	-	(996)	7,177	-	22,763	418,873
Fines and penalties		37	-	-	77	262	-	26,314	42,564
Other financial costs		131	1	-	48,355	10	247	191	26,981
Intra-company penalties		(1,567)	-	-	-	(6)	-	1	1
Credit notes received		-	-	-	-	(246)	-	(1,584)	(2,958)
Change in prepaid expenses		-	-	-	-	-	-	184	15,763
Change in accruals		-	(87)	-	-	(60)	-	22,838	23,587
Subtotal		8,922	762	2,468	51,933	66,649	1,508	(175,841)	1,901,958
TOTAL COSTS		56,361	11,509	9,546	79,276	120,720	17,995	192,880	12,303,032
PROFIT / (LOSS)		11,467	1,384	2,862	30,770	8,181	(12,691)	82,610	686,635

Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
EARNINGS									
Earnings operating		-	7,994,316						
Cost of bought-in items sold		-	(717,327)						
Other operating earnings incl.									
projects, design		-	36,368						
carriage of freight		-	5,303						
bought-in items sold		-	449,668						
cost of bought-in items		-	(627,424)						
other earnings		-	(4,690)						
Other items related to operating sales		-	535						
Earnings trading		-	931,814						
Cost of goods sold		-	(664,405)						
Earnings from catering services		-	103,900						
Cost of goods sold		-	(6,482)						
Other items related to trading earnings		-	(1)						
Earnings non-operating		-	401,973						
Other related items		-	7,357						
Turnkey commission passed to subcontractors		-	(7,594)						
Capitalised material		7,571	950,232						
Sale of inventories		-	161,552						
Cost of inventories sold		-	(152,976)						
Sale of fixed assets		196	3,662						
Transfer of goods and services		-	1,230,567						
Turnover tax		-	-						
Intra-company items:									
Profit/(loss) on intra-company co-operation		-	-						
Intra-company sale of finished goods		(439,693)	-						
Intra-company purchase of finished goods		439,691	-						

* Elimination of intracompany items (class III)

Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
Intra-company transfers:									
engineering products		(1,314,789)	-						
Other intra-company earnings		(1,447,748)	-						
Cost of rejects passed to another division		(14,486)	-						
Admin and material overheads		(349,780)	-						
Elimination of intra-divisional items		376,882	-						
Change in deferred income		-	(318,490)						
Change in WIP		-	(208,738)						
Change in finished goods		-	334,095						
Extraordinary income		-	344,296						
TOTAL EARNINGS		(2,742,156)	10,247,511						
COSTS									
Raw materials (purchased) consumed in production		-	2,028,568						
Finished products (purchased) consumed in production		-	1,585,244						
Castings and forgings (manuf.) consumed in production		-	876,607						
Waste capitalised		196	(145,782)						
Fuel		-	217,700						
Price differential for raw materials and fuel		-	(1,078)						
Energy (purchased)		-	263,986						
Delivery costs		-	66,242						
Subcontracting		-	60,131						
Repair and maintenance		-	80,001						
Postal charges		-	23,744						
Other material costs		-	62,651						
Depreciation charges		-	416,929						
NBV of disposed fixed assets		-	7,319						

* Elimination of intracompany items (class III)

Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
Write off of supplies		-	154,732						
Travelling costs		-	44,252						
Rentals		-	26,743						
Other intangible costs		-	190,800						
Intra-company transfers - engineering products		(1,308,377)	-						
Co-operation from other plants									
- direct costs		(309,290)	-						
- non-direct costs		(98,671)	-						
Energy (internal)		(551,841)	-						
Other internal costs		(397,574)	-						
Elimination of intra-divisional items		376,882	-						
Admin overheads		(201,338)	-						
Material overheads		(148,290)	-						
Social and welfare costs		(103,853)	-						
Change in accruals:									
- repair of fixed assets		-	48,667						
Change in prepaid expenses		-	107,501						
Change in other accruals		-	344,209						
Subtotal		(2,742,156)	6,459,166						
Wages costs		-	1,185,807						
Other wages (part-timers)		-	13,414						
Change in accrued wages		-	531						
Subtotal		-	1,199,752						

* Elimination of intracompany items (class III)

Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
Insurance		-	11,369						
Fees		-	5,771						
Payroll tax		-	611,959						
Interest		-	748,048						
Deficit and damage		-	418,873						
Fines and penalties		-	42,564						
Other financial costs		-	26,981						
Intra-company penalties		-	1						
Credit notes received		-	(2,958)						
Change in prepaid expenses		-	15,763						
Change in accruals		-	23,587						
Subtotal		-	1,901,958						
TOTAL COSTS		(2,742,156)	9,560,876						
PROFIT / (LOSS)		-	686,635						
			Refer E29 and E30 for Statement of Profit Allocation						

* Elimination of intracompany items (class III)

APPENDIX D

INTERNATIONAL ACCOUNTING STANDARD AND COOPERS & LYBRAND INITIATED ALLOCATION ADJUSTMENTS TO THE CZECHOSLOVAK DIVISIONAL AND CONSOLIDATED FINANCIAL STATEMENTS

We note that "A" indicates an allocation journal initiated by Coopers & Lybrand

				million k
<u>No 1</u>				
	DR	Fixed assets at cost:		
		- Other cost centres		1,104
	CR	Equity:		
		- Other cost centres		1,104

being the difference between land valued at the old (pre 1 November 1991 rates) (308 million k) and the new (1,412 million k) notional rates prescribed by the State for accounting purposes (refer paragraph 420, Section 4, Part I)

<u>No 2A</u>				
	DR	Fixed assets in the course of construction:		66
		- Locomotives	32	
		- Machine Tools	7	
		- ETD	22	
		- Ejpovice	5	
			66	
	CR	Fixed assets in the course of construction:		
		- Other cost centres		66

being interest capitalised prior to 1 January 1991 relating to fixed assets in the course of construction (refer paragraph 530, Section 5, Part II)

<u>No 3</u>				
	DR	Profit and loss: Exceptional:		
		- Write off of surplus fixed assets		83
	CR	Accumulated depreciation:		83
		- Other	5	
		- Research	1	
		- Welfare	1	
		- Rotava	1	
		- Ostrov	2	

		D1 million k
- Automation	1	
- ETD	6	
- Forgings	1	
- Nuclear	57	
- Machine Tools	8	
	83	

being write off of management's estimate of surplus completed fixed assets (refer paragraph 427, Section 4, Part I)

No 4	DR	Profit and loss: Exceptional:	
		- Write off of House of Culture	249
	CR	Accumulated depreciation:	
		- House of Culture	249

being a write down of the House of Culture (cost: 283 million k, net book value: 259 million k) to 10 million k at which price it was sold in December 1991 (refer paragraph 425, Section 4, Part I)

No 5

DR	Profit and loss: Exceptional:		
	- Write off of recreational, welfare and civil defence facilities		96
CR	Equity:		96
	- Other	61	
	- Ejpovice	3	
	- Rotava	1	
	- Welfare	2	
	- Maintenance	3	
	- Turbines	9	
	- Tools	1	
	- ETD	5	
	- Castings	1	
	- Forgings	2	
	- Locomotives	3	
	- Heavy engineering	3	
	- Machine tools	2	
		96	

being write off of the recreational, welfare and civil defence facilities to nil book value (refer paragraph 423, Section 4, Part I)

327

million k

No 6

DR	Investments: Machine Tools	24
CR	Other payables (short term): Machine Tools	6
CR	Other payables (long term): Machine Tools	18

being Strojimport shares purchased by FINOP on the Company's behalf (refer paragraph 447, Section 4, Part I)

No 7

DR	Profit and loss: Exceptional:		
	- Doubtful debts expense		708
CR	Accounts receivable (domestic):		708
	- Air	1	
	- Erection and Engineering	53	
	- Other	7	
	- Central Purchasing Department	11	
	- Repairs	1	
	- Rotava	20	
	- Dýšina	39	
	- Maintenance	1	
	- Ostrov	24	
	- Turbines	12	
	- Automation	1	
	- Ejpovice	12	
	- Tools	10	
	- Klatovy	45	
	- ETD	18	
	- Castings	150	
	- Forgings	83	
	- Locomotives	180	
	- Gears	18	
	- Nuclear	2	
	- Heavy Engineering	10	
	- Machine Tools	10	
		708	

being a provision for debts of doubtful collectibility (refer paragraph 456, Section 4, Part I)

326

			million k
No 8			
DR	Other receivables:		
	- Other cost centres		46
CR	Cash-in-transit:		
	- Other cost centres		46

being a correction of a misposting (refer paragraph 507, Section 5, Part II)

No 9A			
DR	Prepaid expenses:*		
	- Other cost centres		42
CR	Prepaid expenses:		42
	- Heavy Engineering	11	
	- Locomotives	6	
	- Machine Tools	19	
	- ETD	5	
	- Automation	1	
		42	

being allocation of prepaid expenses (the line item description in the Czechoslovak balance sheet) former risk fund, from the variance cost centre to the operating divisions (refer paragraph 531, Section 5, Part II)

* Czechoslovak description of line item.

No 10			
DR	Profit and loss: change in accruals		65
CR	Prepaid expenses:		65
	- Nuclear	64	
	- Castings	2	
	- Heavy engineering	1	
	- Dýšina	2	
	- ETD	(1)	
	- Ejpovice	1	
	- Locomotives	(1)	
	- Machine tools	(4)	
	- Other	1	
		65	

being writing off of the mock fuel rods for 1,000 MW reactor blocks in Nuclear, together with other prepaid expenses: former risk fund, start-up costs (refer paragraph A18, Section 4, Part I)

			million k
No 11			
DR	Profit and loss: Exceptional:		
	- Write off of surplus inventories		288
CR	Inventories:		288
	- Forgings	22	
	- Heavy Engineering	127	
	- Machine Tools	54	
	- Turbines	24	
	- Automation	15	
	- Rotava	13	
	- Ostrov		
6			
	- Dýšina	6	
	- Gears	4	
	- Ejpovice	17	
		288	

being write off of management's estimate of surplus inventories (refer paragraph A19, Section 4, Part I)

No 12		
DR	Accruals and provisions: Locomotives	161
CR	Profit and loss: change in accruals.	
	- Locomotives	161

being release of a hidden provision for extended warranties (refer paragraph A50, Section 4, Part I)

No 13		
DR	Deferred income:	
	- Other cost centres	297
CR	Profit and loss: Extraordinary sale of trademark:	
	- Other cost centres	297

being 90 % of consideration (330 million k) received from ŠKODA Mladá Boleslav for the use of ŠKODA trademark on cars (refer paragraph A57, Section 4, Part I)

				million k
No 14				
	DR	Profit and loss: Other operating costs		53
	CR	Intra-company receivables/payables:		53
		- Castings	1	
		- Forgings	5	
		- Heavy Engineering	1	
		- Maintenance	4	
		- Energy	1	
		- Erection and Engineering	3	
		- Machine Tools	1	
		- Tools	1	
		- Turbines	4	
		- Nuclear	14	
		- Locomotives	2	
		- ETD	9	
		- Automation	1	
		- Foreign Trade Department	3	
		- Welfare	1	
		- Central Purchasing Department	1	
		- Other	1	
			53	

being reclassification of a misnomer. The Czechoslovak balance sheet includes an asset called "intra-company receivables/payables". These are services invoiced, accrued but not expensed since authorisation was not obtained until after 30 September 1991

No 15			
	DR	Profit and loss: Exceptional:	
		- Other	56
	CR	Accumulated depreciation:	
		- Other	56

being write off of football and ice-hockey stadiums to nil book value (refer paragraph 426, Section 4, Part I)

No 16			
	DR	Warranty provision:	
		- Locomotives	149
	CR	Warranty provision - Long term:	
		- Locomotives	149

being reclassification of two-thirds of warranty provision to long-term portion (refer paragraph A51, Section 4, Part I)

million k

No 17

DR	Funds and reserves: Welfare Fund - 49 million k, Bonus Fund - 26 million k		75
CR	Wages payable:		75
	- Castings	4	
	- Forgings	3	
	- Nuclear	1	
	- Turbines	2	
	- Heavy Engineering	6	
	- Locomotives	3	
	- Machine Tools	4	
	- Automation	1	
	- ETD	5	
	- Gears	1	
	- Tools	1	
	- Erection and Engineering	3	
	- Ostrov	3	
	- Klatovy	1	
	- Ejpovice	2	
	- Tobacco Machines	1	
	- Maintenance	3	
	- Energy	3	
	- Other cost centres	28	
		75	

being reclassification of the welfare and bonus funds which are in the nature of accrued expenses (refer paragraph A54, Section 4, Part I)

No 18A

DR	Profit and loss: Interest charge: - Other cost centres		266
CR	Profit and loss: Interest charge		266
	- Castings	13	
	- Forgings	17	
	- Turbines	(4)	
	- Heavy Engineering	3	
	- Locomotives	(19)	
	- Machine Tools	31	
	- Gears	10	
	- ETD	12	
	- Energy	2	

million k

- Tools	5
- Erection and Engineering	13
- Ostrov	20
- Rotava	5
- Klatovy	4
- Nuclear	68
- Dýšina	20
- Ejpovice	4
- Tobacco Machines	5
- Automation	5
- Welfare	(3)
- Air	(1)
- Central Purchasing Department	47
- Research	1
- Transport	(1)
- Other cost centres	9
	266

being allocation of interest charge (289 million k over-allocation less 23 million k, interest accrual relating to Investiční banka) from the variance cost centre to divisions and other "other cost centres" (refer paragraphs 532 and 536, Section 5, Part II)

<u>No 19A</u>

DR	Inventories: Work-in-progress:		
	- Other cost centres		76
CR	Inventories: Work-in-progress		76
	- Turbines	(14)	
	- Heavy Engineering	(6)	
	- Locomotives	(3)	
	- Machine Tools	(14)	
	- Gears	(3)	
	- ETD	(16)	
	- Maintenance	(1)	
	- Erection and Engineering	(1)	
	- Ostrov	(6)	
	- Rotava	(1)	
	- Klatovy	(2)	
	- Nuclear	(5)	
	- Ejpovice	(1)	
	- Repair	(1)	
	- Automation	(1)	
	- Tools	(1)	
		(76)	

million k

being elimination of the margin included in the intra-company transfer prices for engineering products at 30 September 1991 (refer paragraph 537, Section 5, Part II)

No 20A

DR	Profit and loss: Change in work-in-progress:		
	- Other cost centres		67
CR	Profit and loss: Change in work-in-progress:		67
	- Turbines	12	
	- Heavy Engineering	6	
	- Locomotives	3	
	- Machine Tools	13	
	- Gears	3	
	- ETD	14	
	- Maintenance	1	
	- Erection and Engineering	1	
	- Ostrov	5	
	- Rotava	1	
	- Klatovy	1	
	- Nuclear	4	
	- Ejpovice	1	
	- Repair	1	
	- Automation	1	
		67	

being elimination of margin in intracompany transfers of work-in-progress which have passed through the profit and loss account in the nine months ended 30 September 1991 via "change in work-in-progress" (refer paragraph 518, Section 5, Part II)

No 21A

DR	Inventories: raw materials:q		365
	- Castings	8	
	- Forgings	7	
	- Turbines	18	
	- Heavy Engineering	28	
	- Locomotives	24	
	- Machine Tools	50	
	- ETD	158	
	- Maintenance	11	
	- Energy	4	
	- Tools	4	

million k

- Erection and Engineering	10	
- Rotava	1	
- Klatovy	1	
- Nuclear	21	
- Dýšina	2	
- Ejpovice	1	
- Repairs	3	
- Tobacco Machines	4	
- Automation	7	
- Transport	1	
- Other	2	
	365	

CR	Inventories: raw materials:		
	- Foreign Trade Department		75
	- Central Purchasing Department		290

being allocation to divisions of raw material inventories carried by Central Purchasing and Foreign Trade Departments which they have ordered (refer paragraph 510, Section 5, Part II)

No 22

DR	Accounts payable (foreign):		
	- Foreign Trade Department	17	
CR	Accounts payable (foreign) - long term portion		
	- Foreign Trade Department	17	

being reclassification of long term portion of accounts payable (foreign) (refer paragraph A40, Section 4, Part I)

No 23

DR	Other payables:		
	- Other		75
CR	Accrued expenses:		75
	- Castings	7	
	- Forgings	6	
	- Heavy Engineering	5	
	- Gears	2	
	- Maintenance	1	
	- Energy	1	

million k

- Erection and Eng.	1
- Machine Tools	5
- Tools	1
- Tobacco Machines	1
- Klatovy	1
- Ejpovice	1
- Ostrov	2
- Rotava	1
- Dýšina	1
- Turbines	6
- Nuclear	11
- Locomotives	11
- ETD	9
- Automation	2
	75

being reclassification of other payables to accrued expenses (interest) in order to consolidate accrued interest into one line item in the balance sheet.

<u>No 24</u>

DR	Profit and Loss: Exceptional - Nuclear	342
CR	Profit and Loss: Deficit and damage - Nuclear	342

being reclassification of the write off of bought-in-items and work-in-progress for the cancelled reactor blocks 3 and 4 in Temelín to exceptional costs

<u>No 25</u>

DR	Profit and loss account: Exceptional item - Nuclear	1,375
CR	Provision for unrealised losses - Nuclear	1,375

being provision for unrealised losses relating to Temelín and Mochovce nuclear power plants (refer Section 6A: Nuclear Division)

D11
million k

No 26

DR	Profit and loss account		3,941
	- Summarised divisional profit and loss accounts		
	* Intracompany sale of finished goods		440
	* Intracompany transfers of engineering products		1,315
	* Other intracompany earnings		1,447
	* Cost of rejects passed to another division		13
	* Admin and material overheads		349
	* Elimination of intradivisional items		377
			3,941
CR	Profit and loss account		3,941
	- Summarised divisional profit and loss accounts		
	* Intracompany purchase of finished goods	440	
	* Intracompany transfers of engineering products	1,316	
	* Co-operation from other plants:		
	- direct costs	306	
	- non-direct costs	99	
	* Energy (internal)	552	
	* Other internal costs	398	
	* Admin overheads	201	
	* Material overheads	148	
	* Social and welfare costs	104	
	* Elimination of intradivisional items	377	
		3,941	

being elimination of the identified Class I intra-company items in the consolidated profit and loss account

APPENDIX E

ADJUSTED DIVISIONAL AND CONSOLIDATED FINANCIAL STATEMENTS AND GROUPING SCHEDULES

Adjusted Czechoslovak Balance Sheets at 30/9/1991		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Tangible fixed assets	(a)	1,813,448	934,861	1,286,478	590,562	139,588	530,613	1,660,133	1,434,599
Accumulated depreciation	(a)	(1,109,746)	(515,686)	(763,410)	(352,531)	(92,447)	(380,397)	(1,017,726)	(943,858)
Fixed assets in the course of construction	(a)	9,151	2,348	242,561	143,676	10	3,299	35,927	38,414
Payments on account	(a)	-	-	61,461	43,196	-	-	-	972
Subtotal		712,853	421,523	827,090	424,903	47,151	153,515	678,334	530,127
Intangible assets less accumulated amortisation	(b)	881	1,973	20	41	24	-	-	-
Investments (domestic)	(c)	7,500	7,500	-	-	-	6,200	-	-
Investments (foreign)	(c)	1,112	-	-	-	-	9,419	-	-
Cash in hand	(d)	-	-	-	-	-	-	-	-
Cash in bank:									
Current account	(d)	-	-	-	-	-	-	-	-
Special bank account	(d)	-	-	-	-	-	-	-	-
Vouchers	(d)	-	-	-	-	-	-	-	-
Cash in transit	(d)	-	-	-	-	-	-	-	-
Subtotal		8,612	7,500	-	-	-	15,619	-	-
Accounts receivable (domestic)	(e)	342,796	127,389	122,697	144,540	4,332	87,612	118,517	150,675
Accounts receivable (foreign)	(f)	-	-	-	-	8,809	-	-	-
Other receivables (domestic)	(e)	552	84,032	3,767	203,620	4	30,759	97,453	183,102
Other receivables (foreign)	(h)	205	122	139	56	120	129	26	146
Social security refundable	(g)	769	560	1,009	643	271	556	569	1,363
Other receivables (population)	(g)	306	248	621	326	140	279	265	530
Intra-company receivables		-	-	-	-	-	-	-	-
Subtotal		344,628	212,351	128,233	349,185	13,676	119,335	216,830	335,816
Inventories	(i)	5,031,692	421,839	1,109,669	501,263	166,657	278,561	230,863	316,972
Prepaid expenses		-	-	-	-	-	-	-	-
TOTAL ACTIVE ACCOUNTS		6,098,666	1,065,186	2,065,012	1,275,392	227,508	567,030	1,126,027	1,182,915

Adjusted Czechoslovak Balance Sheets at 30/9/1991		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Accruals, provisions and deferred income	(i)	67,446	19,829	4,434	45,454	(417)	3,500	55,958	26,832
Warranty provision (long term portion)	(r)	-	-	-	149,000	-	-	-	-
Accounts payable (domestic)	(j)	204,180	77,686	97,779	160,113	10,734	29,256	43,223	128,182
Accounts payable re fixed assets in the course of construction	(j)	(6,073)	-	10,943	5,682	-	-	269	931
Accounts payable (foreign)	(k)	-	-	-	-	-	-	-	-
Accounts payable (goods received, no invoice)	(j)	140	-	-	1,876	2	9,067	517	4,467
Wages payable	(l)	1,450	5,532	12,475	7,549	2,455	10,699	6,459	11,729
Taxes payable (payroll, profit, levies)	(l)	(352)	(34)	202	295	(9)	431	(570)	(742)
		199,345	83,184	121,399	175,515	13,182	49,453	49,898	144,567
Bank loans:									
Short term portion	(m)	361,540	154,822	165,668	514,854	17,562	83,248	176,964	260,838
Long term portion	(t)	547,063	312,650	746,010	488,922	94,333	194,017	250,617	271,449
Total		908,603	467,472	911,678	1,003,776	111,895	277,265	427,581	532,287
Payments received on account	(o)	4,467,114	144,360	230,049	-	-	136,790	-	-
Provision for unrealised losses	(p)	1,375,000	-	-	-	-	-	-	-
Bank loans (foreign currency):									
Short term portion	(m)	-	-	-	-	5,400	-	-	-
Long term portion	(t)	-	-	-	-	1,084	-	-	-
Total		-	-	-	-	6,484	-	-	-
Revaluation of inventories		-	-	-	-	-	-	-	-
Other accounts payable	(n)	1,705	1,086	2,002	4,866	447	1,354	1,038	2,496
Taxes payable (turnover and wages)	(l)	1,503	1,357	3,330	1,919	631	1,820	1,396	3,394
Other payables (population)	(n)	26	21	53	28	12	24	22	45
TOTAL PASSIVE ACCOUNTS		7,020,742	717,309	1,272,945	1,380,558	132,234	470,206	535,893	709,621
NET ASSETS/(LIABILITIES)		(922,076)	347,877	792,067	(105,166)	95,274	96,824	590,134	473,294

Adjusted Czechoslovak Balance Sheets 30/9/ 1991		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco mach. 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Tangible fixed assets	(a)	131,683	165,743	615,617	321,967	45,787	112,650	399,486	526,498
Accumulated depreciation	(a)	(87,604)	(120,499)	(424,402)	(238,416)	(31,567)	(64,658)	(179,146)	(316,395)
Fixed assets in the course of construction	(a)	4,609	4,242	85,970	8,808	7,483	949	6,013	667
Payments on account	(a)	-	-	108,560	-	-	-	613	9
		48,688	49,486	385,745	92,359	21,703	48,941	226,966	210,779
Intangible assets less accumulated amortisation	(b)	9	12	11	3	1,302	25	65	94
Investments (domestic)	(c)	-	-	30,000	-	-	-	-	-
Investments (foreign)	(c)	-	-	-	-	-	-	-	-
Cash in hand	(d)	-	-	-	-	-	-	-	-
Cash in bank:									
Current account	(d)	-	-	-	-	-	-	1,674	-
Special bank account	(d)	-	-	-	-	-	-	-	-
Vouchers	(d)	-	-	-	-	-	(12)	9	1
Cash in transit	(d)	-	-	-	-	-	-	-	-
		-	-	30,000	-	-	(12)	1,683	1
Accounts receivable (domestic)	(e)	221,086	17,248	84,255	43,917	5,510	29,868	11,890	405,983
Accounts receivable (foreign)	(f)	-	-	12,361	-	-	-	2,539	-
Other receivables (domestic)	(e)	6,282	14	26,500	14,164	9	87	(781)	422
Other receivables (foreign)	(h)	263	(1)	204	59	45	87	134	5
Social security refundable	(g)	413	318	661	221	160	259	314	597
Other receivables (population)	(g)	206	140	278	86	84	119	139	252
Intra-company receivables		-	-	-	-	-	-	-	-
		228,250	17,719	124,259	58,447	5,808	30,420	14,235	407,259
Inventories	(i)	512,031	76,318	470,367	101,837	83,063	115,511	54,413	285,303
Prepaid expenses		-	-	(20)	-	-	-	-	-
TOTAL ACTIVE ACCOUNTS		788,978	143,535	1,010,362	252,646	111,876	194,885	297,362	903,436

Adjusted Czechoslovak Balance Sheets 30/9/1991		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Accruals, provisions and deferred income	(l)	13,343	75	26,516	5,007	3,305	3,220	(75)	11,000
Accounts payable (domestic)	(j)	85,293	14,449	46,370	(679)	2,773	23,212	11,311	74,051
Accounts payable re fixed assets in the course of construction	(j)	-	138	12,376	-	103	31	43	209
Accounts payable (foreign)	(k)	-	-	-	-	-	-	-	-
Accounts payable (goods received, no invoice)	(j)	79,397	130	-	-	-	70	132	10
Wages payable	(l)	6,089	2,896	7,880	2,091	1,789	2,397	3,898	6,156
Taxes payable (payroll, profit and levies)	(l)	(292)	600	(66)	(70)	(750)	(160)	(100)	(47)
		170,487	18,213	66,560	1,342	3,915	25,550	15,284	80,379
Bank loans:									
Short term portion	(m)	22,720	12,145	78,228	39,849	7,555	12,473	15,682	32,219
Long term portion	(t)	83,677	47,005	282,632	88,732	33,148	66,291	79,087	167,252
Total		106,397	59,150	360,860	128,581	40,703	78,764	94,769	199,471
Payments received on account	(o)	652,257	215	-	-	-	28,163	-	190,283
Bank loans (foreign currency):									
Short term portion	(m)	-	-	22,410	-	-	-	1,800	-
Long term portion	(t)	-	-	-	-	-	-	739	-
Total		-	-	22,410	-	-	-	2,539	-
Revaluation of inventories		-	-	-	-	-	-	-	-
Other accounts payable	(n)	4,123	456	7,051	749	226	534	532	2,032
Other accounts payable (long term portion)	(s)	-	-	18,000	-	-	-	-	-
Taxes payable (turnover and wages)	(l)	1,133	726	1,453	419	290	513	709	1,274
Other payables (population)	(n)	18	12	24	7	7	10	12	22
TOTAL PASSIVE ACCOUNTS		947,758	78,847	502,874	136,105	48,446	136,754	113,770	484,461
NET ASSETS/(LIABILITIES)		(158,780)	64,688	507,488	116,541	63,430	58,131	183,592	418,975

Adjusted Czechoslovak Balance Sheets at 30/9/1991		Rotava 000k	Dýšina 000k	Repairs 000k	Energy 000k	Maintenance 000k	Welfare 000k	Purchasing 000k	Foreign 000k	Hotels 000k
Tangible fixed assets	(a)	261,673	176,746	48,793	1,232,812	118,398	622,763	154,673	2,791	48,850
Accumulated depreciation	(a)	(190,651)	(101,725)	(41,213)	(755,977)	(79,474)	(166,885)	(112,190)	(779)	(17,847)
Fixed assets in the course of construction	(a)	1,062	17,964	-	33,794	3,901	17,389	9,516	-	-
Payments on account	(a)	-	-	-	11,538	-	2,873	-	-	-
		72,084	92,985	7,580	522,167	42,825	476,140	51,999	2,012	31,003
Intangible assets less accumulated amortisation	(b)	-	3,506	-	-	10	132	-	99	866
Investments (domestic)	(c)	-	-	-	-	-	-	-	6,000	-
Investments (foreign)	(c)	-	-	-	-	-	-	-	-	-
Cash in hand	(d)	-	-	-	-	-	-	-	-	-
Cash in bank:										
Current account	(d)	-	-	-	-	-	-	-	168,144	3,607
Special bank account	(d)	-	-	-	-	-	-	-	100	-
Vouchers	(d)	5	2	-	-	-	-	768	-	-
Cash in transit	(d)	-	-	-	-	-	-	-	-	-
		5	2	-	-	-	-	768	174,244	3,607
Accounts receivable (domestic)	(e)	22,376	(676)	4,576	1,030	3,163	1,515	11,160	114,300	940
Accounts receivable (foreign)	(f)	-	-	-	-	-	-	-	60,592	-
Other receivables (domestic)	(e)	8	42	-	11	1,106	405	6	-	3
Other receivables (foreign)	(h)	92	107	1	-	-	-	23	-	-
Social security refundable	(g)	259	188	105	351	537	431	245	25	32
Other receivables (population)	(g)	124	96	48	170	243	22	15	2	80
Intra-company receivables		-	-	-	-	-	-	-	-	-
		22,859	(243)	4,730	1,562	5,049	2,373	11,449	174,919	1,055
Inventories	(i)	53,269	168,304	28,870	53,859	91,175	14,393	3,348	18,475	145
Prepaid expenses		-	-	-	-	-	-	-	-	-
TOTAL ACTIVE ACCOUNTS		148,217	264,554	41,180	577,588	139,059	493,038	67,564	369,749	36,676

Adjusted Czechoslovak Balance Sheets at 30/9/1991		Rotava 000k	Dýšina 000k	Repairs 000k	Energy 000k	Maintenance 000k	Welfare 000k	Purchasing 000k	Foreign 000k	Hotels 000k
Accruals, provisions and deferred income	(l)	648	(6,028)	415	9,675	2,717	2,402	5,112	250	222
Accounts payable (domestic)	(j)	9,858	19,059	3,852	87,807	25,289	10,548	(293)	(91,654)	406
Accounts payable re fixed assets in the course of construction	(j)	297	408	-	149	251	2,903	1,392	-	-
Accounts payable (foreign):ST	(k)	-	-	-	-	-	-	-	23,254	-
Accounts payable (foreign):LT	(q)	-	-	-	-	-	-	-	16,700	-
Accounts payable (goods received, no invoice)	(j)	1,576	290	-	2,759	419	3,745	4,230	7,070	257
Wages payable	(l)	1,875	1,133	694	5,306	6,119	1,891	594	83	375
Taxes payable (payroll, profit and levies)	(l)	(600)	(216)	75	(21)	59	-	190	(17)	58
		13,006	20,674	4,621	96,000	32,137	19,087	6,113	(44,564)	1,096
Bank loans:										
Short term portion	(m)	12,389	17,353	3,771	11,981	14,904	20,290	2,726	49,791	-
Long term portion	(t)	51,158	59,467	19,381	39,342	64,320	146,179	18,018	-	-
Total		63,547	76,820	23,152	51,323	79,224	166,469	20,744	49,791	-
Payments received on account	(o)	700	-	-	-	365	-	-	-	-
Bank loans (foreign currency):										
Short term portion	(m)	-	-	-	-	-	-	-	-	-
Long term portion	(t)	-	-	-	-	-	-	-	-	-
Total		-	-	-	-	-	-	-	-	-
Revaluation of inventories		-	-	-	-	-	-	-	-	-
Other accounts payable	(n)	630	196	-	712	850	502	535	200,891	56
Taxes payable (turnover and wages)	(l)	808	571	251	1,077	1,141	637	570	139	78
Other payables (population)	(n)	11	8	4	15	21	2	1	-	-
TOTAL PASSIVE ACCOUNTS		79,350	92,241	28,443	158,802	116,455	189,099	33,075	206,507	1,452
NET ASSETS/(LIABILITIES)		68,867	172,313	12,737	418,786	22,604	303,939	34,489	163,242	35,224

Adjusted Czechoslovak Balance Sheets at 30/9/1991		Air 000k	Research 000k	Transport 000k	Design 000k	Culture 000k	Other 000k	TOTAL 000k
Tangible fixed assets	(a)	44,294	207,404	343,268	682	283,228	2,355,974	16,612,062
Accumulated depreciation	(a)	(29,948)	(141,912)	(215,301)	(224)	(272,148)	(606,888)	(9,371,650)
Fixed assets in the course of construction	(a)	484	4,375	9,374	-	5	16,085	708,076
Payments on account	(a)	-	-	-	-	-	-	229,222
Subtotal		14,830	69,867	137,341	458	11,085	1,765,171	8,177,710
Intangible assets less accumulated amortisation	(b)	9	15	1	15	-	777	9,890
Investments (domestic)	(c)	-	-	1,750	-	-	-	58,950
Investments (foreign)	(c)	-	-	-	-	-	-	10,531
Cash in hand	(d)	-	-	-	-	-	793	793
Cash in bank:								
Current account	(d)	-	-	-	-	2,940	133,413	309,778
Special bank account	(d)	100	-	-	-	-	13,797	13,997
Vouchers	(d)	-	-	-	-	6	-	779
Cash in transit	(d)	-	-	-	-	-	(20,345)	(20,345)
Subtotal		100	-	1,750	-	2,946	127,658	374,483
Accounts receivable (domestic)	(e)	7,956	6,698	769	-	95	(12,075)	2,080,143
Accounts receivable (foreign)	(f)	-	-	-	-	-	-	84,301
Other receivables (domestic)	(e)	-	(4)	-	-	137	35,794	687,494
Other receivables (foreign)	(h)	2,194	53	733	-	-	666	5,608
Social security refundable	(g)	4	138	123	49	26	1,230	12,426
Other receivables (population)	(g)	1	8	8	-	17	643	5,496
Intra-company receivables		-	-	-	-	-	-	-
Subtotal		10,155	6,893	1,633	49	276	26,258	2,875,468
Inventories	(i)	2,703	7,453	6,418	855	114	52,245	10,257,985
Prepaid expenses		-	-	-	-	-	-	-
TOTAL ACTIVE ACCOUNTS		27,797	84,228	147,143	1,377	14,421	1,972,109	21,695,536

Adjusted Czechoslovak Balance Sheets at 30/9/1991		Air 000k	Research 000k	Transport 000k	Design 000k	Culture 000k	Other 000k	TOTAL 000k	
Accruals, provisions and deferred income	(l)	4,567	1,398	(2,677)	59	-	35,969	340,156	
Warranty provision (long term portion)	(r)	-	-	-	-	-	-	149,000	
Accounts payable (domestic)	(j)	1,067	1,046	3,846	11	28	(157,565)	921,238	
Accounts payable re fixed assets in the course of construction	(j)	-	-	-	-	-	845	30,897	
Accounts payable(foreign):ST	(k)	-	-	-	-	-	-	23,254	
Accounts payable(foreign):LT	(q)	-	-	-	-	-	-	16,700	
Accounts payable (goods received, no invoice)	(j)	-	-	-	-	-	2,674	118,828	
Wages payable	(l)	111	389	364	142	190	41,021	151,831	
Taxes payable (payroll)	(l)	7	-	(74)	81	(293)	33,375	30,960	
		1,185	1,435	4,136	234	(75)	(79,650)	1,293,708	
Bank loans:									
Short term portion	(m)	-	1,890	10,137	-	-	(5,445)	2,096,154	
Long term portion	(t)	-	3,769	20,275	-	-	18,745	4,193,539	
Total		-	5,659	30,412	-	-	13,300	6,289,693	
Payments received on account	(o)	-	-	-	-	-	(3,332)	5,846,964	
Provision for unrealised losses	(p)	-	-	-	-	-	-	1,375,000	
Bank loans (foreign currency):			-						
Short term portion	(m)	-	-	-	-	-	-	29,610	
Long term portion	(t)	-	-	-	-	-	-	1,823	
Total		-	-	-	-	-	-	31,433	
Revaluation of inventories		-	-	-	-	-	-	-	
Other accounts payable	(n)	15	17	139	2	80	19,851	255,170	
Other accounts payable (long term portion)	(s)	-	-	-	-	-	-	18,000	
Taxes payable (turnover and wages)	(l)	40	318	290	143	70	1,897	29,897	
Other payables (population)	(n)	-	1	1	-	-	63	470	
TOTAL PASSIVE ACCOUNTS		5,807	8,828	32,301	438	75	(11,902)	15,629,494	
NETT ASSETS/(LIABILITIES)		21,990	75,400	114,842	939	14,346	1,984,013	6,066,042	

Adjusted Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
EARNINGS									
Earnings operating	u	205,784	431,368	494,525	2,580,786	19,687	499,194	715,781	929,904
Cost of bought-in items sold	w	(115,837)	-	(58,247)	-	-	(208,984)	-	-
Other operating earnings incl.									
projects, design	Ic	4,682	-	-	-	-	23,358	-	-
carriage of freight	Ic	29	-	2	-	-	-	-	68
bought-in items sold	u	12,871	46,513	177	-	-	20,057	-	-
cost of bought-in items	w	(12,871)	(46,513)	(177)	-	-	(20,320)	-	-
other earnings	Ic	(15,515)	-	-	-	-	6,482	-	-
Other items related to operating sales	Ic	-	-	-	-	-	-	-	-
Earnings trading	u	1,332	-	-	-	-	1,238	-	-
Cost of goods sold	w	(3)	-	-	-	-	(2,461)	-	-
Earnings from catering services	Ic	-	-	-	-	-	-	-	-
Cost of goods sold	w	-	-	-	-	-	-	-	-
Other items related to trading earnings	Ic	-	-	-	-	-	-	-	-
Earnings non-operating	Ic	137,234	40,078	13,171	366	1,458	37,003	400	3,149
Other related items	Ic	586	1	45	308	23	237	2	16
Turnkey commission passed to subcontractors	Ic	(3,720)	-	-	-	-	(250)	-	-
Capitalised material	u*	762	3	137	296	-	(5,044)	367,076	579,508
Sale of inventories	Ic	1,466	10,541	3,711	2,214	140	2,286	2,078	27,689
Cost of inventories sold	w	(1,232)	(10,541)	(3,711)	(499)	(140)	(2,276)	(1,391)	(27,223)
Sale of fixed assets	Ic	16	21	119	236	8	374	3	213
Transfer of goods and services	u*	226,947	12,808	207,826	974	6,838	200,681	21	163
Turnover tax		-	-	-	-	-	-	-	-
Profit/(loss) on intracompany co-operation	ua	861	(2,618)	(4,300)	(7,467)	(1,504)	(1,332)	(2,697)	(5,442)
Intra-company sale of finished goods	ua	-	12,550	87,682	-	3,920	-	-	-
Intra-company purchase of finished goods	ua	(171)	(4,694)	(43,844)	(50,566)	(2,449)	(23,370)	-	-

Adjusted Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Intra-company transfers: engineering products	ua	6,394	32,884	612,141	1,440	126,153	4,619	43,756	62,605
Other intra-company earnings	ua	52,660	15,969	101,011	2,880	13,142	22,805	95,443	32,361
Cost of rejects passed to another division	ua	(48)	1,672	1,416	616	1	668	6,154	1,519
Admin and material overheads	ua	113	-	152	-	176	-	-	920
Elimination of intra-divisional items	ua	(29,140)	(6,980)	(77,283)	-	(6,965)	(11,412)	(59,611)	(6,910)
Change in deferred income	Ic	(19,441)	-	-	-	-	-	-	-
Change in WIP	v	38,490	77,479	(105,199)	(194,039)	16,332	35,908	(68,183)	30,440
Change in finished goods	v	939	105	(8,011)	140,069	1,622	6,461	-	(1,305)
Extraordinary income	Ic	-	257	1	-	-	-	-	57
TOTAL EARNINGS		493,188	610,903	1,221,344	2,477,614	178,442	585,922	1,098,832	1,627,732
COSTS									
Raw materials (purchased) consumed in production	x	126,961	46,840	215,371	108,469	7,380	29,069	141,716	784,543
Finished products (purchased) consumed in production	x	65,823	40,978	323,168	473,852	58,390	92,735	18,666	1,730
Castings and forgings (manuf.) consumed in production	x	6,927	108,066	69,726	31,869	323	59,813	395,098	2,194
Waste capitalised	x	(551)	(1,521)	(10,538)	(2,243)	(43)	(2,101)	(33,523)	(81,554)
Fuel	y	5,089	45	3,276	660	816	377	302	2,059
Price differential for raw materials and fuel	x	(80)	-	(3)	641	204	-	(480)	(5,158)
Energy (purchased)	y	7,038	1,166	28,291	1,574	2,219	116	50	2,837
Delivery costs	y	2,989	1,016	881	2,366	218	1,604	1,467	20,855
Subcontracting	y	1,577	735	4,785	4,389	433	6,524	71	1,180
Repair and maintenance	y	3,159	1,925	5,665	2,481	517	2,187	1,301	7,187
Postal charges	y	758	172	395	332	177	137	36	150
Other material costs	y	51,634	8,577	(26,179)	6,719	1,435	4,756	5,615	2,158
Depreciation charges	z	52,825	38,043	32,720	20,900	4,565	12,347	46,014	33,935
NBV of disposed fixed assets	y	101	126	5	-	2	3	6,012	135

Adjusted Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Write off of supplies	y	9,522	7,904	6,754	16,712	1,634	10,454	9,867	38,541
Travelling costs	y	7,307	1,019	2,145	1,115	511	1,465	179	579
Rentals	y	1,698	1,847	3,488	1,512	178	1,058	16	922
Other intangible costs	y	(25,531)	11,854	22,269	10,375	1,501	3,257	5,516	13,863
Intra-company transfers - engineering products	ya	34,983	78,337	73,016	709,431	3,784	88,504	23,985	34,602
Co-operation from other plants									
- direct costs	ya	13,419	19,722	97,362	19,434	11,764	17,890	6,788	3,766
- non-direct costs	ya	2,267	3,483	13,136	2,857	2,426	3,524	15,057	20,330
Energy (internal)	ya	12,901	20,454	8,411	25,122	951	20,493	144,326	203,867
Other internal costs	ya	30,449	22,997	9,731	32,856	7,237	22,401	68,143	50,632
Elimination of intra-divisional items	ya	(29,140)	(6,980)	(77,283)	-	(6,965)	(11,412)	(59,611)	(6,910)
Admin overheads	ya	15,717	12,975	26,405	21,672	4,285	13,446	16,749	25,164
Material overheads	ya	15,208	11,893	33,348	17,685	3,553	10,863	8,620	6,317
Social and welfare costs	ya	-	-	72	-	-	-	-	23
Change in accruals:									
- repair of fixed assets	y	5,073	1,789	(10,170)	37	(1,592)	(4,318)	37,079	19,253
Change in prepaid expenses	y	68,284	-	1,062	1,369	(86)	8,929	-	3,923
Change in other accruals	y	2,327	(5,133)	2,776	147,307	(450)	3,111	6,110	1,835
Subtotal		488,734	428,329	860,085	1,659,493	105,367	397,232	865,169	1,188,958
Wages costs	y	70,785	55,506	132,804	71,288	27,816	62,267	58,406	131,026
Other wages (part-timers)	y	603	521	740	482	285	860	862	663
Change in accrued wages	y	2,317	303	78	(385)	(187)	(210)	601	(1,133)
Subtotal		73,705	56,330	133,622	71,385	27,914	62,917	59,869	130,556

Adjusted Czechoslovak Profit and Loss Accounts		Nuclear 000k	Turbines 000k	ETD 000k	Elec.Loco 000k	Automat. 000k	Heavy Eng. 000k	Forgings 000k	Castings 000k
Insurance	y	2,613	562	964	511	122	384	699	756
Fees	y	66	38	233	879	55	45	7	132
Payroll tax	y	36,634	29,339	69,274	37,393	14,560	33,456	31,156	68,403
Interest	Ia	108,645	59,105	99,572	117,596	15,153	49,623	55,263	69,857
Deficit and damage	y	-	(72)	433	40,703	26	342	14	107
Fines and penalties	y	(231)	326	2,524	1,705	121	6,933	189	552
Other financial costs	y	(34,420)	142	403	224	22	132	734	3,856
Intra-company penalties	y	5	32	161	201	2	56	282	593
Credit notes received	y	(46)	(18)	(131)	(4)	-	(5)	(545)	(3)
Change in prepaid expenses	y	15,579	-	-	-	-	-	-	-
Change in accruals	y	1,395	151	39	(192)	(94)	(105)	301	(567)
Subtotal		130,240	89,605	173,472	199,016	29,967	87,861	88,100	143,686
Exceptional costs	Ib	464,794	45,000	29,000	183,000	17,000	140,000	108,000	151,000
Provision for unrealised losses	Ib	1,375,000	-	-	-	-	-	-	-
Total costs		2,532,472	619,264	1,196,179	2,112,894	180,248	688,010	1,121,138	1,614,200
Extraordinary income	Id	-	-	-	-	-	-	-	-
PROFIT / (LOSS)		(2,039,285)	(8,361)	25,165	364,720	(1,806)	(102,088)	(22,306)	13,532

Adjusted Czechoslovak Profit and Loss Accounts		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco mach. 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
EARNINGS									
Earnings operating	u	272,879	94,737	604,878	167,129	56,590	167,808	55,931	429,309
Cost of bought-in items sold	w	(213,357)	-	-	-	-	(24,874)	-	(17,466)
Other operating earnings incl.									
projects, design	Ic	1,141	-	-	-	-	-	-	512
carriage of freight	Ic	2	-	-	-	-	8	1,550	84
bought-in items sold	u	340,194	-	-	-	2,717	4,340	949	14,675
cost of bought-in items sold	w	(340,194)	-	-	-	(2,717)	(4,541)	(949)	(14,598)
other earnings	Ic	4,314	-	-	-	-	-	-	-
Other items related to operating sales	Ic	-	-	-	-	-	-	-	-
Earnings trading	u	5,350	-	-	-	3,169	68	-	-
Cost of goods sold	w	(8,232)	-	-	-	-	-	-	-
Earnings from catering services	Ic	-	-	-	-	-	1,820	625	518
Cost of goods sold	w	-	-	-	-	-	-	-	-
Other items related to trading earnings	Ic	-	-	-	-	-	-	-	-
Earnings non-operating	Ic	54,015	1,029	801	1,105	1,284	2,732	6,943	8,873
Other related items	Ic	57	242	5	2	15	72	339	535
Turnkey commission passed to subcontractors	Ic	(3,624)	-	-	-	-	-	-	-
Capitalised material	u*	468	4,083	1,633	2,803	265	203	(1,252)	(689)
Sale of inventories	Ic	1,284	1,211	5,133	4,029	6	2,156	4,882	6,668
Cost of inventories sold	w	(1,270)	(910)	(5,133)	(4,029)	-	(2,155)	(4,591)	(6,341)
Sale of fixed assets	Ic	3	-	43	895	3	78	6	302
Transfer of goods and services	u*	127,204	35	6,428	8	-	43,216	920	151,022
Turnover tax		-	-	-	-	-	-	-	-
Profit/(loss) on intra-company co-operation	ua	(891)	(1,149)	(2,623)	726	(383)	(594)	989	(355)
Intra-company sale of finished goods	ua ya	4,183	-	39	10,665	57,256	-	52,142	130,009
Intra-company purchase of finished goods		(454)	(233)	-	-	(56,970)	-	(47,448)	(131,219)

Adjusted Czechoslovak Profit and Loss Accounts		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Intra-company transfers:									
engineering products	ua	14,478	51,341	35,320	54,416	-	729	149,359	741
Other intra-company earnings	ua	6,257	15,357	15,759	10,908	25,817	5,589	23,176	77,538
Cost of rejects passed to another division	ua	46	366	369	225	90	33	7	1,170
Admin and material overheads	ua	-	11,573	-	-	-	-	438	44
Elimination of intra-divisional items	ua	(1,864)	(3,440)	-	-	(2,873)	(4,467)	(15,920)	(77,197)
Change in deferred income	Ic	(2,183)	-	-	-	-	-	-	-
Change in WIP	v	7,086	(3,302)	20,389	(25,278)	3,633	1,754	(11,416)	(36,691)
Change in finished goods	v	(1,082)	12	51,662	(511)	25,672	5,129	8,155	57,782
Extraordinary income	Ic	33	-	-	-	355	5	12	32
TOTAL EARNINGS		265,843	170,952	734,703	223,093	113,929	199,109	224,847	595,258
COSTS									
Raw materials (purchased) consumed in production	x	34,979	27,349	26,761	11,635	3,948	54,458	37,414	89,760
Finished products (purchased) consumed in production	x	19,883	7,923	163,110	21,086	8,186	12,993	8,753	138,608
Castings and forgings (manuf.) consumed in production	x	748	3,956	125,296	40,694	1,493	17,913	1,249	27,758
Waste capitalised	x	(431)	(770)	(2,896)	(1,014)	(86)	(117)	(520)	(3)
Fuel	y	3,480	158	399	52	21	576	6,833	5,799
Price differential for raw materials and fuel	x	5	1,744	-	-	-	(143)	(408)	3,018
Energy (purchased)	y	438	5	44	-	969	7,091	6,524	13,824
Delivery costs	y	2,508	352	3,890	1,285	50	1,164	639	2,314
Subcontracting	y	21,605	159	610	5,751	28	805	613	1,303
Repair and maintenance	y	2,598	2,209	3,542	836	395	1,836	1,593	10,232
Postal charges	y	725	41	195	21	128	604	613	1,082
Other material costs	y	7,670	1,803	4,153	863	575	(1,894)	143	2,988
Depreciation charges	z	4,452	4,720	21,416	11,562	2,634	3,001	9,428	13,419
NBV of disposed fixed assets	y	-	-	6	-	-	36	1	143

Adjusted Czechoslovak Profit and Loss Accounts		Erection&Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Write off of supplies	y	3,203	3,537	6,907	2,472	4,851	1,683	2,473	6,655
Travelling costs	y	9,279	344	2,218	569	653	2,031	332	1,499
Rentals	y	592	1,083	452	264	1,188	157	1,555	(139)
Other intangible costs	y	1,949	1,038	2,267	1,917	2,933	1,913	2,129	16,711
Intra-company transfers - engineering products	ya	4,169	2,608	61,121	12,321	4,799	10,638	56,053	58,335
Co-operation from other plants									
- direct costs	ya	5,568	5,058	12,966	4,564	4,778	2,597	3,537	55,232
- non-direct costs	ya	674	2,730	2,330	799	1,539	1,931	2,690	875
Energy (internal)	ya	2,980	11,040	18,148	7,836	4,205	68	7,531	20
Other internal costs	ya	8,478	3,781	20,719	6,935	4,761	3,759	4,163	17,311
Elimination of intra-divisional items	ya	(1,864)	(3,440)	-	-	(2,873)	(4,466)	(15,921)	(77,197)
Admin overheads	y	5,390	4,653	14,220	4,275	3,420	2,745	2,169	5,175
Material overheads	y	3,883	2,341	11,598	3,097	1,440	992	690	1,311
Social and welfare costs	y	-	-	-	-	-	1,050	1,616	8,600
Change in accruals:									
- repair of fixed assets	y	(1,092)	(2,029)	(2,975)	3,032	(885)	(2,106)	(1,859)	5,284
Change in prepaid expenses	y	2,619	-	4,331	-	-	-	1,898	860
Change in other accruals	y	(516)	802	7,897	(8)	2,943	1,902	333	2,531
Subtotal		143,972	83,195	508,725	140,844	52,093	123,217	142,264	413,308
Wages costs	y	50,630	28,820	60,609	18,752	16,600	23,471	28,325	50,963
Other wages (part-timers)	y	248	64	447	209	147	100	285	1,058
Change in accrued wages	y	1,125	58	(313)	56	(142)	182	(72)	(110)
Subtotal		52,003	28,942	60,743	19,017	16,605	23,753	28,538	51,911

Adjusted Czechoslovak Profit and Loss Accounts		Erection& Eng. 000k	Tools 000k	Mach. Tools 000k	Gears 000k	Tobacco 000k	Klatovy 000k	Ejpovice 000k	Ostrov 000k
Insurance	y	289	107	606	204	90	106	228	423
Fees	y	107	32	81	51	3	472	341	162
Payroll tax	y	26,419	15,378	32,203	10,021	8,200	12,501	14,623	26,634
Interest	Ia	13,770	7,774	47,047	17,591	4,726	9,487	10,912	25,156
Deficit and damage	y	29	84	3,696	5	83	(108)	2,042	370
Fines and penalties	y	1,685	4	43	1,754	-	(433)	11	305
Other financial costs	y	286	27	215	42	2,572	76	247	374
Intra-company penalties	y	10	10	173	11	7	-	-	-
Credit notes received	y	-	(75)	(4)	-	(2)	(12)	(47)	(91)
Change in prepaid expenses	y	-	-	-	-	-	-	-	-
Change in accruals	y	562	29	(157)	28	(89)	91	(36)	(55)
Subtotal		43,157	23,370	83,903	29,707	15,590	22,180	28,321	53,278
Exceptional costs	Ib	53,000	11,000	74,000	22,000	-	45,000	32,000	32,000
Extraordinary income	Id	-	-	-	-	-	-	-	-
Total costs		292,132	146,507	727,371	211,568	84,288	214,150	231,123	550,497
PROFIT / (LOSS)		(26,289)	24,445	7,332	11,525	29,641	(15,041)	(6,276)	44,761

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Adjusted Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
EARNINGS									
Earnings operating	u	162,478	118,923	9,891	-	54,118	-	-	-
Cost of bought-in items sold	w	-	-	-	-	(39,651)	-	-	-
Other operating earnings incl. projects, design	Ic	-	-	-	-	228	-	-	-
carriage of freight	Ic	234	-	-	-	49	-	-	-
bought-in items sold	u	408	2,721	-	-	3,563	-	-	-
cost of bought-in items	w	(275)	(2,721)	-	-	(6,552)	-	-	-
other earnings	Ic	-	-	-	-	29	-	-	-
Other items related to operating sales	Ic	-	-	-	-	-	404	-	-
Earnings trading	u	-	-	-	-	-	-	-	-
Cost of goods sold	w	-	-	-	-	-	-	-	-
Earnings from catering services	Ic	2,703	1,364	-	-	-	82,399	-	-
Cost of goods sold	w	-	-	-	-	-	(4,207)	-	-
Other items related to trading earnings	Ic	-	-	-	-	-	-	-	-
Earnings non-operating	Ic	3,989	534	5	151	1,886	29,761	19,946	5,703
Other related items	Ic	41	-	1	-	6	1,087	-	4
Turnkey commission passed to subcontractors	Ic	-	-	-	-	-	-	-	-
Capitalised material	u*	7,258	3,660	257	196	2,683	4,323	16	(47)
Sale of inventories	Ic	8,107	2,663	-	1,327	387	2,828	-	2,572
Cost of inventories sold	w	(6,818)	(2,519)	-	(1,327)	(588)	(492)	-	(2,516)
Sale of fixed assets	Ic	67	168	3	-	79	57	-	4
Transfer of goods and services	u*	747	46	5,152	-	55,849	-	-	339
Turnover tax		-	-	-	-	-	-	-	-
Profit/(loss) on intra-company co-operation	ua	(277)	(436)	(573)	5,089	27,212	(1,417)	(9)	(162)
Intra-company sale of finished goods	ua	11,962	224	11,783	41,233	-	-	-	-
Intra-company purchase of finished goods	ya	(9,300)	-	(726)	-	-	-	-	-

Adjusted Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
Intra-company transfers:									
engineering products	ua	1,207	12	28,919	-	62,916	-	-	12,464
Other intra-company earnings	ua	8,088	2,418	2,348	579,958	90,757	75,018	1,337	22,646
Cost of rejects passed to another division	ua	138	10	1	-	-	-	-	-
Admin and material overheads	ua	-	-	-	1,177	568	394	-	-
Elimination of intra-divisional items	ua	(6,452)	(1,825)	-	(40,581)	(11,774)	(6,112)	-	-
Change in deferred income	lc	-	-	-	-	-	-	-	-
Change in WIP	v	(5,229)	24,104	(2,959)	1,078	(17,256)	89	18	(1,182)
Change in finished goods	v	110	46,567	(6)	-	2	-	-	-
Extraordinary income	lc	3	9	-	-	26	602	27	149
TOTAL EARNINGS		179,189	195,922	54,096	588,301	224,537	184,734	21,335	39,974
COSTS									
Raw materials (purchased) consumed in production	x	30,401	45,191	3,324	21,996	31,430	91,635	40	2,650
Finished products (purchased) consumed in production	x	12,404	51,312	8,944	9,256	32,336	2,746	50	301
Castings and forgings (manuf.) consumed in production	x	6,606	810	2,452	401	1,866	1	-	602
Waste capitalised	x	(2,009)	(680)	(346)	(1,789)	(1,208)	(59)	-	(21)
Fuel	y	4,392	3,515	28	161,752	2,105	1,481	1,943	106
Price differential for raw materials and fuel	x	(165)	1,323	-	16,836	(38)	611	1	-
Energy (purchased)	y	13,912	5,185	-	146,014	686	15,337	-	1,062
Delivery costs	y	2,476	2,286	233	3,232	1,022	96	2	9
Subcontracting	y	2,998	4,586	-	843	456	-	-	-
Repair and maintenance	y	4,512	6,616	126	4,688	339	3,975	1,249	223
Postal charges	y	399	499	-	64	22	933	178	(58)
Other material costs	y	418	1,347	317	12,092	14,434	1,801	19	420
Depreciation charges	z	6,398	5,768	1,322	28,017	2,798	9,252	1,150	7,566
NBV of disposed fixed assets	y	1	-	-	268	2	22	-	5

Adjusted Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
Write off of supplies	y	2,776	2,657	516	810	2,560	2,300	63	705
Travelling costs	y	729	632	195	95	1,336	83	127	236
Rentals	y	4,373	1,561	92	164	335	288	24	66
Other intangible costs	y	2,563	6,474	31	910	3,590	2,858	1,346	(16)
Intra-company transfers - engineering products	ya	14,346	7,844	4,600	6,937	4,089	3,347	-	110
Co-operation from other plants - direct costs	ya	5,582	1,223	2,630	793	11,161	47	16	459
- non-direct costs	ya	460	717	324	8,833	1,841	3,899	14	181
Energy (internal)	ya	52	33	2,622	30,893	8,581	4,720	8	1,106
Other internal costs	ya	4,722	3,323	1,502	29,975	6,989	11,015	343	2,291
Elimination of intra-divisional items	ya	(6,452)	(1,825)	-	(40,581)	(11,774)	(6,112)	-	-
Admin overheads	y	2,781	3,213	1,566	8,568	6,750	-	-	-
Material overheads	y	461	444	1,539	2,752	4,902	705	6	168
Social and welfare costs	y	779	150	-	-	-	-	-	-
Change in accruals: - repair of fixed assets	y	(768)	(7,011)	(82)	8,945	1,434	(799)	3,367	348
Change in prepaid expenses	y	-	2,437	-	-	-	-	-	-
Change in other accruals	y	(957)	(10)	-	-	63	-	-	-
Subtotal		114,190	149,620	31,935	462,764	128,107	150,182	9,946	18,519
Wages costs	y	28,999	19,537	10,158	38,920	50,366	24,974	1,115	14,018
Other wages (part-timers)	y	2,656	133	59	85	187	53	84	212
Change in accrued wages	y	81	(220)	(14)	(319)	(374)	-	-	37
Subtotal		31,736	19,450	10,203	38,686	50,179	25,027	1,199	14,267

Adjusted Czechoslovak Profit and Loss Accounts		Rotava 000k	Dýšina 000k	Repair 000k	Energy 000k	Maintenance 000k	Welfare 000k	Air 000k	Research 000k
Insurance	y	150	157	35	516	120	376	444	92
Fees	y	388	157	-	22	154	38	8	2
Payroll tax	y	16,418	10,307	5,324	20,729	26,303	6,771	27	7,427
Interest	Ia	7,981	9,426	3,126	3,027	10,250	16,048	1,669	461
Deficit and damage	y	302	46	2	1	97	(25)	-	-
Fines and penalties	y	321	57	1	4	1	2	-	-
Other financial costs	y	368	177	19	1,854	270	425	3	(2)
Intra-company penalties	y	-	-	-	25	5	-	-	-
Credit notes received	y	(85)	(60)	-	-	-	-	-	-
Change in prepaid expenses	y	-	-	-	-	-	-	-	-
Change in accruals		40	(110)	(7)	(160)	(187)	-	-	19
Subtotal		25,883	20,157	8,500	26,018	37,013	23,635	2,151	7,999
Exceptional Costs	Ib	35,000	45,000	1,000	-	4,000	3,000	1,000	1,000
Extraordinary Income	Id	-	-	-	-	-	-	-	-
Total costs		206,809	234,227	51,638	527,468	219,299	201,844	14,296	41,785
PROFIT / (LOSS)		(27,620)	(38,305)	2,458	60,833	5,238	(17,110)	7,039	(1,811)

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Adjusted Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
EARNINGS									
Earnings operating	u	-	-	-	(183,343)	10,213	-	95,746	7,994,316
Cost of bought-in items sold	w	-	-	-	-	-	-	(38,911)	(717,327)
Other operating earnings incl.									
projects, design	Ic	-	-	6,447	-	-	-	-	36,368
carriage of freight	Ic	3,261	-	-	-	1	-	15	5,303
bought-in items sold	u	-	-	-	-	-	-	483	449,668
cost of bought-in items	w	-	-	-	(176,764)	-	-	1,768	(627,424)
other earnings	Ic	-	-	-	-	-	-	-	(4,690)
Other items related to operating sales	Ic	-	-	-	-	-	-	131	535
Earnings trading	u	-	-	-	920,657	-	-	-	931,814
Cost of goods sold	w	-	-	-	(653,424)	-	-	(285)	(664,405)
Earnings from catering services	Ic	-	14,471	-	-	-	-	-	103,900
Cost of goods sold	w	-	(2,275)	-	-	-	-	-	(6,482)
Other items related to trading earnings	Ic	-	-	-	(1)	-	-	-	(1)
Earnings non-operating	Ic	1,987	26	445	1	5,235	4,182	18,481	401,973
Other related items	Ic	-	-	-	834	26	1,045	1,828	7,357
Turnkey commission passed to subcontractors	Ic	-	-	-	-	-	-	-	(7,594)
Capitalised material	u*	-	-	-	-	987	-	(26,924)	942,661
Sale of inventories	Ic	184	-	-	-	67,466	-	524	161,552
Cost of inventories sold	w	(229)	-	-	-	(66,430)	-	(61)	(152,976)
Sale of fixed assets	Ic	29	-	-	-	412	-	327	3,466
Transfer of goods and services	u*	-	-	-	183,343	-	-	-	1,230,567
Turnover tax		-	-	-	-	-	-	-	-
Intra-company items:									
Profit/(loss) on intra-company co-operation	ua	1,815	(2)	(1)	(4)	(555)	(9)	(1,891)	-
Intra-company sale of finished goods	ua ya	-	-	-	-	(736)	-	16,781	439,693
Intra-company purchase of finished goods		-	-	-	-	(10,637)	-	(57,610)	(439,691)

Adjusted Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
Intra-company transfers: engineering products	ua	-	-	-	-	736	-	12,159	1,314,789
Other intra-company earnings	ua	60,502	673	5,287	(15)	573	-	81,486	1,447,748
Cost of rejects passed to another division	ua	-	-	-	-	-	-	33	14,486
Admin and material overheads	ua	-	-	-	7,971	119,630	(49)	206,673	349,780
Elimination of intra-divisional items	ua	-	-	-	-	-	-	(6,076)	(376,882)
Change in deferred income	Ic	-	-	-	-	-	134	-	(21,490)
Change in WIP	v	279	-	230	-	201	-	4,436	(208,738)
Change in finished goods	v	-	-	-	-	1,363	-	(640)	334,095
Extraordinary income	Ic	-	-	-	10,791	416	1	1,519	14,296
TOTAL EARNINGS		67,828	12,893	12,408	110,046	128,901	5,304	309,490	12,956,669
COSTS									
Raw materials (purchased) consumed in production	x	4,917	1,051	195	444	11,941	1,395	35,305	2,028,568
Finished products (purchased) consumed in production	x	1,446	37	4	10	8	658	9,848	1,585,244
Castings and forgings (manuf.) consumed in production	x	-	-	-	-	404	-	(29,658)	876,607
Waste capitalised	x	(909)	-	-	-	(498)	-	(548)	(145,978)
Fuel	y	10,485	4	-	-	253	-	1,694	217,700
Price differential for raw materials and fuel	x	-	-	-	(2,024)	(17,106)	-	144	(1,078)
Energy (purchased)	y	54	610	-	6	670	3,757	4,507	263,986
Delivery costs	y	395	26	-	7,574	3,854	-	1,439	66,242
Subcontracting	y	-	-	-	28	255	-	397	60,131
Repair and maintenance	y	4,961	579	16	18	1,800	215	3,021	80,001
Postal charges	y	95	382	28	917	132	333	14,256	23,744
Other material costs	y	125	13	159	2,664	1,959	533	8,644	115,961
Depreciation charges	z	7,915	303	67	306	4,273	3,399	26,414	416,929
NBV of disposed fixed assets	y	122	-	-	-	242	-	87	7,319

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Adjusted Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
Write off of supplies	y	365	4,105	53	18	2,590	274	1,771	154,732
Travelling costs	y	743	4	82	4,157	419	-	4,169	44,252
Rentals	y	42	91	131	108	349	1	3,247	26,743
Other intangible costs	y	622	1,232	586	11,965	1,259	1,490	81,929	190,800
Intra-company transfers - engineering products	ya	725	9	-	-	2,562	283	6,839	1,308,377
Co-operation from other plants									
- direct costs	ya	-	-	-	-	376	-	2,558	309,290
- non-direct costs	ya	582	10	3	8	1,179	35	3,937	98,671
Energy (internal)	ya	2,175	1	195	95	7,675	-	5,332	551,841
Other internal costs	ya	1,398	91	865	664	6,988	22	13,033	397,574
Elimination of intra-divisional items	ya	-	-	-	-	-	-	(6,076)	(376,882)
Admin overheads	y	-	-	-	-	-	-	-	201,338
Material overheads	y	859	17	15	37	629	116	2,801	148,290
Social and welfare costs	y	-	-	-	-	-	-	91,563	103,853
Change in accruals:									
- repair of fixed assets	y	(3,038)	19	59	-	3,757	(49)	(2,036)	48,667
Change in prepaid expenses	y	-	-	-	-	-	-	13,132	108,308
Change in other accruals	y	-	-	-	-	-	-	10,346	183,209
Subtotal		34,079	8,584	2,458	26,995	35,970	12,462	308,095	9,094,891
Wages costs	y	13,401	2,337	4,612	3,013	19,193	3,728	63,368	1,185,807
Other wages (part-timers)	y	53	-	8	-	80	661	1,569	13,414
Change in accrued wages	y	-	(174)	-	-	(72)	-	(582)	531
Subtotal		13,454	2,163	4,620	3,013	19,201	4,389	64,355	1,199,752

Adjusted Czechoslovak Profit and Loss Accounts		Transport 000k	Hotels 000k	Design 000k	Foreign Trade 000k	Central Purchasing 000k	House of Culture 000k	Other 000k	SUBTOTAL 000k
Insurance	y	208	9	1	740	208	123	(474)	11,369
Fees	y	88	76	-	(29)	94	-	2,069	5,771
Payroll tax	y	7,039	372	2,428	1,585	10,167	1,011	29,857	611,959
Interest	Ia	3,982	391	39	2,201	49,043	2,043	2,100	771,148
Deficit and damage	y	4	-	-	(996)	7,177	-	22,763	77,125
Fines and penalties	y	37	-	-	77	262	-	26,314	42,564
Other financial costs	y	131	1	-	48,355	10	247	191	26,981
Intra-company penalties	y	(1,567)	-	-	-	(6)	-	1	1
Credit notes received	y	-	-	-	-	(246)	-	(1,584)	(2,958)
Change in prepaid expenses	y	-	-	-	-	-	-	184	15,763
Change in accruals	y	-	(87)	-	-	(60)	-	(262)	487
Subtotal		**9,922**	762	2,468	51,933	**19,649**	1,508	**81,159**	**1,560,210**
Exceptional costs	Ib	-	-	-	-	**11,000**	**249,000**	**129,000**	**1,885,794**
Provision for unrealised losses	Ic	-	-	-	-	-	-	-	1,375,000
		57,455	11,509	9,546	81,941	85,820	267,359	582,605	15,115,647
Extraordinary income	Id	-	-	-	-	-	-	330,000	**330,000**
PROFIT / (LOSS)		**10,373**	**1,384**	**2,862**	**28,105**	**43,081**	**(262,055)**	**56,880**	**(1,828,979)**

Adjusted Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
EARNINGS									
Earnings operating	u	-	7,994,316						
Cost of bought-in items sold		-	(717,327)						
Other operating earnings incl.	w								
projects, design	Ic	-	36,368						
carriage of freight	Ic	-	5,303						
bought-in items sold	u	-	449,668						
cost of bought-in items	w	-	(627,424)						
other earnings	Ic	-	(4,690)						
Other items related to operating sales	Ic	-	535						
Earnings trading	u	-	931,814						
Cost of goods sold	w	-	(664,405)						
Earnings from catering services	Ic	-	103,900						
Cost of goods sold	w	-	(6,482)						
Other items related to trading earnings	Ic	-	(1)						
Earnings non-operating	Ic	-	401,973						
Other related items	Ic	-	7,357						
Turnkey commission passed to subcontractors	Ic	-	(7,594)						
Capitalised material	u*	7,571	950,232						
Sale of inventories	Ic	-	161,552						
Cost of inventories sold	w	-	(152,976)						
Sale of fixed assets	Ic	196	3,662						
Transfer of goods and services	u*	-	1,230,567						
Turnover tax		-	-						
Intra-company items:									
Profit/(loss) on intra-company co-operation	ua	-	-						
Intra-company sale of finished goods	ua	(439,693)	-						
Intra-company purchase of finished goods	ua	439,691	-						

* Elimination of intracompany items (class III) refer Section 4, paragraph A114

Adjusted Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
Intra-company transfers: engineering products	ua	(1,314,789)	-						
Other intra-company earnings	ua	(1,447,748)	-						
Cost of rejects passed to another division	ua	(14,486)	-						
Admin and material overheads	ua	(349,780)	-						
Elimination of intra-divisional items	ua	376,882	-						
Change in deferred income	Ic	-	(21,490)						
Change in WIP	v	-	(208,738)						
Change in finished goods	v	-	334,095						
Extraordinary income	Ic	-	14,296						
TOTAL EARNINGS		(2,742,156)	10,214,513						
COSTS									
Raw materials (purchased) consumed in production	x	-	2,028,568						
Finished products (purchased) consumed in production	x	-	1,585,244						
Castings and forgings (manuf.) consumed in production	x	-	876,607						
Waste capitalised	x	196	(145,782)						
Fuel	y	-	217,700						
Price differential for raw materials and fuel	x	-	(1,078)						
Energy (purchased)	y	-	263,986						
Delivery costs	y	-	66,242						
Subcontracting	y	-	60,131						
Repair and maintenance	y	-	80,001						
Postal charges	y	-	23,744						
Other material costs	y	-	115,961						
Depreciation charges	z	-	416,929						
NBV of disposed fixed assets	y	-	7,319						

* Elimination of intracompany items (class III) refer Section 4, paragraph A114

Adjusted Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k
Write off of supplies	y	2,300	154,732
Travelling costs	y	83	44,252
Rentals	y	288	26,743
Other intangible costs	y	2,858	190,800
Intra-company transfers - engineering products	ya	(1,308,377)	-
Co-operation from other plants			
- direct costs	ya	(306,290)	-
- non-direct costs	ya	(98,671)	-
Energy (internal)	ya	(551,841)	-
Other internal costs	ya	(397,574)	-
Elimination of intra-divisional items	ya	376,882	-
Admin overheads	y	(201,338)	-
Material overheads	y	(148,290)	-
Social and welfare costs	y	(103,853)	-
Change in accruals:			
- repair of fixed assets	y	-	48,667
Change in prepaid expenses	y	-	108,758
Change in other accruals	y	-	183,209
Subtotal		(2,742,156)	6,352,735
Wages costs	y	-	1,185,807
Other wages (part-timers)	y	-	13,414
Change in accrued wages	y	-	531
Subtotal		-	1,199,752

* Elimination of intracompany items (class III) refer Section 4, paragraph A114

Adjusted Czechoslovak Profit and Loss Accounts		Elimination* 000k	TOTAL 000k						
Insurance	y	-	11,369						
Fees	y	-	5,771						
Payroll tax	y	-	611,959						
Interest	Ia	-	771,148						
Deficit and damage	y	-	77,125						
Fines and penalties	y	-	42,564						
Other financial costs	y	-	26,981						
Intra-company penalties	y	-	1						
Credit notes received	y	-	(2,958)						
Change in prepaid expenses	y	-	15,763						
Change in accruals	y	-	487						
Subtotal		-	1,560,210						
Exceptional costs	Ib	-	1,885,794						
Provision for unrealised losses	Ic	-	1,375,000						
Total costs		(2,742,156)	12,373,491						
Extraordinary income	Id	-	330,000						
PROFIT / (LOSS)		-	(1,828,979)						
			Refer E29 and E30 for Statement of Profit Allocation						

* Elimination of intracompany items (class III) refer Section 4, paragraph A114

STATEMENT OF PROFIT ALLOCATION

1. The Czechoslovak financial statements show an allocation of profit before tax as a separate statement (see following page). This statement includes expenses which are non deductible for tax purposes, profit tax and allocation to funds and reserves. As noted in Section 4 both the bonus and welfare funds are in the nature of accrued expenses.

2. As a consequence the following additional costs must be deducted from profit before tax:

	000 k
• Non deductible items	8,312
• Allocations to welfare and bonus funds	64,010

3. We have treated these items as relating to other cost centres either due to their immateriality or, in the case of the welfare and bonus funds, because the majority of that balance is held centrally.

4. In addition, profit tax is levied on the consolidated results. It would not be appropriate to allocate negative tax charges to loss-making operating divisions. As a consequence, profit tax has been allocated to the other cost centres for the purposes of the consolidated profit and loss account as the divisional profit and loss accounts show profit before tax only.

E30

		000k	Grouping ref.
Consolidation profit for the nine months ended 30 September 1991 before profit allocations (see C28)		686,635	
Additional sources		1,549	
		688,184	
Taxes:	profit tax	(377,651)	(Ie)
	tax refunds	110	(Ie)
Non tax deductible items:			
	entertainment	(633)	(y)
	other	(7,679)	(y)
Allocation to funds:			
	Welfare (statutory)	(28,006)	*
	Reserve (statutory)	(15,455)	
	Reserve (discretionary)	(16,545)	
	Bonus (discretionary)	(36,004)	*
		(481,863)	
Profit for the nine months ended 30 September 1991		206,321	

* Reclassified as accrued wages in previous schedules.

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APPENDIX F

FACTORS WHICH MAY SIGNIFICANTLY EFFECT FUTURE CASHFLOWS

1. Capital expenditure programme, including:

- Decision on the reconstruction of the boiler and the adoption of the Siemens nuclear heating option
- Extent of State subsidies, or AID, made available for environmental programmes and related capital commitments
- Decision whether or not to complete fixed assets currently in the course of construction
- Policy adopted to repair and maintenance programme
- Policy adopted with respect to lease as opposed to purchase of fixed assets

2. Accounts receivable, including:

- The rate of growth of illiquidity in both the domestic and former COMECON markets
- Extent to which domestic customers benefit from "forgiveness" of loans from the 50 billion k fund
- The ability for certain customers to find financing for capital expenditure programmes, particularly:
    - CSD - rolling stock (who, we understand, is not due to receive another subsidy until April 1992)
    - JETE and JEMO - nuclear reactor blocks
- The continuance of the State prescribed collection period of two weeks and three days for domestic customers
- The rate of deterioration of the financial position of the foreign trade organisations and therefore the speed at which they pass monies received for exports back to the Company
- Delays in receipt of cash which may arise from the possible adoption of barter as a means of facilitating trade with the former COMECON bloc

- The extent to which the Company secures its accounts receivable by way of bills of exchange making a trade off between the possibility of timely collection and a higher creditor ranking

- The possibility of factoring accounts receivable

- Improved credit control procedures

- Changes in the law enabling penalty rates in excess of the bank base rate to be charged thereby discouraging customers from using the Company as a "bank"

3. Accounts payable, including

- The continuance of the State prescribed collection period of two weeks and three days

- The extent to which the Company's suppliers seek to secure their receivables by way of bills of exchange

- The impact of any further price increases, particularly any devaluation of the krown on the cost of imported goods

4. Inventories, including:

- The policy of producing to stock or for order

- The ability to improve sourcing of raw materials: lower lead times and better quality

- Possibility of selling surplus inventories at lower prices or scrapping thereby avoiding the costs of carrying these inventories

- The timing of progress payments on long term manufacturing contracts

- The final price determined for long term manufacturing contracts negotiated before price liberalisation

5. Loans, including:

- The prospective "forgiveness" of 1.1 billion k of loans by way of a debt-equity swap following privatisation

- The preparedness of the banks to continue to support Škoda Plzeň and either provide new loans or roll over existing loans (with comparable payment terms)

- Changes in the interest rates

6. Employment, including:

- Reduction to the number of employees, partially offset by redundancy payments

- Pressure to remove the current incomes policy and general pressure on wages, particularly in the third quarter of 1992, when certain of the residual price controls on consumer goods and services are projected to be removed

- Policy adopted with respect to the welfare facilities, which are in the form of employee benefits

7. Other, including:

- The disposal of loss-making non-productive facilities (such as the sports stadiums) and productive facilities no longer required

- Changes to the corporate tax rate: at present the Company pays 55%. The State is considering reducing the corporate tax rate on Czechoslovak companies and increasing the tax rate on joint ventures (which is currently 40%). The new tax rate may be in the range 40% to 50%

- Possible changes to the frequency with which tax has to be paid (monthly in most cases)

- Restructuring of the central head office function and the management of shared resources, such that they become self-financing

- The cashflow impact of the prospective Energy and Transport joint ventures with Siemens.