



MORAVIA STEEL a.s. ANNUAL REPORT 2007



Quality through the Ages





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I.

OPENING STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD



Dear Shareholders, Clients, Partners and Employees,

It is my honour as the Chairman of the Supervisory Board to evaluate the results achieved by MORAVIA STEEL a.s. in the past year and briefly describe the developments in the steel industry.

The global steel industry saw a continuing process of consolidation in the form of acquisitions and formation of strategic partnerships. The largest of these was the merger of CORUS and TATA STEEL. The continuing expansion of Russian steel works in North America is also notable. This past year in the steel industry can be characterised as a period of intensive investments in the modernisation of existing production equipment and the development of brand new aggregates.

The overall global production of raw steel grew year-on-year by 7.5 percent – to the record level of 1,343.5 million tonnes. The growth in global production of steel exceeded 7 percent for the fifth time in a row. This increase is principally due to China, where 489 million tonnes of steel were produced in the last year, which is a record-breaking increase in China's production of 15.7 percent. The global year-on-year increase would only amount to approximately 3.3 percent without China given that it accounts for over a third of global production. Production of steel in the EU grew to 210 million tonnes, which is a year-on-year increase of 1.7 percent.

The demand for steel products in Europe increased in 2007, principally due to the automotive, engineering and construction industries, especially in the new EU countries. Cheaper imports from areas outside the EU, such as China or the Commonwealth of Independent States (CIS), also increased. Chinese exports of steel products saw a significant increase last year, especially in the period from March to June 2007. The significant increase in exports to Europe principally consisted of rolled wire, which was exported from China in the amount of 987.4 kilotonnes in the given period. This import also impacted the development of prices, particularly at the end of the third quarter and at the beginning of the fourth quarter of 2007.

Production of steel in the Czech Republic increased year-on-year by 2.87 percent to 7.058 million tonnes. The aggregate export of steel products from the Czech Republic increased by 6.7 percent and amounted to 5.32 million tonnes. Imports also increased, by 16 percent, to 5.65 million tonnes. With regard to the aggregate balance, the import of steel products exceeded the export by 330.9 kilotonnes. In terms of annual consumption of steel products, the Czech Republic, with its 630 kg per citizen, is one of the world's top consumers, as the global average amounts to only 210 kg per citizen. The consumption of steel products in the Czech Republic is over 230 kg per citizen more than the average in the EU which amounted to 399 kg per citizen in 2007.

MORAVIA STEEL a.s., a holder of 69.04 percent of the issued share capital of TRINECKÉ ŽELEZÁRNY, a.s., has been on the metallurgic products market since 1996. In the course of its existence, it has strengthened its market position both in the Czech Republic and abroad. An inseparable part of MORAVIA STEEL a.s.'s operations is ensuring domestic and international transportation, purchases and sales of raw material including other raw materials necessary for metallurgic production.

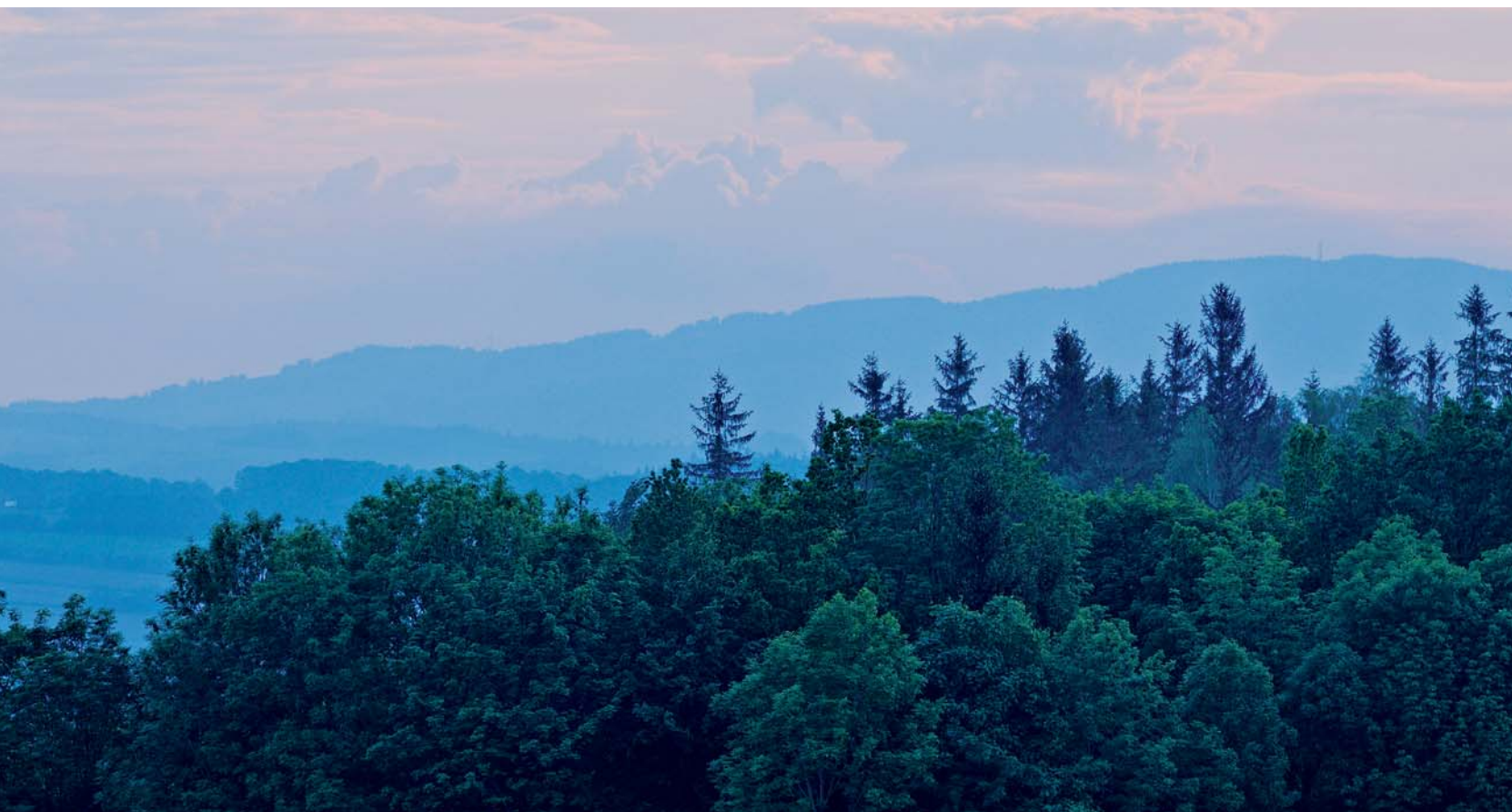
From the point of view of the achieved economic results, 2007 is the most successful year in the history of MORAVIA STEEL a.s.

Sales of goods grew year-on-year by CZK 3,630,815 thousand to CZK 61,071,293 thousand, and net profit after tax amounted to CZK 3,202,795 thousand.

The Company's assets grew year on year by CZK 735,171 thousand and thus amounted to CZK 14,265,623 thousand. Fixed assets increased by CZK 1,580,023 thousand to CZK 5,913,068 thousand.

The Company's equity increased from CZK 5,779,146 thousand to CZK 7,379,544 thousand. Liabilities amounted to CZK 6,827,918 thousand last year. The volume of bank loans decreased from CZK 1,265,278 thousand to CZK 800,000 thousand.

As to the added value, the Company noted a year-on-year increase from CZK 2,607,963 thousand to CZK 3,165,097 thousand.



Rolled wire remains the major component of the product mix. In 2007, sales of rolled wire reached 824,909 tonnes. The trend of increasing the share of high-grade brands also continued. The high level of sold volumes of rails, as well as products from Sochorová válcovna TŽ in Kladno, were maintained.

The steel industry consolidation is expected to continue in the future, even though its level is still relatively low in comparison with other industries. The top five steel producers account for 20 percent of the world production, while the top five ore companies hold 85 percent of the market. The strengthening competition in the industry and growing prices of inputs force us to continuously increase the efficiency of processes in our product chains.

In this way, cooperation with users of our products develops on the commercial, as well as technological basis within the TŘINECKÉ ŽELEZÁRNY – MORAVIA STEEL Group. The Group focuses on products with higher added value and niche markets with sophisticated product portfolios where large corporations are not involved. We will also continue to strengthen our focus on products intended for the engineering, energy, petroleum and automotive industries.

Dear Shareholders, Clients, Partners and Employees,

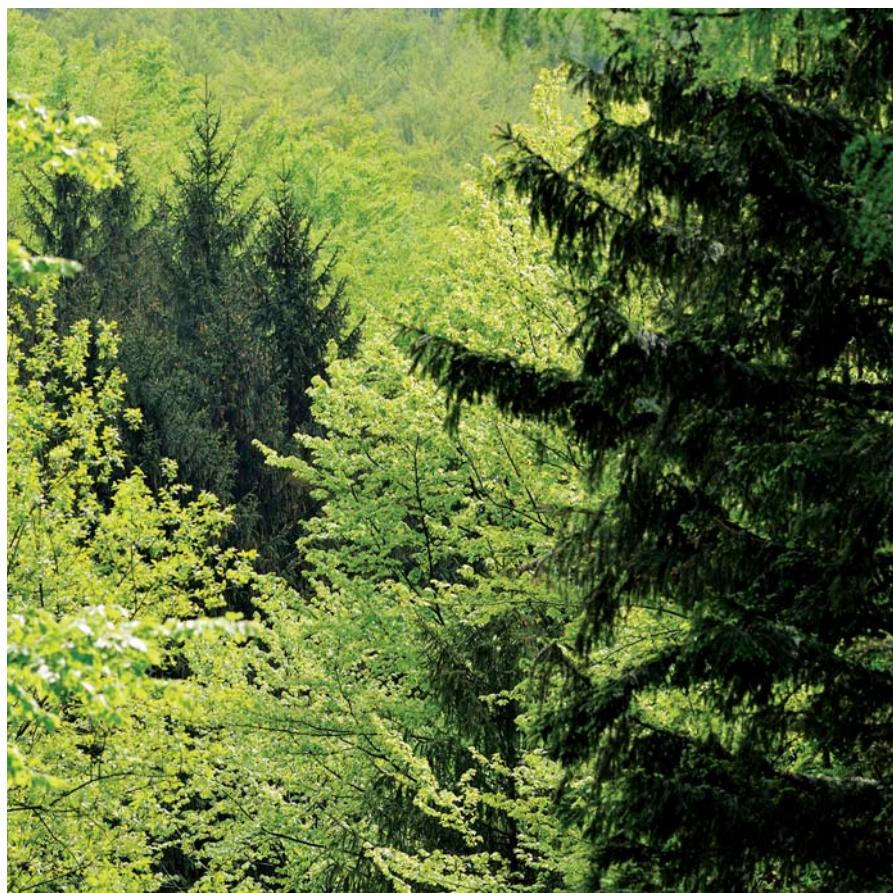
I would like to thank you for your effort, quality and professional work, as well as accuracy and helpfulness. I am convinced that your work significantly contributed to both MORAVIA STEEL a.s.'s successful results and the results of the whole Group last year, as well as the contentment of all other individuals, firms and institutions concerned in the course of the last year. I believe that this trend will continue in 2008, as well as in the following years.

Tomáš Chrenek

Chairman of the Supervisory Board, MORAVIA STEEL a.s.



*MORAVIA STEEL introduced
a comprehensive printing system
and so optimised copying,
faxing, printing and scanning.*



II.

COMPANY PROFILE

MORAVIA STEEL a.s., the owner of 69.04 percent of the issued share capital of TŘINECKÉ ŽELEZÁRNY, a.s., has been gradually strengthening its position on the steel product market, both in the Czech Republic and abroad since 1996. Domestic and international shipping services, and the purchase and sale of raw materials and other material necessary for steel production form integral parts of the Company's activities.

The overview of basic economic indicators for 2003 to 2007 proves that the Company managed to benefit from the significant resurgence of the metallurgic and steel industries which occurred in 2004. The positive development of the whole industry continued as well with minor fluctuations in the years that followed.

ECONOMIC INDICATORS FOR 2003 – 2007 (IN CZK MILLION)

	2003	2004	2005	2006	2007
Sales of goods	35 321	50 298	53 105	57 440	61 071
Sales of own products and services	536	730	532	550	885
Added value	1 285	2 213	2 442	2 608	3 165
Financial profit or loss	-107	163	202	506	1 128
Profit or loss for the period	560	1 553	1 779	2 161	3 203
Total assets	8 488	11 702	11 739	13 530	14 266
Fixed assets	3 955	4 260	4 349	4 333	5 913
Equity	1 421	2 943	4 254	5 779	7 380
Proportion of liabilities, including accrued expenses and deferred income (%)	83.26%	74.85%	63.76%	57.20%	48.27%
EBIT	922	2 209	2 379	2 761	3 917

III.

STATUTORY BODIES AND MANAGEMENT OF THE COMPANY

SUPERVISORY BOARD AS OF 31 DECEMBER 2007:



Tomáš Chrenek

Chairman



Evžen Balko

Vice Chairman



Ján Moder

Vice Chairman



Hanns Kurt Zöllner

Member



Jan Sikora

Member



Mária Blašková

Member

BOARD OF DIRECTORS AS OF 31 DECEMBER 2007:



Lenka Blažková

Chairwoman



Krzysztof Roch Ruciński

Vice Chairman



Mojmír Kašpříš

Member



ORGANISATIONAL STRUCTURE





The MORAVIA STEEL's objective is multiple utilization of special shipping devices.

IV.

REPORT OF THE BOARD OF DIRECTORS

From the point of view of achieved results, 2007 was the most successful year in the history of MORAVIA STEEL a.s.

Aggregate sales exceeded CZK 60 billion and increased by CZK 3,630 million year on year.

The profit after tax amounted to CZK 3,202 million. This amount was influenced by the favourable situation on the market, as well as good functioning of production plants within the TŽ/MS Group.

DEVELOPMENT OF THE INDUSTRY WORLDWIDE AND IN THE CZECH REPUBLIC

In 2007, the consolidation of the steel market continued, while the greatest event was the merger of CORUS and TATA STEEL, which resulted in TATA STEEL ranking higher in the TOP STEELMAKERS 2007 chart, moving from fifty-first position to sixth. Another significant event in the area of consolidation was the merger of US STEEL and STELCO. The intensive expansion of Russian steel producers to North America has continued.

There was a significant increase in exports of steel products from China in 2007 (principally deliveries in the period from March to June 2007). A significant increase in imports was noted especially with regard to rolled wire, as 987.4 kilotonnes of this commodity were imported to Europe from China in the given period. The imports impacted the development of prices in the period from the end of the third quarter to the beginning of the fourth quarter of 2007, which created a very complicated situation on the market. From the second half of 2007, we faced a significant decrease in the value of contracts, which was due to a significant weakening of the USD exchange rate. Despite achieving a significant increase in the goods realised in this currency (rails and wire), the average price decreased.

Another influence on the development on the market was a striking decrease in the price of Nickel (from USD 50,000/tonne to USD 25,000/tonne).

Going forward, MORAVIA STEEL a.s. Group's strategy will focus on increasing the proportion of products with a higher degree of processing and creating of product chains. The Group intends to focus more on products intended for fields such as engineering, energy, petroleum and the automotive industry.

TRENDS IN THE DEVELOPMENT OF THE STEEL INDUSTRY

- Continuous globalisation of the steel industry
- Mine-owners and suppliers of raw material (coal, iron ores) intensify the consolidation process
- Processors of long products began the consolidation trend

The steel industry in the Czech Republic makes use of the global boom in metallurgy world-wide. Since the middle of 2007, the Czech currency has intensely strengthened against global currencies (principally USD, EUR, GBP). This was caused by the strengthening position and stabilised conditions of the Czech economy, but also financial investments of a speculative character. The process of moving production to groups with higher added value significantly influenced the impact of these factors on the final result of the MORAVIA STEEL, a.s. Group.

The total production of raw ore in the Czech Republic was 7.058 million tonnes according to the statistical data, which is a year-on-year increase of 2.87 percent. In 2007, the total volume of monitored metallurgic product supplies to the Czech market, including consumption in metallurgic companies, decreased by 1 percent year-on-year.

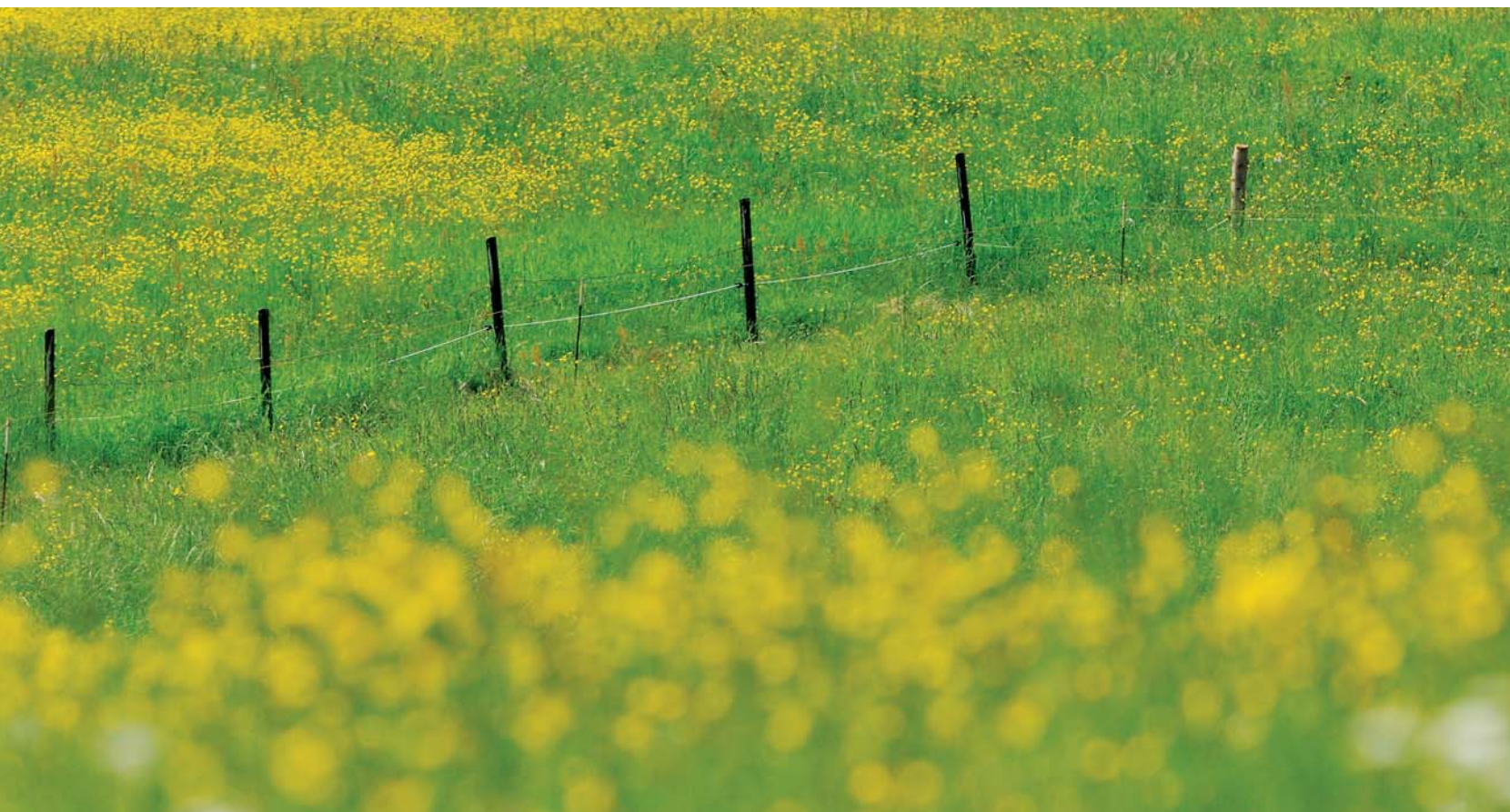


Development of sales in 2002 – 2007 (in tonnes)

	2002	2003	2004	2005	2006	2007
Export	1 369 902	1 276 511	1 329 609	1 295 144	1 489 520	1 523 500
Domestic	761 918	821 183	900 071	852 334	836 110	816 368
Total	2 131 820	2 097 695	2 229 680	2 147 478	2 325 630	2 339 868

Structure of exports in percentage of the aggregate supplies (in tonnes)

	2002	2003	2004	2005	2006	2007
European Union	61,2	56,8	64,2	73,7	72,6	77,5
Other European countries	23,3	24,9	14,5	5,8	6,2	3,9
Slovakia	8,2	9,5	9,6	9,3	10,0	9,8
Africa	0,2	0,2	0,2	0,2	0,2	0,2
Asia	1,4	2,5	6,3	0,3	0,2	0,1
America	5,5	6,0	5,2	10,6	10,7	8,4
Australia	0,2	0,2	0,1	0,1	0,1	0,1
	100	100	100	100	100	100



Development of the range of metallurgic products sold by MORAVIA STEEL a.s. (in tonnes)

	2002	2003	2004	2005	2006	2007
Rolled wire	763 831	778 254	831 135	790 134	844 570	824 909
Billets and continuously cast semis	328 882	311 793	330 071	265 827	268 699	258 379
Reinforcing bars	394 990	275 352	257 150	287 341	198 877	134 611
Rails	175 576	182 485	224 851	211 090	225 076	232 690
SCHV Kladno products	220 044	233 705	240 963	247 923	267 392	271 071
Universal mill plate – UT Bohumín	54 773	57 380	57 450	55 535	59 406	58 000
Drawn steel -FERROMORAVIA	–	65 876	83 581	65 150	72 667	78 750
Round bars and sections	193 724	192 850	204 479	224 478	284 777	377 209
Pipes – Válcovna trub TŽ	–	–	–	–	104 166	104 249
	2 131 820	2 097 695	2 229 680	2 147 478	2 325 630	2 339 868

In terms of volume, rolled wire remained the major commodity of the product mix. In 2007, production amounted to 824 909 tonnes. The trend of increasing the proportion of high-grade steel brands continued with sales reaching 65 percent of the aggregate volume of wire production. In 2007, the sale of screws, carbon, electrode and other alloyed wires increased. Of the aggregate volume of produced wire, 63 percent was designated for export, especially to EU countries.

The high level of sold volumes of rails recorded in the previous period was retained. Of the aggregate volume of rails, 83 percent was exported; Germany, Finland, Denmark, Switzerland, USA and Canada ranked among the major export countries.

We received orders from Brazil, where our opportunities are restricted by our increasingly successful competitor, China. Demand significantly increased in the Czech Republic, where work on the finalisation of the first, third and fourth railway corridors and the renovation of railway tracks intensified thanks to sufficient infrastructure funding.

The demand for continuous cast semis seen in 2006 continued. A significant volume of continuous cast semis was delivered and processed by Sochorová válcovna TŽ, a.s. and Válcovny trub TŽ, a.s. In this reporting period, growing demand from the railway industry and energy production sector (namely wind power plants) was noted which belong to strategically supported sales targets.

In 2007, the sale of bars produced in the continuous light-section grew year on year by 100 kilotonnes and reached the record of 323 kilotonnes, which represents a year-on-year increase of 44 percent. The increase in the sale of bars is due to growing production in the automotive industry in the Czech Republic and Slovakia. This positive sales trend was attainable due to the repeated decrease in the production of reinforcing steel and a further increase in the performance of railway lines and finisher lines.

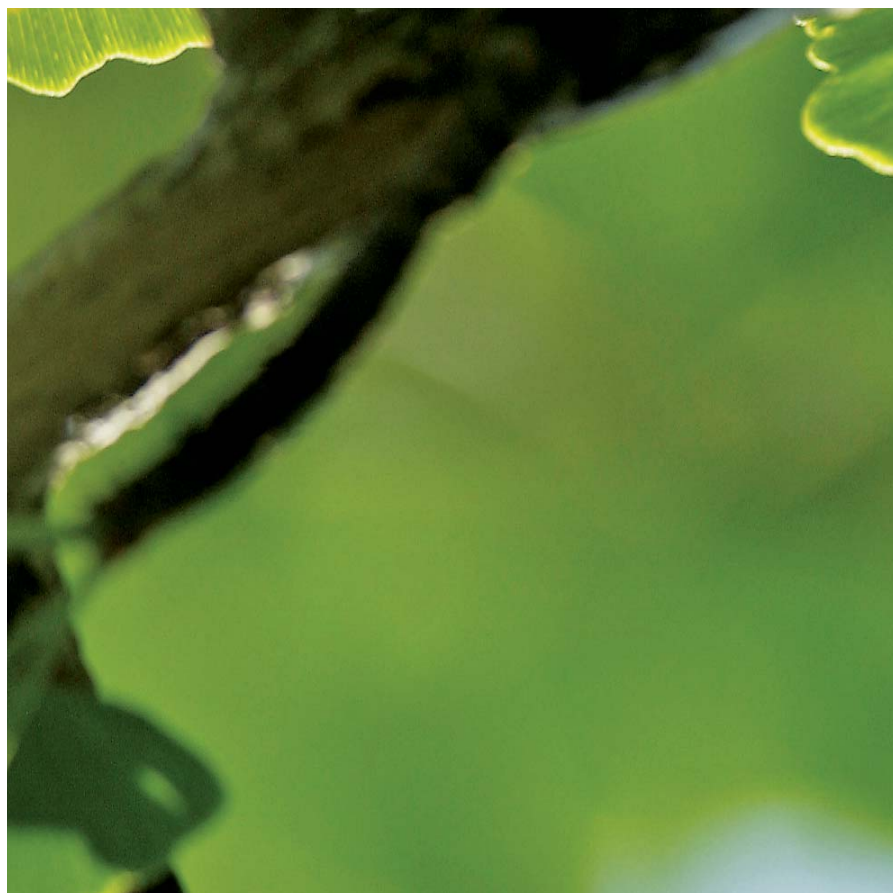
The Czech Republic, Poland and Germany are among the main sales territories. A new product, the "round shape bar" for the manufacture of parabolic springs for trucks, was introduced in the continuous light-section mill.

The products of Sochorová válcovna TŽ, a.s. rank among the most popular best-selling products on all our markets. In addition to overall quality, clients principally require microalloyed steels, peeled bars, heat-treated material and enhanced property material. The quality product mix portfolio was further expanded by enhanced steel for the petrochemical industry. In 2007, the sale of products increased year-on-year by 3,679 kilotonnes whereby the sale of round steel went up from 71.9 percent to 73.2 percent, which represented an increase of 1.3 percent.

In the context of continuous changes in the prices of alloying materials (Ni, Cr, Mo, V) and commodities, sales based on the base price and published additional markups for alloying additions and scrap were expanded in 2007, which enabled us to maintain our market position and immediately respond to the changes related to the development in the prices of alloying materials and scrap.

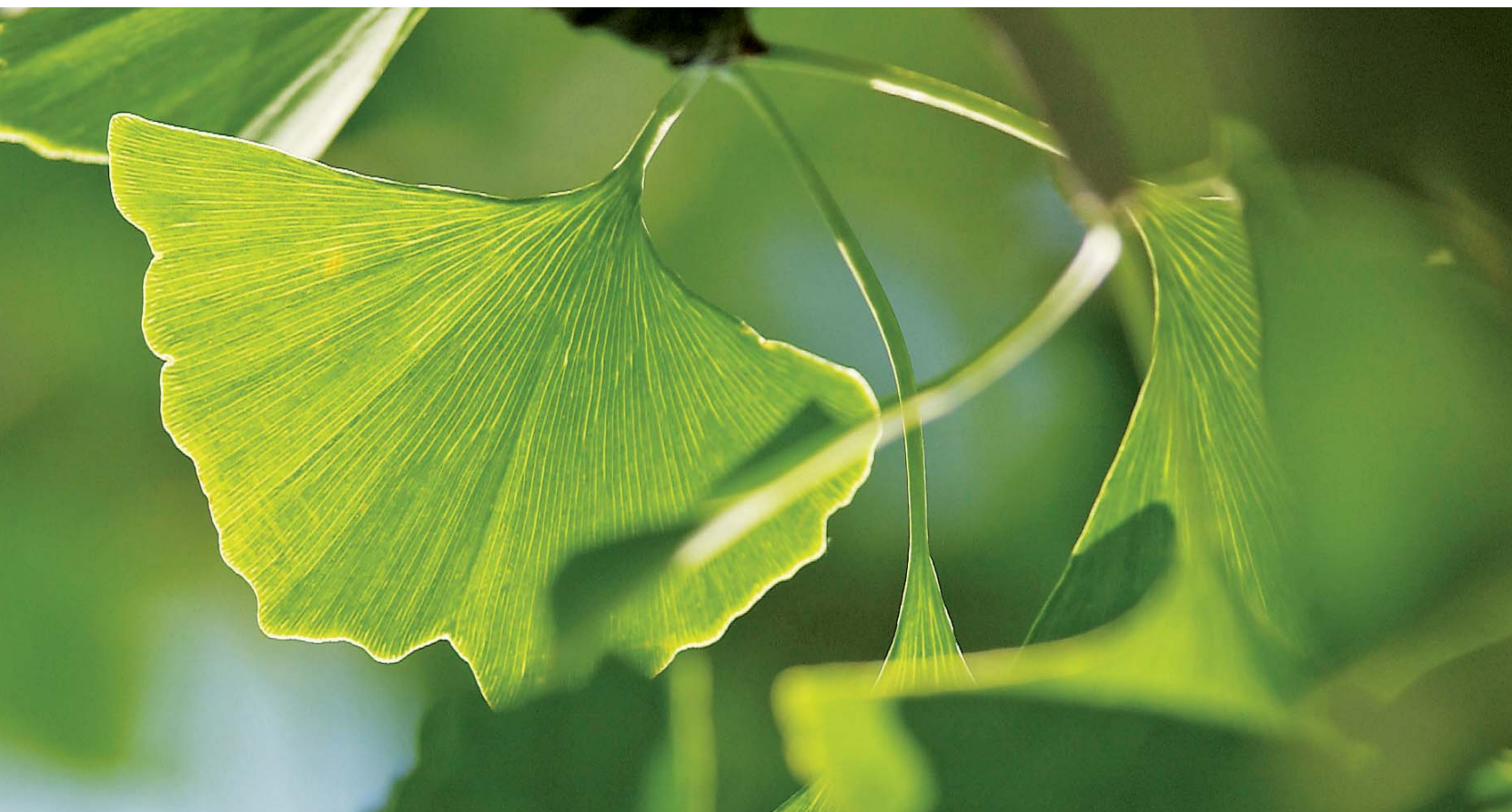
The sales of flat steel focused on deliveries to end clients and the demand for special construction projects and higher quality brands in 2007, which resulted in an increase in the average realisation price and profitability of the universal mill. The realised volume amounted to 58 kilotonnes and nearly 100 percent of deliveries were realised in Europe, while export markets with a 78 percent share of deliveries remain pivotal and 22 percent of deliveries were directed to the local market.

The drawn steel market experienced stable demand and a growth trend in realisation prices in 2007. FERROMORAVIA, s.r.o. realised 78.8 kilotonnes, which is 6.1 kilotonnes more than in 2006. There was a year-on-year increase in carbon steels (of 27.3 percent), alloy steels (of 145 percent) and free-cutting steels with Bi (of 84.6 percent), all this to the detriment of low grade steel. Other steels were realised at approximately the same level as in the prior year.



In our Company, we systematically collect and sort out all recyclable materials





In 2006, new commodities, namely drawn annealed and phosphated coils, were added to the product portfolio of drawn steel in TŘINECKÉ ŽELEZÁRNY, a.s. Gradual startup and completion of the line continued in 2007 so that production at the end of the year achieved the planned monthly production level. Deliveries are intended particularly for the subsequent production of bearings, MnB screws, parts for automotive industry and springs.

Seamless rolled tubes produced by VÁLCOVNA TRUB TŽ, a.s. (formerly VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.) were sold in the amount of 104.2 kilotonnes. Given the increased requirements in the area of engineering and energy industries, the share of the sales of mechanical and alloyed quality, which are crucial for tube production (89 percent), increased. The sales were principally realised on the Czech, German, Polish, Italian and Slovak markets.

MORAVIA STEEL a.s.'s strategy is focused on increasing the share of products with a higher level of processing and creating product chains. The Group aims at manufacturing products for industries which require a higher level of processing in high-grade steel classes, such as engineering, energy, petroleum and automotive industries. The production of rolled bars in the rolling-mills of TŘINECKÉ ŽELEZÁRNY, a.s. and Sochorová válcovna TŽ, a.s. and the Bohumín universal mill has been successful. Bars are becoming one of the key products within the MORAVIA STEEL, a.s. Group, with its current production volume exceeding 600 kilotonnes.

The purchase of raw material and other input for TŘINECKÉ ŽELEZÁRNY, a.s. and also other subsidiaries accounts for a significant component of MORAVIA STEEL a.s.'s turnover.

Strategic raw material for production in TŘINECKÉ ŽELEZÁRNY, a.s. includes ores, coal, coke, scrap, ferrous alloys, metals, basic additives and billets. MORAVIA STEEL a.s. continuously secures this raw material, delivering it within the required time and distance at favourable prices.

The situation on the market with coke, scrap and coal was stable in 2007.



Development of the transport volume according to the shipping method of goods from the shipping points: (MORAVIA STEEL a.s.'s goods and transportation services provided to other legal entities)

2007	Railways (thousand tonnes)	Roads (thousand tonnes)	Total (thousand tonnes)
Transportation in 2007	8 956	1 782	10 738
Transportation in 2006	8 693	1 319	10 012
2007/2006 year-on-year development	+263	+463	+726
2007/2006 year-on-year development (percentage)	3,03 %	35,10 %	7,25 %

LOGISTICS AND CARGO TRANSPORT OF GOODS

MORAVIA STEEL a.s. noted a continuous growth trend in freight transportation of goods.

Cooperation with decisive providers of additional transportation services principally focused on further improvements of planning, governing and information systems.

The area of freight transport logistics was influenced by severe limiting factors – the risk of railway transporters strikes, unplanned decisions by railway transporters regarding changes in rating and contractual conditions during the calendar year, persistent lack of qualified personnel in road transport, labour intensity of the system for the monitoring and payment of expenses of the electronic toll in the Czech Republic, demanding processing of prognoses of the development of freight costs in relation to the exchange rate development, including the development of the crude oil prices.

The logistics services of MORAVIA STEEL a.s. also focused on the coordination of activities of senders and recipients of goods in terms of a crucial increase in the exclusion activities plan and construction limitations when building the EU transportation infrastructure.

Shipping of goods in 2007 was characterised by an increase in the prices of renting ships, the constant growth of demand for transportation of raw material and the related lack of sufficient shipping space. In terms of the terrestrial transport of MORAVIA STEEL a.s.'s goods, prices were influenced especially by the fuel prices.



MANAGEMENT SYSTEM AND PEOPLE

In 2007, individual modules of the SAP system were further improved and made accessible to a broader circle of users.

A lot of attention was paid to the simplification of individual companies' reporting systems and the consistent use of acquired information for the Group's operating management.

Implementation of these systems in the newly formed firms of the TŽ/MS Group is one of the main tasks for the next period. It is also necessary to continuously monitor and update relationships between individual entities so that simplification and higher efficiency of all processes carried out within the Group is achieved.

MORAVIA STEEL a.s. aims to create a highly motivating environment for its employees, where the professional skills as well as ethical qualities of each worker are emphasised. The Company enables its employees to train and increase their professional knowledge and skills. Work areas are gradually modernised and better equipped as information technologies and communication systems become available.

MORAVIA STEEL a.s. itself does not conduct research and development activities but participates in selected tasks as a consultant.

The Company has no branch abroad and operates in accordance with applicable environmental regulations.



V.

REPORT OF THE SUPERVISORY BOARD

The MORAVIA STEEL a.s. Supervisory Board reviewed the financial statements of MORAVIA STEEL a.s. for the year ended 31 December 2007 based on documentation that was submitted to it and discussed by MORAVIA STEEL a.s.'s Board of Directors. The Supervisory Board also discussed a proposal for the allocation of profit for the year ended 31 December 2007. .



Taking into account the auditor's opinion issued by Deloitte Audit s.r.o., MORAVIA STEEL a.s.'s Supervisory Board recommends that the General Meeting approve the financial statements of MORAVIA STEEL a.s. for the year ended 31 December 2007 including the proposal of the Board of Directors for the allocation of profit for the year ended 31 December 2007.

A handwritten signature in black ink, appearing to read 'Tomáš Chrenek'. The signature is stylized with a large, sweeping initial 'T' and a long, horizontal stroke extending to the right.

Tomáš Chrenek

Chairman of the Supervisory Board MORAVIA STEEL a.s.

VI. AUDITOR'S REPORT

Deloitte.

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www.deloitte.cz

Registered at the Municipal Court
in Prague, Section C, File 24349
Id Nr.: 49620592
Tax Id Nr.: CZ49620592

INDEPENDENT AUDITOR'S REPORT To the Shareholders of MORAVIA STEEL a.s.

Having its registered office at: Průmyslová 1000, Třinec – Staré Město, 739 70
Identification number: 63474808
Principal activities: Purchase of goods for resale and sale

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 26 March 2008 on the financial statements which are included in this annual report in Section VI.:

“We have audited the accompanying financial statements of MORAVIA STEEL a.s., which comprise the balance sheet as of 31 December 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Audit, Tax, Consulting, Financial Advisory.

Member of
Deloitte Touche Tohmatsu

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of MORAVIA STEEL a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 9 May 2008 on the consolidated financial statements which are included in this annual report in Section VII.:

"We have audited the accompanying consolidated financial statements of MORAVIA STEEL a.s., which comprise the balance sheet as of 31 December 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting regulations applicable in the Czech Republic. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entities' internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of MORAVIA STEEL a.s. as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of MORAVIA STEEL a.s. for the year ended 31 December 2007 which is included in this annual report in Section VIII. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with International Standard on Review Engagements (ISRE) 2400 and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of MORAVIA STEEL a.s. for the year ended 31 December 2007 contains material factual misstatements.


Report on the Annual Report

We have also audited the annual report for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the information included in the annual report is consistent, in all material respects, with the financial statements referred to above.

In Prague on 5 June 2008


Audit firm:
Deloitte Audit s.r.o.
Certificate no. 79
Represented by:


Václav Loubek, authorised employee

Statutory auditor:


Václav Loubek, certificate no. 2037

VII.

FINANCIAL PART I. – FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Name of the Company:	MORAVIA STEEL a.s.
Registered Office:	Třinec-Staré Město, Průmyslová 1000, 739 70
Legal Status:	Joint Stock Company
Corporate ID:	63 47 48 08

Components of the Financial Statements:

Balance Sheet


Profit and Loss Account

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 9 May 2008.

Statutory body of the reporting entity:	Signature
Lenka Blažková Chairwoman of the Board of Directors	
Kryzstov Ruciński First Vice Chairman of the Board of Directors	

BALANCE SHEET FULL VERSION AS OF 31.12.2007

(in CZK thousand)

		31.12.2007			31.12.2006	31.12.2005
		Gross	Adjustment	Net	Net	Net
	TOTAL ASSETS	15 318 891	1 053 268	14 265 623	13 530 452	11 739 479
B.	Fixed assets	6 372 360	459 292	5 913 068	4 333 045	4 349 041
<i>B.I.</i>	<i>Intangible fixed assets</i>	<i>82 854</i>	<i>26 244</i>	<i>56 610</i>	<i>63 936</i>	<i>71 531</i>
B.I.1.	Start-up costs	72	72			
B.I.3.	Software	1 990	1 719	271		
B.I.4.	Valuable rights	75 963	19 624	56 339	63 936	71 531
B.I.6.	Other intangible fixed assets	4 829	4 829			
<i>B.II.</i>	<i>Tangible fixed assets</i>	<i>395 348</i>	<i>79 969</i>	<i>315 379</i>	<i>308 746</i>	<i>317 147</i>
B.II.1.	Land	273 000		273 000	273 000	273 000
B.II.3.	Individual movable assets and sets of movable assets	121 910	79 969	41 941	34 068	35 906
B.II.7.	Tangible fixed assets under construction				1 240	
B.II.8.	Prepayments for tangible fixed assets	438		438	438	8 241
<i>B.III.</i>	<i>Non-current financial assets</i>	<i>5 894 158</i>	<i>353 079</i>	<i>5 541 079</i>	<i>3 960 363</i>	<i>3 960 363</i>
B.III.1.	Equity investments in subsidiaries	5 891 722	353 079	5 538 643	3 957 927	3 957 927
B.III.2.	Equity investments in associates	2 436		2 436	2 436	2 436
C.	Current assets	8 936 931	593 976	8 342 955	9 192 177	7 385 175
<i>C.I.</i>	<i>Inventories</i>	<i>375 154</i>		<i>375 154</i>	<i>401 227</i>	<i>563 839</i>
C.I.1.	Material	1 939		1 939	1 515	2 000
C.I.5.	Goods	373 215		373 215	399 712	561 839
<i>C.II.</i>	<i>Long-term receivables</i>	<i>1 168</i>		<i>1 168</i>	<i>18 624</i>	<i>35 287</i>
C.II.2.	Receivables - controlling entity				17 481	34 064
C.II.5.	Long-term prepayments made	1 143		1 143	1 143	1 143
C.II.7.	Other receivables	25		25		80
<i>C.III.</i>	<i>Short-term receivables</i>	<i>8 110 862</i>	<i>593 976</i>	<i>7 516 886</i>	<i>6 709 156</i>	<i>5 925 346</i>
C.III.1.	Trade receivables	7 644 404	588 734	7 055 670	6 420 997	5 545 859
C.III.2.	Receivables - controlling entity				26 404	16 453
C.III.6.	State-tax receivables	229 566		229 566	201 049	317 054
C.III.7.	Short-term prepayments made	11 557	3 567	7 990	7 394	27 339
C.III.8.	Estimated receivables	42 893		42 893	28 919	10 176
C.III.9.	Other receivables	182 442	1 675	180 767	24 393	8 465
<i>C.IV.</i>	<i>Current financial assets</i>	<i>449 747</i>		<i>449 747</i>	<i>2 063 170</i>	<i>860 703</i>
C.IV.1.	Cash on hand	644		644	242	346
C.IV.2.	Cash at bank	186 251		186 251	603 264	262 132
C.IV.3.	Short-term securities and investments	262 852		262 852	1 459 664	598 225
D. I.	Other assets	9 600		9 600	5 230	5 263
D.I.1.	Deferred expenses	1 778		1 778	3 664	2 274
D.I.3.	Accrued income	7 822		7 822	1 566	2 989

		31.12.2007	31.12.2006	31.12.2005
	TOTAL LIABILITIES & EQUITY	14 265 623	13 530 452	11 739 479
A.	Equity	7 379 544	5 779 146	4 253 779
<i>A.I.</i>	<i>Share capital</i>	3 157 000	1 750 000	1 750 000
A.I.1.	Share capital	3 157 000	1 750 000	1 750 000
<i>A.II.</i>	<i>Capital funds</i>	2 969	12 251	8 206
A.II.3.	Gains or losses from the revaluation of assets and liabilities	2 969	12 251	8 206
<i>A.III.</i>	<i>Statutory funds</i>	347 090	238 931	150 000
A.III.1.	Statutory reserve fund / Indivisible fund	347 090	238 931	150 000
<i>A.IV.</i>	<i>Retained earnings</i>	669 690	1 616 492	566 951
A.IV.1.	Accumulated profits brought forward	669 690	1 616 492	566 951
<i>A.V.</i>	<i>Profit or loss for the current period (+ -)</i>	3 202 795	2 161 472	1 778 622
B.	Liabilities	6 827 918	7 702 344	7 421 275
<i>B.III.</i>	<i>Short-term liabilities</i>	6 027 918	6 437 066	5 320 608
B.III.1.	Trade payables	5 435 911	6 219 907	5 059 638
B.III.4.	Payables to partners and association members	14 665		
B.III.5.	Payables to employees	14 261	40 186	29 677
B.III.6.	Social security and health insurance payables	6 079	27 754	18 917
B.III.7.	State-tax payables and subsidies	148 919	39 047	147 866
B.III.8.	Short-term prepayments received	58 477	22 547	11 402
B.III.10.	Estimated payables	152 406	75 578	52 800
B.III.11.	Other payables	197 200	12 047	308
<i>B.IV.</i>	<i>Bank loans and borrowings</i>	800 000	1 265 278	2 100 667
B.IV.1.	Long-term bank loans		103 106	543 844
B.IV.2.	Short-term bank loans	800 000	1 162 172	1 556 823
C. I.	Other liabilities	58 161	48 962	64 425
C.I.1.	Accrued expenses	32 977	14 630	22 717
C.I.2.	Deferred income	25 184	34 332	41 708

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD YEAR ENDED 31.12.2007

(in CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
I.	Sales of goods	61 071 293	57 440 478	53 105 148
A.	Costs of goods sold	57 740 038	54 526 670	50 381 356
+	Gross margin	3 331 255	2 913 808	2 723 792
II.	Production	884 774	550 106	532 104
II.1.	Sales of own products and services	884 774	550 106	532 104
B.	Purchased consumables and services	1 050 932	855 951	814 195
B.1.	Consumed material and energy	10 694	13 480	14 283
B.2.	Services	1 040 238	842 471	799 912
+	Added value	3 165 097	2 607 963	2 441 701
C.	Staff costs	369 652	387 194	303 056
C.1.	Payroll costs	203 979	218 805	161 086
C.2.	Remuneration to members of statutory bodies	92 935	90 512	84 492
C.3.	Social security and health insurance costs	71 393	76 582	56 380
C.4.	Social costs	1 345	1 295	1 098
D.	Taxes and charges	1 209	1 495	1 688
E.	Depreciation of intangible and tangible fixed assets	25 473	24 344	20 477
III.	Sales of fixed assets and material	2 537	4 122	7 114
III.1.	Sales of fixed assets	1 157	2 400	5 175
III.2.	Sales of material	1 380	1 722	1 939
F.	Net book value of fixed assets and material sold	2 175	3 351	5 114
F.1.	Net book value of sold fixed assets	774	1 653	3 142
F.2.	Book value of sold material	1 401	1 698	1 972
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-8 993	-8 268	-55 626
IV.	Other operating income	85 871	93 700	256 329
H.	Other operating expenses	120 113	110 863	337 854
*	Operating profit or loss	2 743 876	2 186 806	2 092 581
VII.	Income from non-current financial assets	1 404 388	562 669	393 516
VII.1.	Income from subsidiaries and associates	1 404 388	562 669	393 516
IX.	Income from the revaluation of securities and derivatives	97 474		
L.	Costs of the revaluation of securities and derivatives	118 042		
M.	Change in reserves and provisions relating to financial activities	153 020		
X.	Interest income	115 314	65 668	52 173
N.	Interest expenses	44 251	67 903	84 913
XI.	Other financial income	683 888	499 438	462 022
O.	Other financial expenses	857 367	553 440	620 922
*	Financial profit or loss	1 128 384	506 432	201 876
Q.	Income tax on ordinary activities	669 465	531 766	515 835
Q 1.	– due	669 465	531 766	515 835
**	Profit or loss from ordinary activities	3 202 795	2 161 472	1 778 622
***	Profit or loss for the current period (+/-)	3 202 795	2 161 472	1 778 622
****	Profit or loss before tax	3 872 260	2 693 238	2 294 457

STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31.12.2007

(in CZK thousand)

	Share capital	Capital funds	Statutory funds	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2005	1 750 000	8 206	150 000	566 951	1 778 622	4 253 779
Distribution of profit or loss			88 931	1 049 541	-1 138 472	
Dividends paid					-640 150	-640 150
Revaluation of derivatives		4 045				4 045
Profit or loss for the current period					2 161 472	2 161 472
Balance at 31 December 2006	1 750 000	12 251	238 931	1 616 492	2 161 472	5 779 146
Distribution of profit or loss			108 074		-108 074	
Change in share capital	1 407 000		85			1 407 085
Dividends paid				-946 802	-2 053 398	-3 000 200
Revaluation of derivatives		-9 282				-9 282
Profit or loss for the current period					3 202 795	3 202 795
Balance at 31 December 2007	3 157 000	2 969	347 090	669 690	3 202 795	7 379 544

CASH FLOW STATEMENT YEAR ENDED 31.12.2007

(in CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
P.	Opening balance of cash and cash equivalents	2 055 753	850 623	1 513 861
	<i>Cash flows from ordinary activities</i>			
Z.	Profit or loss from ordinary activities before tax	3 872 260	2 693 238	2 294 457
A.1.	Adjustments for non-cash transactions	-1 382 497	-496 623	-347 677
A.1.1.	Depreciation of fixed assets	25 473	24 344	20 477
A.1.2.	<i>Change in provisions and reserves</i>	144 027	-8 490	-55 701
A.1.3.	Profit/(loss) on the sale of fixed assets	-383	-747	-2 033
A.1.4.	<i>Revenues from dividends and profit shares</i>	-1 404 388	-562 669	-393 516
A.1.5.	Interest expense and interest income	-71 063	2 235	32 740
A.1.6.	<i>Adjustments for other non-cash transactions</i>	-76 163	48 704	50 356
A.*	Net operating cash flow before changes in working capital	2 489 763	2 196 615	1 946 780
A.2.	Change in working capital	-1 318 985	609 231	-1 361 470
A.2.1.	Change in operating receivables and other assets	-683 208	-809 163	-804 978
A.2.2.	Change in operating payables and other liabilities	-663 832	1 253 119	-810 840
A.2.3.	Change in inventories	26 073	162 612	254 037
A.2.4.	Change in current financial assets	1 982	2 663	311
A.**	Net cash flow from operations before tax and extraordinary items	1 170 778	2 805 846	585 310
A.3.	Interest paid	-44 251	-66 164	-88 228
A.4.	Interest received	115 314	65 668	51 738
A.5.	Income tax paid from ordinary operations	-549 387	-645 307	-784 076
A.7.	Received dividends and profit shares	1 404 388	562 669	393 516
A.***	Net operating cash flows	2 096 842	2 722 712	158 260
	<i>Cash flows from investing activities</i>			
B.1.	Fixed assets expenditures	-352 206	-10 001	-139 213
B.2.	Proceeds from fixed assets sold	1 157	2 612	5 175
B.***	Net investment cash flows	-351 049	-7 389	-134 038
	<i>Cash flow from financial activities</i>			
C.1.	Change in payables from financing	-357 034	-870 043	-218 960
C.2.	Impact of changes in equity	-3 000 200	-640 150	-468 500
C.2.1.	Cash increase in share capital			1 000 000
C.2.6.	Dividends paid	-3 000 200	-640 150	-1 468 500
C.***	Net financial cash flows	-3 357 234	-1 510 193	-687 460
F.	Net increase or decrease in cash and cash equivalents	-1 611 441	1 205 130	-663 238
R.	Closing balance of cash and cash equivalents	444 312	2 055 753	850 623

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Name of the Company:	MORAVIA STEEL a.s.
Registered Office:	Průmyslová 1000, 739 70 Třinec-Staré Město
Legal Status:	Joint Stock Company
Corporate ID:	63474808

The Company is recorded in the Register of Companies kept by the Regional Court in Ostrava, Section B, File 1297

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1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

MORAVIA STEEL a.s. (hereinafter the “Company”) was formed by a Memorandum of Association as a joint stock company on 27 July 1995 and was incorporated following its registration in the Register of Companies held at the District Court in Brno – venkov on 23 August 1995 (Section B, File 1297).

As of 31 December 2007, the Company's issued share capital is CZK 3,157,000 thousand.

The Company's financial statements have been prepared as of and for the year ended 31 December 2007.

The following table shows legal entities with an equity interest greater than 20 percent and the amounts of their equity interests:

Shareholder	Ownership percentage
R.F.G., a.s., Železná 16/492, Brno	50 %
FINITRADING, a.s., nám. Svobody 526, Třinec	50 %
Total	100 %

R.F.G., a.s. and FINITRADING, a.s. act in concert.

The Company is primarily engaged in purchasing goods for resale and sale, which accounts for 99.05 percent of its revenues. The Company is additionally involved in providing domestic and international shipping services.

The Company's operations are principally focused on Třinecké železářny, a.s. and its subsidiary companies (for further details refer to Notes 4.12. and 4.18.)

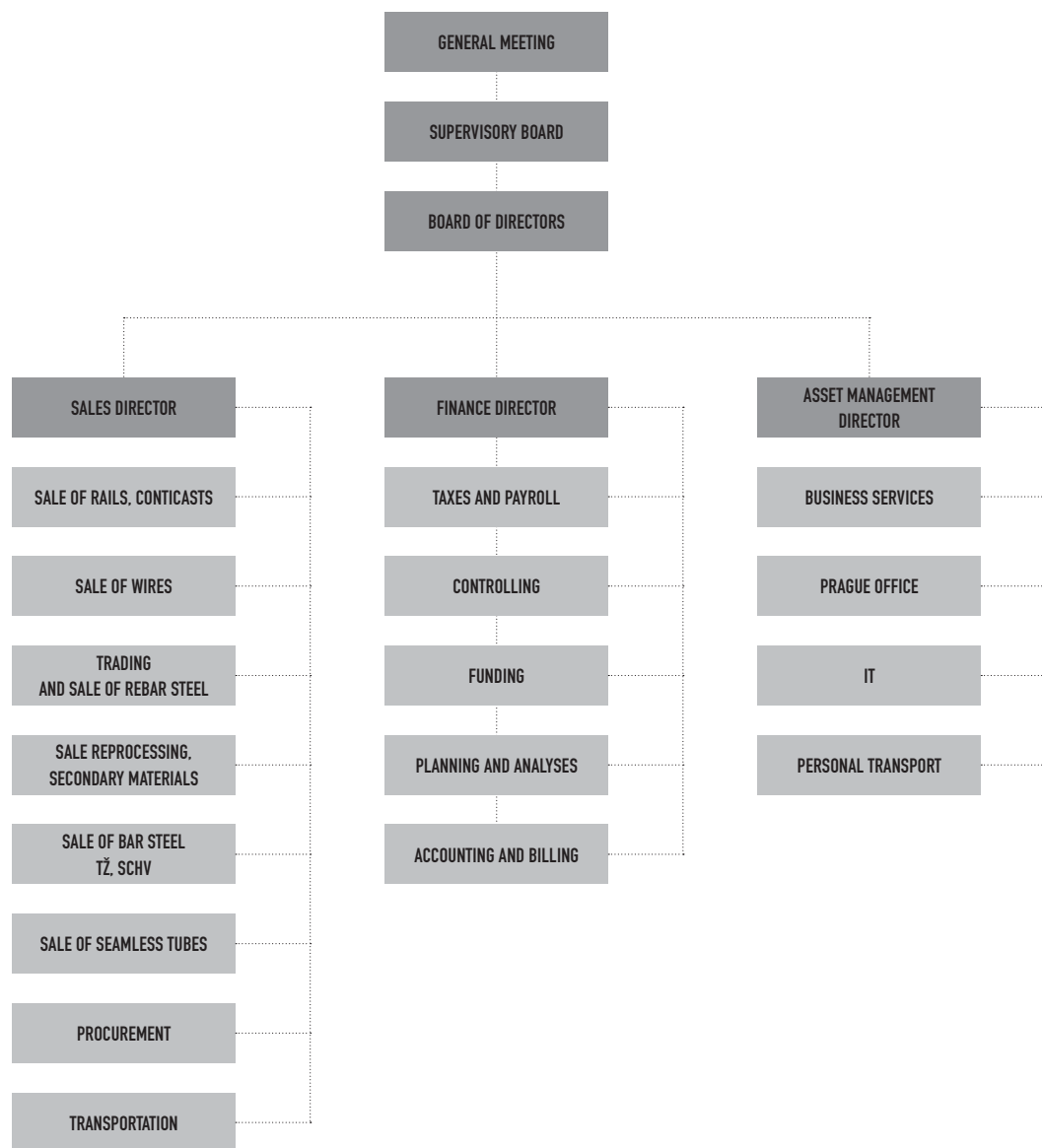
1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES IN THE YEAR ENDED 31 DECEMBER 2007

During 2007, an increase in the issued share capital was recorded in the Register of Companies (refer to Note 4.6.1).

1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2007

	Position	Name
Board of Directors	Chairwoman	Lenka Blažková
	Vice Chairman	Krzysztof Roch Ruciński
	Member	Mojmír Kašpříš
Supervisory Board	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Balko
	Member	Mária Blašková
	Member	Hanns Kurt Zoellner
	Member	Jan Sikora

1.4. ORGANISATIONAL STRUCTURE OF THE COMPANY AT 31 DECEMBER 2007



2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

The Company's accounting books and records are maintained and the financial statements were prepared in accordance with Accounting Act 563/1991 Coll., as amended; Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with certain exceptions as described in Note 3.3, the accruals principle, the prudence concept and the going concern assumption.

These financial statements are presented in thousands of Czech crowns ('CZK thousand').

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. TANGIBLE FIXED ASSETS

Tangible fixed assets include assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 40 thousand on an individual basis.

Purchased tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses. The Company carried no internally developed tangible fixed assets during the year ended 31 December 2007.

The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

Category of assets	Number of years
Machinery and equipment	3 – 12
Vehicles	4 – 5
Furniture and fixtures	6 – 15

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognised through the profit and loss account.

Provisioning

Provisions against fixed assets are recognised based on an assessment of their value during the stock count.

The Company recorded no provisions against tangible and intangible fixed assets in the year ended 31 December 2007.

3.2. INTANGIBLE FIXED ASSETS

Intangible fixed assets consist of assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Purchased intangible fixed assets are stated at cost.

The cost of fixed asset improvements exceeding CZK 60 thousand for the taxation period increases the acquisition cost of the related intangible fixed asset.

Amortisation of intangible fixed assets is recorded over the estimated useful lives of assets using the straight line method as follows:

	Number of years
Software	4
Valuable rights	4 – 10
Other intangible fixed assets	4 – 5

3.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments.

Securities and equity investments are carried at cost upon acquisition. The cost of securities or equity investments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

As of the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments in subsidiaries'.

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments in associates'.

As of the balance sheet date:

Equity investments in subsidiaries and associates are stated at cost net of any provisions.

Provisioning

Investments are provisioned if there is a risk that the fair value of a non-current financial asset is lower than its carrying value.

In charging provisions against equity securities that are not fair-valued, the Company refers to its detailed knowledge of the relevant entity, the results of its operations and available expert valuations.

3.4. INVENTORY

Valuation

Purchased inventory of material is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as customs fees, freight costs and storage fees during transportation, commissions and insurance charges.

Inventory issued out of stock is recorded using costs determined by the weighted arithmetic average method.

Goods are purchased and sold directly to customers and are not physically stored at the Company's premises. Reported stocks comprise goods in transit where supplies are delivered based on different delivery terms (e.g. delivery in port, delivery free on board). This gives rise to a certain mismatch between the purchase date and the date of sale to the customer, during which the goods are carried as the Company's assets.

Provisions

The Company recognised no provisions against inventory in the year ended 31 December 2007.

3.5. CURRENT FINANCIAL ASSETS

Current financial assets principally consist of cash on hand and cash at banks and debt securities with a maturity of less than one year held to maturity (mainly depository bills of exchange).

Current financial assets are carried at cost upon acquisition and at the balance sheet date. The cost of securities includes the direct costs of acquisition, such as fees paid to banks.

3.6. FINANCIAL DERIVATIVE INSTRUMENTS

The Company designates derivative financial instruments as either trading or hedging. The Company's criteria for a derivative instrument to be accounted for as a hedge are as follows:

- At the inception of the hedge, a decision was adopted about the hedged item and the hedging instruments, the risks that are being hedged and the approach to establishing and documenting whether the hedge is effective and the hedging relationship is formally documented;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis.

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Derivative financial instruments are carried at fair value at the balance sheet date. In determining the fair value, the Company has referred to market values. Fair value changes in respect of trading derivatives and derivatives designated as hedges of fair values of assets and liabilities are recognised as expenses or income from derivative transactions. Fair value changes in respect of derivatives designated as future cash flow hedges are treated as gains or losses from the revaluation of assets and liabilities.

3.7. RECEIVABLES

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and bad amounts. Receivables acquired for consideration or through an investment are stated at cost less provisioning for doubtful and bad amounts.

Provisioning

The Company recognised provisions against accounts receivable according to their aging categories as follows:

- Receivables past due by more than 180 and less than 365 days are provisioned at 50 percent; and
- Receivables past due by more than 365 days are provisioned in full.

In circumstances where there is doubt over the collectability of individual debts, the Company increases the provisioning charge taking into consideration the collateral underlying these debts.

3.8. TRADE PAYABLES

Trade payables are stated at their nominal value.

3.9. LOANS

Loans are stated at nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short-term loans.

3.10. FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated using the exchange rate of the Czech National Bank prevailing on the date preceding the transaction date.

As of the balance sheet date, financial assets, current assets and liabilities denominated in a foreign currency are translated using the effective exchange rate promulgated by the Czech National Bank as of that date. Any resulting foreign exchange rate gains and losses are recorded as the current year's financial expenses or revenues as appropriate.

3.11. RESERVES

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are either likely to be incurred or certain to be incurred, but which are uncertain as to the amount or the date on which they will arise.

3.12. FINANCE LEASES

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

3.13. TAXATION

3.13.1. Tax Depreciation of Fixed Assets

Depreciation of fixed assets for taxation purposes is recorded on an accelerated basis.

3.13.2. Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the tax rate that has been enacted by the balance sheet date.

3.13.3. Deferred Tax

Deferred tax is accounted for using the balance sheet liability method.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

The Company decided not to recognise the deferred tax asset in 2007 due to its immateriality (refer to Note 4.10.)

3.14. IMPAIRMENT

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

3.15. USE OF ESTIMATES

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.16. REVENUE RECOGNITION

Revenues are recognised when supplier terms under INCOTERMS 2000 are fulfilled or when services are rendered and are reported net of discounts and VAT.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the shareholders' rights to receive payment have been declared.

3.17. EXTRAORDINARY EXPENSES AND INCOME

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.

3.18. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Cash on hand	644	242	346
Cash at bank and cash in transit	186 251	603 264	262 132
Current securities	262 852	1 459 664	598 225
Total current financial assets	449 747	2 063 170	860 703
Current account – blocked funds	–5 435	–7 417	–10 080
Total cash and cash equivalents	444 312	2 055 753	850 623

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

4.1. FIXED ASSETS

4.1.1. Intangible Fixed Assets

Cost

(CZK thousand)

	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Start-up costs	72	–	–	72	–	–	72
Software	1 711	–	–	1 711	279	–	1 990
Valuable rights	76 113	–	–	76 113	–	150	75 963
Other intangible FA	4 877	–	–	4 877	–	48	4 829
Intangible FA under construction	–	–	–	–	–	–	–
Total	82 773	–	–	82 773	279	198	82 854

Accumulated Amortisation

(CZK thousand)

	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Start-up costs	72	–	–	72	–	–	72
Software	1 711	–	–	1 711	8	–	1 719
Valuable rights	4 582	7 595	–	12 177	7 597	150	19 624
Other intangible FA	4 877	–	–	4 877	–	48	4 829
Total	11 242	7 595	–	18 837	7 605	198	26 244

Net Book Value

(CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Start-up costs	–	–	–
Software	–	–	271
Valuable rights	71 531	63 936	56 339
Other intangible FA	–	–	–
Intangible FA under construction	–	–	–
Total	71 531	63 936	56 610

4.1.2. Tangible Fixed Assets

Cost

(CZK thousand)

	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Land	273 000	–	–	273 000	–	–	273 000
Individual movable assets	105 745	16 563	12 617	109 690	26 797	14 577	121 910
– Machines and equipment	23 038	1 145	880	23 302	2 188	5 389	20 101
– Vehicles	72 967	15 418	11 727	76 658	24 566	9 029	92 195
– Furniture and fixtures	9 740	–	10	9 730	43	159	9 614
Tangible FA under construction	–	19 526	18 286	1 240	26 892	28 132	–
Prepayments for tangible FA	8 241	100	7 903	438	1 166	1 166	438
Total	386 986	36 189	38 806	384 368	54 855	43 875	395 348

Accumulated Depreciation

(CZK thousand)

	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Individual movable assets	69 839	20 844	15 061	75 622	18 832	14 485	79 969
– Machines and equipment	19 179	1 392	879	19 692	1 283	5 380	15 595
– Vehicles	42 202	19 044	14 172	47 074	17 169	8 953	55 290
– Furniture and fixtures	8 458	408	10	8 856	380	152	9 084
Total	69 839	20 844	15 061	75 622	18 832	14 485	79 969

Net Book Value

(CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Land	273 000	273 000	273 000
Individual movable assets	35 906	34 068	41 941
– Machines and equipment	3 859	3 610	4 506
– Vehicles	30 765	29 584	36 905
– Furniture and fixtures	1 282	874	530
Tangible FA under construction	–	1 240	–
Prepayments for tangible FA	8 241	438	438
Total	317 147	308 746	315 379

The Company principally acquired cars from 2005 to 2007.

The Company acquired tangible assets that were charged directly to expenses in the amounts of CZK 1,087 thousand, CZK 3,553 thousand and CZK 4,004 thousand for the years ended 31 December 2007, 2006 and 2005, respectively. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported within fixed assets. These assets are directly expensed on a one-off basis.

4.2. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK thousand)

	Balance at 31 Dec 2004	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Equity investments in subsidiaries	4 146 106	11 880	–	4 157 986	–	–	4 157 986	1 733 736	–	5 891 722
Equity investments in associates	2 436	–	–	2 436	–	–	2 436	–	–	2 436
Acquisition of non-current financial assets	–	–	–	–	–	–	–	–	–	–
Prepayments for non-current financial assets	–	–	–	–	–	–	–	–	–	–
Total	4 148 542	11 880	–	4 160 422	–	–	4 160 422	1 733 736	–	5 894 159

The shareholders decided to increase the share capital by means of a non-monetary investment of an 82 percent share in Sochorová Válcovna TŽ, a.s. in 2007. The share value, as appraised by a court-appointed appraiser, was CZK 1,407,085 thousand. The change involving the share capital increase through the non-monetary investment was recorded in the Register of Companies on 3 September 2007.

As of 1 February 2007, the Company acquired a 90 percent shareholding in Beskydská Golfová, a.s.; the cost of the shareholding amounted to CZK 79,985 thousand. The Company increased the share capital of Beskydská Golfová, a.s. by CZK 49,522 thousand in 2007. The payable arising from the non-payment of the monetary investment amounted to CZK 14,665 thousand as of 31 December 2007.

The Company increased the share capital of Barrandov Studio a.s. by CZK 197,048 thousand as of 25 July 2007.

By way of a demerger, Barrandov Studio a.s. split into Barrandov Studio a.s. (the “participating entity”) and Barrandov Film Studio (the “successor company”) in 2007. The Company’s share in both subsidiaries amounted to 99.82 percent following the demerger. The acquisition cost of the subsidiaries’ shares was determined as a share of the equity values of both companies after the split.

Subsequently, Barrandov Studio a.s. was renamed Barrandov Televizní Studio, a.s. as of 1 November 2007 and Společnost Barrandov Film Studio was renamed Barrandov Studio a.s. as of 1 November 2007.

4.2.1. Equity Investments in Subsidiaries

2007

(CZK thousand)

Name	Registered office	Cost	Nominal value	Owner–ship %	Equity	Profit/ loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.	Třinec	3 357 984	5 598 907	69,04	18 009 959	3 633 114	–	1 399 727
Barrandov Lands, a.s.	Prague	2 000	2 000	100	2 012	17	–	–
Barrandov Studio a.s. **)	Prague	744 609	197 048	99,82	638 823	71 993	100 000	–
Barrandov Televizní Studio, a.s. **)	Prague	233 020	197 048	99,82	199 612	12	233 020	–
Moravia Steel Slovenija, d.o.o.	Celje	1 573	1 573	51	1 810	–1 006	–	–
Moravia Steel AG Zug	Zug	1 947	1 947	100	*)	*)	–	–
Moravia Steel Italia,srl	Milano	2 581	2 581	66	59 696	36 553	–	4 661
Moravia Steel Ibéria,s.a.	Lisbon	10 850	10 850	99,33	9 901	729	–	–
Moravia Goel Trade, d.o.o.	Samobor	59	59	60	***)	***)	59	–
MS – Slovensko s.r.o.	Bratislava	160	160	100	900	1	–	–
Moravia Steel Israel Ltd.	Petach Tikva	346	209	100	*)	*)	–	–
Beskydská golfová, a.s.****)	Ropice	129 508	112 550	90,04	111 693	1 575	20 000	–
Sochorová válcovna TŽ, a.s.*****)	Třinec	1 407 085	328 820	82	1 602 467	402 819	–	–
Total		5 891 722	6 453 752				353 079	1 404 388

*) No data available

**) Barrandov Studio split through a demerger into Barrandov Studio a.s. and Barrandov Televizní studio a.s. as of 1 January 2007. The change was recorded in the Register of Companies on 1 November 2007.

***) In liquidation

****) Beskydská golfová, a.s. became a subsidiary of MORAVIA STEEL a.s. on 1 February 2007.

*****) Sochorová válcovna TŽ, a.s. became a subsidiary through an investment of a share of the company into the issued share capital of MORAVIA STEEL a.s. on 21 August 2007. The change was recorded in the Register of Companies on 3 September 2007.

2006

(CZK thousand)

Name	Registered office	Cost	Nominal value	Owner–ship %	Equity	Profit/ loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.	Třinec	3 357 984	5 598 907	69,04	16 404 427	2 684 148	–	559 891
Barrandov Lands, a.s.	Prague	2 000	2 000	100	1 995	7	–	–
Barrandov Studio a.s.	Prague	780 486	196 952	99,77	616 815	60 135	200 000	–
Moravia Steel Slovenija, d.o.o.	Celje	1 573	1 573	51	3 070	–	–	–
Moravia Steel AG Zug	Zug	1 947	1 947	100	548	–205	–	–
Moravia Steel Italia,srl	Milano	2 581	2 581	66	41 548	25 783	–	2 778
Moravia Steel Ibéria, s.a.	Lisbon	10 850	10 850	99,33	11 879	1 003	–	–
Moravia Goel Trade, d.o.o.	Samobor	59	59	60	**)	**)	59	–
MS – Slovensko s.r.o.	Bratislava	160	160	100	906	–	–	–
Moravia Steel Israel Ltd.	Petach Tikva	346	209	100	*)	*)	–	–
Total		4 157 986	5 815 238				200 059	562 669

*) No data available

**) In liquidation

2005

(CZK thousand)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.	Třinec	3 357 984	5 598 907	69,04	14 537 573	2 067 939	–	391 923
Barrandov Lands, a.s. **)	Prague	2 000	2 000	100	1 988	–12	–	–
Barrandov Studio a.s.	Prague	780 486	196 952	99,77	573 035	50 223	200 000	–
Moravia Steel Slovenija, d.o.o.	Celje	1 573	1 573	51	3 082	100	–	–
Moravia Steel AG Zug	Zug	1 947	1 947	100	761	– 1 384	–	–
Moravia Steel Italia,srl	Milano	2 581	2 581	66	20 937	9 688	–	1 593
Moravia Steel Ibéria, s.a.	Lisbon	10 850	10 850	99,33	9 149	827	–	–
NPT komanditní společnost *)	Třinec	–	–	–	–	–	–	–
Moravia Goel Trade, d.o.o.	Samobor	59	59	60	***)	–	59	–
MS – Slovensko s.r.o.	Bratislava	160	160	100	906	–26	–	–
Moravia Steel Israel Ltd.	Petach Tikva	346	209	100	169	–19	–	–
Total		4 157 986	5 815 238				200 059	393 516

*) NPT k.s. was deleted from the Register of Companies after the completion of liquidation proceedings as of 11 November 2004; this fact took legal effect on 5 January 2005.

**) The company was founded on 24 March 2005

***) In liquidation

4.2.2. Pledged Non-Current Financial Assets and Current Equity Securities

None of the Company's non-current financial assets or current equity securities were pledged in 2007, 2006 and 2005.

4.3. INVENTORY

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
– Material	1 939	1 515	2 000
– Inventory – raw material	52 582	68 356	108 884
– Inventory – metallurgical products	320 633	331 356	452 955
– Inventory	–	–	–
Total	375 154	401 227	563 839

No prepayments for inventory were provided in the reporting periods.

4.4. RECEIVABLES

4.4.1. Trade Receivables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Short-term			
– Customers	7 636 144	7 009 975	6 136 389
– Bills of exchange to be collected	8 260	8 260	14 528
– Provisions	–588 734	–597 238	–605 058
Total	7 055 670	6 420 997	5 545 859

In the years ended 31 December 2007, 2006 and 2005, the Company carried bill receivables in the aggregate amounts of CZK 8,260 thousand, CZK 8,260 and CZK 14,528 thousand, respectively, of which CZK 8,260 thousand, CZK 8,260 thousand and CZK 14,528 thousand were overdue. Provisions of CZK 8,260 thousand, CZK 8,260 thousand and CZK 14,528 thousand were recorded against these receivables in 2007, 2006 and 2005, respectively.

4.4.2. Aging of Receivables from Customers

(CZK thousand)

Year	Category	Before due date	Past due date					Total past due	Total
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and greater		
2007	Gross	6 412 811	643 321	1 635	1 361	4 743	572 273	1 223 333	7 636 144
	Provisions	201	551	1 635	1 361	4 743	571 983	580 273	580 474
2006	Gross	5 788 684	629 027	7 402	2 110	21 499	561 253	1 221 291	7 009 975
	Provisions	71	2 439	2 183	1 822	21 499	560 964	588 907	588 978
2005	Gross	4 948 892	585 206	9 980	–	8 997	583 314	1 187 497	6 136 389
	Provisions	–	–	–	–	7 216	583 314	590 530	590 530

Receivables typically mature within 30 days.

Past due receivables:

(CZK thousand)

Year	Local	Cross-border	Total
2007	637 940	585 393	1 223 333
2006	661 578	559 713	1 221 291
2005	695 800	491 697	1 187 497

4.4.3. Intercompany Trade Receivables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Short-term trade receivables			
TŘINECKÉ ŽELEZÁRNY, a.s.	1 173 314	1 005 420	785 435
Strojírny Třinec, a.s.	1 583	1 967	2 455
ENERGETIKA TŘINEC, a.s.	34 457	81 334	57 020
Slévárny Třinec, a.s.	3 333	2 334	3 301
Sochorová válcovna TŽ, a.s.	30	74	242
CMC-Třinec Stahlhandel GmbH, Germany	4	310	-26
Řetězárna a.s.	28 605	27 379	16 151
FERROMORAVIA, s.r.o.	974	15	295
Barrandov Studio a.s. **)	39	-	-
TRINEC-CMC LTD	13	12	187
Moravia Steel Italia, srl	-	34	-
DOPRAVA TŽ, a.s.	6 253	2 353	-
VVT-VÍTKOVICE VÁLCOVNY TRUB, a.s.	145 354	129 310	132 972
Třinecké gastroslužby, s.r.o.	-	-	4
Beskydská golfová, a.s.	76	441	-
Barrandov Televizní Studio a.s. *)	-	129	74
VÚHŽ, a.s.	22 864	18 876	-
Total short-term intercompany receivables	1 416 899	1 269 988	998 110
Receivables outside the Group	6 227 505	5 748 247	5 152 807
Total short-term trade receivables, gross	7 644 404	7 018 235	6 150 917

*) Barrandov Studio was renamed Barrandov Televizní Studio a.s. as of 1 November 2007.

**) The company was formed by way of a merger, splitting from Barrandov Studio a.s. as of 1 January 2007. Barrandov Film Studio a.s. was renamed Barrandov Studio a.s. as of 1 November 2007.

The Company carries no long-term intercompany trade receivables.

4.4.4. Receivables from Subsidiaries

The loans provided to Barrandov Studio a.s. were repaid during 2007. The Company carries no receivables from subsidiaries as of 31 December 2007.

The Company reported loans for Barrandov Studio a.s. (formerly AB BARRANDOV, a.s.) in the aggregate amount of CZK 43,885 thousand as of 31 December 2006 (2005: CZK 50,517 thousand). This loan did not bear interest from 2005 to 2007.

4.4.5. Pledged Receivables

The Company has pledged and conditionally assigned some of its receivables under loan arrangements. Under these agreements, receivables are pledged in 14-day or 30-day cycles as they fall due. As of 31 December 2007, the value of pledged receivables was CZK 835,024 thousand (2006: CZK 1,033,252 thousand, 2005: CZK 903,951 thousand).

4.4.6. State - Tax Receivables

State – tax receivables comprise a receivable arising from VAT in the amount of CZK 229,566 thousand as of 31 December 2007 (2006: CZK 201,049 thousand, 2005: CZK 317,054 thousand).

4.4.7. Derivative Financial Instruments

The Company hedged the exchange rate risk using derivative financial instruments during the year ended 31 December 2007. The net value of open derivative financial instruments as of 31 December 2007 was CZK (17,598) thousand (2006: CZK 12,251 thousand, 2005: CZK 8,206 thousand). The market values of individual open derivative financial instruments were reported in lines 'Other short-term receivables' (C.III.9) and 'Other short-term payables' (B.III.11) at the year-end:

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Receivables from fixed term transactions – other receivables	179 591	24 286	8 274
Payables from fixed term transactions – other payables	–197 189	–12 035	–68
Total derivative financial instruments	–17 598	12 251	8 206

On the basis of an analysis of the hedging effectiveness of derivative financial instruments, the Company charged the effective portion of the hedging derivative financial instrument revaluation (with highly effective hedging) as of 31 December 2007 against 'Gains and losses from the revaluation of assets and liabilities' in the amount of CZK (2,969) thousand (2006: CZK 12,251 thousand, 2005: CZK 8,206 thousand).

4.5. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Cash on hand	644	242	346
Total cash	644	242	346
Current accounts and cash in transit	89 530	160 356	134 726
Current accounts – blocked funds	5 435	7 417	10 080
Term deposits	91 286	435 491	117 326
Total bank accounts	186 251	603 264	262 132
Depository bills	262 852	1 459 664	598 225
Total current securities	262 852	1 459 664	598 225
Total current financial assets	449 747	2 063 170	860 703

The following tables detail the breakdown of depository bills held by the Company as of 31 December 2007, 2006 and 2005:

2007

(CZK thousand)

Issuing bank	Currency	Amount in foreign currency	Amount in CZK '000
HSBC	GBP	3 756	136 308
RZBC	EUR	2 001	53 281
CSOB	CZK	8 002	8 002
ČSOB	USD	1 401	25 319
ČSOB	EUR	1 500	39 942
Total			262 852

Interest rates attached to individual depository bills are within a range of 2.10 percent to 6.10 percent p.a.

2006

(CZK thousand)

Issuing bank	Currency	Amount in foreign currency	Amount in CZK '000
HSBC	GBP	22 431	918 402
HSBC	EUR	8 504	233 821
HSBC	CZK	28 509	28 509
HSBC	USD	4 506	94 078
ČSOB	USD	3 452	72 072
ČSOB	EUR	4 102	112 782
Total			1 459 664

Interest rates attached to individual depository bills are within a range of 1.80 percent to 5.20 percent p.a.

2005

(CZK thousand)

Issuing bank	Currency	Amount in foreign currency	Amount in CZK '000
HSBC	GBP	12 306	521 003
HSBC	EUR	1 800	52 218
RZBC	CZK	25 004	25 004
Total			598 225

Interest rates attached to individual depository bills are within a range of 1.55 percent to 4.5 percent p.a.

4.6. SHAREHOLDERS' EQUITY

4.6.1. Share Capital

There was an increase in the share capital through a non-monetary investment (refer to Note 4.2.) of CZK 1,407,000 thousand in 2007; 14 new ordinary shares with a nominal value of CZK 500 thousand and 2 ordinary shares with a nominal value of CZK 700,000 thousand were issued. The share capital was fully paid as of 31 December 2007.

The Company's share capital in the aggregate amount of CZK 3,157,000 thousand as of 31 December 2007 is composed of 1,514 registered shares with a nominal value of CZK 500 thousand each, 100 registered shares with a nominal value of CZK 10,000 thousand each and 2 registered shares with a nominal value of CZK 700,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board. The changes involving the share capital increase were recorded in the Register of Companies on 25 September 2007.

4.6.2. Changes in Equity

Based on the decision of the General Meeting of Shareholders held on 25 June 2007, the profit of CZK 2,161,472 thousand for the year ended 31 December 2006 was allocated as follows:

- CZK 108,074 thousand was used to increase the balance of the statutory reserve fund; and
- CZK 2,053,398 thousand was used to pay out dividends.

Based on the decision of the General Meeting, dividends from retained earnings brought forward were paid in the amount of CZK 946,802 thousand.

4.7. PAYABLES

4.7.1. Long-Term Payables

The Company carries no long-term payables as of 31 December 2007.

4.7.2. Short-Term Trade Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Short-term payables			
– Suppliers	5 435 479	6 219 873	5 033 497
– Other payables	432	34	26 141
Total	5 435 911	6 219 907	5 059 638

4.7.3. Aging of Payables to Suppliers

(CZK thousand)

Year	Category	Before maturity	Past due					Total past due	Total
			0 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and more		
2007	Short-term	5 427 989	7 276	–	–	–	214	7 490	5 435 479
2006	Short-term	6 214 563	2 748	2 342	6	–	214	5 310	6 219 873
2005	Short-term	5 026 233	4 212	533	415	1 976	128	7 264	5 033 497

Payables typically mature within 45 days.

4.7.4. Intercompany Payables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Short-term trade payables			
TŘINECKÉ ŽELEZÁRNY, a.s.	2 135 350	2 144 842	2 093 534
Strojírny Třinec, a.s.	–	1 420	3 214
ENERGETIKA TŘINEC, a.s.	–	105	232
Sochorová válcovna TŽ, a.s.	384 868	405 066	348 761
Řetězárna a.s.	–	–	548
REFRASIL, s.r.o.	–	7	117
Barrandov Televizní Studio a.s. *)	–	–179	–179
FERROMORAVIA, s.r.o	59 712	87 851	41 639
FINITRADING, a.s.	427 307	440 840	313 335
Moravia Steel Italia,srl	–	33	–
Moravia Steel Ibéria, s.a.	–	–	–
Moravia Steel Slovenija, d.o.o.	281	202	679
DOPRAVA TŽ, a.s.	521	1 339	372
Slévárny Třinec, a.s.	–	–	–
VVT-VÍTKOVICE VÁLCOVNY TRUB,a.s.	35 335	183 736	6 043
Třinecké gastroslužby, s.r.o.	276	213	253
Beskydská golfová, a.s.	–	–	–
TRISIA, a.s.	–	18	6
CMC-Trinec Stahlhandel GmbH	3 797	61	27
TRINEC – CMC LTD	–	–	–
TRIALFA, s.r.o.	–	–	1 083
Total intercompany short-term payables	3 047 447	3 265 554	2 809 664
Payables to other than Group companies	2 388 464	2 954 353	2 249 974
Total short-term trade payables	5 435 911	6 219 907	5 059 638

*) Barrandov Studio was renamed Barrandov Televizní Studio a.s. as of 1 November 2007.

4.7.5 Collateralised Payables or Otherwise Covered

In 2007, payables arising from the Company's bank loans are collateralised by the conditional pledge or assignment of receivables (refer to Notes 4.4.5 and 4.8).

4.7.6. Estimated Payables

As of 31 December 2007, estimated payables principally consist of unbilled supplies of raw materials amounting to CZK 23,582 thousand (2006: CZK 33,027 thousand; 2005: 24,641 thousand) and unbilled work and services amounting to CZK 59,707 thousand (2006: CZK 35,359 thousand; 2005: CZK 28,159 thousand) and an estimated payable for staff costs in the amount of CZK 69,117 thousand (2006: CZK 7,192 thousand; the payable was not recognised in 2005).

4.7.7. Payables from Social Security and Health Insurance

As of 31 December 2007, the aggregate amount of payables related to social security, state employment policy and health insurance contributions was CZK 6,079 thousand (2006: CZK 27,754 thousand, 2005: CZK 18,917 thousand). These payables were fully settled as of the balance sheet date.

4.7.8. State – Tax Payables

State – tax payables principally comprise a payable arising from corporate income tax amounting to CZK 144,016 thousand as of 31 December 2007 (2006: CZK 22,006 thousand, 2005: CZK 135,548 thousand).

4.8. BANK LOANS AND DEBT SECURITIES

2007

Purpose	Currency	Balance at 31 Dec 2007 in CZK '000	Collateral
Current bank loans			
Operating financing	CZK	50 000	Conditional assignment of receivables, blank bills of exchange issued by MORAVIA STEEL a.s.
Debt financing	CZK	750 000	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Total short-term loans		800 000	

The last instalment of a long-term loan was made prematurely as of 2 November 2007. In the year ended 31 December 2007, interest rates attached to bank loans were within a range of 3.12 to 6.26 percent p.a.

2006

Purpose	Currency	Balance at 31 Dec 2006 in CZK '000	Collateral
Long-term loans			
Pre-export and operating financing	EUR	515 531	Conditional assignment and future pledges of receivables, blank bills of exchange issued by MORAVIA STEEL a.s.
Total		515 531	
<i>Short-term portion of long-term loans</i>		<i>-412 425</i>	
Total long-term loans		103 106	
Current bank loans			
Operating financing	CZK	250 000	Conditional assignment of receivables, a blank bill issued by MORAVIA STEEL a.s.
Debt financing	CZK	300 000	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Debt financing	EUR	109 980	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Debt financing	USD	89 767	Pledged receivables, a blank bill issued by MORAVIA STEEL a.s.
<i>Short-term portion of long-term loans</i>		<i>412 425</i>	
Total short-term loans		1 162 172	
Total		1 265 278	

In the year ended 31 December 2006, interest rates attached to bank loans were within a range of 2.65 percent to 6.05 percent p.a.

2005

Purpose	Currency	Balance at 31 Dec 2005 in CZK '000	Collateral
Long-term loans			
Pre-export and operating financing	EUR	978 919	Conditional assignment and future pledges of receivables, blank bills of exchange issued by MORAVIA STEEL a.s.
Total		978 919	
<i>Short-term portion of long-term loans</i>		<i>-435 075</i>	
Total long-term loans		543 844	
Current bank loans			
VAT financing	CZK	150 000	Conditional assignment of receivables, a blank bill issued by MORAVIA STEEL a.s.
Operating financing	CZK	250 000	Conditional assignment of receivables, a blank bill issued by MORAVIA STEEL a.s.
Debt financing	CZK	500 000	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Debt financing	EUR	116 020	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Debt financing	USD	105 728	Pledged receivables, a blank bill issued by MORAVIA STEEL a.s.
Total		1 121 748	
<i>Short-term portion of long-term loans</i>		<i>435 075</i>	
Total short-term loans		1 556 823	
Total		2 100 667	

In the year ended 31 December 2005, interest rates attached to bank loans were within a range of 2.7 percent to 5.3 percent p.a.

4.9. ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses largely comprise costs related to the year ended 31 December 2007 for transportation and other services paid in 2008 in the amount of CZK 29,884 thousand (2006: CZK 8,148 thousand; 2005: CZK 14,495 thousand) and banking fees and bank interest payable on short-term and long-term operating loan facilities in the amount of CZK 2,776 thousand (2006: CZK 6,482 thousand; 2005: CZK 8,221 thousand).

Deferred income principally consists of income of CZK 24,949 thousand (2006: CZK 33,265 thousand; 2005: CZK 41,582 thousand) resulting from the provision of marketing rights under the Agreement concluded with CMC Curych A.G.

4.10. DEFERRED TAXATION

The deferred tax asset is analysed as follows:

Deferred Tax Arising from

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Accumulated depreciation and amortisation of fixed assets	-4 435	-2 182	-1 892
Social security and health insurance from outstanding vacation days	440	448	-
Receivables	4 655	3 022	2 695
Unpaid (unreceived) penalty	37	149	-
Reserves	-	-	-
Receivables (payables) from fixed term transactions	-713	-	-
Total	4 419	1 437	803

(CZK thousand)

The Company decided not to account for the deferred tax asset due to its immateriality.

4.11. INCOME TAX ON ORDINARY AND EXTRAORDINARY ACTIVITIES

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Profit before tax	3 872 260	2 693 238	2 294 457
Tax at the domestic income tax rate of 24% (2005: 26%)	929 342	646 377	596 559
Tax effect of permanent differences	-258 555	-107 363	-80 309
Additional taxes of prior years	-1 322	-7 248	-415
Total income tax on ordinary and extraordinary activities	669 465	531 766	515 835

4.12. DETAILS OF INCOME

(CZK thousand)

	2007			2006			2005		
	Local	Cross-border	Total	Local	Cross-border	Total	Local	Cross-border	Total
Goods – raw material	20 607 725	–	20 607 725	21 003 963	56 511	21 060 474	19 966 504	–	19 966 504
Goods – metallurgical products	14 007 479	26 456 089	40 463 568	12 228 480	24 151 524	36 380 004	12 252 835	20 885 809	33 138 644
Sales of goods	34 615 204	26 456 089	61 071 293	33 232 443	24 208 035	57 440 478	32 219 339	20 885 809	53 105 148
Sales of services	537 270	347 504	884 774	349 206	200 900	550 106	382 383	149 721	532 104
Total sales of products and services	537 270	347 504	884 774	349 206	200 900	550 106	382 383	149 721	532 104

The line entitled 'Goods – raw material' represents the income from the purchases of input raw material for Třinecké železářny, a.s., and its subsidiaries. The line entitled 'Goods – metallurgical products' largely relates to sales of products purchased from Třinecké železářny, a.s., Sochorová válcovna TŽ, a.s., FERROMORAVIA, s.r.o. and VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.

Sales of services principally comprise the provision of forwarding services of CZK 653,830 thousand for the year ended 2007 (2006: CZK 456,747 thousand, 2005: CZK 486,803 thousand). The sales of services also comprise revenues arising from remuneration and commissions based on mandatory contracts.

4.13. COSTS OF GOODS SOLD

(CZK thousand)

	Year ended 31 Dec 2007	Year ended 31 Dec 2006	Year ended 31 Dec 2005
Purchase of goods – raw materials	19 245 889	19 844 006	18 633 602
Purchase of goods – metallurgical products	36 642 094	32 889 247	30 169 459
Costs for transport of goods – metallurgical products	1 852 055	1 793 417	1 578 295
Total costs of goods sold	57 740 038	54 526 670	50 381 356

4.14. SERVICES

(CZK thousand)

	Year ended 31 Dec 2007	Year ended 31 Dec 2006	Year ended 31 Dec 2005
Transportation costs – services	624 722	429 516	452 527
Lease of trademark	123 000	123 000	123 000
Commissions	91 117	78 589	75 982
Advertising	52 224	79 955	36 400
Rental fees	6 080	5 759	4 522
Telecommunications	20 175	15 738	13 235
Legal advisory and audit activities	16 441	15 698	17 990
Other services	106 479	94 216	76 256
Total	1 040 238	842 471	799 912

4.15. CHANGE IN RESERVES AND PROVISIONS RELATING TO OPERATING ACTIVITIES AND COMPLEX DEFERRED EXPENSES

(CZK thousand)

	Year ended 31 Dec 2007	Year ended 31 Dec 2006	Year ended 31 Dec 2005
Change in other reserves:	–	–	–28 515
– reserve for loss on contract	–	–	–26 838
– reserve for default interest	–	–	–1 677
Settlement of complex deferred expenses	–	–	75
Changes in provisions under special legislation	– 2 281	–14 070	–572
– provisions against receivables	–2 281	–14 070	–572
Changes in tax non-deductible provisions:	–6 712	5 802	–26 613
– provisions against receivables	–6 712	5 802	–26 613
Total	–8 993	–8 268	–55 625

4.16. OTHER OPERATING EXPENSES AND INCOME

In an effort to ensure a more prompt collection of debts, the Company sold receivables with a nominal value of CZK 53,760 thousand for CZK 53,760 thousand during 2007 (2006: CZK 38,196 thousand for CZK 38,196 thousand; 2005: CZK 233,773 thousand sold for CZK 233,773 thousand). These receivables are recorded as other operating expenses and income in the financial statements.

4.17. OTHER FINANCIAL EXPENSES AND INCOME

Other financial income is largely composed of foreign exchange rate gains of CZK 683,888 thousand (2006: CZK 499,438 thousand; 2005: CZK 462,022 thousand).

Other financial expenses principally comprise foreign exchange rate losses of CZK 851,998 thousand (2006: CZK 545,157 thousand; 2005: CZK 610,278 thousand). The remaining balance consists of other financial expenses such as fees under letters of credit, fees under loan agreements, bank fees and other financial costs of CZK 5,370 thousand (2006: CZK 8,283 thousand; 2005: CZK 10,644 thousand).

4.18. RELATED PARTY TRANSACTIONS

4.18.1. Income Generated with Related Parties

2007

(CZK thousand)

Entity	Relation to the Company	Goods	Services	Other income	Financial income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	19 428 831	345 580	1 287	–	19 775 698
Barrandov Studio a.s. *)	Subsidiary	–	39	–	–	39
Sochorová válcovna TŽ, a.s.	Subsidiary	–	346	58	–	404
Beskydská golfová, a.s.	Subsidiary	–	233	3	–	236
Strojírny Třinec, a.s.	Subsidiary of the subsidiary	–	14 166	143	–	14 309
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	360 697	277	–	–	360 974
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	8 341	18 710	–	–	27 051
FERROMORAVIA, s.r.o	Subsidiary of the subsidiary	–	3 402	–	–	3 402
REFRASIL, s.r.o.	Subsidiary of the subsidiary	1 034	51	–	–	1 085
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s	Subsidiary of the subsidiary	800 696	569	2	–	801 267
Řetězárna a.s.	Subsidiary of the subsidiary	254 661	–	–	–	254 661
DOPRAVA TŽ, a.s.	Subsidiary of the subsidiary	–	37 618	4	–	37 622
CMC-Třinec Stahlhandel GmbH	Associate	–	–	62	–	62
VÚHŽ, a.s.	Subsidiary of the subsidiary	98 098	–	–	–	98 098
Total		20 952 358	420 991	1 559	–	21 374 908

*) The company was established through splitting from Barrandov Studio a.s by means of a demerger as of 1 January 2007. Barrandov Film Studio a.s. was renamed Barrandov Studio a.s. on 1 November 2007.

(CZK thousand)

Entity	Relation to the Company	Goods	Services	Other income	Financial income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	19 866 118	205 496		–	20 071 614
Barrandov Studio a.s. *****)	Subsidiary	–	576	–	–	576
Moravia Steel Italia srl	Subsidiary	–	94	–	–	94
Strojírny Třinec, a.s.	Subsidiary of the subsidiary	75	14 321	114	–	14 510
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	372 597	162	–	–	372 759
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	8 755	18 710	120	–	27 585
FERROMORAVIA,s.r.o	Subsidiary of the subsidiary	–	1 722	–	–	1 722
REFRASIL, s.r.o.	Subsidiary of the subsidiary	765	79	–	–	844
Řetězárna a.s.	Subsidiary of the subsidiary	215 021	–23	–	–	214 998
CMC-Třinec Stahlhandel GmbH	Associate	10 600	592	–	–	11 192
Sochorová válcovna TŽ, a.s.	*)	–	9 980	–	–	9 980
SD Obchodní společnost s.r.o.	**)	38	36 342	–	–	36 380
FINITRADING, a.s.	Controlling party	–	56	–	–	56
DEMONTA Trade a.s.	*****)	–	15 904	1 200	–	17 104
Pozemní stavitelství Zlín a.s.	***)	8 097	–	–	–	8 097
Total		20 482 066	304 011	1 434	–	20 787 511

*) Associated company of TŘINECKÉ ŽELEZÁRNY, a.s.

**) Entity related through a common statutory executive

***) Entity related through a common member of the Board of Directors

*****) Entity related through a common member of the Supervisory Board

*****) Barrandov Studio was renamed Barrandov Televizní Studio a.s. as of 1 November 2007.

(CZK thousand)

Entity	Relation to the Company	Goods	Services	Other income	Financial income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	19 551 452	192 058	6 028	130	19 749 668
Barrandov Studio a.s. ***)	Subsidiary	–	574	3	–	577
Moravia Steel Italia srl	Subsidiary	–	79	–	–	79
Strojírny Třinec, a.s. *****)	Subsidiary of the subsidiary	–	11 969	66	–	12 035
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	383 945	121	–	–	384 066
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	7 456	18 415	47	–	25 918
FERROMORAVIA,s.r.o	Subsidiary of the subsidiary	–	2 970	21	–	2 991
REFRASIL, s.r.o.	Subsidiary of the subsidiary	–	34	27	–	61
Řetězárna a.s.	Subsidiary of the subsidiary	186 485	17	–	–	186 502
CMC-Třinec Stahlhandel GmbH	Associate	3 595	–	–	–	3 595
Sochorová válcovna TŽ, a.s.	*)	1	617	46	–	664
SD Obchodní společnost s.r.o.	**)	–	56 727	–	–	56 727
FINITRADING, a.s.	Controlling entity	–	–	–	–	–
Pozemní stavitelství Zlín a.s.	*****)	12 705	–	–	–	12 705
Total		20 145 639	283 581	6 238	130	20 435 588

*) Associated company of TŘINECKÉ ŽELEZÁRNY, a.s.

**) Entity related through a common statutory executive

***) Barrandov Studio was renamed Barrandov Televizní Studio a.s. as of 1 November 2007.

*****) Entity related through a common member of the Board of Directors

*****) The name of TŘINECKÉ ŽELEZÁRNY – strojírenská výroba, a.s. was changed to Strojírny Třinec, a.s. on 1 August 2005

4.18.2. Purchases

2007

(CZK thousand)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	27 054 552	858	167 468	–	–	27 222 878
Moravia Steel Italia, s.r.l.	Subsidiary	–	–	58 505	–	–	58 505
Moravia Steel Ibéria, s.a.	Subsidiary	–	–	8 336	–	–	8 336
Moravia Steel Slovenija, d.o.o.	Subsidiary	–	–	1 970	–	–	1 970
Barrandov Studio, a.s.	Subsidiary	–	–	–	–	–	–
Barrandov Televizní Studio, a.s.	Subsidiary	–	–	–	–	–	–
Sochorová válcovna TŽ, a.s.	Subsidiary	5 562 422	–	47	–	–	5 562 469
CMC-TRINEC Stahlhandel GmbH	Associate	–	–	2 669	3 091	–	5 760
Beskydská golfová, a.s.	Subsidiary	–	–	6 268	–	–	6 268
Strojírny Třinec, a.s.	Subsidiary of the subsidiary	15 590	–	–	–	–	15 590
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	2 244	–	–	–	–	2 244
REFRASIL, s.r.o.	Subsidiary of the subsidiary	28	–	–	–	–	28
FERROMORAVIA, s.r.o.	Subsidiary of the subsidiary	1 407 186	–	249	–	–	1 407 435
Řetězárna a.s.	Subsidiary of the subsidiary	–	–	–	–	–	–
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.	Subsidiary of the subsidiary	2 666 440	30	911	–	–	2 667 381
DOPRAVA TŽ, a.s.	Subsidiary of the subsidiary	2 607	–	1 716	–	–	4 323
TRISIA, a.s.	Subsidiary of the subsidiary	–	–	103	–	–	103
Třinecké gastroslužby, s.r.o.	Subsidiary of the subsidiary	–	–	1 137	2 436	–	3 573
FINITRADING, a.s.	Controlling entity	2 528 278	–	–	–	–	2 528 278
VESUVIUS ČESKÁ REPUBLIKA, a.s.	–	140 850	–	–	–	–	140 850
Slévárny Třinec, a.s.	–	–	–	–	6	–	6
Total		39 380 197	888	249 379	5 533	–	39 635 997

*) Barrandov Studio was renamed Barrandov Televizní Studio a.s. as of 1 November 2007.

**) The company was formed through a demerger, splitting from Barrandov Studio a.s. as of 1 January 2007. Barrandov Studio was renamed Barrandov Televizní Studio a.s. as of 1 November 2007.

2006

(CZK thousand)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	24 303 748	1 834	164 106	–622	–	24 469 066
Moravia Steel Italia, s.r.l.	Subsidiary	–	–	38 448	–	–	38 448
Moravia Steel Ibéria, s.a.	Subsidiary	–	–	7 101	–	–	7 101
Strojírny Třinec, a.s.	Subsidiary of the subsidiary	69 805	–	–	–	–	69 805
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	748	–	–	–	–	748
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Subsidiary of the subsidiary	129 003	–	–	–	–	129 003
REFRASIL, s.r.o.	Subsidiary of the subsidiary	135	–	–	–	–	135
FERROMORAVIA, s.r.o.	Subsidiary of the subsidiary	1 216 480	–	2 087	–523	–	1 218 044
Řetězárna a.s.	Subsidiary of the subsidiary	2 794	–	–	–	–	2 794
Sochorová válcovna TŽ, a.s.	*)	4 954 319	–	45	–	–	4 954 364
FINITRADING, a.s.	Controlling entity	2 549 998	–	–	–	–	2 549 998
Total		33 227 030	1 834	211 787	–1 145	–	33 439 506

*) Associated company of TŘINECKÉ ŽELEZÁRNY, a.s.

2005

(CZK thousand)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	23 882 010	663	158 978	121	-9	24 041 763
Moravia Steel Italia, s.r.l.	Subsidiary	-	-	7 937	-	-	7 937
Strojírny Třinec, a.s. *****)	Subsidiary of the subsidiary	20 659	-	-	22	-	20 681
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	906	-	-	-	-	906
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Subsidiary of the subsidiary	105 305	-	-	-	-	105 305
REFRASIL, s.r.o.	Subsidiary of the subsidiary	180	-	-	-	-	180
FERROMORAVIA, s.r.o.	Subsidiary of the subsidiary	1 201 483	-	2 383	-194	-	1 203 672
Řetězárna a.s.	Subsidiary of the subsidiary	3 916	-	-	-	-	3 916
Sochorová válcovna TŽ, a.s.	*)	5 091 168	-	46	-	-	5 091 214
FINITRADING, a.s.	Controlling entity	2 029 203	-	-	-	-	2 029 203
SD Obchodní společnost s.r.o.	***)	795 931	-	-	-	-	795 931
DEMONTA T, s.r.o.	**)	49 662	-	-	-	-	49 662
Total		33 180 423	663	169 344	-51	-9	33 350 370

*) Associated company of TŘINECKÉ ŽELEZÁRNY, a.s.

**) Entity related through a common member of the Supervisory Board

***) Entity related through a common statutory executive

*****) The name of TŘINECKÉ ŽELEZÁRNY – strojírenská výroba, a.s. was changed to Strojírny Třinec, a.s. on 1 August 2005.

5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The average number of the Company's employees and managers and staff costs for the years ended 31 December 2007, 2006 and 2005 are as follows:

2007

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance	Other costs	Total staff costs
Employees	297	131 954	46 184	1 322	179 460
Management	17	72 025	25 209	92 958	190 192
Total	314	203 979	71 393	94 280	369 652

2006

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance	Other costs	Total staff costs
Employees	285	134 194	46 968	1 275	182 457
Management	19	84 611	29 614	90 532	204 737
Total	304	218 805	76 582	91 807	387 194

2005

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance	Other costs	Total staff costs
Employees	239	102 971	36 040	1 080	140 091
Management	15	58 115	20 340	84 510	162 965
Total	254	161 086	56 380	85 590	303 056

The number of employees is based on the average recalculated headcount. As of 31 December 2007, management includes the Finance Director and Board Chairman, Sales Director and Board Vice Chairman, Asset Management Director and Board member, Transportation Director, Procurement Director, Sale of Wires Director, Re-processing Director, Bar Steel Director for TŽ and SCHV, Rebar Trading Director, Sale of Semi-Finished Products and Rails Director, Sale of Seamless Tubes Director, Supervisory Board Chairman, Vice Chairmen and Supervisory Board members.

Other costs principally include remuneration of statutory bodies paid in addition to basic salaries.

5.2. LOANS, BORROWINGS AND OTHER BENEFITS PROVIDED

The Company provides members of the Board of Directors and Supervisory Board with company cars and other movable assets for both business and private purposes (the amount presented in the table below increases the tax base of employees):

(CZK thousand)

	2007	2006	2005
Board of Directors	563	387	387
Supervisory Board	814	1 216	1 221

Management of the Company, with the exception of the Company's CEO, hold positions on the Company's Board of Directors.

Benefits provided to the members of the Supervisory Board and Board of Directors also included payment of premiums under the liability insurance for damage caused in performing professional duties of a statutory member. Insurance for 2007 for all members of the Board of Directors and the Supervisory Board totalled CZK 473 thousand (2006: CZK 340 thousand, 2005: CZK 337 thousand).

6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS

The Company issued a Guarantee Statement in favour of TRINECKÉ ŽELEZÁRNY, a.s. in respect of loans totalling CZK 630,000 thousand. The balance of the outstanding loan repayments collateralised in the form of the Guarantee Statement was CZK 428,333 thousand as of 31 December 2007.

The Company received guarantees from Československá obchodní banka, a.s. in favour of third parties of CZK 2,249 thousand.

As of 31 December 2007, the Company was involved in no legal dispute, the outcome of which would significantly impact its financial position.

7. POST BALANCE EVENTS

The Company concluded a contract for a transfer of securities and assignment of a receivable with Jiří Vybíral, Viktor Vybíral and Martin Vybíral on 27 February 2008. The contract relates to the purchase of shares of HŽP Holding, a.s., having its registered office at Dolní 100, 797 11 Prostějov, Corporate ID 26955342. The purchase price of the shares was determined to be CZK 390,007 thousand and the consideration for the assigned receivables was set at CZK 46,134 thousand. The validity of the contract is subject to a suspensory condition, i.e. the ruling of the Office for the Protection of Economic Competition in the Czech Republic (ÚOHS) regarding the authorisation of association of competitors arising from the contract referred to above.

The Company purchased the remaining shareholding in Beskydská Golfová a.s. in the amount of 9.96 percent on 18 February 2008. The purchase price between the Company and Kovopol a.s. was determined to be CZK 16,000 thousand. This share purchase resulted in the Company's shareholding in the entity increasing from 90.04 percent to 100 percent.

VIII.

FINANCIAL PART II. – CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Name of the Company:	MORAVIA STEEL a.s.
Registered Office:	Třinec-Staré Město, Průmyslová 1000, 739 70
Legal Status:	Joint Stock Company
Corporate ID:	63 47 48 08

Components of the Consolidated Financial Statements:

Consolidated Balance Sheet


Consolidated Profit and Loss Account

Consolidated Statement of Changes in Equity

Consolidated Cash Flow Statement

Consolidated Notes to the Financial Statements

These consolidated financial statements were prepared on 9 May 2008.

Statutory body of the reporting entity:	Signature
Lenka Blažková Chairwoman of the Board of Directors	
Krzysztof Ruciński First Vice Chairman of the Board of Directors	

CONSOLIDATED BALANCE SHEET FULL VERSION AS OF 31.12.2007

(in CZK thousand)

		31.12.2007			31.12.2006	31.12.2005
		Gross	Adjustment	Net	Net	Net
	TOTAL ASSETS	56 002 191	20 506 433	35 495 758	32 075 568	29 330 602
B.	Fixed assets	35 561 017	19 455 325	16 105 692	14 606 129	14 116 568
<i>I.</i>	<i>Intangible fixed assets</i>	745 567	553 819	191 748	255 989	468 039
1.	Start-up costs	93	93			
3.	Software	211 780	171 196	40 584	58 616	48 950
4.	Valuable rights	475 712	371 693	104 019	67 997	77 537
6.	Other intangible fixed assets	9 986	9 942	44	112 946	137 342
7.	Intangible fixed assets under construction	39 713	895	38 818	16 430	204 210
8.	Prepayments for intangible fixed assets	8 283		8 283		
<i>II.</i>	<i>Tangible fixed assets</i>	34 458 954	18 803 596	15 655 358	14 041 657	13 396 826
1.	Land	1 220 268		1 220 268	921 452	924 105
2.	Structures	8 818 413	4 064 119	4 754 294	4 254 676	3 933 175
3.	Individual movable assets and sets of movable assets	22 940 967	14 631 468	8 309 499	7 734 050	7 965 788
6.	Other tangible fixed assets	101 062	97 490	3 572	2 391	2 307
7.	Tangible fixed assets under construction	1 119 322	4 526	1 114 796	925 963	497 196
8.	Prepayments for tangible fixed assets	253 687	578	253 109	203 484	74 794
9.	Valuation difference on acquired assets	5 235	5 415	-180	-359	-539
<i>III.</i>	<i>Non-current financial assets</i>	236 948	97 910	139 038	199 814	179 418
1.	Equity investments in subsidiaries	130 603	27 203	103 400	166 617	143 766
2.	Equity investments in associates	80 507	67 234	13 273	12 354	13 677
3.	Other securities and investments	241		241	221	221
5.	Other non-current financial assets	19 965		19 965	20 622	21 754
6.	Acquisition of non-current financial assets	5 632	3 473	2 159		
<i>IV.</i>	<i>Goodwill on consolidation</i>	-39 343		-39 343	-260 191	-330 353
1.	Positive goodwill on consolidation	223 102		223 102	68 011	74 522
2.	Negative goodwill on consolidation	-262 445		-262 445	-328 202	-404 875
<i>V.</i>	<i>Securities and equity investments under equity accounting</i>	158 891		158 891	368 860	402 638
C.	Current assets	20 249 765	1 051 108	19 198 657	17 336 123	15 101 850
<i>I.</i>	<i>Inventories</i>	8 071 792	343 584	7 728 208	6 251 396	6 035 241
1.	Material	3 484 268	174 041	3 310 227	2 844 489	2 471 021
2.	Work in progress and semifinished goods	2 513 791	97 424	2 416 367	1 925 176	1 927 306
3.	Products	2 055 851	69 287	1 986 564	1 469 626	1 623 152
5.	Goods	17 357	2 832	14 525	11 574	13 035
6.	Prepayments for inventory	525		525	531	727
<i>II.</i>	<i>Long-term receivables</i>	15 883		15 883	26 958	102 558
1.	Trade receivables	4 838		4 838	9 475	2 733
5.	Long-term prepayments made	5 403		5 403	1 932	1 847
6.	Other receivables	5 642		5 642	7 819	93 122
7.	Deferred tax asset				7 732	4 856
<i>III.</i>	<i>Short-term receivables</i>	7 950 160	707 524	7 242 636	6 720 399	6 368 658
1.	Trade receivables	7 211 170	691 327	6 519 843	6 194 099	5 639 881
2.	Receivables from subsidiaries	25 464		25 464	7 500	15 314
4.	Receivables from partners and association members				1	
5.	Social security and health insurance contributions	33		33		
6.	State - tax receivables	317 151		317 151	326 264	435 729
7.	Short-term prepayments made	129 627	3 567	126 060	35 083	80 223
8.	Estimated receivables	53 857		53 857	45 592	17 306
9.	Other receivables	212 858	12 630	200 228	111 860	180 205
<i>IV.</i>	<i>Current financial assets</i>	4 211 930		4 211 930	4 337 370	2 595 393
1.	Cash on hand	6 169		6 169	4 862	4 700
2.	Cash at bank	1 670 049		1 670 049	2 259 770	1 161 939
3.	Short-term securities and investments	2 535 712		2 535 712	2 072 738	1 428 754
D.	Other assets	191 409		191 409	133 316	112 184
1.	Deferred expenses	119 233		119 233	55 162	66 065
2.	Complex deferred expenses	30 550		30 550	50 153	40 533
3.	Accrued income	41 626		41 626	28 001	5 586
	Control number	223 658 464	82 025 732	141 632 732	127 800 096	116 807 586

		31.12.2007	31.12.2006	31.12.2005
	TOTAL LIABILITIES & EQUITY	35 495 758	32 075 568	29 330 602
A.	Equity	17 567 277	14 293 528	11 419 228
I.	Share capital	3 157 000	1 750 000	1 750 000
1.	Share capital	3 157 000	1 750 000	1 750 000
II.	Capital funds	1 114	27 652	21 725
2.	Other capital funds	18	15 382	15 382
3.	Gains or losses from the revaluation of assets and liabilities	1 096	12 270	6 343
III.	Statutory funds	1 193 183	971 225	800 995
1.	Statutory reserve fund / Indivisible fund	693 282	470 691	296 013
2.	Statutory and other funds	499 901	500 534	504 982
IV.	Retained earnings or accumulated losses	8 142 273	7 797 127	5 507 389
	Retained earnings	8 142 273	7 952 187	5 523 603
	Accumulated losses brought forward		-155 060	-16 214
V.	Profit or loss for the current period net of minority interest	4 871 875	3 504 758	3 122 702
1.	Profit or loss for the current period	4 788 187	3 392 742	3 029 168
2.	Share in the profit/(loss) of equity accounted investments	83 688	112 016	93 534
VI.	Consolidation reserve fund	201 832	242 766	216 417
B.	Liabilities	11 447 219	12 019 728	12 781 694
I.	Reserves	744 141	595 697	819 301
1.	Reserves under special legislation	198 629	321 825	630 715
4.	Other reserves	545 512	273 872	188 586
II.	Long-term liabilities	832 381	872 257	1 034 483
1.	Trade payables	32 095	6 096	11 583
5.	Long-term prepayments received	18 072		
7.	Long-term bills of exchange to be paid		27 495	58 010
9.	Other payables		706	3 390
10.	Deferred tax liability	782 214	837 960	811 360
11.	State - tax payables and subsidies			150 140
III.	Short-term liabilities	6 657 877	6 582 711	5 976 964
1.	Trade payables	4 749 807	5 146 106	4 426 347
2.	Payables to subsidiaries		358	
4.	Payables to partners and association members	16 346	8 295	22 761
5.	Payables to employees	366 093	312 996	277 785
6.	Social security and health insurance payables	168 501	158 365	144 254
7.	State - tax payables and subsidies	702 179	710 130	889 510
8.	Short-term prepayments received	96 958	42 890	26 465
10.	Estimated payables	336 639	168 592	147 145
11.	Other payables	221 354	34 979	42 697
IV.	Bank loans and borrowings	3 212 820	3 969 063	4 950 946
1.	Long-term bank loans	1 491 536	1 922 715	2 487 500
2.	Short-term bank loans	1 718 284	2 046 348	2 463 446
3.	Short-term borrowings	3 000		
C.	Other liabilities	146 605	134 917	150 878
1.	Accrued expenses	102 851	71 132	86 878
2.	Deferred income	43 754	63 785	64 000
D.	Minority equity	6 334 657	5 627 395	4 978 802
	Minority share capital	2 553 591	2 522 401	2 522 592
	Minority capital funds	30 335	28 944	27 955
	Minority funds from profit, including retained earnings and losses	2 399 055	2 157 966	1 764 986
	Minority profit or loss for the current period	1 351 676	918 084	663 269
	Control number	135 299 939	122 297 194	111 976 311

CONSOLIDATED PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD YEAR ENDED 31 DEC 2007

(in CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
I.	Sales of goods	36 473	52 286	77 475
A.	Costs of goods sold	32 484	43 181	75 297
+	Gross margin	3 989	9 105	2 178
II.	Production	46 561 450	41 307 241	39 494 551
1.	Sales of own products and services	45 124 172	40 230 355	37 467 255
2.	Change in internally produced inventory	873 560	263 277	1 329 475
3.	Own work capitalised	563 718	813 609	697 821
B.	Purchased consumables and services	32 265 392	30 142 568	29 230 531
1.	Consumed material and energy	25 751 157	23 414 317	23 036 831
2.	Services	6 514 235	6 728 251	6 193 700
+	Added value	14 300 046	11 173 778	10 266 198
C.	Staff costs	4 872 205	4 171 690	3 832 803
1.	Payroll costs	3 253 943	2 885 948	2 647 331
2.	Remuneration to members of statutory bodies	129 596	123 336	117 275
3.	Social security and health insurance costs	1 173 585	1 039 535	952 796
4.	Social costs	315 081	122 871	115 401
D.	Taxes and charges	24 667	24 216	34 941
E.	Depreciation of intangible and tangible fixed assets	1 471 701	1 326 393	1 223 278
KR A.	Amortisation of goodwill on consolidation	37 499	6 512	8 663
KR 1.	Amortisation of negative goodwill on consolidation	67 076	79 075	82 264
III.	Sales of fixed assets and material	338 817	335 816	195 958
1.	Sales of fixed assets	45 458	68 029	52 071
2.	Sales of material	293 359	267 787	143 887
F.	Net book value of fixed assets and material sold	251 221	269 373	200 923
1.	Net book value of sold fixed assets	24 165	31 353	88 127
2.	Book value of sold material	227 056	238 020	112 796
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-132 663	-399 279	-360 289
IV.	Other operating income	434 847	3 385 011	3 044 498
H.	Other operating expenses	580 395	3 797 792	3 238 331
V.	Transfer of operating income	796		
I.	Transfer of operating expenses	796		
*	Operating profit or loss	8 035 761	5 776 983	5 410 268
VI.	Proceeds from the sale of securities and investments	219	105 180	171 514
J.	Cost of securities and investments sold	438	112 493	189 501
VII.	Income from non-current financial assets	1 145	895	6 448
1.	Income from subsidiaries and associates	375	375	6 075
3.	Income from other non-current financial assets	770	520	373
VIII.	Income from current financial assets	1		
IX.	Income from the revaluation of securities and derivatives	105 605	61	21
L.	Costs of the revaluation of securities and derivatives	118 042		
M.	Change in reserves and provisions relating to financial activities	2 501	-7 821	41 023
X.	Interest income	163 025	107 783	76 487
N.	Interest expenses	174 038	203 510	201 491
XI.	Other financial income	809 563	641 997	671 376
O.	Other financial expenses	999 858	681 579	789 010
*	Financial profit or loss	-215 319	-133 845	-295 179
Q.	Income tax on ordinary activities	1 719 434	1 369 730	1 382 686
1.	– due	1 820 578	1 343 459	1 100 215
2.	– deferred	-101 144	26 271	282 471
**	Profit or loss from ordinary activities	6 101 008	4 273 408	3 732 403
XIII.	Extraordinary income	3 291		64 475
R.	Extraordinary expenses			139 932
S.	Income tax on extraordinary activities	-2 335		
1.	– due	28		
2.	– deferred	-2 363		
*	Extraordinary profit or loss	5 626		-75 457
**	Consolidated profit, net of share of profit/(loss) of equity accounted investments	6 106 634	4 273 408	3 656 946
	Consolidated profit net of minority interests	4 788 187	3 392 742	2 994 838
	Minority profit or loss	1 318 447	880 666	662 108
*	Share of profit/(loss) of equity accounted investments	83 688	112 016	127 864
	Profit for the current period (+/-)	6 190 322	4 385 424	3 784 810
***	Profit for the current period, net of minority interests (+/-)	4 871 875	3 504 758	3 122 702

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY YEAR ENDED 31.12.2007

(in CZK thousand)

	Share capital	Capital funds	Reserve funds, indivisible fund and other funds from profit	Profit or loss brought forward	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2004	750 000	9 830	650 850	3 928 861	3 190 444	155 512	61 034	8 746 531
Profit for the current period					3 029 168		93 534	3 122 702
Allocation of profit			155 709	1 566 235	-1 721 944	61 034	-61 034	
Dividends paid					-1 468 500			-1 468 500
Change in the share capital	1 000 000							1 000 000
Revaluation of assets		10 720						10 720
Payments from the social fund			-5 128			-129		-5 257
Impact of changes in the consolidated group		1 170	-524	18 515				19 161
Other		5	88	-6 222				-6 129
Balance at 31 December 2005	1 750 000	21 725	800 995	5 507 389	3 029 168	216 417	93 534	11 419 228
Profit for the current period					3 392 742		112 016	3 504 758
Allocation of profit			174 840	2 214 178	-2 389 018	93 534	-93 534	
Dividends paid					-640 150			-640 150
Revaluation of assets		5 927						5 927
Payments from the social fund			-4 610					-4 610
Impact of changes in the consolidated group				75 678		-67 185		8 493
Other				-118				-118
Balance at 31 December 2006	1 750 000	27 652	971 225	7 797 127	3 392 742	242 766	112 016	14 293 528
Increase in the share capital	1 407 000		85					1 407 085
Allocation of profit			215 020	1 124 324	-1 339 344	112 016	-112 016	
Dividends paid				-946 802	-2 053 398			-3 000 200
Impact of changes in the consolidated group		-15 379	7 489	160 838		-152 948		
Revaluation of assets		-11 159						-11 159
Payments from the social fund			-635					-635
Profit for the current period					4 788 187		83 688	4 871 875
Other			-1	6 786		-2		6 783
Balance at 31 December 2007	3 157 000	1 114	1 193 183	8 142 273	4 788 187	201 832	83 688	17 567 277

CONSOLIDATED CASH FLOW STATEMENT YEAR ENDED 31.12.2007

(in CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
P.	Cash and cash equivalents at the beginning of the accounting period	4 052 293	2 131 266	1 932 701
	<i>Cash flows from ordinary activities</i>			
Z.	Profit/(loss) from ordinary activities before tax	7 820 442	5 643 138	5 115 089
A.1.	Adjustments for non-cash transactions	1 329 351	952 755	1 065 645
A.1.1.	Depreciation of fixed assets (+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 449 002	1 253 830	1 149 677
A.1.2.	Change in provisions and reserves	-130 162	-407 100	-291 310
A.1.3.	Profit/(loss) on the sale of fixed assets (-/+)	-7 571	-27 451	61 667
A.1.4.	Revenues from dividends and profit shares (-), except for those paid by the consolidated group entities	12 118	-894	-6 448
A.1.5.	Interest expense (+) excluding capitalised interest and interest income (-)	8 777	94 383	123 719
A.1.6.	Adjustments, if any, and other non-cash transactions	-2 813	39 987	28 340
A.*	Net cash flow from operating activities before tax, movements in working capital and extraordinary items	9 149 793	6 595 893	6 180 734
A.2.	Change in non-cash component of working capital	-437 997	390 573	-965 176
A.2.1.	Change in receivables from operating activities(+/-), deferred expenses, accrued income and estimated assets	-54 796	-158 630	-1 320 336
A.2.2.	Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	-527 232	798 120	843 101
A.2.3.	Change in inventory (+/-)	-82 297	-421 668	-614 771
A.2.4.	Change in current financial assets not included in cash and cash equivalents	226 328	172 751	126 830
A.**	Net cash flow from operating activities before tax and extraordinary items	8 711 796	6 986 466	5 215 558
A.3.	Interest paid (-), except interest capitalised	-172 291	-194 030	-195 412
A.4.	Interest received (+)	162 636	107 807	76 340
A.5.	Income tax paid from operating activities, additional tax paid for previous periods (-)	-1 575 366	-1 316 580	-2 249 603
A.6.	Receipts and expenditures relating to extraordinary activities, which form extraordinary profit or loss, including income tax paid from extraordinary activities (+/-)	2 751	413	
A.7.	Received dividends and profit shares (+)	42 281	88 895	73 748
A.***	Net cash flow from operating activities	7 171 807	5 672 971	2 920 631
	<i>Cash flows from investing activities</i>			
B.1.	Fixed assets expenditures (-)	-2 228 059	-1 978 362	-1 872 087
B.2.	Receipts from fixed assets sold (+)	134 701	356 423	126 813
B.3.	Loans provided to related parties (-/+)	-14 100		
B.4.	Cash flows from the purchase of business or its part	-325 439		-270 160
B.5.	Cash flows from deconsolidation of business or its part			-8 128
B.***	Net cash flow from investing activities	-2 432 897	-1 621 939	-2 023 562
	<i>Cash flow from financial activities</i>			
C.1.	Impact of change in long-term or short-term payables which fall into financing activities on cash and cash equivalents	-1 012 320	-1 220 377	-27 677
C.2.	Impact on cash and cash equivalents due to change in equity	-3 625 579	-909 628	-672 521
C.2.1.	Increase in cash and cash equivalents due to a change in share capital, share premium, reserve fund, including prepayments made for this increase (+)			1 000 000
C.2.5.	Payments made from funds (-)	-280	-3 219	-6 456
C.2.6.	Dividends and profit shares paid, including withholding tax related to these claims and including financial clearance with partners (-), except for dividends and profit shares paid between Group entities	-3 625 299	-906 409	-1 666 065
C.***	Net cash flow from financial activities	-4 637 899	-2 130 005	-700 198
D.	Differences arising from the impact of FX differences on the basis of including entities in consolidation			1 694
F.	Net increase or decrease of cash and cash equivalents	101 011	1 921 027	198 565
R.	Cash and cash equivalents at the end of the accounting period	4 153 304	4 052 293	2 131 266

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Business Name:	MORAVIA STEEL a.s.
Registered Office:	Průmyslová 1000, 739 70 Třinec-Staré Město
Legal Status:	Joint Stock Company
Corporate ID:	63474808

Entered in File No. 1297 of Section B of the Register of Companies maintained by the Regional Court in Ostrava.

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1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

MORAVIA STEEL a.s. (henceforth the "Parent Company" or the "Company") was formed by a Memorandum of Association as a joint stock company on 27 July 1995 and was incorporated following its registration in the Register of Companies held at the District Court in Brno-venkov on 23 August 1995.

The Parent Company's share capital is CZK 3,157,000 thousand.

The consolidated financial statements were prepared as of and for the year ended 31 December 2007.

The following table shows legal entities with an equity interest greater than 20 percent and the amount of their equity interest:

Shareholder	Ownership percentage
R.F.G., a.s., nám. Svobody 526, Třinec	50 %
FINITRADING, a.s., nám. Svobody 526, Třinec	50 %
Total	100 %

R.F.G., a.s. and FINITRADING, a.s. act in concert.

The Group is primarily engaged in metallurgical production with a closed metallurgical cycle. The Group is additionally involved in generating electricity and providing foundry and engineering services, and domestic as well as international shipment.

1.2. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS RECORDED IN THE REGISTER OF COMPANIES AS OF 31 DECEMBER 2007

	Position	Name
Board of Directors	Chairwoman	Lenka Blažková
	Vice Chairman	Krzysztof Roch Ruciński
	Member	Mojmír Kašpříš
Supervisory Board	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Balko
	Member	Mária Blašková
	Member	Hanns Kurt Zoellner
	Member	Jan Sikora

2. DEFINITION OF THE CONSOLIDATED GROUP AND CONSOLIDATION PRINCIPLES AND METHODS

2.1. DEFINITION OF THE CONSOLIDATED GROUP

2.1.1. Consolidation Method

The consolidated financial statements were prepared using the proportionate consolidation method.

2.1.2. Names and Registered offices of Subsidiaries and Associates included in the Consolidated Group

The consolidated group (henceforth the "Group") included the following entities in the year ended 31 December 2007:

Subsidiaries

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2007
TŘINECKÉ ŽELEZÁRNY, a.s.	Průmyslová 1000, Třinec	Manufacture of metallurgical products	69.04 %
Barrandov Studio a.s.	Prague 5, Křiženeckého nám. 5/322	Creation and production of films and other audiovisual material	99.82 %
Barrandov Televizní Studio, a.s.	Prague 5, 152 00, Křiženeckého nám. 5/322	Creation and production of films and other audiovisual material	99.82 %
MS – SLOVENSKO s.r.o.	Bratislava, Palisády 56	Agency activities	100.00 %
MORAVIA STEEL ITALIA S.R.L.	Milano, Italy	Distribution of metallurgical products	66.00 %
Beskydská golfová, a.s.	Ropice 415, 739 56	Provision of sport services	90.04 %
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Production and metallurgic processing of iron and steel	82.00 %

Associates

Name of the company	Registered office	Business activities	Equity share
CMC – Třinec Stahlhandel GmbH	Kürten, Germany	Distribution of metallurgical products	50.00 %
TRINEC – CMC LIMITED	Sandbach, Great Britain	Distribution of metallurgical products	50.00 %

In the year ended 31 December 2007, the consolidation group was expanded to include Sochorová válcovna TŽ, a.s. and Beskydská golfová, a.s.

Beskydská golfová, a.s. has been included in the consolidation group and consolidated using the full method since 1 January 2007.

On 3 September 2007, the Parent Company acquired the 82 percent equity investment in Sochorová válcovna TŽ, a.s. through the investment by shareholders in the share capital. The increase in the share capital through the non-cash investment was recorded in the Register of Companies on 3 September 2007. For this reason, the subsidiary Sochorová válcovna TŽ, a.s. was consolidated using the full consolidation method from 1 September 2007 to 31 December 2007. From 1 January 2007 to 31 August 2007, the entity was consolidated as an associate of the TŘINECKÉ ŽELEZÁRNY, a.s. sub-group using the equity method of accounting.

In the year 31 December 2007, Barrandov Studio a.s. was divided into Barrandov Studio a.s. ("involved company") and Barrandov Film Studio ("successor company"). The equity investment investment in both subsidiaries after the spin-off amounted to 99.82 percent.

Barrandov Studio a.s. subsequently renamed to Barrandov Televizní Studio, a.s. as of 1 November 2007. Barrandov Film Studio was renamed to Barrandov Studio a.s. as of 1 November 2007.

The consolidated group (henceforth the "Group") included the following entities in the year ended 31 December 2006:

Subsidiaries

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2006
TŘINECKÉ ŽELEZÁRNY, a.s.	Průmyslová 1000, Třinec	Manufacture of metallurgical products	69.04 %
MS – SLOVENSKO s.r.o.	Bratislava, Palisády 56	Mediation activities	100.00 %
Barrandov Studio a.s.	Prague 5, Kříženeckého nám. 5/322	Creation and production of films and other audiovisual material	99.77 %
MORAVIA STEEL ITALIA S.R.L.	Milan, Italy	Distribution of metallurgical products	66.00 %

Associate

Name of the company	Registered office	Business activities	Equity share
CMC – Třinec Stahlhandel GmbH	Bergisch Gladbach, Germany	Distribution of metallurgical products	50.00 %
TRINEC – CMC LIMITED	Sandbach, Great Britain	Distribution of metallurgical products	50.00 %

In the year ended 31 December 2006, the consolidation group was expanded to include TRINEC – CMC LIMITED.

Since the trading strategy of the associated undertakings is substantially performed by CMC Trading (Europe), the Parent Company opted to consolidate the entities using the equity method of accounting.

TŘINECKÉ ŽELEZÁRNY, a.s. Sub-Group

In the year ended 31 December 2007, the sub-group includes of the following companies:

Subsidiaries:

Name	Registered office	Business activities	Equity share at 31 Dec 2007
ENERGETIKA TŘINEC, a. s.	Třinec-Staré Město, Průmyslová 1024, 739 65	Production and distribution of heat and electricity	100.00 %
Strojírny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1038, 739 65	Locksmithing, smithcraft, tool engineering	100.00 %
Slévárny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1001, 739 65	Foundry industry	100.00 %
FERROMORAVIA, s.r.o.	Třinec - Staré Město, Průmyslová 1688, 686 02	Production and metallurgic processing of iron and steel	100.00 %
VVT- VÍTKOVICE VÁLCOVNA TRUB, a.s.	Ostrava-Vítkovice, Výstavní 1132, 706 02	Production of steel pipes	100.00 %
VÚHŽ a.s.	Dobrá 240, 739 51	Production of automotive, metallurgical, engineering and foundry products	100.00 %
VÚHŽ NEMO a.s.	Dobrá 240, 739 51	Real estate activities, lease of movable assets	100.00 %
H&S PROGRESS s.r.o.	Dobrá 240, 739 51	Mediation of wholesale	100.00 %
ROLLSERVIS a.s.	Dobrá 240, 739 51	Administration services	100.00 %
Řetězárna a.s.	Česká Ves, Polská 57, 790 81	Production of chains and chain products	51.00 %
REFRASIL, s.r.o.	Třinec – Kanská, Průmyslová 720, 739 65	Production of fireproof products	51.00 %

Associates:

Name	Registered office	Business activities	Equity share at 31 Dec 2007
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec-Staré Město, Průmyslová 715, 739 65	Production of isostatically pressed heat-resisting products	40.00 %
Sochorová válcovna TŽ, a.s. *)	Třinec-Staré Město, Průmyslová 1000, 739 70	Production and metallurgic processing of iron and steel	*)18.00 %

*) The company was consolidated using the equity method in the period from January to August 2007, and using the full consolidation method in the period from September to December 2007 based on the acquisition of the majority investment by the parent company.

Given the acquisition of the 100 percent equity investment in H&S PROGRESS s.r.o., the consolidation group for the year ended 31 December 2007 is extended to include H&S PROGRESS s.r.o., VÚHŽ a.s., VÚHŽ NEMO a.s., and ROLLSERVIS, a.s. These companies were included in the TŽ consolidation group as of 1 June 2007.

In the year ended 31 December 2006, the sub-group includes of the following companies:

Subsidiaries:

Name	Registered office	Business activities	Equity share at 31 Dec 2006
ENERGETIKA TŘINEC, a. s.	Třinec-Staré Město, Průmyslová 1024, 739 65	Production and distribution of heat and electricity	100.00 %
Strojírny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1038, 739 65	Locksmithing, smithcraft, tool engineering	100.00 %
Slévárny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1001, 739 65	Foundry industry	100.00 %
FERROMORAVIA, s.r.o.	Staré Město, Průmyslová 1688, 686 02	Production and metallurgic processing of iron and steel	100.00 %
VVT- VÍTKOVICE VÁLCOVNA TRUB, a.s.	Ostrava-Vítkovice, Výstavní 1132, 706 02	Production of steel pipes	100.00 %
Řetězárna, a.s.	Česká Ves, Polská 57, 790 81	Production of chains and chain products	51.00 %
REFRASIL, s.r.o.	Třinec – Kanská, Průmyslová 720, 739 65	Production of fireproof products	51.00 %

Associates:

Name	Registered office	Business activities	Equity share at 31 Dec 2006
MORAVIA ENERGO, a.s.*	Třinec-Staré Město, Průmyslová 1018, 739 65	Distribution of electricity, energy advisory services	0.00 %
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec-Staré Město, Průmyslová 715, 739 65	Production of isostatically pressed heat-resisting products	40.00 %
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Production and metallurgic processing of iron and steel	18.00 %

* Given the sale of the equity investment in MORAVIA ENERGO,a.s., the company was excluded from the consolidation group for the year ended 31 December 2006. The removal from consolidation was performed as of 31 March 2006.

The consolidation methods were used in compliance with the consolidation rules of the consolidated sub-group – full consolidation was applied in the case of subsidiaries, consolidation under the equity method was used for associates.

2.1.3. The Balance Sheet Dates of the Companies Included in the Consolidated Group

The financial statements of the companies included in the consolidated group were prepared as of and for the years ended 31 December 2007, 2006 and 2005. The companies included in the consolidated group in the 2005 – 2007 period are based in the Czech Republic, with the exception of MS-SLOVENSKO s.r.o., which is based in Slovakia, CMC – Třinec Stahlhandel GmbH, which is based in Germany, MORAVIA STEEL ITALIA S.R.L., based in Italy and CMC TRINEC Limited based in the Great Britain, consolidated since 2006.

2.1.4. Companies Excluded from Consolidation

Subsidiaries and associates are not included in the consolidated group if:

- The equity share in the group is less than 1.5 percent or the share in the net turnover (revenues of account class 6) in the group is less than 1.5 percent;
- The companies which meet the condition set out in the first paragraph for non-inclusion in the consolidated group, thereby not entering into consolidation based on individual assessment, must also meet the group materiality criterion. Under the group materiality criterion, these companies are taken as a whole. The equity share of this whole in the Group must be less than 5 percent or the share in the net turnover (revenues of account class 6) in the group must be less than 5 percent. If the equity share is less than 5 percent while the share in the net turnover exceeds 5 percent, the decisive fact for inclusion in the consolidated group is whether the revenues largely generated by the company with related parties would have an immaterial impact on the profit and loss account after eliminating intercompany deliveries;
- Severe and long-term restrictions of the parent company hinder the company's rights connected to the control of assets or management, or, in exceptional cases, if the information necessary for the preparation of the consolidated financial statements cannot be obtained without inevitably incurring

- undue costs (that can be documented) or with inevitable and provable undue delay;
- The shares or equity interests in these companies are held exclusively with a view to their subsequent disposal; and
- One or more companies which are otherwise eligible for consolidation are exceptionally engaged in activities which differ to such an extent that their inclusion in the consolidated group would lead to the departure from a true and fair view.

The above conditions for exclusion from consolidation are effective for all the reporting periods.

3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

The Group's accounting records are maintained and the consolidated financial statements were prepared in accordance with the Accounting Act 563/1991 Coll., as amended; the Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

The accounting records of MORAVIA STEEL ITALIA S.R.L. are maintained in accordance with the Act on Accounting and Financial Reporting applicable in Italy and the European Union.

The accounting records of MS-SLOVENSKO s.r.o. are maintained in accordance with the Accounting Act and Accounting Policies for Businesses applicable in Slovakia.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis, the accruals principle, the prudence concept and the going concern assumption.

These consolidated financial statements are presented in thousands of Czech crowns ('CZK thousand'). The figures of MS - SLOVENSKO s.r.o., MORAVIA STEEL ITALIA S.R.L., CMC – Trinec Stahlhandel GmbH and CMC TRINEC LIMITED are translated using the exchange rates prevailing at 31 December 2007, 2006 and 2005 as promulgated by the Czech National Bank.

Financial Reporting Period

The consolidated financial statements of the Parent Company for the year ended 31 December 2007 were prepared as follows:

- The balance sheet contains comparative balances as of 31 December 2006 and 31 December 2005;
- The profit and loss account comprises comparative amounts for the years ended 31 December 2006 and 31 December 2005;
- The statement of changes in equity contains comparative amounts for the years ended 31 December 2006 and 31 December 2005; and
- The cash flow statement comprises comparative amounts for the years ended 31 December 2006 and 31 December 2005.

3.1. VALUATION, DEPRECIATION AND PROVISIONING POLICIES

3.1.1. Tangible and Intangible Fixed Assets

Valuation

Tangible fixed assets include assets with an acquisition cost greater than CZK 40 thousand on an individual basis and an estimated useful life greater than one year.

Intangible fixed assets include assets (such as software, valuable rights, research and development) with an acquisition cost greater than CZK 60 thousand on an individual basis and an estimated useful life greater than one year.

Purchased tangible and intangible fixed assets are valued at acquisition costs.

Tangible and intangible fixed assets developed internally are valued at direct costs, incidental costs directly attributable to the internal production of assets, or alternatively incidental costs of an administrative character if the production period of the assets exceeds one year.

The following tangible and intangible fixed assets are stated at replacement cost: tangible and intangible fixed assets acquired through donation, intangible fixed assets internally generated if replacement cost is lower than internal costs, assets recently entered in the accounting records such as an inventory count surplus (accounted for by a corresponding entry in the relevant accumulated depreciation account) and an investment of intangible and tangible fixed assets, except for cases where the investment is valued differently pursuant to a Memorandum of Association or a Foundation Deed.

The replacement cost is also applied to tangible fixed assets acquired under finance lease arrangements with an original cost exceeding CZK 1 million. These assets are carried at replacement cost and recorded in the statutory books as fully depreciated. Replacement cost is determined by an expert appraiser or through an estimate performed under the Group's internal regulations.

Tangible and intangible assets with an estimated useful life greater than one year and an acquisition cost equal to or lower than CZK 40 thousand and CZK 60 thousand, respectively, are not treated as fixed assets. Such tangible assets are accounted for as inventory and when brought into use they are charged to 'Consumed material and energy' in the profit and loss account. Intangible assets costing CZK 60 thousand and less are expensed through the account 'Services' in the year of acquisition.

The cost of fixed asset improvements exceeding CZK 40 thousand on an individual basis in the taxation period increases the acquisition cost of the related fixed asset.

The results of the Group's research and development activities, if designed for trading or resale, are recognised through the balance sheet line 'Research and development'. Research and development results designed for internal purposes are not classified as intangible fixed assets for financial reporting purposes.

Greenhouse emission allowances are recognised as other non-depreciable intangible fixed assets.

Emission allowances acquired without consideration are posted to account 347 'Other subsidies' in the amount of the replacement cost of the emission allowances, that is, the cost according to the EUROPEAN ENERGY EXCHANGE at the date of their crediting to the account. Upon the consumption or

disposal of these assets, the relevant amount credited to account 347 'Other subsidies' is recorded to account 648 'Other operating income', or upon sale to account 641 – 'Sales of fixed assets'. On an accruals basis, they are posted to account 548 'Other operating expenses' against account 019 'Other intangible fixed assets – emission allowances' such that the Company's results are not affected. This accounting methodology has been used since the annual financial statements for the year ended 31 December 2005.

As of the balance sheet date, emission allowances are valued according to the EUROPEAN ENERGY EXCHANGE's rate ruling as of 31 December 2007. The change in the valuation of emission allowances as of the balance sheet date is recognised between balance sheet accounts 019 - 'Other intangible fixed assets' and 347 - 'Other subsidies'.

Allowances acquired by the first operator are valued using the replacement cost, that is, the cost for which the allowances are traded on a public market as of the date of crediting. Purchased allowances are valued at cost, that is, the cost for which the allowances were purchased including the costs related to their acquisition.

Depreciation for Accounting Purposes

Depreciation of fixed assets, other than land and assets under construction, is recorded on a straight line basis over the depreciation period indicated below:

Category of assets	Depreciation period in years
Structures	2 – 77
Machinery and equipment	2 – 42
Vehicles	3 – 40
Furniture and fixtures	6 – 15
Software	3 – 7
Valuable rights	4 – 10

The depreciation period in years is established in terms of the estimated useful life of the fixed assets taking into account the operational conditions.

Assets held under finance leases are depreciated by the lessor.

If the inventory count indicates that the estimated useful life of assets has changed, the Group appropriately adjusts the depreciation period of the related asset.

The bulk of buildings and structures are depreciated over 45 – 60 years. The shorter depreciation period is applied to temporary structures and short-term structures (lighting, fencing, energy grids, pipelines, etc.). A depreciation period over 60 years is applied to structures with a long useful life such as railway and road bridges, conveying tunnels, and production and administrative buildings.

The bulk of machines and equipment are depreciated over 15 – 25 years. The shorter depreciation period is primarily applied to IT systems, management systems, devices, etc.; the longer depreciation period is applied in exceptional cases to agglomeration equipment.

Objects from precious metals acquired prior to 31 December 2001 are depreciated based on actual weight loss.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognised through the profit and loss account.

Provisioning

Provisions against tangible fixed assets are recognised in circumstances where the carrying value is greater than the value in use, which is equal to the present value of estimated future cash flows expected to arise from the continuing use of fixed assets.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

3.1.2. Non-Current Financial Assets

Non-current financial assets principally consist of equity investments, securities and equity investments available for sale and long-term term deposits.

Valuation

Securities and equity investments are carried at cost upon acquisition. The cost of securities or equity investments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges. Financial assets acquired prior to 1 January 2002 are stated at purchase cost.

At the balance sheet date, the Group records:

Equity investments at cost less any provisions against equity investments.

Available-for-sale securities are valued pursuant to the Accounting Act (Section 27) at fair value, determined by reference to the market value or a reasonable estimate. If the determination of fair value is not practicable, the securities are valued at cost.

At the balance sheet date, changes in the fair value of available-for-sale securities are recorded through balance sheet accounts 063 'Other non-current securities and equity investments' and 414 'Gains and losses from the revaluation of assets'. A deferred tax liability is determined in respect of the revaluation difference where the value of available-for-sale securities increases, and is recorded through accounts 414 'Gains and losses from the revaluation of assets' and 481 'Deferred tax liability'.

Upon sale or any other disposal, they are valued at the weighted average cost.

Investments in enterprises in which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments in subsidiaries'.

Investments in enterprises in which the Group is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments in associates'.

Provisioning against Equity Investments

Investments are provisioned if there is a risk that the fair value of an unconsolidated equity investment is lower than its carrying value.

In charging provisions against equity securities that are not fair valued, the Group refers to its detailed knowledge of the relevant entity, the results of its operations and reflects its interest in the entity's equity.

3.1.3. Inventory

Valuation

Purchased inventory is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as customs fees, freight costs and storage fees during transportation, commissions and insurance charges.

Inventory is issued out of stock at costs determined using the weighted arithmetic average method.

Internally developed inventory is valued at full operating costs established based upon a costing formula reflecting annual planned costings. The prices are determined on the basis of an annual financial plan and remain unchanged throughout the reporting period.

Internally developed inventory is revalued every 1 January of the current year in line with the costing made according to the approved financial plan.

During the reporting period, the Company analysed the internally produced inventory by comparing the valuation of own costs according to planned (planned costing) and actual costs. If the difference in valuation according to actual costs is greater than the valuation according to the planned own costs, the difference from the revaluation of internally produced inventory is reflected in financial accounting records only on the accounts of the general ledger - 'Changes in internally produced inventory' with a corresponding entry to 'Internally produced inventory'. In the contrary case, (if the difference in valuation according to the planned own costs is greater than the valuation according to actual own costs) the inventory is not remeasured and the difference is accounted for through the recognition of a provision against internally produced inventory.

Provisioning

Provisions against the inventory of material are made in respect of inventory with low or no movement and a very low likelihood for processing following an individual analysis.

Provisions against the inventory of finished products and semi-finished products are charged based on the analysis of movement, selling prices and realisability.

3.1.4. Receivables

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and bad amounts.

Provisioning

The Group recognises provisions against receivables, the recoverability of which is doubtful. Tax deductible provisions against receivables are made pursuant to the Income Taxes Act and the Provisioning Act.

Non-tax deductible provisions are created as follows:

- (a) Receivables past due over 360 days are provisioned in full; and
- (b) Receivables past due over 180 days but less than 360 days are provisioned at 50 percent.

In circumstances where there is doubt concerning the collectability of individual debts, the Group increases the provisioning charge taking into consideration the collateral held in support of these outstanding balances.

The Group recognises provisions against interest-free long-term receivables that arose as a result of the sale of business parts. This provisioning charge is calculated as equal to the difference between the nominal value and the discounted value of repayments of these receivables.

3.1.5. Current Financial Assets

Current financial assets principally consist of cash on hand and cash at bank and short-term debt securities with a maturity of less than one year and other securities available for sale.

Current financial assets are carried at cost upon acquisition.

3.1.6. Payables

Trade payables are stated at their nominal value. Long-term bills of exchange to be settled are stated at their nominal value. Interest on these bills is accrued over the term to their maturity.

3.1.7. Loans

Valuation

Loans are reported at nominal value. The portion of long-term loans maturing within one year from the balance sheet date and revolving loans which are regularly rolled over to the following period are included in short-term loans.

The value of debt securities is increased to reflect outstanding interest expense which is recorded as a component of issued current debt securities in the balance sheet.

3.1.8. Reserves

The Group creates other reserves to provide for future risks and losses arising from business activities known at the balance sheet date. In addition, the Group records tax allowable reserves for repairs of tangible fixed assets in accordance with the Provisioning Act, and a reserve for restoration and maintenance of a dump site and clean-up after termination of the operation of the site in accordance with Regulation of the Environmental Ministry No. 340/97 Coll. If the reserves are not drawn within the statutory period, they are released.

3.2. FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies conducted during the year are translated using the exchange rate of the Czech National Bank prevailing on the date preceding the transaction date.

Financial assets denominated in foreign currencies (foreign currency cash) are translated into Czech crowns using the fixed monthly exchange rate as notified by the Czech National Bank as of the first day of the month in which they were recorded.

As of the balance sheet date, financial assets, receivables, payables, loans, and financial borrowings denominated in a foreign currency are translated using the exchange rate as notified by the Czech National Bank as of that date, and any resulting foreign exchange differences are recognised as income or expense through the profit and loss account as appropriate.

As of the balance sheet date, non-current financial assets are translated using the exchange rate as notified by the Czech National Bank as of that date. Foreign exchange rate differences arising from fair-valued securities and equity investments are reported as a component of the carrying value of the security.

The financial statements of MS - SLOVENSKO s.r.o., MORAVIA STEEL ITALIA S.R.L., CMC – Třinec Stahlhandel GmbH and CMC – TRINEC LIMITED are translated using the exchange rates of the Czech National Bank prevailing at 31 December 2007, 2006 and 2005.

3.3. FINANCE LEASES

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title, the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases are amortised and expensed over the lease period.

3.4. TAXATION

Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/92 Coll., with the exception of assets used in the 'Univerzální trať Bohumín' plant and assets of Slévárny Třinec, a.s., which are depreciated using the straight line method.

Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method.

Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when the tax liability is settled.

The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3.5. BORROWING COSTS

Borrowing costs arising from loans are expensed irrespective of the purpose for which they were drawn.

3.6. DERIVATIVE FINANCIAL INSTRUMENTS

The Group designates derivative financial instruments as either trading or hedging. The Group's criteria for a derivative instrument to be accounted for as a hedge are as follows:

- At the inception of the hedge, the documentation identifies the hedged item and the hedging instrument, defines the risk that is being hedged and the approach to establishing and documenting whether the hedge is effective, and the hedging relationship is formally documented;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis.

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Derivative financial instruments are carried at fair value at the balance sheet date. Fair value changes in respect of trading derivatives and derivatives hedging the fair value of assets and liabilities are recognised either as an expense or income from derivative transactions as appropriate. Fair value changes of derivatives designated as cash flow hedges are recognised as gains or losses from the revaluation of assets and liabilities.

3.7. REVENUE RECOGNITION

Revenues are recognised when delivery terms under INCOTERMS 2000 are fulfilled or when services are rendered and are reported net of discounts and VAT.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the shareholders' rights to receive payment have been declared.

3.8. USE OF ESTIMATES

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.9. EXTRAORDINARY EXPENSES AND INCOME

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.

3.10. GRANTS

The Group receives operating grants. The funds drawn are charged to expenses and operating grants received are credited to income on an accruals basis (refer to Note 6.6.). In addition, the Group receives grants to fund the acquisition of fixed assets and these grants reduce the cost of the related assets.

In 2004, the Group received state aid for projects related to the environment, research and development, education and payments to workers who will be made redundant following the discontinuation of a furnace. This aid is reported as a component of the balance sheet line B.II.11 'State – tax payables and subsidies' and is split into short-term and long-term amounts.

3.11. RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure is capitalised as part of cost and posted to the acquisition of tangible or intangible fixed assets if the research and development projects result in fixed assets (tangible and intangible). The output of a research project is capitalised on the basis of the results of opponent proceedings.

3.12. CONSOLIDATION RULES

The individual items of the balance sheets and the profit and loss accounts of subsidiaries consolidated under the full consolidation method were added up in total amounts with the balance sheet and the profit and loss account of the parent company. Further, financial investments of the parent company were eliminated against acquired equity, intercompany supplies, receivables and payables, including profits from the sale of the fixed assets realised among the consolidated group companies, and profit margins relating to inventories not yet consumed.

Under the equity consolidation method, financial investments of the parent company were eliminated from the balance sheet against acquired equity. The assets in the consolidated balance sheet included the item 'Securities and investments under equity accounting', whose balance is calculated as the share of the equity of associates. This item was adjusted by a portion of the profit margin, reflecting the share in the equity of an associate, on intercompany supplies of inventories not yet consumed. Liabilities of the consolidated balance sheet included the item 'Share in the profit/loss of equity accounted investments' which represents the parent company's share in the current period's results, and the 'Consolidation reserve fund' comprising an associate's accumulated profit/loss of previous years.

The assets and liabilities of companies acquired and included in the consolidated group subsequent to 1 January 2003 were remeasured at fair value in accordance with the accounting policies for consolidation.

The consolidated financial statements were prepared using the proportionate consolidation method.

The financial statements for the years ended 31 December 2005 – 2007 prepared by the companies included in the consolidated group, as well as the financial statements of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statement preparation date are available in the registered office of the Parent Company.

Consolidation rules for 2005 – 2007 (definition of the consolidated group, transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Parent Company.

3.13. CASH FLOW STATEMENT

For cash flow purposes, cash and cash equivalents include cash and duty stamps, cash at bank except for deposits with maturity greater than three months, and current liquid assets easily convertible into cash in an amount agreed in advance where no significant changes of value in time are expected.

(CZK thousand)

	2007	2006	2005
Total current financial assets	4 211 930	4 337 370	2 595 393
STEELTEC CZ, s.r.o.	–	–	–4 866
Total cash and cash equivalents not included in cash flow	–58 626	–285 077	–459 261
Cash and cash equivalents	4 153 304	4 052 293	2 131 266

Comments on the 2007 Cash Flow Statement:

In the year ended 31 December 2007, special-purpose funds predominantly including the opening of a special-purpose account in connection with the received state aid of CZK 35,444 thousand as of 31 December 2007 are not treated as cash equivalents for cash flow reporting purposes.

The change in the balance of current financial assets as of 31 December 2006 as compared to the balance sheet is principally associated with the opening of a special-purpose account in connection with the received state aid of CZK 246,216 thousand and a depository bill of exchange of CZK 30,000 thousand as of 31 December 2006.

The change in the balance of current financial assets as of 31 December 2005 as compared to the balance sheet is associated with the opening of a special-purpose account of CZK 449,181 thousand as of 31 December 2005 in connection with the received state aid, and an equity interest in STEELTEC CZ, s.r.o. of CZK 4,866 thousand which was expected to be sold.

4. ANALYSIS OF IMPACTS ON PROFIT/LOSS

4.1. CONSOLIDATED PROFIT/LOSS FOR 2007

4.1.1. Structure of the Consolidated Profit/Loss for 2007

(CZK thousand)

Current year's profit made by MORAVIA STEEL a.s.	3 202 795
Current year's profit made by MS – SLOVENSKO s.r.o.	1
Share of current year's profit made by Barrandov Studio a.s.	57 847
Share of current year's profit made by Barrandov Televizní Studio, a.s.	12
Share of current year's profit made by MORAVIA STEEL ITALIA S.R.L.	24 126
Share of current year's profit made by Beskydská golfová, a.s.	1 417
Share of current year's profit made by Sochorová válcovna TŽ, a.s. fro the period from 1 September 2007	47 522
Share of current year's profit made by the TŽ, a.s. consolidation group	2 865 906
Share in profit/(loss) of equity accounted investments	13 144
Adjustments within full consolidation (see Note 4.1.2.)	–1 337 821
Adjustments within the equity method (see Note 4.1.3.)	–3 074
Consolidated profit	4 871 875

4.1.2. Adjustments within Full Consolidation for 2007

(CZK thousand)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact	–97 478
Elimination of provision against inventory, including the deferred tax impact	–2 804
Elimination of the provision against investment in Barrandov Televizní Studio, a.s.	33 020
Elimination of the provision against investment in Barrandov Studio a.s.	100 000
Elimination of the provision against investment in Beskydská golfová, a.s.	20 000
Amortisation of positive goodwill on consolidation of Barrandov Studio a.s.	–35 743
Amortisation of positive goodwill on consolidation of Sochorová válcovna TŽ, a.s.	–2 266
Amortisation of positive goodwill on consolidation of Beskydská golfová, a.s.	–553
Amortisation of negative goodwill on consolidation TŘINECKÉ ŽELEZÁRNY, a.s.	51 254
Elimination of dividends declared by MORAVIA STEEL ITALIA, S.R.L.	–4 661
Elimination of dividends declared by TŘINECKÉ ŽELEZÁRNY, a.s.	–1 399 727
Elimination of sales	1 137
Total adjustments	–1 337 821

4.1.3. Adjustments within Full Consolidation for 2007

(CZK thousand)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	-3 074
Total adjustments	-3 074

4.2. CONSOLIDATED PROFIT/LOSS FOR 2006

4.2.1. Structure of the Consolidated Profit/Loss for 2006

(CZK thousand)

Current year's profit made by MORAVIA STEEL a.s.	2 161 472
Current year's profit made by MS – SLOVENSKO s.r.o.	–
Share of current year's profit made by Barrandov Studio a.s.	43 655
Share of current year's profit made by MORAVIA STEEL ITALIA S.R.L.	17 017
Share of current year's profit made by the TŽ, a.s. Sub-group	1 929 685
Share in profit/(loss) of equity accounted investments	31 501
Adjustments within full consolidation (see Note 4.1.2.)	-675 645
Adjustments within the equity method (see Note 4.1.3.)	-2 927
Consolidated profit	3 504 758

4.2.2. Adjustments within Full Consolidation for 2006

(CZK thousand)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact	-151 258
Elimination of provision against inventory, including the deferred tax impact	-18 459
Amortisation of positive goodwill on consolidation of Barrandov Studio a.s.	-6 512
Amortisation of negative goodwill on consolidation of MORAVIA STEEL ITALIA, S.R.L.	39
Amortisation of negative goodwill on consolidation of TRINECKÉ ŽELEZÁRNY, a.s.	63 214
Elimination of dividends declared by MORAVIA STEEL ITALIA, S.R.L.	-2 778
Elimination of dividends declared by TRINECKÉ ŽELEZÁRNY, a.s.	-559 891
Total adjustments	-675 645

4.2.3. Adjustments within the Equity Method for 2006

(CZK thousand)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	-2 927
Total adjustments	-2 927

4.3. CONSOLIDATED PROFIT/LOSS FOR 2005

4.3.1. Structure of the Consolidated Profit/Loss for 2005

(CZK thousand)

Current year's profit made by MORAVIA STEEL a.s.	1 778 622
Current year's profit made by MS – SLOVENSKO s.r.o.	-26
Share of current year's profit made by Barrandov Studio a.s.	33 814
Share of current year's profit made by MORAVIA STEEL ITALIA S.R.L.	6 402
Share of current year's profit made by the TŽ, a.s. Sub-group	1 399 725
Share in profit/(loss) of equity accounted investments	9 183
Adjustments within full consolidation (see Note 4.2.2.)	-107 950
Adjustments within the equity method (see Note 4.2.3.)	2 932
Consolidated profit	3 122 702

4.3.2. Adjustments within Full Consolidation for 2005

(CZK thousand)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact	188 534
Elimination of provision against inventory, including the deferred tax impact	25 941
Amortisation of positive goodwill on consolidation of Barrandov Studio a.s.	-6 512
Amortisation of negative goodwill on consolidation of MORAVIA STEEL ITALIA, S.R.L.	-147
Amortisation of negative goodwill on consolidation of TRINECKÉ ŽELEZÁRNY, a.s.	76 157
Elimination of dividends declared by TRINECKÉ ŽELEZÁRNY, a.s.	-391 923
Total adjustments	-107 950

4.3.3. Adjustments within the Equity Method for 2005

(CZK thousand)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	2 932
Total adjustments	2 932

5. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

5.1. INTANGIBLE FIXED ASSETS

Cost

(CZK thousand)

	Balance at 31 Dec 2004	New acquisitions	Additions	Disposals	Balance at 31 Dec 2005	New acquisitions	Additions	Disposals	Balance at 31 Dec 2006
Start-up costs	72	624	–	–	696	–	–	624	72
Software	123 230	29 913	22 891	2 721	173 313	–	31 757	6 249	198 821
Valuable rights	340 662	467	81 330	–	422 459	–	2 914	176	425 197
Other intangible FA	4 877	–	1 775 890	1 638 548	142 219	–	3 270 089	3 294 485	117 823
Intangible FA under construction	7 514	854	223 132	26 494	205 006	–	26 887	214 565	17 328
Total	476 355	31 858	2 103 243	1 667 763	943 693	–	3 331 647	3 516 099	759 241

(CZK thousand)

	New acquisitions	Additions	Disposals	Balance at 31 Dec 2007
Start-up costs	21	–	–	93
Software	8 869	5 869	1 779	211 780
Valuable rights	42 677	16 163	8 325	475 712
Other intangible FA	5 157	102 223	215 217	9 986
Intangible FA under construction	–	57 875	27 207	47 996
Total	56 724	182 130	252 528	745 567

Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 31 Dec 2004	New acquisitions	Additions	Disposals	Balance at 31 Dec 2005	New acquisitions	Additions	Disposals	Balance at 31 Dec 2006
Start-up costs	72	624	–	–	696	–	–	624	72
Software	86 495	27 856	12 733	2 721	124 363	–	22 107	6 265	140 205
Valuable rights	337 761	165	6 996	–	344 922	–	12 454	176	357 200
Other intangible FA	4 795	–	82	–	4 877	–	–	–	4 877
Intangible FA under construction	796	–	–	–	796	–	102	–	898
Prepayments for intangible FA	–	–	–	–	–	–	–	–	–
Total	429 919	28 645	19 811	2 721	475 654	–	34 663	7 065	503 252

(CZK thousand)

	New acquisitions	Additions	Disposals	Balance at 31 Dec 2007
Start-up costs	21	–	–	93
Software	5 431	27 385	1 825	171 196
Valuable rights	2 823	19 995	8 325	371 693
Other intangible FA	5 104	13	52	9 942
Intangible FA under construction	–	–	3	895
Prepayments for intangible FA	–	–	–	–
Total	13 379	47 393	10 205	553 819

Net Book Value

(CZK thousand)

	Balance at 31 Dec 2004	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Start-up costs	–	–	–	–
Software	36 735	48 950	58 616	40 584
Valuable rights	2 901	77 537	67 997	104 019
Other intangible FA	82	137 342	112 946	44
Intangible FA under construction	6 718	204 210	16 430	38 818
Prepayments for intangible FA	–	–	–	8 283
Total	46 436	468 039	255 989	191 748

The column 'new acquisitions' in 2005 in the above tables of intangible fixed asset movements reflects the expansion of the consolidated group to include VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s. and MORAVIA STEEL ITALIA S.R.L., and new acquisitions in 2007 reflect the expansion by Sochorová válcovna TŽ, a.s., Beskydská golfová, a.s., H&S PROGRESS s.r.o., VÚHŽ a.s., VÚHŽ NEMO a.s. and ROLLSERVIS a.s.

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets charged to expenses amounted to CZK 34,663 thousand, CZK 25,221 thousand and CZK 19,810 thousand for the years ended 31 December 2007, 2006 and 2005, respectively.

Aggregate Amount of Low Value Intangible Fixed Assets Maintained Off-Balance Sheet

The aggregate amount of low value intangible fixed assets not included in the balance sheet totalled CZK 28,542 thousand, CZK 21,050 thousand and CZK 21,220 thousand as of 31 December 2007, 2006 and 2005, respectively.

5.2. TANGIBLE FIXED ASSETS

Cost

(CZK thousand)

	Balance at 31 Dec 2004	New acquisitions	Divestment	Additions	Disposals
Land	897 332	26 629	–	1 083	939
Structures	7 285 797	132 288	–	300 581	140 718
Individual movable assets	19 302 561	254 016	130 444	1 814 671	596 624
Other tangible FA	101 453	–	–	1 640	4 961
Tangible FA under construction	625 166	12 615	–	1 901 671	2 039 043
Prepayments	148 881	3 606	–	323 431	400 337
Valuation difference on acquired assets	–2 693	–	–	–	–
Total	28 358 497	429 154	130 444	4 343 077	3 182 622

(CZK thousand)

	Balance at 31 Dec 2005	Divestment	Additions	Disposals	Balance at 31 Dec 2006
Land	924 105	–	238	2 891	921 452
Structures	7 577 948	–	543 699	49 194	8 072 453
Individual movable assets	20 644 180	–	891 811	336 370	21 199 621
Other tangible FA	98 132	–	1 557	798	98 891
Tangible FA under construction	500 409	–	1 882 335	1 454 972	927 772
Prepayments	75 581	–	455 807	327 236	204 152
Valuation difference on acquired assets	–2 693	–	–	–	–2 693
Total	29 817 662	–	3 775 447	2 171 461	31 421 648

(CZK thousand)

	New acquisitions	Divestment	Additions	Disposals	Balance at 31 Dec 2007
Land	299 375	–	23	582	1 220 268
Structures	467 674	–	318 922	40 636	8 818 413
Individual movable assets	761 278	–	1 314 059	333 991	22 940 967
Other tangible FA	1 155	–	1 323	307	101 062
Tangible FA under construction	82 345	–	1 698 103	1 588 898	1 119 322
Prepayments	39 000	–	446 213	435 678	253 687
Valuation difference on acquired assets	7 928	–	–	–	5 235
Total	1 658 755	–	3 778 643	2 400 092	34 458 954

Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 31 Dec 2004	New acquisitions	Divestment	Additions	Disposals
Land	–	–	–	–	–
Structures	3 510 579	8 840	–	308 142	182 788
Individual movable assets	12 120 016	139 951	28 014	1 042 747	596 308
Other tangible FA	97 828	–	–	1 588	3 591
Tangible FA under construction	1 979	–	–	1 234	–
Prepayments	716	–	–	71	–
Valuation difference on acquired assets	–1 975	–	–	–179	–
Total	15 729 143	148 791	28 014	1 353 603	782 687

(CZK thousand)

	Balance at 31 Dec 2005	Divestment	Additions	Disposals	Balance at 31 Dec 2006
Land	–	–	–	–	–
Structures	3 644 773	–	228 799	55 795	3 817 777
Individual movable assets	12 678 392	–	1 129 878	342 699	13 465 571
Other tangible FA	95 825	–	1 451	776	96 500
Tangible FA under construction	3 213	–	613	2 017	1 809
Prepayments	787	–	–	119	668
Valuation difference on acquired assets	–2 154	–	–180	–	–2 334
Total	16 420 836	–	1 360 561	401 406	17 379 991

(CZK thousand)

	New acquisitions	Divestment	Additions	Disposals	Balance at 31 Dec 2007
Land	–	–	–	–	–
Structures	61 482	–	247 632	62 772	4 064 119
Individual movable assets	244 956	–	1 253 504	332 563	14 631 468
Other tangible FA	3	–	1 294	307	97 490
Tangible FA under construction	485	–	2 277	45	4 526
Prepayments	–	–	–	90	578
Valuation difference on acquired assets	3 589	–	6 254	2 094	5 415
Total	310 515	–	1 510 961	397 871	18 803 596

Net Book Value

(CZK thousand)

Net book value	Balance at 31 Dec 2004	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Land	897 332	924 105	921 452	1 220 268
Structures	3 775 218	3 933 175	4 254 676	4 754 294
Individual movable assets	7 182 545	7 965 788	7 734 050	8 309 499
Other tangible FA	3 625	2 307	2 391	3 572
Tangible FA under construction	623 187	497 196	925 963	1 114 796
Prepayments made for tangible FA	148 165	74 794	203 484	253 109
Valuation difference on acquired assets	–718	–539	–359	–180
Total	12 629 354	13 396 826	14 041 657	15 655 358

The column 'new acquisitions' in 2005 in the above tables of tangible fixed asset movements reflects the expansion of the consolidated group to include VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s. and MORAVIA STEEL ITALIA S.R.L., and new acquisitions in 2007 reflect the expansion by Sochorová válcovna TŽ, a.s., Beskydská golfová, a.s., H&S PROGRESS s.r.o., VÚHŽ a.s., VÚHŽ NEMO a.s. and ROLLSERVIS a.s.

Divestments in the year ended 31 December 2005 comprise the exclusion of EX IM TRANS LLC. and Trifinal Třinec, a.s. from the consolidated group.

Principal additions to tangible fixed assets for the year ended 31 December 2007 are as follows:

(CZK thousand)

Acquisition of vacuum equipment	295 647
Dust removal from burnt gases in the agglomeration	91 286
Increase in the added value of rods and bars	85 744
Renovation of locomotives and wagons	74 760
Modernisation of water management of the oxygen convertor steel plant	60 594
Construction of a new grinder	57 960
Škoda HCW 2-180 boring machine	53 976
Technological equipment for the SPM-80 blends preparation plant	46 008

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets charged to expenses amounted to CZK 1,437,038 thousand, CZK 1,301,172 thousand, CZK 1,203,468 thousand for the years ended 31 December 2007, 2006 and 2005, respectively.

Aggregate Amount of Low Value Tangible Fixed Assets Maintained Off-Balance Sheet

The aggregate cost of low value tangible fixed assets not included in the balance sheet totalled CZK 452,852 thousand, CZK 401,823 thousand and CZK 357,675 thousand as of 31 December 2007, 2006 and 2005, respectively.

Fair Value

As of the acquisition date, the Company revalued the assets of VÚHŽ NEMO a.s., ROLLSERVIS a.s., VÚHŽ a.s., H&S PROGRESS s.r.o., Sochorová válcovna TŽ, a.s. and Beskydská golfová, a.s. at fair value.

In the year ended 31 December 2007, the revaluation of the assets at fair value resulted in an increase in the balance of tangible fixed assets of CZK 128,176 thousand, an increase in the balance of intangible fixed assets of CZK 36,822 and the recognition of a deferred tax liability of CZK 19,071 thousand using the 19% tax rate.

In the year ended 31 December 2006, the revaluation of the assets at fair value increased the balance of tangible fixed assets by CZK 5,540 thousand, decreased the balance of intangible fixed assets by CZK 46 thousand, and resulted in the recognition of a deferred tax liability of CZK 1,319 thousand using the 24% tax rate.

As of the 2005 acquisition date, the Group revalued the assets of VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s. at fair value. The revaluation of assets at fair value increased the balance of fixed assets by CZK 16,369 thousand, decrease in the balance of intangible assets of CZK 109 thousand, decrease in the balance of short-term receivables of CZK 177 thousand and the recognition of a deferred tax liability of CZK 3,860 thousand using the 24% rate.

5.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS

Finance Leases

(CZK thousand)

31 December 2007	Passenger cars	Machinery and equipment	Balance at 31 Dec 2007
Total estimated sum of lease instalments	66 138	338 831	404 969
Payments made as of 31 Dec 2007	45 745	236 317	282 062
Future payments to be made by 31 Dec 2008	9 894	36 925	46 819
Due in the following years	10 499	65 589	76 088

(CZK thousand)

31 December 2006	Passenger cars	Machinery and equipment	Balance at 31 Dec 2006
Total estimated sum of lease instalments	65 575	328 264	393 839
Payments made as of 31 Dec 2006	51 947	271 004	322 951
Future payments to be made by 31 Dec 2007	8 531	27 645	36 176
Due in the following years	5 097	29 615	34 712

(CZK thousand)

31 December 2005	Passenger cars	Machinery and equipment	Balance at 31 Dec 2005
Total estimated sum of lease instalments	68 081	544 685	612 766
Payments made as of 31 Dec 2005	39 801	328 229	368 030
Future payments to be made by 31 Dec 2006	17 753	100 533	118 286
Due in the following years	10 527	115 923	126 450

Operating Leases

In the years ended 31 December 2007, 2006 and 2005, the Company paid leases in the amounts of CZK 33,060 thousand, CZK 42,885 thousand and CZK 35,509 thousand, respectively.

5.4. FIXED ASSETS PLEDGED AS SECURITY

31 December 2007

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	15 274	Loan from Komerční banka, a.s.
Tangible FA	19 231	Loan from Komerční banka, a.s.
Tangible FA	42 806	Long-term loan from UniCredit Bank Czech Republic, a.s.
Technology	221 035	Loan from Raiffeisen Bank, a.s.
Tangible FA	367 101	Loan from Komerční banka, a.s.
Land	12 341	Loan from Komerční banka, a.s.
Tangible FA	503 752	Loan from Česká spořitelna, a.s.
Land	2 811	Loan from Česká spořitelna, a.s.
Tangible FA	289 102	Loan from Československá obchodní banka, a.s.
Tangible FA	445 903	Loans from Citibank, a.s.
Tangible FA	2 120	Investment loan from Československá obchodní banka, a.s.
Tangible FA, Land	69 690	Loan from HSBC Bank plc – Prague branch
Tangible FA	2 950	Loan from HSBC Bank plc – Prague branch
Tangible FA	30 235	Loan from HSBC Bank plc – Prague branch
Land	2 370	Loan from Komerční banka, a.s.
Land	56 791	Loan from Komerční banka, a.s.
Tangible FA	7 460	Loan from Komerční banka, a.s.
Land	1 022	Loan from Raiffeisenbank a.s.
Tangible FA	197 006	Loan from Raiffeisen Bank, a.s.
Land	2 096	Loan from Česká spořitelna, a.s.
Tangible FA	24 776	Loan from Česká spořitelna, a.s.
Land	18 000	Loan from ČMZRB
Land, building	104 000	Loan from Raiffeisen Bank, a.s.
Total	2 437 872	

31 December 2006

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	319 028	Loan from Komerční banka, a.s.
Land	12 075	Loan from Komerční banka, a.s.
Tangible FA	17 051	Loan from Komerční banka, a.s.
Tangible FA	48 922	Loan from HVB ,a.s.
Technology	234 161	Loan from Raiffeisen Bank, a.s.
Tangible FA	472 216	Loan from Citibank, a.s.
Tangible FA	314 988	Loan from ČSOB, a.s.
Tangible FA	534 146	Loan from Česká spořitelna, a.s.
Land	2 811	Loan from Česká spořitelna, a.s.
Land	59 161	Loan from Komerční banka, a.s.
Tangible FA	7 590	Loan from Komerční banka, a.s.
Land	1 022	Loan from Raiffeisen Bank, a.s.
Tangible FA	182 098	Loan from Raiffeisen Bank, a.s.
Total	2 205 269	

31 December 2005

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	336 746	Loan from Komerční banka, a.s.
Land	12 044	Loan from Komerční banka, a.s.
Real estate	123 511	Loan from PPF banka, a.s.
Technology	87 264	Loan from Raiffeisen Bank, a.s.
Land	3 873	Loan from PPF banka, a.s.
Buildings	33 867	Loan from ČSOB, a.s.
Tangible fixed assets	184 645	Loan from ČSOB, a.s.
Tangible fixed assets	543 152	Loan from Česká spořitelna, a.s.
Land	2 808	Loan from Česká spořitelna, a.s.
Land	59 161	Contractual pledge, loan guarantee
Real estate	7 800	Contractual pledge, loan guarantee
Total	1 394 871	

5.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

5.5.1. Summary of Unconsolidated Investments in 2007

Year Ended 31 December 2007

(CZK thousand)

Name of the company	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
Barrandov Lands, a.s.	2 000	2 000	100	2 012	17	–	2 000
Moravia Steel Slovenija, d.o.o.	1 573	1 573	51	1 810	–1 049	–	1 573
Moravia Steel AG Zug	1 947	1 947	100	339	–184	–	1 947
Moravia Steel Ibéria,s.a.	10 850	10 850	99,33	9 901	760	–	10 850
Moravia Goel Trade, d.o.o.	59	59	60	***)	***)	–59	–
Moravia Steel Israel Ltd.	346	209	100	38	–20	–	209
Barrandov FM,a.s.	8 850	8 850	98	****)	****)	–8 850	–
Kinorevue s.r.o.	165	165	66	*)	*)	–165	–
Fabia spol. s r.o. – in liquidation	1 000	1 000	100	***)	***)	–1 000	–
TV Barrandov s.r.o.	200	200	100	–18 967	–17 011	–	200
Barrandov Productions s.r.o. **)	100	100	100	4 731	1 952	–	100
Filmová nadace RWE & Barrandov Studio ***)	500	500	100	1 888	–872	–	500
Total	27 590	27 453	–	–	–16 407	–10 074	17 379

*) The petition of bankruptcy rejected

**) Non-audited results

***) In liquidation

****) Bankruptcy completed

Summary of Unconsolidated Investments of TŽ, a.s. Sub-group:

(CZK thousand)

Equity securities and investments in subsidiaries (shareholding greater than 50 %)								
Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/loss	Provision	Net cost
Třinecké gastroslužby, s.r.o.	25 643	25 800	–	100	29 806	174	–	25 643
Doprava TŽ, a.s.	15 755	16 000	115	100	58 380	22 178	–	15 755
TRIALFA, s.r.o.	100	100	–	100	17 785	2 651	–	100
Steel Consortium Partners, a.s.	19 000	19 000	117	100	1 870	–94	–17 129	1 871
Reťaze Slovakia s.r.o.	4 936	4 936	–	80	14 975	1 585	–	4 936
VÍTKOVICE – VaV, spol. s.r.o.	*)	45 738	–	99	32 223	2 090	–	*)
TRISIA, a.s.	19 364	9 900	990	66	67 171	–1 669	–	19 364
Regionální inovační centrum F-M, s.r.o.	180	180	–	75	2 320	18	–	180
Total	103 013	–	–	–	–	–	–17 129	85 884

Note.: *) confidential information

(CZK thousand)

Equity securities and investments in associates (shareholding between 20 – 50 %)								
Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/loss	Provision	Net cost
SILESIA SLAG, a.s.	1 760	1 760	74	44	3 851	–27	–66	1 694
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34	11 761	2 398	–	750
Hutnictví železa, a.s.	25 963	16 397	27 328	39	48 436	182	–15 134	10 829
Kvalif. a personální agentura, o.p.s.	34	34	–	33	852	350	–34	–
MS-UNIKOV OSTRAVA, s.r.o.	52 000	52 000	–	25	*)	*)	–52 000	–
Total	80 507	–	–	–	–	–	–67 234	13 273

Note.: *) confidential information

(CZK thousand)

Equity securities and investments in companies with a minority interest (shareholding lower than 20 %)									
Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/ loss	Provision	Net cost	Financial revenue
HRAT, s.r.o.	50	50	–	12	1 583	570	–50	–	–
KPM CONSULT, a.s.	100	100	10	10	11 648	1 738	–	100	–
SAVAREN Česká Ves, s.r.o.	121	121	–	10	7 586	2 822	–	121	–
Informatel zájmové sdružení	20	20	–	5	–	–	–	20	–
ACRI, Praha	20	20	–	2	1 108	–223	–20	–	–
Total	311	–	–	–	–	–	–70	241	–

(CZK thousand)

Investment	Acquisition cost	Description of investment/collateral	Provision
Acquired non-current financial assets	5 632		3 473
Term deposit	19 965	Bank guarantee collateral	–

(CZK thousand)

	Value of the investment
Total non-current financial assets for the Sub-group	121 522
Total non-current financial assets for the Group	139 038

The Group did not generate material financial revenues from the unconsolidated investments in the year ended 31 December 2007.

With the exception of the presented figures, market values of the securities are not available.

5.5.2. Summary of Unconsolidated Investments in 2006

31 December 2006

Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/ loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	1 573	8 513	51	3 070	–	–	1 573
Moravia Steel AG Zug	1 947	1 947	100	100	548	–205	–	1 947
Moravia Steel Ibéria, a.s.	10 850	10 850	14 900	99.33	11 879	1 003	–	10 850
Moravia Goel Trade, d.o.o.	59	59	–	100	****)	****)	59	–
Moravia Steel Israel Ltd.	346	209	38	100	*)	*)	–	346
Barrandov Lands, a.s.	2 000	2 000	–	100	1 995	7	–	2 000
Barrandov FM, a.s.	8 850	8 850	180	98	*)	*)	8 850	–
Kinorevue s.r.o.	165	165	–	66	*****)	*****)	165	–
Fabia spol. s r.o. – in liquidation	1 000	1 000	–	100	****)	****)	1 000	–
Barrandov Production s.r.o.	100	100	–	100	2 779	807	–	100
Film foundation RWE & Barrandov Studio **)	500	500	–	100	500	–94	–	500
TV Barrandov s.r.o. ***)	200	200	–	100	–1 937	–2 137	–	200
Total	27 590	–	–	–	–	–	10 074	17 516

*) No data available

**) Balance as of 31 December 2006, reporting period ended 28 February 2007

***) First year of business activity, profit anticipated in future and thus no provision charged

****) In liquidation

*****) The petition of bankruptcy rejected for the lack of assets

Summary of Unconsolidated Investments of the TŽ, a.s. Sub-group:

(CZK thousand)

Equity securities and investments in subsidiaries (shareholding greater than 50 %)								
Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/ loss	Provision	Net cost
Třinecké gastroslužby, s.r.o.	25 642	25 800	–	100	29 831	184	–	25 642
Doprava TŽ, a.s.	15 755	16 000	115	100	39 718	16 192	–	15 755
TRIALFA, s.r.o.	100	100	–	100	17 407	7 359	–	100
Steel Consortium Partners, a.s.	19 000	19 000	117	100	1 965	–194	17 035	1 965
Refaze Slovakia s.r.o.	4 936	4 936	–	80	13 505	1 854	–	4 936
TRISIA, a.s.	19 364	9 900	990	66	68 770	–1 654	–	19 364
Beskydská golfová, a.s.	93 048	63 028	107	90	55 118	–2 751	11 709	81 339
Total	177 845	–	–	–	–	–	28 744	149 101

(CZK thousand)

Equity securities and investments in associates (shareholding between 20 – 50 %)								
Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/ loss	Provision	Net cost
SILESIALAG, a.s. *)	1 760	1 760	74	44	3 878	–67	54	1 706
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34.09	11 290	2 655	–	750
Hutnictví železa, a.s.	23 573	14 144	23 573	33.82	47 886	482	13 675	9 898
Kvalif. a personální agentura, o.p.s.	34	34	–	33.33	501	139	34	–
MS-UNIKOV OSTRAVA, s.r.o.	52 000	52 000	–	24.97	**) **)	**) **)	52 000	–
Total	78 117	–	–	–	–	–	65 763	12 354

*) Třinecká hutní, a.s. was renamed to SILESIALAG, a.s.

**) In bankruptcy proceedings

(CZK thousand)

Equity securities and investments in companies with a minority interest (shareholding lower than 20 %)									
Name of the company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit/ loss	Valuation difference	Fair value	Financial revenue for the year
HRAT, s.r.o.	50	50	–	11.63	1 155	463	50	–	–
KPM CONSULT, a.s.	100	100	10	10	8 791	611	–	100	–
SAVAREN Česká Ves, s.r.o.	121	121	–	10	4 764	1 823	–	121	–
Total	271	–	–	–	–	–	50	221	–

(CZK thousand)

Investment	Acquisition cost	Description of investment/collateral	Provision
Term deposit	20 622	Bank guarantee collateral	–

(CZK thousand)

	Value of the investment
Total non-current financial assets for the Sub-group	153 449
Total non-current financial assets for the Group	170 965

The Group did not generate material financial revenues from the unconsolidated investments in the year ended 31 December 2006.

With the exception of the presented figures, market values of the securities are not available.

5.5.3. Summary of Unconsolidated Investments in 2005

31 December 2005

(CZK thousand)

Equity securities and investments in subsidiaries (shareholding greater than 50 %)								
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	1 573	–	51	3 082	100	–	1 573
Moravia Steel AG Zug	1 947	1 947	100	100	548	–1 597	–	1 947
Moravia Steel Ibéria, a.s.	10 850	10 850	9 900	99.33	9 149	827	–	10 850
Moravia Goel Trade, d.o.o.	59	59	–	100	***)	–	59	–
Moravia Steel Israel Ltd.	346	209	38	100	*)	*)	–	346
Barrandov Lands, a.s. **)	2 000	2 000	–	100	1 988	–12	–	2 000
Barrandov FM, a.s.	8 850	8 850	180	98	*)	*)	8 850	–
Kinorevue s.r.o.	165	165	–	66	*)	*)	165	–
Fabia spol.s r.o. – in liquidation	1 000	1 000	–	100	*)	*)	1 000	–
Barrandov Production s.r.o.	100	100	–	100	2 883	1 998	–	100
Total	26 890	–	–	–	–	–	10 074	16 816

*) No data available

**) The company was founded on 24 March 2005.

***) In liquidation

(CZK thousand)

Equity securities and investments in associates (shareholding between 20 – 50 %)								
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Profit/loss	Provision	Net cost
Třinec-CMC Limited	1 449	1 449	25	50	50	1 512	–	1 449
Total	1 449	–	–	–	–	–	–	1 449

summary of unconsolidated equity investments held by the TŽ, a.s. Sub-group:

(CZK thousand)

Equity securities and investments in subsidiaries (shareholding greater than 50 %)								
Company	Cost	Nominal value	Number of securities	Share In %	Equity	Net profit/loss	Provision	Net cost
Třinecké gastroslužby, s.r.o.	25 642	25 800	–	100.00	29 841	730	–	25 642
Doprava TŽ, a.s.	15 755	16 000	115	100.00	23 526	2 339	–	15 755
TRIALFA, s.r.o.	100	100	–	100.00	10 378	2 738	–	100
Steel Consortium Partners, a.s.	2 000	2 000	100	100.00	–14 841	–16 841	–	2 000
Beskydská golfová, a.s.	93 048	63 028	107	90.04	57 869	–2 605	40 558	52 490
Refazie Slovakia s.r.o.	4 936	–	–	80.00	11 170	2 424	–	4 936
TRISIA, a.s.	19 364	9 900	990	66.00	70 310	–1 693	–	19 364
Kabelová televize Třinec, spol. s r.o.	6 663	6 664	–	60.65	12 222	–215	–	6 663
Total	167 508	–	–	–	–	–	40 558	126 950

(CZK thousand)

Equity securities and investments in associates (shareholding between 20 – 50 %)								
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit/loss	Provision	Net cost
SILESIALAG, a.s. **)	1 760	1 760	74	44.00	3 945	–34	–	1 760
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34.09	9 749	2 685	–	750
Hutnictví železa, a.s.	23 573	14 144	23 573	33.82	47 796	–1 008	13 855	9 718
Kvalif. a personální agentura, o.p.s.	34	34	–	33.33	362	71	34	–
MS-UNIKOV OSTRAVA, s.r.o.	52 000	52 000	–	24.97	*)	*)	52 000	–
Total	78 117	–	–	–	–	–	65 889	12 228

*) Bankrupt

**) Třinecká hutní, a.s. was renamed to SILESIALAG, a.s.

(CZK thousand)

Equity securities and investments in companies with a minority interest (shareholding lower than 20 %)									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit/loss	Valuation difference	Fair value	Financial revenue for the year
HRAT, s.r.o.	50	50	–	11.63	687	257	–50	–	–
KPM CONSULT, a.s.	100	100	10	10.00	8 180	–590	–	100	–
SAVAREN Česká Ves, s.r.o.	121	–	–	10.00	–	–	–	121	–
Total	271	–	–	–	–	–	–50	221	–

(CZK thousand)

Investment	Acquisition cost	Description of investment/collateral	Financial income for 2005
Term deposit	21 754	Bank guarantee collateral	373

	Value of the investment
Total non-current financial assets for the Sub-group	161 153
Total non-current financial assets for the Group	179 418

The Group did not generate material financial revenues from the unconsolidated investments in the year ended 31 December 2005.

With the exception of the presented figures, market values of the securities are not available.

5.5.4. Securities and Equity Investments under Equity Accounting

(CZK thousand)

Securities and equity investments under equity accounting	2007	2006	2005
VESUVIUS ČESKÁ REPUBLIKA, a.s.	88 213	97 471	138 958
MORAVIA ENERGO, a.s.	–	–	79 471
Sochorová válcovna TŽ, a.s.	*)	215 939	158 652
CMC TRINEC LIMITED	23 175	19 079	–
CMC – TRINEC Stahlhandel GmbH	47 503	36 371	25 557
Total	158 891	368 860	402 638

*) Since 1 September 2007, the company has been consolidated using the full consolidation method (refer to Note 2.1.2.)

5.6. INVENTORY

(CZK thousand)

Inventory structure	Balance at 31 Dec 2007	Provisions at 31 Dec 2007	Net balance at 31 Dec 2007	Balance at 31 Dec 2006	Provisions 31 Dec 2006	Net balance at 31 Dec 2006	Balance at 31 Dec 2005	Provisions at 31 Dec 2005	Net balance at 31 Dec 2005
Material	3 484 268	–174 041	3 310 227	3 021 379	–176 890	2 844 489	2 618 331	–147 310	2 471 021
Internally produced inventory:	4 569 642	–166 711	4 402 931	3 707 924	–313 122	3 394 802	3 689 601	–139 143	3 550 458
– Work in progress and semi-finished products	2 513 791	–97 424	2 416 367	2 130 977	–205 801	1 925 176	2 036 116	–108 810	1 927 306
– Finished products	2 055 851	–69 287	1 986 564	1 576 947	–107 321	1 469 626	1 653 485	–30 333	1 623 152
Goods	17 357	–2 832	14 525	11 574	–	11 574	13 035	–	13 035
Prepayments	525	–	525	531	–	531	727	–	727
Total	8 071 792	–343 584	7 728 208	6 741 408	–490 012	6 251 396	6 321 694	–286 453	6 035 241

5.7. RECEIVABLES

5.7.1. Long-Term Receivables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
– Trade receivables	4 838	9 475	2 733
– Prepayments made	5 403	1 932	1 847
– Other receivables	5 642	7 819	118 398
– Provisions against other receivables	–	–	–25 276
– Deferred tax asset	–	7 732	4 856
Total	15 883	26 958	102 558

Other receivables include provided long-term supplier loans and loans to employees.

Other long-term receivables and provisions against these receivables as of 31 December 2006 decreased predominantly due to the settlement of the long-term receivable from DOLVAP, s.r.o. in the amount of CZK 83,392 thousand and the release of the provision against the company in the amount of CZK 25,276 thousand.

Aggregate Maturities of Long-Term Trade Receivables as of 31 December 2007

(CZK thousand)

Year	Trade receivables and long-term prepayments	Other receivables	Total
2009	8 387	3 886	12 273
2010	1 340	657	1 997
2011	112	351	463
2012	0	441	441
2013	0	139	139
After 2013	402	168	570
Total	10 241	5 642	15 883

Long-term receivables are settled within their due terms.

5.7.2. Structure of Short-Term Receivables

Aging of Short-Term Trade Receivables

(CZK thousand)

Balance at 31 Dec	Category	Before due date	Past due date						Total
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and greater	Total	
2007	Short-term	5 687 325	831 789	12 168	8 139	13 011	650 478	1 523 845	7 211 170
	Provisions	–11 925	–592	–2 456	–5 224	–12 998	–649 872	–679 402	–691 327
	Total	5 675 400	831 197	9 712	2 915	13	606	844 443	6 519 843
2006	Short-term	5 388 947	791 749	20 346	14 238	30 300	678 580	1 535 213	6 924 160
	Provisions	–13 410	–2 727	–3 008	–4 803	–28 302	–677 811	–716 651	–730 061
	Total	5 375 537	789 022	17 338	9 435	1 998	769	818 652	6 194 099
2005	Short-term	4 884 688	731 126	28 757	12 654	21 542	1 071 684	1 865 763	6 750 451
	Provisions	–16 797	–243	–1 755	–8 900	–19 634	–1 063 241	–1 093 773	–1 110 570
	Total	4 867 891	730 883	27 002	3 754	1 908	8 443	771 990	5 639 881

Receivables typically mature within 30 days, intra-group receivables typically mature within 30 days.

Breakdown of Short-Term Trade Receivables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
– Customers	7 202 307	6 903 106	6 594 238
– Bills of exchange for collection	8 260	10 162	115 148
– Other receivables	603	10 892	41 065
– Provisions	–691 327	–730 061	–1 110 570
Total	6 519 843	6 194 099	5 639 881

Other Short-Term Receivables

Other prepayments made principally involve prepayments for supplied services. Other receivables mainly relate to short-term loans, provided supplier loans and receivables associated with the sale of a business part. Estimated receivables principally include unbilled supplies of rails.

5.7.3. Intercompany Receivables

Short-Term Receivables

(CZK thousand)

Entity	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
• Trade receivables			
CMC-Třinec Stahlhandel GmbH	8 967	8 119	9 582
TRINEC-CMC LTD	13	12	–
Doprava TŽ, a.s.	17 677	9 332	5 541
Kabelová televize Třinec, spol. s r.o.	–	–	5
MORAVIA ENERGO, a.s.	–	–	2 271
Řetaze Slovakia, s.r.o..	1 631	883	7 376
TRIALFA, s.r.o.	6 349	7 886	11 011
TŘINECKÁ PROJEKCE, a.s.	144	163	1 977
Třinecké gastroslužby, s.r.o.	2 668	907	979
Sochorová válcovna TŽ, a.s. **)	**)	306 414	194 434
ENVIFORM, s.r.o.*)	–	–	29
Kvalifikační a personální agentura, o.p.s.	4	5	6
TRISIA, a.s.	4	30	1
VESUVIUS ČR, a.s. Třinec	4 056	6 134	4 080
Beskydská golfová, a.s. ***)	***)	957	840
SILESIA SLAG, a.s.	4	12	11
Steel Consortium Partners, a.s.	1	–	16 795
Barrandov Productions, s.r.o.	811	757	164
Barrandov FM, a.s.	–	8 375	8 375
Filmová nadace RWE & Barrandov Studio	14	9	–
TV Barrandov s.r.o.	25 866	2 912	–
Total	68 209	352 907	263 477
• Receivables – controlling entity			
Beskydská golfová, a.s. ***)	***)	–	15 314
• Receivables – associates			
Barrandov FM, a.s.	–	–	8 244
• Other intercompany receivables			
VESUVIUS ČR, a.s. Třinec	8 113	8 000	–
Sochorová válcovna TŽ, a.s. **)	**)	10 391	7 890
Total	8 113	25 891	31 448
Total short-term intercompany receivables	76 322	378 798	294 925
Other than intercompany receivables	7 166 314	6 341 601	6 073 733
Total short-term receivables	7 242 636	6 720 399	6 368 658

*) Třinecký Vkus, s.r.o. has been renamed to ENVIFORM, s.r.o.

**) Since 1 September 2007, the company has been consolidated using the full consolidation method (refer to Note 2.1.2.)

***) Since 1 January 2007, the company has been consolidated using the full consolidation method (refer to Note 2.1.2.)

Long-Term Receivables

(CZK thousand)

Entity	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Long-term receivables			
• Trade receivables			
Sochorová válcovna TŽ, a.s. **)	**)	7 172	–
• Other			
Sochorová válcovna TŽ, a.s. **)	**)	–	3 396
Total	–	–	3 396
Total long-term intercompany receivables	–	7 172	3 396
Other than intercompany receivables	15 883	19 786	99 162
Total long-term receivables	15 883	26 958	102 558

**) Since 1 September 2007, the company has been consolidated using the full consolidation method (refer to Note 2.1.2.)

5.7.4. Pledged Receivables

The Group has pledged and conditionally assigned some of its receivables under loan agreements. Under these agreements, receivables are pledged in 14 - day or 30-day cycles as they fall due. As of 31 December 2007, the amount of pledged receivables was CZK 866,267 thousand.

5.8. DERIVATIVE FINANCIAL INSTRUMENTS

The Group hedged the exchange rate risk using derivative financial instruments during the year ended 31 December 2007. The net value of open derivative financial instruments as of 31 December 2007 was CZK (17,598) thousand (2006: CZK 12,251 thousand, 2005: CZK 8,206 thousand). The market values of individual open derivative financial instruments were reported in lines 'Other short-term receivables' (C.III.9) and 'Other short-term payables' (B.III.11) at the year-end:

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Receivables from fixed term transactions – other receivables	186 834	27 027	8 274
Payables from fixed term transactions – other payables	– 197 189	–12 035	–68
Total derivative financial instruments	–10 355	14 992	8 206

On the basis of an analysis of the hedging effectiveness of derivative financial instruments, the Company charged the effective portion of the hedging derivative financial instrument revaluation (with highly effective hedging) as of 31 December 2007 against 'Gains and losses from the revaluation of assets and liabilities' in the amount of CZK (2,969) thousand (2006: CZK 14,992 thousand, 2005: CZK 8,206 thousand).

5.9. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Cash	6 169	4 862	4 700
Current accounts	1 363 689	1 556 491	567 600
Current accounts with transaction limits	40 879	7 874	10 537
Current deposit – special-purpose funds of the received state aid	35 444	246 216	449 182
Term deposits	265 481	449 189	134 620
Current securities	2 535 712	2 072 738	1 428 754
Total current financial assets	4 211 930	4 337 370	2 595 393

As of 31 December 2007, the Group reports depository bills of exchange in the amount of CZK 2,517,116 thousand (2006: CZK 620,562 thousand, 2005: CZK 816,153 thousand) and tradable securities in the amount of CZK 18,596 thousand (2006: CZK 82,055 thousand, 2005: CZK 8,145 thousand).

5.10. TEMPORARY ASSETS

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Deferred expenses	119 233	55 162	66 065
Deferred expenses – lease contracts	14 914	24 593	27 115
Other deferred expenses – studies, projects, interest, subscription payments	104 096	30 569	38 950
Complex deferred expenses	30 550	50 153	40 533
Accrued income	41 626	28 001	5 586
Total deferred expenses and accrued income	191 409	133 316	112 184

5.11. EQUITY

5.11.1. Shareholders' Equity

Movements in equity are reported in a standalone consolidated statement of changes in equity.

Allocations to the statutory reserve fund are made at 5 % of net profit until the fund reaches 20 % of the Company's share capital as required by legislation.

Gains and losses from revaluation comprise gains/losses from the revaluation of available-for-sale securities less the deferred tax liability, the loss on a foreign exchange rate translation of a cross-border investment included in the consolidated group and a revaluation of derivatives at fair value.

On 25 June 2007, the General Meeting of the Parent Company decided to declare dividends for 2006 of CZK 2,053,398 thousand. In addition, the Parent Company paid dividends from retained earnings in the amount of CZK 946,802 thousand pursuant to the resolution of the General Meeting.

5.11.2. Share Capital

In the year ended 31 December 2007, shareholders decided to increase the share capital through a non-cash investment of an 82 percent equity share in Sochorová Válcovna TŽ, a.s. The value of the equity investment determined by a court appointed appraiser was CZK 1,407,085 thousand. The share capital was increased through the issue of 14 pieces of new ordinary shares with a nominal value of CZK 500 thousand and two ordinary shares with a nominal value of CZK 700,000 thousand. As of 31 December 2007, the share capital was fully paid.

The Company's share capital is composed of 1,514 registered shares with a nominal value of CZK 500 thousand each, 100 registered shares with a nominal value of CZK 10,000 thousand each and 2 registered shares with a nominal value of CZK 700,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board. The changes involving the share capital increase were recorded in the Register of Companies on 25 September 2007.

5.12. RESERVES

(CZK thousand)

	Reserves under statutory regulations		Other reserves	Total reserves
	Reserve for repairs of tangible FA	Reserve for restoration		
Balance at 31 Dec 2004	836 540	3 158	420 170	1 259 868
Creation	146 485	347	92 611	239 443
Use	355 708	107	324 195	680 010
Balance at 31 Dec 2005	627 317	3 398	188 586	819 301
Creation	76 476	305	148 946	225 727
Use	384 321	1 350	63 660	449 331
Balance at 31 Dec 2006	319 472	2 353	273 872	595 697
New acquisition	644	–	–	644
Creation	31 971	257	319 710	351 938
Use	155 737	331	48 070	204 138
Balance at 31 Dec 2007	196 350	2 279	545 512	744 141

The reserves for repairs of tangible fixed assets (tax deductible) were made for repairs of main production facilities in compliance with the Provisioning Act. The creation of reserves is based upon a long-term repair plan, timing and budget of repairs.

Other reserves consist of reserves for the scrapping of equipment, additionally assessed taxes, real estate transfer tax, employee bonuses, commitments in litigation and losses incurred in connection with a concluded long-term contract, reserve for business risks predominantly arising from transactions with current assets.

5.13. PAYABLES

5.13.1. Long-Term Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Long-term payables			
– Trade payables	32 095	6 096	11 583
– Long-term bills of exchange to be settled	–	27 495	58 010
– Other payables	18 072	706	3 390
– Deferred tax liability	782 214	837 960	811 360
– Tax liabilities and grants	–	–	150 140
Total	832 381	872 257	1 034 483

Other long-term payables include long-term supplies loans.

Long-term bills of exchange to be settled reported as of 31 December 2006 and 2005 reflected the nominal value of bills of exchange issued in order to cover the due amount arising from the renovation and modernisation of the light section mill. Interest expense on these bills of exchange is recorded as a deferred expense. As of 31 December 2007, these bills of exchange are recorded as short-term trade payables.

5.13.2. Short-Term Trade Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Short-term trade payables			
– Suppliers	4 722 465	5 116 693	4 355 163
– Bills of exchange to be settled	26 620	27 495	29 005
– Other payables	722	1 918	42 179
Total	4 749 807	5 146 106	4 426 347

Aging of short-term trade payables:

(CZK thousand)

Year	Category	Before due date	Past due date					Total
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and greater	
2007	Short-term	4 672 011	71 185	3 349	696	963	1 603	4 749 807
2006	Short-term	5 091 358	48 828	3 314	173	1 030	1 403	5 146 106
2005	Short-term	4 302 932	99 901	10 829	9 406	2 022	1 257	4 426 347

5.13.3. Other Payables

As of 31 December 2007, 2006 and 2005, the aggregate amount of payables to social security and contribution to state employment policy amounted CZK 168,501 thousand, CZK 158,365 and CZK 144,254 thousand, respectively. These payables were settled as of the balance sheet date.

State - tax payables and subsidies predominantly include the short-term portion of payables arising from public subsidies and an income tax payable.

Estimated payables predominantly include unbilled supplies for work and services and an estimated payable for outstanding vacation days and annual bonuses including insurance payments.

Other payables of the Company predominantly include negative amounts from transactions with financial derivatives (refer to Note 5.8.), the short-term portion of supplier loans, deductions from employees and payables arising from the acquisition of equity investments.

5.13.4. Intercompany Payables

Short-Term Payables

(CZK thousand)			
Company's name	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
• Trade balances			
Doprava TŽ, a.s.	7 505	7 569	9 195
Hutnictví železa, a.s.	678	540	869
Kabelová televize Třinec, spol. s r.o. **)	–	–	494
MORAVIA ENERGO s.r.o. **)	–	–	12 865
TRIALFA, s.r.o.	17 111	16 585	13 554
TRISIA, a.s.	3 906	236	103
TŘINECKÁ PROJEKCE, a.s.	14 053	9 326	6 070
Třinecké gastroslužby, s.r.o.	11 635	6 238	6 166
ENVIFORM, s.r.o.	–	–	644
VESUVIUS ČR, a.s. Třinec	17 170	48 533	32 774
Beskydská golfová, a.s. ***)	***)	16	4
CMC-Třinec Stahlhandel GmbH	3 797	23	–
Sochorová válcovna TŽ, a.s. *)	*)	409 771	352 241
VESUVIUS SLAVIA a.s.	–	4 421	3 445
STEELTEC CZ, s.r.o.	–	295	314
FINITRADING, a.s.	427 307	440 840	313 335
MORAVIA STEEL SLOVENIJA d.o.o.	281	202	–
Kvalifikační a personální agentura, v.o.s.	37	–	–
Barrandov Productions, s.r.o.	1983	–	–
TV Barrandov s.r.o.	5	2	–
Total short-term intercompany payables	505 468	944 597	752 073
Other than intercompany payables	6 152 409	5 638 114	5 224 891
Total short-term payables	6 657 877	6 582 711	5 976 964

*) On 21 August 2007, Sochorová válcovna TŽ, a.s. became a subsidiary through an investment in the share capital of MORAVIA STEEL a.s.

This fact was recorded to the Register of Companies on 3 September 2007.

**) During 2006, the Group sold equity investments in Kabelová Televize Třinec, spol. s r.o. and MORAVIA ENERGO, a.s.

***) Since 1 January 2007, the company has been consolidated using the full consolidation method (refer to Note 2.1.2.)

5.14. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET

5.14.1. Deferred Tax Liability

(CZK thousand)

Deferred tax arising from	Tax rate in %	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Difference between the tax and accounting carrying values of fixed assets	24	–	5 298 481	4 646 560
Difference between the tax and accounting carrying values of fixed assets	19	5 982 367	–	–
Difference between the tax and accounting carrying values of fixed assets	21	146 817	–	–
Revaluation of securities under equity accounting	24	–	–	–50
Revaluation of available for sale securities	25	–	–20	–
Revaluation of assets to fair value charged against equity	24	–	5 496	16 084
Revaluation of assets to fair value charged against equity	19	100 372	–	–
Accounting reserves	19	–235 200	–	–
Accounting reserves	21	–272 940	–	–
Accounting reserves	24	–	–242 769	–136 605
Provisions	21	–277 213	–	–
Provisions	19	–150 550	–	–
Provisions	24	–	–605 493	–398 330
Outstanding default interest	28	–	–	525
Expenses to be utilised in subsequent periods	24	–	–64 893	–5 134
Expenses to be utilised in subsequent periods	21	–84 433	–	–
Utilisable tax loss	24	–	–102 567	–147 255
Unrealised profit on the sale of tangible FA within the Group	21	–25 978	–	–
Unrealised profit on the sale of tangible FA within the Group	19	–364 816	–	–
Unrealised profit on the sale of tangible FA within the Group	24	–	–416 773	–439 576
Unrealised profit on the sale of inventory within the Group	21	–109 060	–	–
Unrealised profit on the sale of inventory within the Group	24	– 417 124	–389 808	–155 552
Total temporary differences		4 292 242	3 481 654	3 380 667
Deferred tax liability		782 214	837 960	811 360

(CZK thousand)

Analysis of movements	
1 January 2006	811 360
Current changes charged to the profit and loss account	29 147
Current changes charged against equity	–2 547
31 December 2006	837 960
Changes in the consolidation group – new acquisitions	34 390
Current changes charged to the profit and loss account	–101 144
Current changes charged against equity	11 008
31 December 2007	782 214

5.14.2. Deferred Tax Assets

(CZK thousand)

	Tax rate (%)	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Difference between the tax and accounting carrying values of tangible fixed assets	24	–	8 421	–3 717
Accounting reserves	24	–	12 500	11 813
Provisions	24	–	5 350	6 333
Utilisable tax loss	24	–	5 946	5 803
Total		–	32 217	20 232
Deferred tax asset		–	7 732	4 856

(CZK thousand)

Analysis of movements	
1 January 2006	4 856
Current changes charged to the profit and loss account	2 876
31 December 2007	7 732
Current changes charged to the profit and loss account	–7 732
31 December 2007	–

5.15. BANK LOANS AND BORROWINGS

The aggregate balance of outstanding bank loans is CZK 3,212,820 thousand. In 2007, the interest rate on bank loans varied between 3.12 % and 6.26 % p.a., in 2006 between 3.76 % and 6.05 % p.a., in 2005 between 2.639 % and 5.3 % p.a.

5.15.1. Long-Term Bank Loans and Grants for 2007

Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005	Form of collateral at 31 Dec 2007
Investment	EUR	31 370	17 203	–	SACE guarantee insurer
Investment	CZK	75 000	105 000	–	Movable assets, guarantee statement
Investment	EUR	3 113	10 783	19 357	ÖKB guarantee insurer
Investment	EUR	490 143	659 379	855 242	Hermes guarantee insurer
Investment	EUR	17 633	36 424	57 637	Hermes guarantee insurer
Investment	EUR	–	7 124	22 546	CESCE guarantee insurer
Investment	EUR	–	–	18 764	EKN guarantee insurer
Investment	EUR	–	–	6 610	EKN guarantee insurer
Investment	EUR	–	6 306	19 956	SACE guarantee insurer
Investment	EUR	–	–	7 325	KUKE guarantee insurer
Investment	CZK	–	18 750	93 750	Real estate
Investment	EUR	32 960	64 008	99 135	SACE guarantee insurer
Investment	CZK	50 000	90 000	130 000	Real estate
Investment	EUR	11 508	23 773	37 618	No collateral
Investment	CZK	–	–	36 060	Pledged movables, immovables and receivables, blank bill of exchange
Investment	CZK	–	–	11 524	Guarantee statements of TŽ, blank bill of exchange
Operating	EUR	–	8 249	20 304	Guarantee statements of TŽ
Investment	CZK	78 867	157 734	220 828	Immovable and movable assets, blank bill of exchange
Investment	CZK	54 000	90 000	126 000	Movable assets, guarantee statement of MS
Investment	CZK	88 200	122 600	157 000	Immovable and movable assets, blank bill of exchange
Investment	CZK	–	–	4 000	Blank bill of exchange, pledged immovables
Operating	EUR	–	103 106	543 844	Conditional cession and pledging of receivables, blank bill of exchange
Investment	CZK	188 889	233 333	–	Immovable and movable assets, blank bill of exchange
Investment	EUR	15 972	24 745	–	Movable assets, blank bill of exchange
Investment	CZK	9 801	–	–	Letter of Comfort-Strojirny Trinec, a.s.
Investment	CZK	11 979	–	–	–
Investment	CZK	7 198	–	–	Unprotected blank bill of exchange
Investment	EUR	11 180	–	–	Blank bill of exchange, pledged immovables
Investment	CZK	8 552	–	–	Blank bill of exchange, pledged immovables
Investment	CZK	1 670	–	–	Blank bill of exchange, pledged immovables
Investment	CZK	39 957	–	–	Pledge of immovables
Investment	CZK	126 421	12 198	–	Immovable assets, blank bill of exchange
Investment	CZK	108 000	132 000	–	Pledge of immovables
Investment	CZK	29 123	–	–	Pledge of immovables
Total		1 491 536	1 922 715	2 487 500	

Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005	Form of collateral at 31 Dec 2007
Investment	CZK	30 000	30 000	–	Movables, guarantee statements of MS, a.s
Investment	CZK	44 445	44 445	–	Movables and immovables, blank bill of exchange
Investment	EUR	–	2 750	–	Movables, blank bill of exchange
Operating	CZK	–	29 995	–	–
Investment	EUR	7 326	7 567	7 982	ÖKB guarantee insurer
Investment	EUR	153 565	197 301	226 352	Hermes guarantee insurer
Investment	EUR	17 633	18 212	19 212	Hermes guarantee insurer
Investment	EUR	6 897	14 248	15 030	CESCE guarantee insurer
Investment	EUR	–	17 787	18 764	EKN guarantee insurer
Investment	EUR	–	6 266	6 611	EKN guarantee insurer
Investment	EUR	6 105	12 611	13 304	SACE guarantee insurer
Investment	EUR	–	6 944	14 650	KUKE guarantee insurer
Investment	EUR	–	–	8 469	KUKE guarantee insurer
Investment	CZK	–	75 000	75 000	Immovable
Investment	EUR	29 012	29 965	31 611	SACE guarantee insurer
Operating	CZK	–	4 847	84 096	Guarantee statements of TŽ, a.s, blank bill of exchange
Investment	CZK	–	–	25 000	Pledged movables, immovables and receivables, blank bill of exchange
Operating	CZK	–	1 000	1 000	–
Operating	CZK	–	1 902	1 389	–
Operating	EUR	–	10 998	11 602	Guarantee statements of TŽ, a.s
Investment	EUR	11 508	11 887	12 540	No collateral
Investment	CZK	40 000	40 000	40 000	Immovable, blank bill of exchange
Operating	CZK	–	–	155	–
Investment	CZK	63 094	63 094	63 094	Movables and immovables, blank bill of exchange
Investment	CZK	36 000	36 000	36 000	Movables, guarantee statements of .MS
Investment	CZK	34 400	34 400	34 400	Pledged movables and immovables and collateralising blank bill of exchange
Operating	CZK	–	155 000	155 000	Receivables, current account
Operating	CZK	64	35	29	No collateral
Investment	EUR	8 963	9 821	–	SACE guarantee insurer
Short-term	CZK	–	–	250 000	Pledged receivables, blank bill of exchange
Short-term	EUR	–	109 980	116 020	Pledged receivables, blank bill of exchange
Revolving	USD	–	89 767	105 728	Pledged receivables, blank bill of exchange
Operating	CZK	750 000	300 000	500 000	Pledged receivables, blank bill of exchange
Operating	CZK	50 000	250 000	150 000	Conditional cession of receivables
Investment	CZK	24 000	18 000	–	Pledged immovables
Operating	CZK	7 500	–	–	–
Operating	CZK	7 986	–	–	Guarantee statements of TŽ, a.s
Investment	CZK	1 413	–	–	–
Investment	CZK	4 000	–	–	–
Investment	CZK	4 712	–	–	–
Investment	CZK	7 986	–	–	Movable assets
Investment	CZK	1 331	–	–	–
Investment	EUR	10 000	–	–	Immovable, blank bill of exchange
Operating	CZK	4 000	–	–	Blank bill of exchange, receivables
Operating	CZK	11 423	–	–	Blank bill of exchange, receivables
Operating	CZK	15 000	–	–	Blank bill of exchange, receivables
Operating	CZK	9 300	–	–	Blank bill of exchange, pledged immovables
Operating	EUR	–	412 425	435 075	Conditional cession and pledging of receivables, blank bill of exchange
Investment	EUR	–	4 000	5 333	Blank bill of exchange, pledged immovables
Operating	EUR	–	101	–	No collateral
Operating	CZK	300 000	–	–	Pledged contracts for tangible fixed assets
Operating	EUR	1 455	–	–	–
Investment	CZK	1 650	–	–	Letter of Comfort TŽ, pledged immovables
Investment	CZK	5 016	–	–	Pledged immovables
Investment	CZK	12 500	–	–	Pledged immovables
Total		1 718 284	2 046 348	2 463 446	

Repayment Schedule

(CZK thousand)

Years	2008	2009	2010	2011	2012	In subsequent periods	Total
Loan instalments	1 721 284	595 981	353 394	242 536	191 238	108 386	3 212 820

5.16. ACCRUED EXPENSES AND DEFERRED INCOME

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Accrued expenses	102 851	71 132	86 878
– Interest	12 098	19 963	19 674
– Invoices, credit notes	90 753	51 169	67 204
Deferred income	43 754	63 785	64 000
Total accrued expenses and deferred income	146 605	134 917	150 878

5.17. OTHER OFF-BALANCE SHEET LIABILITIES

MORAVIA STEEL a.s.

Type of commitment	Total balance at 31 Dec 2007	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Collateralising bill of exchange FINITRADING	–	–	CZK 399,290 thousand	CZK 382,825 thousand
Guarantees in favour of third parties	CZK 2,249 thousand	CZK 2,249 thousand	–	–
Guarantees – syndicated loan in favour of TŽ, a.s.	–	–	–	CZK 338,750 thousand
Guarantee statements provided in favour of TŽ, a.s.	CZK 630,000 thousand	CZK 428,333 thousand	CZK 538,778 thousand	CZK 162,000 thousand

As of 31 December 2007, the company was involved in no significant legal dispute, the outcome of which would significantly impact the company.

SOCHOROVÁ VÁLCOVNA TŽ, a.s.

The company anticipates incurring CZK 11,107 thousand in the removal of environmental burdens in the following years. These expenses were calculated on the basis of the company's own assessment of the environmental pollution in relation to the business plans of the company and are fully covered by the recognised other reserves.

TŘINECKÉ ŽELEZÁRNY, a.s.

Type of liability	Aggregate amount at 31 Dec 2007	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<i>Parent company debt acceptance</i>	EUR 60,000 thousand	CZK 99,825 thousand	CZK 515,531 thousand	CZK 978 919 thousand
<i>Guarantee statements</i>				
– to Group companies	EUR 77 thousand	CZK 2,050 thousand	–	–
	–	–	–	CZK 11,524 thousand
<i>Guarantees</i>				
– to other entities	USD 1,279 thousand	CZK 23,119 thousand	CZK 15,216 thousand	CZK 33,543 thousand
	EUR 750 thousand	CZK 19,965 thousand	CZK 20,621 thousand	CZK 21,754 thousand
	CZK 5,000 thousand	CZK 5,000 thousand	CZK 5,000 thousand	CZK 5,000 thousand
<i>Collateralising blank bills of exchange</i>				
– to other entities	–	–	CZK 399,290 thousand	CZK 382,825 thousand

The company was subject to an environmental audit which indicates the company's liabilities relating to the environment. Pursuant to the audit, the company entered into a contract with the Czech Property Fund for the settlement of expenses incurred for the settlement of the environmental liabilities before the privatisation up to CZK 514 million. As of 31 December 2007, 2006 and 2005, the company drew the funds in the amounts of CZK 286,735 thousand, CZK 259,744 thousand and CZK 79,004 thousand, respectively.

The company monitors other potential environmental damage and the resulting liabilities and reassesses the amount of the reserve in cases when it anticipates relating expenses or costs in the future.

ENERGETIKA TŘINEC, a.s.

(CZK thousand)

Type of commitment	Total balance	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Blank bills of exchange – bank loan collateral	200 000	200 000	200 000	300 000
Blank bills of exchange – overdraft loan collateral	100 000	100 000	100 000	20 000
Total	300 000	300 000	300 000	320 000

The company holds the ČSN EN ISO 14001 certificate and successfully passed an environmental management system compliance audit performed in 2007 by EZU, a.s. Praha. The results of the compliance audit did not indicate any extraordinary environmental expenses to be incurred in future periods.

As of 31 December 2007, the company was involved in no significant legal dispute, the outcome of which would significantly impact the company. The company has only acted as a defendant in an insignificant long-term legal dispute with Lesy ČR, a.s. regarding the payment of contributions to the planting of new forests. The company recognises a non-tax deductible reserve for this legal dispute.

VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.

The company's off-balance sheet records show payables of CZK 1,190 thousand arising from outstanding default interest charged until 2000.

As of 31 December 2007, the company was involved in no significant legal dispute, the outcome of which would significantly impact the company.

As of 31 December 2007, there was no environmental audit of the company. As a result, the company's management cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

Strojírny Třinec, a.s.

The company received non-payment bank guarantees from Komerční banka, a.s. for the prepayments to customers.

As of 31 December 2007, the company was involved in no significant legal dispute, the outcome of which would significantly impact the company.

At the balance sheet date, the company recorded future liabilities as a result of the contracted capital expenditure of CZK 20,920 thousand.

As of 31 December 2007, there was no environmental audit of the company. As a result, the company's management cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

FERROMORAVIA, s.r.o.

As of 31 December 2007, the company was named as a defendant in a legal dispute regarding the payment of CZK 1,386 thousand in respect of the impaired ability of an employee to seek proper employment following the work injury of a leg. CZK 252 thousand of this amount was already paid by the inter-pleader, Kooperativa pojišťovna, a.s., which mediates the payment of the compensation. On 7 November 2007, the first hearing was held and the plaintiff was heard. The hearing on 20 February was adjourned to 26 March 2008. On 26 March 2008, the court decided to designate an independent court expert to evaluate the health condition of the employee. The court will make a decision based on the prepared appraisal. Given that the appraiser has not yet been designated, Ferromoravia, s.r.o. expects the decision to be issued on a different date of the legal proceedings. If the plaintiff is successful, the management of the company anticipates that all expenses including the claimed amount referred to above will be paid by Kooperativa pojišťovna, a.s.

As of 31 December 2007, there was no environmental audit of the company. As a result, the company's management cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

Beskydská Golfová, a.s., Barrandov Studio a.s., Barrandov Televizní Studio, a.s., MS SLOVENSKO, s.r.o., MORAVIA STEEL ITALIA, SRL, Slévárny Třinec, a.s., REFRASIL, s.r.o., Řetězárna a.s., H&S PROGESS s.r.o., VÚHŽ a.s., VÚHŽ NEMO a.s., and ROLLSERVIS, a.s.

The companies are unaware of any off balance sheet liabilities as of 31 December 2007.

6. ADDITIONAL INFORMATION OF THE PROFIT AND LOSS ACCOUNT

6.1. INCOME FROM CURRENT ACTIVITIES OF THE GROUP

2007

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	14 040 120	26 913 446	40 953 566
Power generation	308 701	–	308 701
Production of refractory material	55 352	110 998	166 350
Foundry activities	322 046	752 371	1 074 417
Engineering activities	165 143	428 290	593 433
Sales of goods	30 379	6 094	36 473
Services	1 637 747	389 958	2 027 705
Change in inventory	873 560	–	873 560
Own work capitalised	563 718	–	563 718
Total	17 996 766	28 601 157	46 597 923

2006

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	12 228 480	24 151 524	36 380 004
Power generation	300 512	–	300 512
Production of refractory material	63 804	105 328	169 132
Foundry activities	290 349	651 512	941 861
Engineering activities	496 460	744 022	1 240 482
Sales of goods	34 343	17 943	52 286
Services	960 612	237 752	1 198 364
Change in inventory	263 277	–	263 277
Own work capitalised	813 609	–	813 609
Total	15 451 446	25 908 081	41 359 527

2005

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	12 579 333	21 497 089	34 076 422
Power generation	261 869	–	261 869
Production of refractory material	38 913	114 268	153 181
Foundry activities	262 261	610 882	873 143
Engineering activities	401 156	693 865	1 095 021
Sales of goods	77 239	236	77 475
Services	812 280	195 339	1 007 619
Change in inventory	1 329 475	–	1 329 475
Own work capitalised	697 821	–	697 821
Total	16 460 347	23 111 679	39 572 026

6.2. CONSUMED PURCHASES

(CZK thousand)

	2007	2006	2005
Consumed material	24 267 270	22 053 599	21 912 736
Consumed energy	1 483 887	1 360 718	1 124 095
Sales of goods	32 484	43 181	75 297
Total consumed purchases	25 783 641	23 457 498	23 112 128

6.3. SERVICES

(CZK thousand)

	2007	2006	2005
Repair and maintenance	1 207 019	1 289 864	1 446 029
Transportation	2 888 877	2 619 260	2 087 228
Cooperation	1 207 831	1 071 788	1 228 909
Leasing	52 695	75 170	108 887
Right of use	158 860	82 395	208 222
Marketing	170 083	166 689	125 596
Rental	128 381	115 633	37 843
Clean-up work	84 273	80 181	78 216
Commissions	97 729	83 189	78 614
Other services	518 487	1 144 082	794 156
Total	6 514 235	6 728 251	6 193 700

Other services primarily include transport and telecommunication, legal advisory services and auditing, advertisement, lease of a trademark, services of a corporate employee agency, services related to health safety and protection, security guards, training, clean-up work and other auxiliary work.

6.4. OTHER OPERATING INCOME

(CZK thousand)

	2007	2006	2005
Contractual penalties and default interest	8 820	4 810	2 054
Recoveries of receivables written off and transferred	57 436	40 401	234 623
Grants received	72 439	107 879	85 775
Release to income of the CO ₂ emission allowances according to the National Allocation Plan	187 920	3 172 948	2 663 095
Sundry operating income	108 232	58 973	58 951
Total other operating income	434 847	3 385 011	3 044 498

The year-on-year decrease between 2006 and 2007 in the release of the subsidy relating to the use of greenhouse emission allowances was primarily attributable to the rate and a reduction of allowance prices.

6.5. OTHER OPERATING EXPENSES

(CZK thousand)

	2007	2006	2005
Gifts	32 748	40 774	26 419
Contractual penalties and default interest	3 554	628	2 477
Other penalties and fines	2 247	70	931
Write-offs of receivables and transferred receivables	106 413	351 407	285 139
Sundry operating expenses	203 159	185 485	219 975
Charge to expenses for the CO ₂ emission allowances according to the National Allocation Plan	187 920	3 173 460	2 663 405
Deficits and damage relating to operating activities	44 353	45 968	39 985
Total other operating expenses	580 395	3 797 792	3 238 331

The year-on-year decrease between 2006 and 2007 in the use of greenhouse emission allowances was namely attributable to the rate and a reduction of the allowance prices.

6.6. GRANTS

Grants for operating purposes of CZK 7,860 thousand received in 2007 (CZK 3,025 thousand and CZK 3,096 thousand in 2006 and 2005, respectively) include grants for research purposes, and grants received from the Employment Office in prior years.

In addition, the Group received allowances of CZK 6,893 thousand, CZK 25,423 thousand and CZK 20,385 thousand from the Ministry of Industry and Trade as of 31 December 2007, 2006 and 2005, respectively, designed to address the social implications of the steel industry restructuring efforts.

6.7. EXTRAORDINARY EXPENSES

(CZK thousand)

	2007	2006	2005
Extraordinary expenses – flood	–	–	137 425
Other	–	–	2 507
Total extraordinary expenses	–	–	139 932

6.8. EXTRAORDINARY INCOME

(CZK thousand)

	2007	2006	2005
Received damage compensation – flood	–	–	64 475
Other	3 291	–	–
Total extraordinary income	3 291	–	64 475

6.9. RELATED PARTY TRANSACTIONS

6.9.1. Income Generated with Related Parties

The column 'Relation to the company' is disclosed from the perspective of the parent company, MORAVIA STEEL a.s.

2007

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	12	104 787	41 630	88	–	146 517
Kvalif. a pers. agentura, o.p.s.	Controlled entity	–	–	199	–	–	199
Reťaze Slovakia s.r.o.	Controlled entity	–	24 144	–	–	–	24 144
TRIALFA, a.s.	Controlled entity	7	60 083	4 223	2 210	–	66 523
TRISIA, a.s.	Controlled entity	9	2	3 776	1 160	–	4 947
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	–	2 715	729	1	–	3 445
Třinecké gastroslužby, s.r.o.	Controlled entity	8	2 122	4 877	866	–	7 873
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	–	5 154	17 554	57	–	22 765
CMC Třinec Stahlhandel GmbH	Controlled entity	–	97 377	–	62	–	97 439
SILESIAFLAG, a.s.	Controlled entity	–	–	46	–	–	46
Steel Consortium Partners, a.s.	Controlled entity	–	–	51	–	–	51
Barrandov Productions, s.r.o.	Controlled entity	23	204	6 447	137	–	6 811
Filmová nadace RWE & Barrandov Studio	Controlled entity	–	–	140	–	–	140
TV Barrandov s.r.o.	Controlled entity	–	–	–	–	374	374
Total		59	296 588	79 672	4 581	374	381 274

2006

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	16	48 543	3 474	118	–	52 151
Kvalif. a pers. agentura, o.p.s.	Controlled entity	–	–	190	–	–	190
Reťaze Slovakia s.r.o.	Controlled entity	–	24 271	–	–	–	24 271
TRIALFA, a.s.	Controlled entity	12	40 743	2 682	1 844	–	45 281
TRISIA, a.s.	Controlled entity	–	–	48	43	–	91
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	46	417	1 120	3	–	1 586
Třinecké gastroslužby, s.r.o.	Controlled entity	15	2 187	3 208	999	–	6 409
VESUVIUS ČR, a.s.	Controlled entity	7	4 344	18 646	29	–	23 026
Sochorová válcovna TŽ, a.s.	Controlled entity	31	3 701 091	23 461	10 324	266	3 735 173
CMC Třinec Stahlhandel GmbH	Controlled entity	–	108 335	–	–	–	108 335
Beskydská golfová, a.s.	Controlled entity	–	–	300	–	119	419
SILESIAFLAG, a.s.	Controlled entity	–	–	64	–	–	64
Steel Consortium Partners, a.s.	Controlled entity	–	–	39	–	94	133
CMC-Třinec Stahlhandel GmbH	Associate	–	10 600	592	–	–	11 192
SD Obchodní společnost s.r.o.	*)	38	38	36 342	–	–	36 418
FINITRADING, a.s.	Controlling entity	–	–	56	–	–	56
DEMONTA Trade a.s.	*)	–	–	15 904	1 200	–	17 104
Pozemní stavitelství Zlín a.s.	**)	8 097	8 097	–	–	–	16 194
Barrandov Productions, s.r.o.	Controlled entity	16	74	2 365	3	–	2 458
Filmová nadace RWE & Barrandov Studio	Controlled entity	1	–	107	–	–	108
TV Barrandov s.r.o.	Controlled entity	9	–	575	28	–	612
Total		8 288	3 948 740	109 173	14 591	479	4 081 271

*) Entity related through a common member of the Supervisory Board

**) Entity related through a common member of its Board of Directors

2005

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	5	26 668	3 450	148	–	30 271
Kabelová televize Třinec, spol. s.r.o.	Controlled entity	–	–	64	–	–	64
Kvalif. a pers. agentura, o.p.s.	Controlled entity	–	–	193	5	–	198
MORAVIA ENERGO, a.s.	Controlled entity	–	20 485	1 708	2	–	22 195
Reťaze Slovakia s.r.o.	Controlled entity	–	22 208	–	–	–	22 208
TRIALFA, a.s.	Controlled entity	–	31 935	2 449	1 643	–	36 027
TRISIA, a.s.	Controlled entity	–	–	36	2	–	38
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	84	706	699	2	–	1 491
Třinecké gastroslužby, s.r.o.	Controlled entity	4	1 924	3 168	1 114	–	6 210
ENVIFORM, s.r.o.	Controlled entity	–	109	57	5	–	171
VESUVIUS ČR, a.s.	Controlled entity	–	3 916	16 657	73	–	20 646
Sochorová válcovna TŽ, a.s.	Fellow subsidiary	21	4 138 915	11 846	1 778	3 807	4 156 367
CMC Třinec Stahlhandel GmbH	Controlled entity	3 595	–	–	–	–	3 595
Beskydská golfová, a.s.	Controlled entity	–	38	–	–	314	352
SILESIA SLAG, a.s.	Controlled entity	–	–	15	–	–	15
Steel Consortium Partners, a.s.	Controlled entity	–	–	21	–	896	917
SD Obchodní společnost s.r.o.	*)	–	–	56 727	–	–	56 727
Pozemní stavitelství Zlín a.s.	**)	12 705	–	–	–	–	12 705
Barrandov Productions, s.r.o.	Controlled entity	24	–	2 812	32	–	2 868
Total		16 438	4 246 904	99 902	4 804	5 017	4 373 065

*) Entity related through a common statutory executive

**) Entity related through a common member of its Board of Directors

6.9.2. PURCHASES

The column 'Relation to the company' is disclosed from the perspective of the Parent Company, MORAVIA STEEL a.s.

2007

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	–	3 585	86 378	–	89 963
Hutnictví železa, a.s.	Controlled entity	–	30	6 247	–	6 277
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	–	–	316	–	316
Reťaze Slovakia, s.r.o.	Controlled entity	–	534	1 708	–	2 242
TRIALFA, s.r.o.	Controlled entity	–	14 022	17 161	68 019	99 202
TRISIA, a.s.	Controlled entity	–	–	29 085	148	29 233
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	25 374	40	10 324	–	35 738
Třinecké gastroslužby, s.r.o.	Controlled entity	–	14 320	20 586	52 431	87 337
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	80	140 872	63 477	–	204 429
Moravia Steel Ibéria, s.a.	Controlled entity	–	–	8 336	–	8 336
Moravia Steel Slovenija, d.o.o.	Controlled entity	–	–	1 970	–	1 970
CMC-TRINEC Stahlhandel GmbH	Controlled entity	–	–	2 669	3 091	5 760
FINITRADING, a.s.	Controlled entity	–	2 528 278	–	–	2 528 278
Barrandov Productions, s.r.o.	Controlled entity	–	–	2 583	66	2 649
Filmová nadace RWE & Barrandov Studio	Controlled entity	–	–	–	796	796
TV Barrandov s.r.o.	Controlled entity	–	–	104	60	164
Total		25 454	2 701 681	250 944	124 611	3 102 690

2006

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	73	576	79 970	1	80 620
Hutnictví železa, a.s.	Controlled entity	–	–	6 490	–	6 490
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	–	–	443	–	443
Reťaze Slovakia, s.r.o.	Controlled entity	–	2 172	–	–	2 172
TRIALFA, s.r.o.	Controlled entity	–	10 627	79 962	–	90 589
TRISIA, a.s.	Controlled entity	–	–	32 299	192	32 491
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	34 025	–	7 518	–	41 543
Třinecké gastroslužby, s.r.o.	Controlled entity	–	13 995	14 527	47 884	76 406
VESUVIUS ČR, a.s.	Controlled entity	–	129 023	65 980	–	195 003
Sochorová válcovna TŽ, a.s.	Controlled entity	147	4 955 690	25 128	5 363	4 986 328
CMC Třinec Stahlhandel GmbH	Associate	–	–	164	4	168
Beskydská golfová, a.s.	Controlled entity	–	–	676	–	676
FINITRADING, a.s.	Controlled entity	–	2 549 998	–	–	2 549 998
MORAVIA STEEL IBERIA S.A	Controlled entity	–	–	7101	–	7 101
Barrandov Productions, s.r.o.	Controlled entity	–	15	6 545	–	6 560
Filmová nadace RWE & Barrandov Studio	Controlled entity	–	4	–	715	719
TV Barrandov s.r.o.	Controlled entity	–	–	4	–	4
SD Obchodní společnost s.r.o.	*)	–	598 633	–	–	598 633
DEMONTA T, s.r.o.	*)	–	86 247	–	–	86 247
DEMONTA Trade a.s.	*)	–	180 951	412	–	181 363
Total		34 245	8 527 931	327 219	54 159	8 943 554

*) Entity related through a common Supervisory Board member

2005

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	63	669	82 228	–	82 960
Hutnictví železa, a.s.	Controlled entity	–	–	5 680	–	5 680
Kabelová televize, spol. s r.o.	Controlled entity	830	49	355	–	1 234
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	–	–	537	–	537
MORAVIA ENERGO, s.r.o.	Controlled entity	–	143 683	15 940	–	159 623
Reťaze Slovakia, s.r.o.	Controlled entity	–	–	2 172	–	2 172
TRIALFA, s.r.o.	Controlled entity	–	11 466	60 648	–	72 114
TRISIA, a.s.	Controlled entity	–	–	16 102	232	16 334
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	11 482	–	5 758	20	17 260
Třinecké gastroslužby, s.r.o.	Controlled entity	–	11 520	7 150	6 464	25 134
ENVIFORM, s.r.o.	Controlled entity	16	1 447	3 345	19	4 827
VESUVIUS ČR, a.s.	Controlled entity	40	84	61 743	105 305	167 172
Sochorová válcovna TŽ, a.s.	Fellow subsidiary	800	5 092 223	13 598	4 930	5 111 551
CMC Třinec Stahlhandel GmbH	Controlled entity	–	–	–	–	–
Beskydská golfová, a.s.	Controlled entity	–	–	259	–	259
FINITRADING, a.s.	*)	–	2 029 203	–	–	2 029 203
SD Obchodní společnost s.r.o.	***)	–	795 931	–	–	795 931
DEMONTA T, s.r.o.	**)	–	49 662	–	–	49 662
Barrandov Productions s.r.o.	Controlled entity	–	–	790	–	790
Total		13 231	8 135 937	276 305	116 970	8 542 443

*) Entity related through a common Supervisory Board member

**) Entity related through a common statutory executive

7. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

7.1. STAFF COSTS AND NUMBER OF EMPLOYEES

2007

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
MORAVIA STEEL a.s.	314	17	369 652	190 192
Barrandov Studio, a.s.	334	21	171 656	32 714
Barrandov Televizní Studio, a.s.	–	–	–	–
MORAVIA STEEL ITALIA S.R.L.	*)	*)	6 096	*)
MORAVIA STEEL SLOVENSKO, s.r.o.	–	–	–	–
Sochorová válcovna TŽ, a.s.	717	9	115 368	14 681
Beskydská golfová, a.s.	12	3	4 517	81
TŘINECKÉ ŽELEZÁRNY, a.s.	5 428	6	2 638 118	47 105
ENERGETIKA TŘINEC, a.s.	386	5	181 285	12 515
Strojírny Třinec, a.s..	1 025	8	372 244	17 309
Slévárny Třinec, a.s.	673	5	294 970	8 631
REFRASIL, s.r.o.	217	2	90 610	14 464
Řetězárna, a.s.	325	7	118 057	20 293
VVT VÍTKOVICE VÁLCOVNA TRUB, a.s.	801	4	317 446	10 789
FERROMORAVIA, s.r.o.	245	5	90 560	9 068
H&S PROGRESS, s.r.o.	6	1	1 604	162
ROLLSERVIS a.s.	29	1	5 109	332
VÚHŽ a.s.	306	13	94 867	8 213
VUHŽ NEMO a.s.	–	–	46	–
Total under full consolidation	10 818	107	4 872 205	397 780

*) Data not available.

2006

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
MORAVIA STEEL a.s.	285	19	387 194	204 737
Barrandov Studio a.s.	325	19	156 370	23 598
MORAVIA STEEL ITALIA S.R.L.	6	2	9 971	6 657
MORAVIA STEEL SLOVENSKO	–	–	–	–
TŘINECKÉ ŽELEZÁRNY, a.s.	5 417	6	2 330 356	68 162
ENERGETIKA TŘINEC, a.s.	391	6	168 755	18 307
Strojírny Třinec, a.s..	1 002	7	326 126	15 166
Slévárny Třinec, a.s.	660	5	218 776	8 907
REFRASIL, s.r.o.	215	2	85 302	13 995
Řetězárna, a.s.	328	7	113 759	20 402
VVT VÍTKOVICE VÁLCOVNA TRUB, a.s.	826	3	293 543	6 543
FERROMORAVIA, s.r.o.	243	5	81 538	9 744
Total under full consolidation	9 698	81	4 171 690	396 218

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
MORAVIA STEEL a.s.	254	15	303 056	162 965
Barrandov Studio a.s.	383	21	164 857	25 842
MORAVIA STEEL ITALIA S.R.L.	6	2	4 175	2 783
TŘINECKÉ ŽELEZÁRNY, a.s.	5 519	6	2 310 511	73 404
ENERGETIKA TŘINEC, a.s.	402	6	168 649	14 964
Strojírny Třinec, a.s.	971	7	311 264	18 695
Slévárny Třinec, a.s.	658	5	213 489	9 626
REFRASIL, s.r.o.	204	2	77 764	13 577
TRIFINAL, a.s.	3	1	1 503	1 928
Řetězárna, a.s.	330	7	108 838	19 787
EX IM TRANS LLC.	8	1	3 207	*)
VVT VÍTKOVICE VÁLCOVNA TRUB, a.s.	929	6	92 062	3 316
FERROMORAVIA, s.r.o.	238	5	73 428	5 469
Total under full consolidation	9 905	84	3 832 803	352 356

*) Data not available

7.2. BENEFITS PROVIDED TO MEMBERS OF STATUTORY, SUPERVISORY AND MANAGEMENT BODIES

The amount of bonuses, advances, borrowings, other receivables, payables and other benefits to members of the statutory, management and supervisory bodies is as follows:

(CZK thousand)

Company/performance	2007	2006	2005
MORAVIA STEEL a.s.	94 808	92 475	86 437
Use of management cars	1 377	1 603	1 608
Damage liability insurance	473	340	337
Bonuses	92 958	90 532	84 492
TŘINECKÉ ŽELEZÁRNY, a.s.	21 086	35 178	35 226
Use of management cars	962	969	959
Life insurance contribution	–	14 674	14 567
Damage liability insurance	1 260	863	932
Bonuses	18 864	18 672	18 768
ENERGETIKA TŘINEC, a.s.	1 558	1 775	1 660
Use of management cars	488	744	639
Life insurance contribution	207	228	228
Damage liability insurance	197	155	145
Bonuses	666	648	648
Strojírny Třinec, a.s.	1 076	1 106	1 108
Use of management cars	443	389	388
Life insurance contribution	–	38	72
Damage liability insurance	–	31	–
Bonuses	663	648	648
Slévárny Třinec, a.s.	705	700	956
Use of management cars	5	5	254
Life insurance contribution	29	24	54
Damage liability insurance	23	23	–
Bonuses	648	648	648
REFRASIL, s.r.o.	1 480	1 746	1 670
Use of management cars	237	–	–
Life insurance contribution	856	1 284	1 284
Damage liability insurance	3	2	2
Bonuses	384	460	384
FERROMORAVIA, s.r.o.	125	1 923	1 015
Use of management cars	–	577	619
Damage liability insurance	125	118	72
Bonuses	–	1 228	324
TRIFINAL, a.s.	–	–	96
Bonuses	–	–	96

Řetězárna a.s.	8 366	8 243	8 143
Bonuses	7 470	7 176	7 176
Life insurance contribution	–	168	–
Use of management cars	872	899	967
Damage liability insurance	24	–	–
VVT Vítkovice Válcovna trub, a.s.	972	1 105	320
Use of management cars	305	457	93
Damage liability insurance	19	–	–
Bonuses	648	648	227
Barrandov Studio a.s.	5 291	4 840	4 689
Use of management cars	636	1 214	849
Bonuses	4 625	3 600	3 840
Life insurance contribution	30	26	20
Barrandov Televizní Studio a.s.	–	–	–
Bonuses	–	–	–
Sochorová válcovna TŽ, a.s.	5 935	–	–
Life insurance contribution	15	–	–
Bonuses	5 920	–	–
H&S PROGRESS s.r.o.	190	–	–
Damage liability insurance	1	–	–
Bonuses	189	–	–
ROLLSERVIS a.s.	439	–	–
Use of management cars	14	–	–
Damage liability insurance	2	–	–
Bonuses	423	–	–
VÚHŽ a.s.	9 904	–	–
Use of management cars	510	–	–
Life insurance contribution	13	–	–
Damage liability insurance	25	–	–
Bonuses	9 356	–	–
VUHŽ NEMO a.s.	46	–	–
Bonuses	46	–	–
Total	169 340	147 131	141 340

8. POST BALANCE SHEET EVENTS

The Parent Company concluded a contract for the transfer of securities and assignment of a receivable with Jiří Vybíral, Viktor Vybíral and Martin Vybíral on 27 February 2008. The contract relates to the purchase of shares of HŽP Holding, a.s., having its registered office at Dolní 100, 797 11 Prostějov, Corporate ID 26955342. The purchase price of the shares was determined to be CZK 390,007 thousand and the consideration for the assigned receivables was set at CZK 46,134 thousand. On 30 April 2008 (entry into effect), MORAVIA STEEL a.s. received the resolution of the Antimonopoly Office regarding the fact that such association of competitors is not subject to authorisation by the Czech Antimonopoly Office. On 6 May 2008, the purchase price was paid and the contract for the transfer of securities and assignment of a receivable became effective.

The Parent Company purchased the remaining shareholding in Beskydská Golfová a.s. in the amount of 9.96 percent on 18 February 2008. The purchase price between the Company and Kovopol a.s. was determined to be CZK 16,000 thousand. This share purchase resulted in the Company's shareholding in the entity increasing from 90.04 percent to 100 percent.

On 15 January 2008, the Company entered into the Contract for the Transfer of Equity Investments of Šroubárna Kyjov, spol. s r.o.

The subsidiary, TŘINECKÉ ŽELEZÁRNY, a.s., as the sole shareholder of Strojírny Třinec, a.s. acting in the capacity of the General Meeting, decided through the notarial deed prepared on 4 February 2008, to increase the share capital of Strojírny Třinec, a.s. through the following non-cash investment:

- The share capital of Strojírny Třinec, a.s. is increased by CZK 65,000 thousand, i.e. from CZK 500,000 thousand to CZK 565,000 thousand;
- One ordinary registered share, in the certificate form with a nominal value of CZK 65,000 thousand is subscribed for the increase in the share capital;
- The issue rate of the subscribed share equals its nominal value, without the share premium and will be paid through a non-cash investment, the subject of which is real estate used by the company for its business activities; and
- In accordance with the applicable provisions of the Commercial Code, the value of the assets representing the non-cash investment of the sole shareholder in the company was determined at CZK 65,100 thousand according to the appraisal prepared by a court-appointed appraiser independent of the company. The difference between the value based on the appraisal and the nominal value of the share amounting to CZK 100 thousand will be used for the creation of the reserve fund of Strojírny Třinec, a.s.

IX.

REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 31 DECEMBER 2007

Name of the Company:	MORAVIA STEEL a.s.
Registered Office:	Průmyslová 1000, Třinec-Staré Město, 73 970
Legal Status:	Joint Stock Company
Corporate ID:	63474808

The Company is recorded in the Register of Companies held by the Regional Court in Ostrava, Section B, File 1297

MORAVIA STEEL a.s., based at Průmyslová 1000, 73970 Třinec-Staré Město, corporate ID: 63474808, recorded in the Register of Companies, Section B, File 1297, maintained at the Regional Court in Ostrava, (henceforth the "Company") forms a holding group with the entities listed below in terms of Section 66a (7) of the Commercial Code.

This report on related party transactions has been prepared in accordance with Section 66a (9) of the Commercial Code for the reporting period ended 31 December 2007 (henceforth the "reporting period").

I. DEFINITION OF THE HOLDING GROUP

A. CONTROLLING ENTITIES

FINITRADING a.s., based at nám. Svobody 526, 739 61 Třinec, corporate ID: 61974692

Relation to the Company: controlling entity acting in concert with R.F.G., a.s. under Section 66b (1) and Section 66b (2)(b) of the Commercial Code

R.F.G., a.s., based at nám. Svobody 526, 739 61 Třinec, corporate ID: 63079658

Relation to the Company: controlling entity acting in concert with FINITRADING a.s. under Section 66b (1) and Section 66b (2)(b) of the Commercial Code

B. ENTITY CONTROLLED BY THE SAME CONTROLLING ENTITIES

Sochorová Válcovna TŽ, a.s. based at Průmyslová 1000, 739 70 Třinec-Staré Město, corporate ID: 25872940

Relation to the Company: entity controlled by entities acting in concert under Section 66a (4) of the Commercial Code, namely FINITRADING a.s., R.F.G., a.s. and TŘINECKÉ ŽELEZÁRNY, a.s., until 10 September 2007

C. ENTITIES CONTROLLED BY THE COMPANY

TŘINECKÉ ŽELEZÁRNY, a.s. based at Průmyslová 1000, 739 70 Třinec-Staré Město, corporate ID: 18050646

Relation to the Company: entity controlled by the Company as the majority shareholder under Section 66a (3)(a) of the Commercial Code and by the Company acting in concert with FINITRADING a.s. under Section 66a (4) of the Commercial Code

Sochorová válcovna TŽ, a.s. based at Průmyslová 1000, 739 70 Třinec-Staré Město, corporate ID: 25872940

Relation to the Company: entity controlled by the Company as the majority shareholder since 10 September 2007

Moravia Steel AG Zug based at Oberallmendstrasse 16, 6302 Zug, Switzerland

Relation to the Company: subsidiary

MORAVIA STEEL IBÉRIA, S.A. based at Campo Grande, 35 – 9. A, P-1700 Lisbon, Portugal

Relation to the Company: subsidiary

MORAVIA GOEL TRADE d.o.o. "in liquidation" based at Perkovčeva 48, 104 30 Samobor, Croatia

Relation to the Company: subsidiary

MORAVIA STEEL ITALIA s.r.l. based at via Niccolini 26, 20154 Milan, Italy

Relation to the Company: subsidiary

MORAVIA STEEL SLOVENIJA d.o.o. based at Valvazorjeva 14, 3000 Celje, Slovenia

Relation to the Company: subsidiary

CMC – TRINEC Stahlhandel, GmbH based at Cliev 19, 515 15 Kürten, Germany
Relation to the Company: subsidiary

TRINEC – CMC LIMITED based at Bradwall Court, Bradwall Road, Sandbach, Cheshire, CW11 1 GE, England
Relation to the Company: subsidiary

Barrandov Televizní Studio a.s. based at Kříženeckého nám. 322, 15 200 Prague 5, corporate ID: 41693311 (formerly Barrandov Studio a.s., change of the firm to Barrandov Televizní Studio a.s. on 1 November 2007)

Relation to the Company: subsidiary

Barrandov Studio a.s. based at Kříženeckého nám. 322/5, 152 00 Prague 5, Hlubočepy, corporate ID 28172469 (formed on 1 November 2007 as the successor company following the de-merger of Barrandov Televizní Studio a.s. by spin-off, accompanied by the formation of a new successor company according to Section 69c (2) of the Commercial Code with the business name Barrandov Film Studio a.s., subsequently renamed to Barrandov Studio a.s.)

Relation to the Company: subsidiary since 1 November 2007

Barrandov Lands a.s. based at Kříženeckého nám. 322/5, Prague 5, corporate ID: 27225674
Relation to the Company: subsidiary

MS – Slovensko s.r.o. based at Palisády 56, 811 06 Bratislava, Slovakia
Relation to the Company: subsidiary

MORAVIA STEEL ISRAEL Ltd. based at 23 Efal St., Petach Tikva 49511, P.O.B. 3286, Israel
Relation to the Company: subsidiary

Beskydská golfová, a.s. based at Ropice 415, 739 56, corporate ID: 25352920
Relation to the Company: subsidiary since 1 February 2007

Relations between the Company and the above-mentioned entities controlled by the Company and their subsidiaries are described in a report on related parties for each of these controlled entities, each of which prepares such report separately and details its transactions with the Company for the given reporting period. Relations between the Company and Sochorová válcovna TŽ, a.s. (until 10 September 2007 controlled by FINITRADING, a.s., R.F.G., a.s. and TŘINECKÉ ŽELEZÁRNY, a.s.) are described in Part D of Section II. The Company incurred no damage in connection with these relations.

II. DESCRIPTION OF RELATIONS

A. RELATIONS BETWEEN RELATED PARTIES

Relations in terms of Section 66a (9) of the Commercial Code that arose during the reporting period between the Company and FINITRADING a.s. as the controlling entity are disclosed in Part B of this Section.

Relations in terms of Section 66a (9) of the Commercial Code that arose during the reporting period between the Company and R.F.G., a.s. as the controlling entity are disclosed in Part C of this Section.

Relations in terms of Section 66a (9) of the Commercial Code that arose during the reporting period between the Company and Sochorová válcovna TŽ, a.s. (henceforth 'SCHV'), which was controlled by FINITRADING a.s., R.F.G., a.s. and TŘINECKÉ ŽELEZÁRNY, a.s. until 10 September 2007, are disclosed in Part D of this Section.

B. DESCRIPTION OF RELATIONS OF THE COMPANY WITH THE CONTROLLING ENTITY FINITRADING A.S.

B.1. SALES

The Company effected no sales of goods to the controlling entity during the reporting period.

B.2. PURCHASES

B.2.1. Framework Purchase Contract No. S-040047 and Purchase Contract No. S-070005

Framework Contract No. S-040047 effective for the period from 1 January 2005 to 31 December 2009 was concluded by the Company and the controlling entity on 22 November 2004. Under the contract, the controlling entity makes a long-term undertaking to supply aglo-ore to the Company. The framework contract was implemented in 2007 on the basis of Purchase Contract No. S-070005 of 2 January 2007. During 2007, purchase prices were specified in the form of amendments to the Purchase Contract.

In the reporting period, the total price paid by the Company for the supply of aglo-ore based on these contracts amounted to CZK 1,717,643 thousand excluding VAT.

B.2.2. Framework Purchase Contract No. S-040048 and Purchase Contract No. S-070006

Framework Contract No. S-040048 effective for the period from 1 January 2005 to 31 December 2009 was concluded by the Company and the controlling entity on 22 November 2004. Under the contract, the controlling entity makes a long-term undertaking to supply lump ore to the Company. The framework contract was implemented in 2007 on the basis of Purchase Contract No. S-070006 of 2 January 2007. During 2007, purchase prices were specified in the form of amendments to the Purchase Contract.

In the reporting period, the total price paid by the Company for the supply of the lump ore based on these contracts amounted to CZK 336,138 thousand excluding VAT.

B.2.3. Purchase Contract No. S-070007

This purchase contract was concluded by the Company and the controlling entity on 2 January 2007. Under the contract, the Company undertook to purchase Krivbas aglo-ore from the controlling entity. The contract was signed for a definite period of time, i.e. until 31 December 2008.

In the reporting period, the total price paid by the Company for the supply of the Krivbas aglo-ore based on this contract amounted to CZK 474,497 thousand excluding VAT.

B.3. OTHER CONTRACTUAL ARRANGEMENTS

No other contractual arrangements in terms of Section 66a (9) of the Commercial Code were entered into between the Company and FINITRADING a.s. during the reporting period.

B.4. OTHER LEGAL ACTS

No other significant legal acts in terms of Section 66a (9) of the Commercial Code were implemented between the Company and the controlling entity – FINITRADING a.s. during the reporting period.

B.5. OTHER MEASURES

No other measures were adopted between the Company and FINITRADING a.s. at the initiative or on behalf of FINITRADING a.s. during the reporting period.

B. 6. OVERALL ASSESSMENT OF RELATIONS TO THE CONTROLLING ENTITY UNDER SECTION 66A (9) OF THE COMMERCIAL CODE

The report highlights all material contracts entered into during the reporting period and the total amount of received supplies and provided counter-performance between the Company and the controlling entity. The analyses of received performance and provided counter-performance, as disclosed in Section B, have shown that the performance was provided on an arm's length basis. The goods are supplied for arm's length prices established by reference to market prices. The Company incurred no damage in connection with its relations with the controlling entity.

C. DESCRIPTION OF RELATIONS OF THE COMPANY WITH R.F.G., A.S.

In the reporting period, no purchases or sales of goods or services were effected between the Company and R.F.G., a.s.

No other significant legal acts or measures in terms of Section 66a (9) of the Commercial Code were implemented between the Company and the controlling entity – R.F.G. a.s. during the reporting period.

D. DESCRIPTION OF RELATIONS OF THE COMPANY WITH SOCHOROVÁ VÁLCOVNA TŽ, A.S.

D.1. SALES

The Company effected no sales of goods to SCHV during the reporting period.

D.2. PURCHASES

D. 2.1. Framework Contract

This framework contract was concluded by the Company and SCHV on 30 June 2002. The term of the contract was changed to an indefinite period of time by Amendment No. 1 of 27 December 2005. Pursuant to the contract, SCHV undertook to sell its metallurgic production to the Company. The Company and SCHV entered into sub-contracts in respect of individual supplies. The goods were supplied for arm's length prices established by reference to the market prices.

During the reporting period, the performance provided based on this contract and related sub-contracts, billed and paid on the basis of invoices and credit notes for the sale of products and/or costs arising from claims, and the total purchase price paid by the Company to SCHV amounted to CZK 6,580,312 thousand including VAT.

D.2.2. Scrap Purchase

During the reporting period, the Company effected a total of four orders with SCHV (effective for respective quarters of the year) with respect to metal-scrap supplies. The total volume of the metal scrap supplied based on these orders amounted to CZK 40,011 thousand including VAT.

D.2.3. Lease Contract

This contract was concluded by the Company as the lessee and SCHV as the lessor on 1 January 2004 for an indefinite period of time. Amendment No. 1 to the contract of 31 December 2004 specifies changes in rental and payment terms agreed on by the parties. The contract involves the agreement to lease non-residential premises and movable assets (offices and their equipment) located in the cadastral area of Buštěhrad in the Kladno District.

In the reporting period, the Company provided SCHV with a rental and a fixed payment for the supply of energies in the amount of CZK 52.7 thousand including VAT.

D.3. OTHER CONTRACTUAL ARRANGEMENTS

No other significant contractual arrangements in terms of Section 66a (9) of the Commercial Code were entered into between the Company and SCHV during the reporting period.

D.4. OTHER LEGAL ACTS

No other significant legal acts in terms of Section 66a (9) of the Commercial Code were implemented between the Company and SCHV during the reporting period.

D.5. OTHER MEASURES

No other measures were adopted between the Company and SCHV at the initiative or on behalf of SCHV during the reporting period.

D.6. OVERALL ASSESSMENT OF RELATIONS TO SOCHOROVÁ VÁLCOVNA TŽ, a.s.

The report highlights all material contracts entered into during the reporting period and the total amount of received and provided supplies and counter-performance between the Company and SCHV. The analyses of received performance and provided counter-performance, as disclosed in Part D of this Section, have shown that the performance was provided on an arm's length basis. The Company incurred no damage in connection with its relations.

In Třinec on 3 March 2008



.....
Lenka Blažková
Chairwoman of the Board of Directors



.....
Mojmír Kašpříš
Member of the Board of Directors

