



TŘINECKÉ ŽELEZÁRNY, a. s. ANNUAL REPORT 2007



Quality through the Ages





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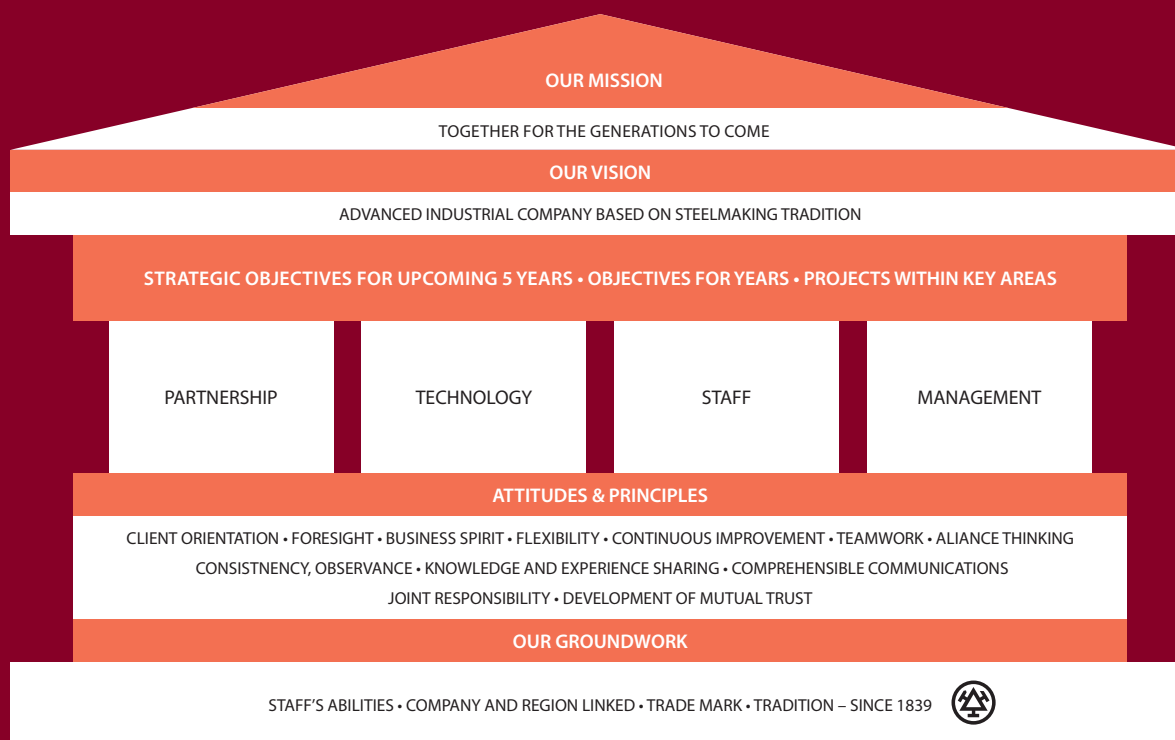
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## COMPANY PROFILE

TŘINECKÉ ŽELEZÁRNY, a.s. (The Třinec Iron and Steel Works), which was established in 1839, is among the steel companies with the longest tradition in the Czech Republic. It produces more than 2.5 million tons of steel annually in an integrated metallurgical cycle which represents more than one third of the total domestic production of steel. The main product portfolio consists of long rolled product such as wire rod, rebars and sections, special bar steel, rails, wide steel and semis. Additional products include coke, by-products resulting from production and artificial normal weight aggregate. Třinecké železářny is the biggest Czech steel company with local capital. Its majority owner is MORAVIA STEEL a.s. These two companies together create one of the most considerable industrial groups in the Czech Republic. The basic strategy of the Třinecké železářny – Moravia Steel Group (TŽ - MS) is a dynamic increase in the growth of the share of long products with higher added value and its control within the up- and down-stream product chains. The Třinecké železářny – Moravia Steel Group also includes companies that are part of the product chains of Třinecké železářny

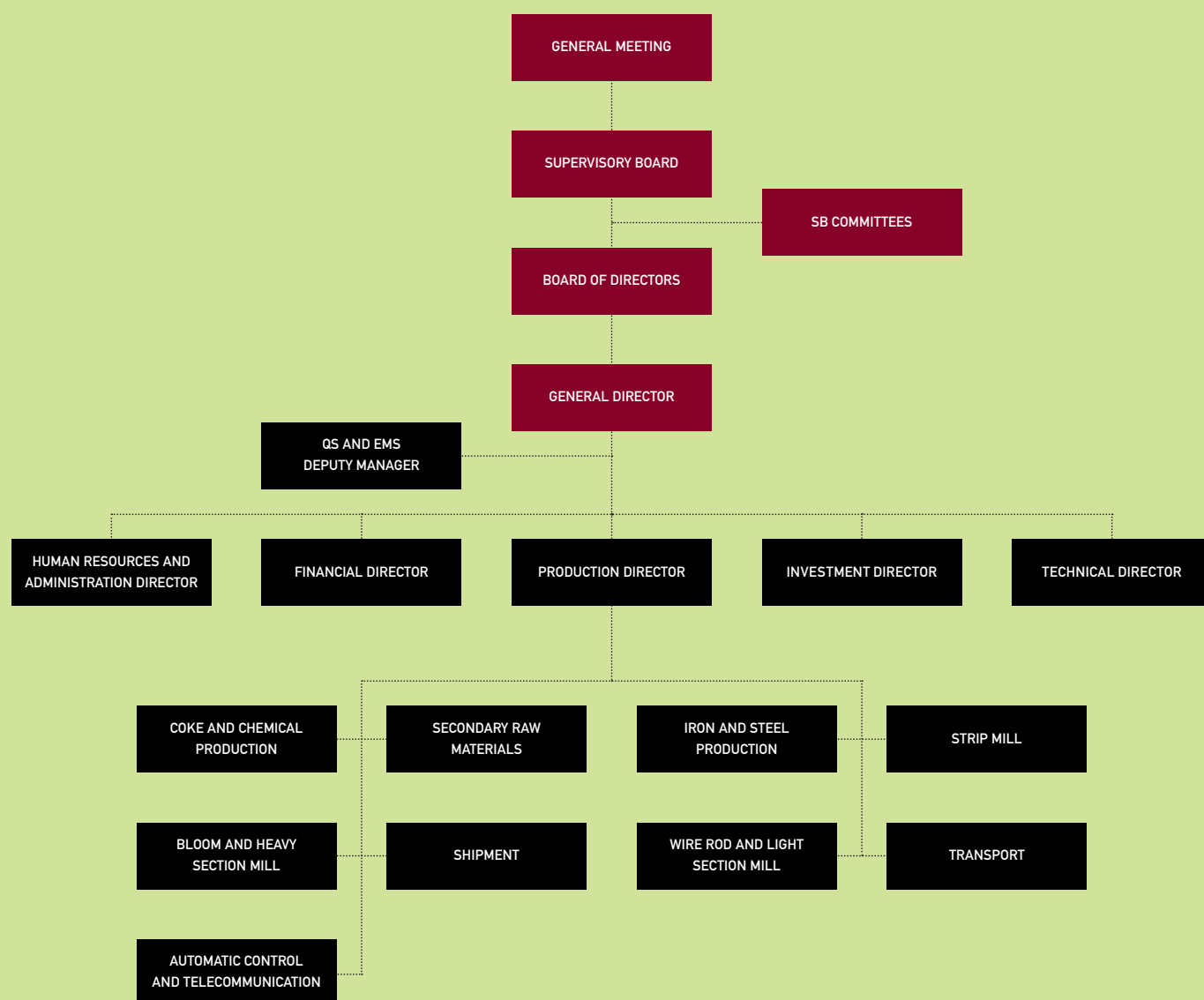
or which provide other services from transport of goods to catering services. Třinecké železářny holds a majority stake in 13 companies and significant capital share in a further 10 companies belonging to the Group. In 2007, the Třinecké železářny – Moravia Steel Group was enlarged by VÍTKOVICE – Výzkum a vývoj, spol. s r.o. (since April 2008, known as METALURGICKÝ A MATERIÁLOVÝ VÝZKUM s.r.o.) and a group of companies VÚHŽ in Dobrá. The production facilities included in the Třinecké železářny – Moravia Steel Group are located in Třinec, Kladno, Staré Město u Uherského Hradiště, Bohumín, Česká Ves u Jeseníku, Ostrava, and Dobrá u Frýdku-Místku.

To date, Třinecké železářny has produced more than 150 million tons of steel, especially long rolled products, which have been placed on the domestic market as well as bought by customers all over the world. The products of Třinecké železářny are sold by Moravia Steel through its trade network. More than half of the annual production of high-quality steel products bearing the trademark of three hammers in a circle have been directed to customers in more than 50 countries worldwide.



The corporate mission of Třinecké železářny “Together for the Generations to Come” clearly accents the unique role of the historically dominant industrial company that which influences the development of the surrounding region with approximately 100,000 citizens. The responsibility for the further development is included in our vision “Creating an Advanced Industrial Company Based on the Steelmaking Tradition”. Our motto “Quality Through the Ages” is an imperative for the everyday assignment of our staff. This annual report confirms the successful fulfilment of our mission and vision.





## II.

### ORGANIZATION STRUCTURE

# III.

## CHARACTERISTICS OF THE PRODUCTION PLANTS

**Steel production in Třinecké železářny includes the following facilities:**

### The Coke-Chemical Production plant

In this plant, the production of coke for the needs of the company's blast furnaces takes place. Two coke-oven batteries of Koppers design heated by blended or coking gas work with ramming operation. They are equipped with the facility for wet quenching of coke. The coke gas is desulfurized and supplied to the gas networks of Třinecké železářny.

Numerous coke chemical products, especially crude coking tar, benzyl, and ammonium sulfate are produced in the consecutive chemical section.

### The Iron and Steel Production plant

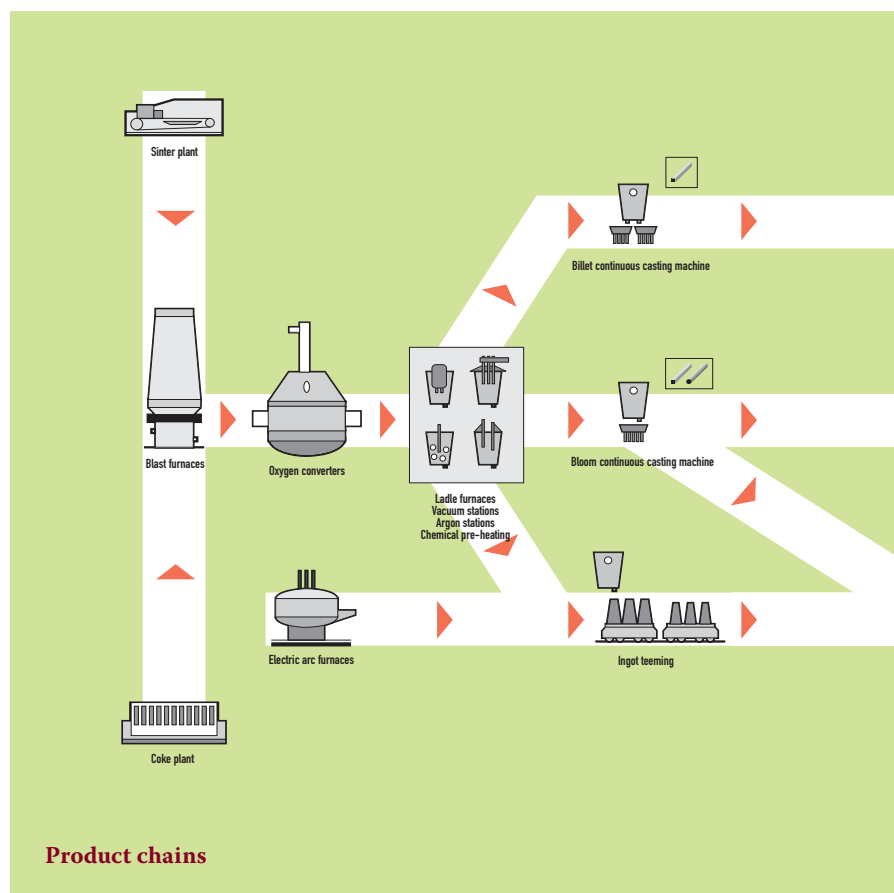
This plant comprises:

- production of hot iron
- steel production

Sinter is the basic metal-bearing raw material for the production of hot iron. It is produced in two sintering plants; each equipped with two sintering belts. The charge of the sintering plants consists of the powdery iron ores, dolomite, lime, pulverized coke, and backward material useful for heats resulting from production processes. The pig iron production itself takes place in two blast furnaces with bell-free throats equipped with automated control of furnace operation. Hot iron is transported to the converter plant in torpedo cars.

More than 98% of the Třinec steel is produced in the BOF converter plant based on the processing of hot iron with oxygen. The plant is equipped with top ladle metallurgy facilities, which enable homogenization, alloying, preheating, and vacuum degassing of steel. Converter steel is mostly cast at two continuous casting machines; approximately 5% of steel is teemed into ingots, especially the special steel grades. Continuous casting machine No. 1 is of a five-strand design, with the possibility of casting rectangular blooms of 300 x 350 mm and circular blooms of diameters 320, 410, and 525 mm. The eight-strand continuous casting machine No. 2 enables the casting of square billets with sides of 150 mm. The automatic control system controls the whole converter process including the gas cleaning station. The small EAF steel plant producing special steel grades is also a part of the steel production section.

The metallurgical cycle is concluded by rolling mills, which are the most complex manufacturing units. They consist of the rolling mill of blooms and heavy sections, rolling mill of wire rod and light sections in Třinec, and the universal strip mill in Bohumín.



The semis are delivered for further processing to: Sochorová válcovna TŽ located in Kladno and Válcovna trub TŽ located in Ostrava-Vítkovice, which are members of the TŘINECKÉ ŽELEZÁŘNY – MORAVIA STEEL Group.

### The Rolling Mill of Blooms and Heavy Profiles

According to technology, the plant is divided into two production lines:

- blooming mill and reversing mill; and
- medium section mill.

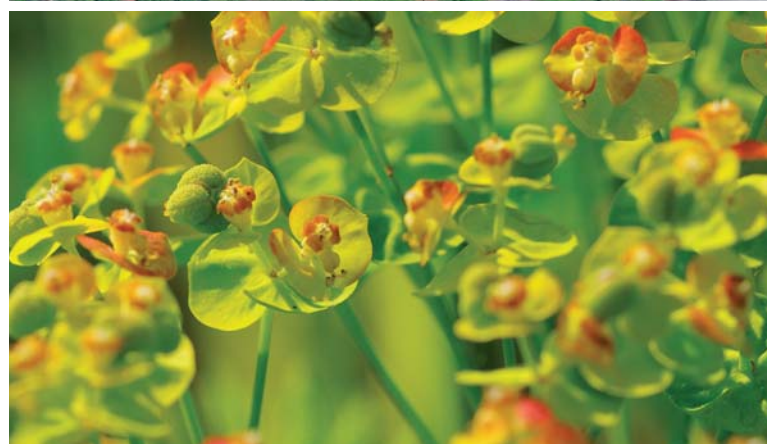
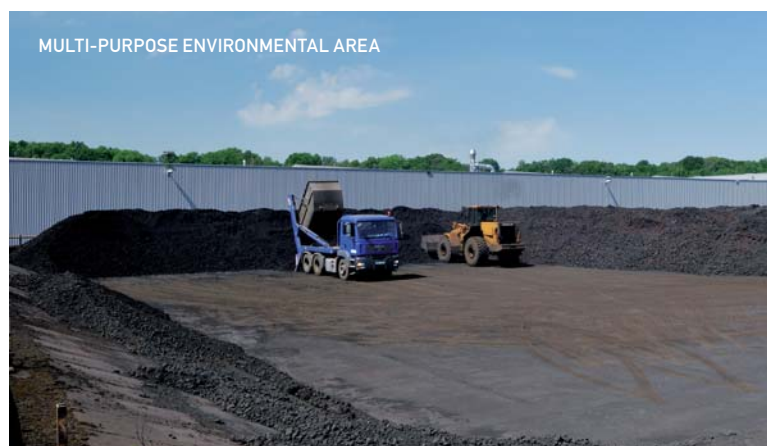
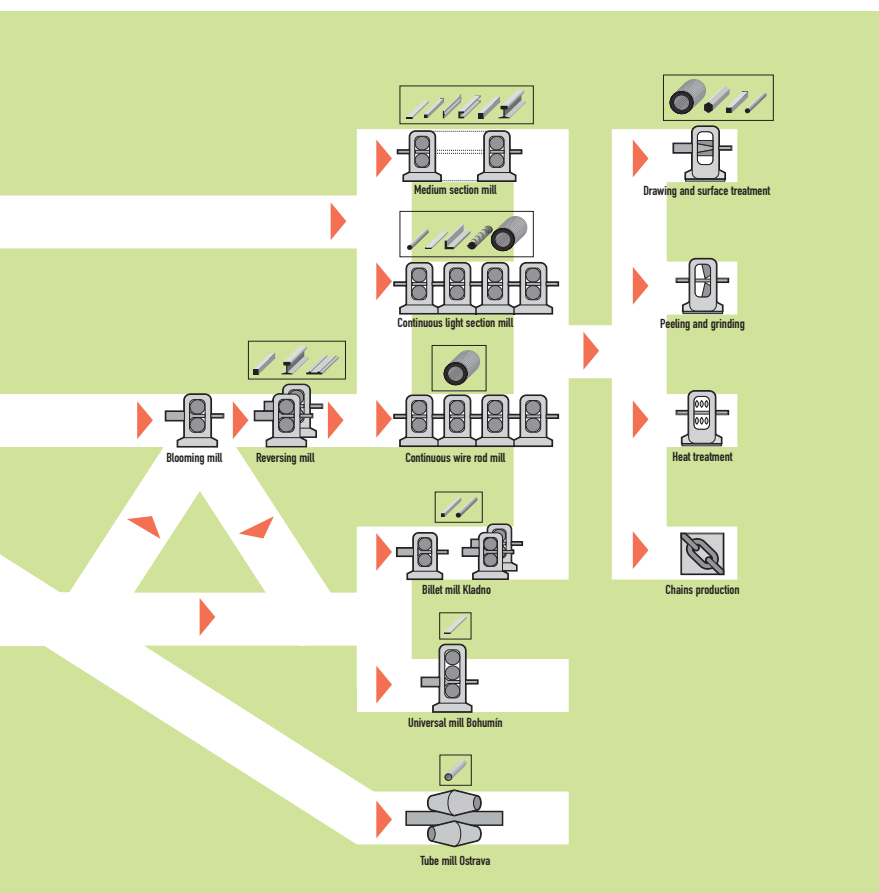
The continuously cast semis and ingots are rolled at the blooming mill into slabs and blocks, and then at the reversing mill into billets, heavy profiles, and rails. The medium section mill produces round bars, flat bars, sections for railway accessories, parabolic springs, and mine rails.

### The Rolling Mill of Wire Rod and Light Section

The plant consists of:

- continuous light section mill; and
- continuous wire rod mill.

The product portfolio produced at the continuous light section mill includes round bars and coils, flat bars, hexagons, rebar, and angles. The mill was largely modernized; one of the results of the modernization was the expansion of the product mix by special bar quality products. A substantial part of the output of the light section as well as wire rod mill is processed at the finalizing facilities enabling heat treatment, peeling, drawing, or the combination of those operations based on customer specifications including the inspection of surface and internal defects.



The modern continuous wire rod rolling mill with controlled cooling produces wire rod with diameters of 5,5 to 20 mm in two-ton coils. It has the highest production capacity within the whole TŘINECKÉ ŽELEZÁRNY – MORAVIA STEEL Group.

A part of the wire rod mill output is processed by the drawing company FERROMORAVIA in Staré Město u Uherského Hradiště, which is a part of the TŘINECKÉ ŽELEZÁRNY – MORAVIA STEEL Group.

### The Universal Strip Rolling Mill

The rolling mill is located in Bohumín. It is equipped with the universal Laut 3-high stand and produces steel plates in widths from 150 to 520 mm and in thickness from 5 to 60 mm.

### The Secondary Raw Material Plant

The plant processes the accompanying products resulting from metallurgical production, such as blast furnace and steel slag, sludge, scales, debris and other wastes including those obtained from heaps. It is equipped with three lines for magnetic separation, crushing and sorting machines, and machines for manipulation of the material. The plant also has a multi-purpose environmental area together with a dumpsite for other waste.

The obtained metal-bearing material is returned for processing in the metallurgical process, slag aggregate is intended for users in the building industry. Debris is used for restoration, and sludge is processed in the cement plants. The remaining materials are disposed of as waste.





# IV.

## EVENTS OF 2007

### January

The new Collective Agreement of Třinecké železářny for 2007 to 2009 was signed between the company's management and the KOVO trade union. A wage increase of 5% was negotiated.

### February

In the scope of organizational alternations, the reorganization in departments of the Strategy and Technology Director and the Management System Development Director took place. The technical and investment departments were created. Henryk Huczala became the Technical Director and Jan Czudek became the Investment Director.

The subsidiary of Třinecké železářny Řetězárna a.s. (chain producer) put into operation a new line for production of welded chain-belts that ranks among the most significant facilities of its kind in the world.

### March

The project APS – Advanced Planning and Scheduling that was implemented in extremely challenging environment of continuous production in Třinecké železářny and integrated with other management systems together with technological processes achieved the highest award in the IT Project 2006 competition in the Czech Republic.

The sequent new RH vacuum degassing station in the BOF Steel Plant was successfully tested. The new vacuum degassing station for CZK 350 million will increase the production capacity of high-quality steel grades.

### April

The steelmakers succeeded in producing a record of 3,579 heats of steel on one lining of the converter vessel. For the second time they overcame the level of 3,000 heats of steel on one lining of the converter vessel while the existing record was exceeded by more than 400 heats. The extension of the operating life of a furnace of the converter vessel leads not only to cost reduction but also to the presumption of increasing steel production.

For the fourth time in a row, Třinecké železářny ranked in the top 10 of the most admired companies in the Czech Republic in the prestigious Czech TOP 100 opinion poll. Once again, Třinecké železářny won within the branch of metallurgy and metal treatment.

### May

The completion of the contract for the delivery of technological facilities with the German company Polysius commenced the next stage of the investment focused on secondary metallurgy desulfurization of the hot metal for both converters. This new technology will enable achieving a higher level of heat desulfurization and reduction in the production energy intensity and thus lower environmental ballast.

In April, Třinecké železářny acquired two new acquisitions. Třinecké železářny became the only shareholder of the company H & S PROGRESS s.r.o. which is a part of the VÚHŽ group – a traditional supplier for automotive industry, metallurgy, and machinery. Třinecké železářny gained a majority in the Ostrava-based company VÍTKOVICE - Výzkum a vývoj, spol. s r.o. which provides research and development in the field of metallurgy, steelmaking, secondary metallurgy, forging, and steel rolling.

### June

The regular General Meeting of shareholders of Třinecké železářny concluded the successful fiscal year of 2006 and decided on dividend payment in the total amount of CZK 2.027 billion, e.g. CZK 250 per share.

Třinecké železářny decided to pay out extraordinary bonuses in the total amount of CZK 87 million to its employees for their assignment and economic results achieved.



*Our company has acquired all necessary integrated permissions for the productive facilities*

### July

In the 13th Czech TOP 100 ranking, Moravia Steel, the dominant shareholder of Třinecké železářny, came eighth in the top 10 most significant Czech companies concerning revenues in 2006. Třinecké železářny ranked 22nd in this prestigious ranking of the biggest Czech companies.

### August

45 million tons of coke has been produced in the “new coke plant” of Třinecké železářny since it was built on the left bank of the river Olše in 1962. Since 1873, when the coke was produced in Třinec, more than 76 million tons of coke have been produced in the Třinec coke plants.

### September

Třinecké železářny together with the controlling company Moravia Steel and Sochorová válcovna TŽ in Kladno successfully defended the functionality of the integrated management system and environment and thus proved the validity of the QS certificate according to ISO 9001 and VDA6.1 for the next year. The companies gained a new certificate according to ISO 14001 for the period of the next three years.

### October

The 49th International Engineering Fair in Brno welcomed TŘINECKÉ ŽELEZÁŘNY - MORAVIA STEEL Group in its exhibition as a significant producer and wire rod processor in the Czech Republic. The exhibition of the TŘINECKÉ ŽELEZÁŘNY - MORAVIA STEEL Group was awarded the most prestigious Aura prize.

The 100th anniversary of education in TŽ offered an opportunity to organize an International Conference concerning the issue of recruitment of young, talented, and well-qualified staff. The “Třinec Appeal” that is a document containing recommendations for solving the lack of qualified staff, particularly in technical courses in the Czech Republic, was accepted at the Conference.



SLAG DUMP

### November

The extraordinary General Meeting of shareholders of Třinecké železářny decided to revise the articles regarding the change from book-entry form of shares to the certificate form of shares and enabling their issuance in the form of collective documents, which replace single shares.

### December

The steelmakers achieved another record at the BOF Steel Plant. They achieved 3,731 heats of steel on one lining of the converter vessel No. 1 and this year's best record was thus exceeded by 152 heats.

TŽ gained the certificate for the production and heat releasing of steel grades ZF and ranked among the top global steel producers of highly-specialized steel grades SBQ type ZF (Zahnradfabrik Friedrichshafen). There are only eight companies in the world which have the certificate for the production of the whole range of these kind of steels. So far, it is the most demanding development of steel regarding performance of all the essential criteria for heat releasing to batch production.

*We invest billions of Czech  
Crowns into the improvement  
of the environment*

V.

## SELECTED ECONOMIC INDICATORS (2003 – 2007)

Indicator	Unit	2003	2004	2005	2006	2007
Pig iron production	kt	1 873	1 979	1 814	2 033	2 074
Crude steel production	kt	2 333	2 427	2 248	2 516	2 563
Of this continuous castings	kt	2 164	2 255	2 104	2 356	2 401
Sales of rolled products including steel	kt	2 190	2 301	2 205	2 366	2 392
Total revenues	CZK mil.	22 579	32 193	35 038	35 087	36 905
Income from sales of products, goods and services	CZK mil.	21 034	29 276	30 827	31 675	35 553
Export share*	%	49,8	48	48,1	51,1	50,8
Total costs excluding tax	CZK mil.	22 053	28 709	32 317	31 673	32 381
Profit	CZK mil.	518	2 575	2 068	2 684	3 633
Consolidated profit	CZK mil.	701	2 737	2 027	2 795	4 151
Total assets	CZK mil.	18 395	19 511	21 495	22 899	24 343
Long-term tangible fixed assets	CZK mil.	20 802	21 745	22 435	23 302	23 847
Adjustments of tangible fixed assets	CZK mil.	12 311	12 936	13 179	13 749	14 539
Amortization	%	60,1	60,4	59,6	59,8	61,8
Equity	CZK mil.	11 264	13 030	14 538	16 404	18 010
Capital investments	CZK mil.	1 305	1 201	1 418	1 225	832
Not-own capital including other liabilities	CZK mil.	7 131	6 482	6 957	6 495	6 333
Employees (average adjusted total)	persons	5 777	5 599	5 519	5 417	5 428
Average monthly wage	CZK/person	20 980	22 840	23 662	24 858	26 799
Steel production per employee	t/person	404	433	407	465	472

\* including exports through MORAVIA STEEL a.s.



# VI.

## STATUTORY BODIES AND COMPANY MANAGEMENT



Tomáš Chrenek



Ján Moder



Hanns Kurt Zöllner



Pablo Alarcón Espinoza



Evžen Balko



Ing. Jozef Blaško, Ph.D.



František Ligocki



Oldřich Cieslar



Jiří Stašák



Jiří Cienciala



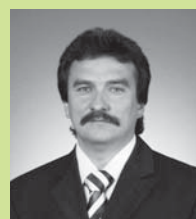
Jaroslava Ciahotná



Jan Czudek



Jan Lasota



Česlav Marek



Ing. Petr Matuszek

### Supervisory Board

Title	Name	Residence	Changes
Chairman	Tomáš Chrenek	Praha 1, Nové Město, Ve Smečkách 1326/11, Postcode 110 00	
1 <sup>st</sup> Vice-Chairman	Ján Moder	Bystrice 1241, Postcode 739 95	
2 <sup>nd</sup> Vice-Chairman	Hanns Kurt Zöllner	6314 Unteraegeri, Zimmerstrasse 68, Switzerland	
Member	Ivo Dubš	Brno-Líšeň, Martina Kříže 10/898, Postcode 628 00	till 25.6.2007
Member	Pablo Alarcón Espinoza	Madrid, Serrano Galvache 42, Kingdom of Spain	since 25.6.2007
Member	Evžen Balko	Bystrice 1241, Postcode 739 95	
Member	Jozef Blaško	Košice, Československého odboja 74, Slovak Republic, Postcode 04 001	
Member	František Ligocki	Jablunkov 311, Postcode 739 91	
Member	Oldřich Cieslar	Mosty u Českého Těšína, Školní 97, Postcode 735 62	
Member	Jiří Stašák	Český Těšín, Kolonie 3, Postcode 737 01	

### Board of Directors

Title	Name	Residence	Changes
Chairman	Jiří Cienciala	Vendryně 902, Postcode 739 94	
1 <sup>st</sup> Vice-Chairman	Jaroslava Ciahotná	Komorní Lhotka 350, Postcode 739 53	
2 <sup>nd</sup> Vice-Chairman	Jan Czudek	Jablunkov 373, Postcode 739 91	
Member	Jan Lasota	Třinec III-Kanada, Nad Úvozem 264, Postcode 739 61	
Member	Česlav Marek	Třinec, Oldřichovice 202, Postcode 739 61	
Member	Petr Matuszek	Český Těšín, Pod Zvonek 889/44, Postcode 737 01	

### Company Management

Title	Name	Changes
General Director	Jiří Cienciala	
Financial Director	Jaroslava Ciahotná	
Human Resources and Administration Director	Boguslaw Heczko	
Production Director	Česlav Marek	
Technical Director	Henryk Huczala	
Investment Director	Jan Czudek	



# VII.

## INTRODUCTORY WORD OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Dear Shareholders, Customers, Partners, and Employees,

In the previous annual report I expressed my satisfaction with the record results of our company. I am delighted to present a similar annual report once again. Třinecké železářny has achieved record production of pig iron, crude steel, and rolled products since 1990 as well as the highest financial results in the history of Iron Steel Works. Our profit before taxation amounted to CZK 4.524 billion, which is 32.5 % higher than in 2006. These results are emphasized by the fact that the added value of our products is continuously growing. Thanks to this, we have been successful in eliminating negative effects on our business, particularly the incessant growth in prices of our input materials and energy.

Global production has been growing rapidly since 2001. The total worldwide consumption of steel products grew year on year by 6.8 % and a similar trend is expected in the future. The steelmaking boom differs in various world regions. The main drivers of production and consumption of steel are the countries with the highest potential of growth, i.e. BRIC countries – Brazil, Russia, India, and especially China. China is, with almost 0.5 billion tons of steel, the greatest producer and has become a net exporter. The consolidation of world steel industry proceeds, although its intensity is rather low compared with other industrial branches. The top five producers in steelmaking produce 20% of world production, while the top five iron ore companies sustain 85% of world iron ore market. The strengthening of competition in the segment together with growing prices of inputs force us to make our processes more effective in all our product chains.



That is why cooperation with the users of our products in commercial as well as in technological field is being developed. This means that we can achieve a better grasp of the end users' requirements be able to meet their demands either with the steel grades offered or with the scope of final treatment operations of our products. In this way we invest in increasing the added value of our products by hot treatment and drawing and by implementing new steel grades. The investments in research and development, and in new technologies, that are contributing to growth of the added value of our products, are very important for us as well. Our two new acquisitions regarding research and development companies, i.e. VÚHŽ in Dobrá and Materiálový a metalurgický výzkum in Ostrava – Vítkovice confirm this. Information technologies and their benefit for management of corporate processes are our next priority. The APS System (Advanced Planning and Scheduling) that significantly improves our logistics won the international award from the Computerworld Honors Program.

The intellectual capital development of our staff is of our key concern. We expend a considerable amount of financial means on education and improving of labour safety, and working conditions annually. Our successes are not effortless. There is a huge staff assignment in everyday work, as well as continuously progressive cooperation with partners and responsible decision making by shareholders that underlie our results. Thank you for your present and future cooperation in fulfilling our corporate strategy.

A stylized, handwritten signature in black ink, appearing to read 'Chrenek', with a long horizontal line extending from the end.

Tomáš Chrenek,  
Chairman of the Supervisory Board.

# VIII.

## BOARD OF DIRECTORS' REPORT



### Development of the Macroeconomic Environment and Competition

In 2007, the Czech Republic witnessed record gross domestic product growth which climbed year on year by 6.6%, and thus surpassed the hitherto most successful years, 2005 and 2006. The closing 2007 balance of trade showed a surplus of CZK 86.1 billion, which is more than doubled in comparison with 2006 (CZK 39.8 billion). The outstanding results of Czech foreign trade mainly reflect a new record made by the automotive industry that exceeded CZK 200 billion. Therefore, the yearly surplus balance of trade in 2007 is the highest in history and the results from the previous investments in production and export capacities together with the peak of the anti-dumped cycle in EU countries. The strong Czech currency and its strengthening towards the euro, and especially the US dollar, considerably influenced the increase in the surplus balance of trade.

In 2007, steel production in the Czech Republic grew year on year by 2% to 7.038 million tons. Třinecké železářny's share in this volume is 36.3%. The Czech Republic's trade balance showed year-on-year growth in the imported and particularly in exported steel products. The total volume of steel products exported from the Czech Republic grew by 334.2 kt reaching 5.32 million tons, i.e. 6.7%. The total volume of steel products imported grew even faster, by 779.4 kt, reaching 5.65 million tons, i.e. 16%. Considering the total balance, the total volume of steel products imported surpassed the steel products exported from the Czech Republic by 330.9 kt and reached the value of CZK 18,156 million. Regarding the annual consumption of steel products, the Czech Republic with its 630 kg per capita ranked in the top global category where the global average is 210 kg per capita. The per capita consumption of steel products is nearly 230 kg higher than the average in EU countries, where it amounted to 399 kg per capita in 2007.

In the metallurgical industry worldwide, investment projects, especially the construction of new production facilities and modernization of current plants, is intense. The acquisition process as well as partnerships/cooperation in the field of product chains is going on in the metallurgical industry.

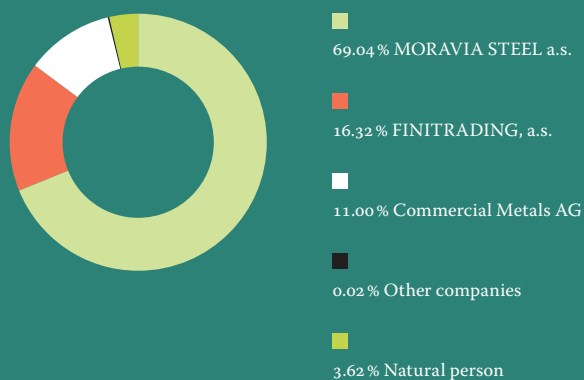
The total global production of crude steel in 2007, in accordance with the statistics of the International Iron and Steel Institute (IISI), amounted to the historically record volume of 1,343.5 million tons. This is an increase of 7.5% on 2006. The total represents the highest level of crude steel output in history and it is the fifth consecutive year that world crude steel production grew by more than 7%. China recorded the most dynamic growth again, achieving production of 489 million tons of steel, that is, 15.7% higher than in 2006. Without China world crude steel production would have only grown at 3.3%. The BRIC countries reached a considerable growth of crude steel production also. The BRIC share of world production has been growing rapidly since 2001. It has grown from 31% of total in 2001 to 48.2% in 2007. The crude steel production in the 27 European Union countries remained stable, with year-end figures of 210 million tons, which represents an increase of 1.7% on the year earlier.

In 2007, the European demand for steel products continued to grow. This increase was caused especially by developments in the automotive industry, machinery and building industry in new EU countries. The imports from the third countries (China, Turkey, CIS countries) went up also because their prices are lower than in the EU countries.



*Environmentally friendly behavior  
is a part of our management system*

Shareholder Structure



### Production and Position on the Market

TŽ produced 2,074 kt of pig iron and 2,563 kt of crude steel. Production has been at record levels since 1990. The pig iron and crude steel production went up by approximately 2% in comparison with 2006.

The total sales of rolled goods, including castings reached 2,392 kt which is 26 kt more than in 2006. The export and domestic share was again almost equal. Třinecké železářny thus retained its market positions in comparison with the previous years.

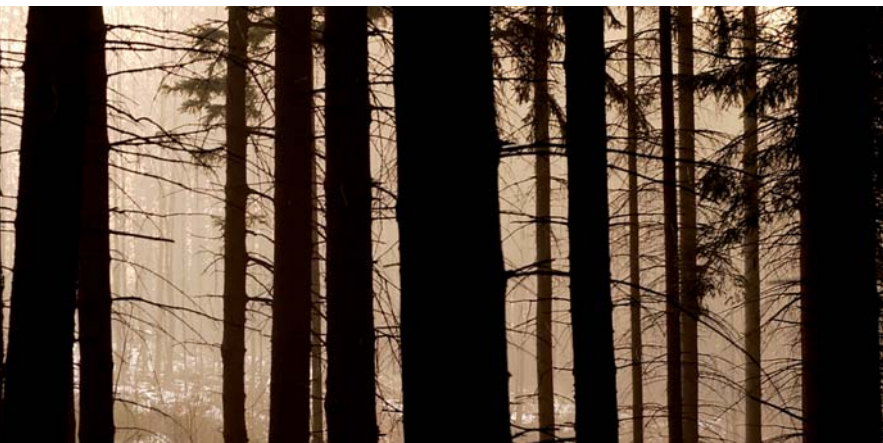
As in previous years, wire rod was the best selling product of the Třinec Steelworks. The total sales of products from this assortment amounted to 869 kt and 60% of the produced wire rod was exported to foreign markets.

The sales of rails, where Třinecké železářny is the only Czech producer, increased year on year 2.5% and exceeded 236 kt. This assortment is successfully sold especially on foreign markets. The most substantial export markets include the USA, Germany, Canada and Brazil. The proportion of exports in the total rails sales decreased from 89% to 85%. This was caused by the growth of domestic deliveries from the previous 26 kt to the present 36 kt.

Drastic developments in the automotive industry in recent years and growing customers' requirements stimulate the demand for our sections and bar steel, especially considering grades with a higher added value intended for more sophisticated use. The total sales of this assortment have grown year on year 28.3%, amounting to 450 kt. The total sales of sections and bar steel in the Czech Republic increased by 19 kt in 2007. The previous year showed considerable growth in exports where the growth increased by 80 kt. The export share of total sales increased to 46 %.

The total rebars sales dropped in comparison with 2006. The total sales turned down by nearly 32% year on year both on the domestic market as well as on the international markets. This trend is in compliance with the Třinecké železářny strategy to receive recognition as a producer of higher-added-value products.

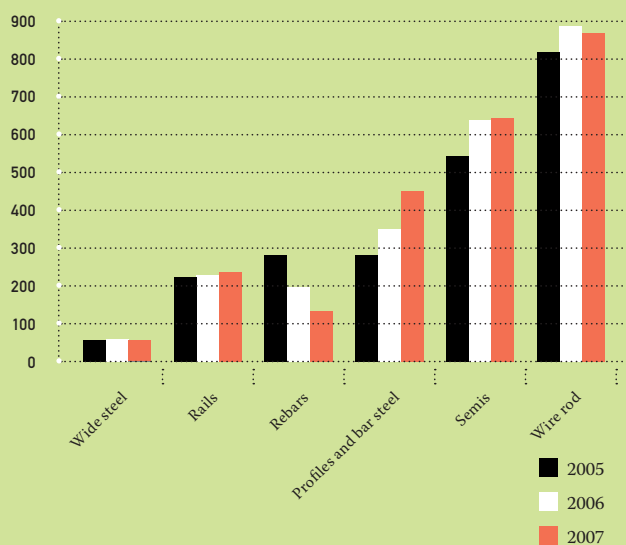




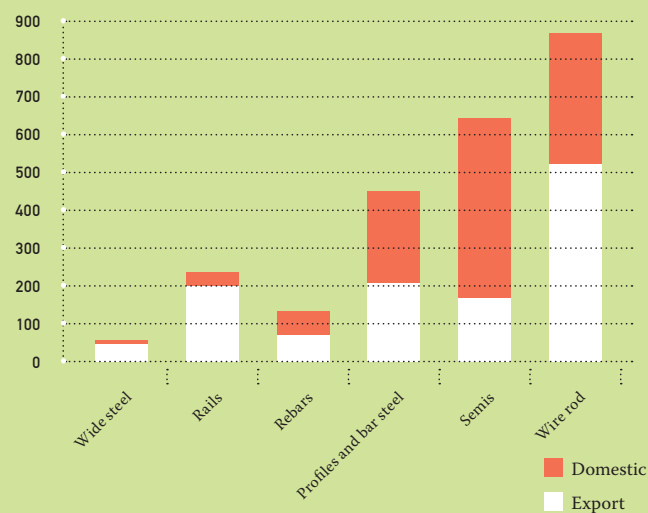
Total sales divided into product groups 2005 – 2007 (kt)

		Wire rod	Semis	Sections and bars	Rebars	Rails	Wide steel	Total
Export	2005	516	88	79	160	198	44	1085
	2006	559	150	127	107	204	48	1195
	2007	523	167	207	71	200	45	1213
Domestic	2005	302	455	203	122	26	12	1120
	2006	329	490	224	91	26	11	1171
	2007	346	478	243	63	36	13	1179
Total	2005	818	543	282	282	224	56	2205
	2006	888	640	351	198	230	60	2367
	2007	869	645	450	134	236	58	2392

Total sales volume between 2005 – 2007 (kt)



Domestic and export sales in 2007 (kt)







### Investments and Modernization

The plan of the projects of the technical development in 2007 is a part of the five-year business plan and fully corresponds with the commercial – production strategy “Dynamic growth in the share of long products with a higher added value and its control within the up- and downstream product chains.” We focused the investments on modernization activities, which will enable us to further increase the share of more sophisticated products in place of the plain steel grades. The significant part of the investments was put into the renewal of the recent facilities while meeting environmental parameters, consequent from the conclusions of the integrated allowances.

We continued in completion of the 24 construction projects initiated in the previous years. The implementation of 54 new projects commenced. As far as the volume of investments is concerned, the major construction projects in 2007 include:

- construction of a RH-type Vacuum Degassing Station No. 2 in the BOF steel plant
- replacement of the grinding machine No. 7 in the long billet cleaning shop
- increase of the product added value by annealing (STC furnace No. 3)
- completion of the conversion to the rolling bearing of the continuous light mill stands
- equipment for the final treatment of the castings

The significant investments continuing into the coming period are:

- reconstruction of the Garret coilers
- reconstruction of the electrostatic separators at the sinter plant No. 1 out-of-furnace hot metal desulphuring at the converter steel plant

A total of CZK 832 million was expended with regard to the investments.





FLOATING SCREENWALL ON THE RIVER OLŠE



## Technology and Research

The technological activities in Třinecké železářny are mainly focused on the introduction of new technologies and the stabilization of the recent technologies within the material flow from the steel production through rolling to the finalization of products, so that we can satisfy the needs of our customers at the maximum utilization of the facilities.

During 2007, a total of 117 new steel grades were introduced into the production system with a focus on the production at the drawing and phosphating line STAKU and alloyed vacuum degassed steels of the SBQ grade.

Regarding steel production, we have successfully managed the start-up of the new vacuum degassing station No. 2 as well as the electromagnetic stirring of the 525 mm diameter blooms at one strand of the continuous casting machine No. 1. Obtaining the certificate for deliveries of the ZF steel grades (steel for gearboxes), owned by only eight companies worldwide, was also a significant achievement.

We went on implementing the new rail profiles (AREA 100) for the North American market at the rolling mills of blooms and heavy profiles. At the medium mill we were involved in rolling construction steels with achieving the mechanical properties in the rolled state by forming at decreased temperatures.

At the light section mill, we successfully finished the development and established the SBQ bars by the optimization of rolling technology as well as by further finalizing this product. We put feedback of the newly built defectoscopic line to the production of steel and its rolling.

The wire rod rolling at the wire rod mill underwent the stabilization of technology and broadening the production of the high carbon wire rods, such as wire rod for steel tire cords and wire rod for pre-stressed concrete, as well as high strength screw wire rod, spring wire rod, or wire rod for production of bearings. Wire rod for bearings and screws is also the main commodity, which is finalized, either by heat treatment at the new STC annealing furnaces, or by drawing and surface finishing at the STAKU line. Considerable demand of customers exceeding current capacity of the annealing furnaces as well as doubling the production at the STAKU line comparing to 2006 adduce evidence on the optimum technology.

In 2007 altogether 48 research assignments were solved, of which 46 had commenced in the previous years.

The most significant research assignments resolved in 2007 were:

- research, design and verification of the technology for recycling the metallurgical wastes such as converter and blast furnace sludge
- research, design and verification of the technological procedure for direct location of phosphor in steel and direct tapping of steel after its refining in the oxygen converter
- research and design of new technologies for improving the micropurity and degree of balance of the melt with control of temperature time flow at the steel production
- research, design and verification of properties of new steel with enhanced fire-stopping requirements
- development and verification of new technological procedures for improvement of the surface quality of the screw materials
- development of the technological procedures for new grades and profiles of rails
- development and verification of technological procedures for production of ultra-pure bearing steels designed for the automotive and aviation industries
- development, design and verification of the new technological procedures for the forge and construction steels alloyed by Ti, V, Nb and N, and steels for the drop forging with higher machinability
- development, design and verification of the new composition of the coal charge for achieving better quality parameters of the blast furnace coke
- development, design and verification of the technology of the surface and shape forming of the rolled products

In 2007, we expended the total of CZK 146.5 million on the resolution of the research projects.



## Environment

### Water protection

Despite higher steel production we managed to decrease the volume of industrial wastewaters containing pollutants discharged to waterways in 2007. The amount of pollution of those waters was maintained or slightly decreased. These facts resulted in a substantial decrease in rate of discharged pollutants. When related to a ton of produced steel, a drop in the production of wastewater from 2.54 m<sup>3</sup>/t to 1.95 m<sup>3</sup>/t was recorded.

In 2006 no accidental leakage of harmful substances was recorded, which would have resulted in a hazard or lowering of the quality of surface as well as underground waters.

Table: Pollution discharged to the watercourses

Year	Volume of wastewater [m <sup>3</sup> /year]	Undissolved substances [t/year]	Non-polar extracted substances [t/year]	Dissolved inorganic salts [t/year]	Chemical oxygen consumption using dichromatic method [t/year]	Fe celk. – total iron [t/year]
2005	6 014 547	129.8	5.1	3 328	113.0	15.3
2006	6 384 551	139.0	5.2	3 855	135.0	14.7
2007	4 998 445	72.2	3.6	2 765	88.2	7.8

### Waste disposal

Even though we achieved record results in iron, steel, and rolled material production, we managed to decrease the generation of waste on a year-on-year basis from 335 kt to 195 kt. This means a drop from 133 kg to 76 kg per ton of produced steel.

The substantial decrease in the waste generation relates with the processing of a higher volume of blast furnace slag to the stoneware as well as a higher rate of recycling steel slag. Approximately 3.4 kt of slag was disposed as waste, this means a year-on-year drop by 97%.

We also minimized the deposition of wastes at the Neboranka dumping site. Since the introduction of recording deposited wastes, we deposited the smallest amount, i.e. 6.8 kt of wastes. Comparing to 2003 this is a drop by 92%. We are striving to restrict waste depositing as the least suitable way of waste disposal, which is in compliance with Ministry of Environment Regulation No. 294/2005 Sb. on the conditions of depositing waste to the dump sites and its utilization on the surface terrain.

Table: Volume of waste deposited at the Neboranka dumping site

Deposited (t)					Charge*
Year	Total	TŽ	External	CZK	CZK/t
2005	9 599	5 471	4 128	1 582 017	300
2006	8 282	3 684	4 598	422 199	300
2007	6 787	2 020	4 767	698 292	400

\* wastes free of charge – concrete, bricks, tiles and ceramic products, slope ground and ballast from railway super-structure. These wastes are used for technical recultivation of the dump. The increased charge per ton for deposited waste in 2007 resulted in its total growth by CZK 276 thousand even though the volume of the deposited waste was lower by 1,500 t.



### Air protection

The investment in the sintering belts at the sinter plant, which was incomplete in 2007, was the main reason for the year-on-year increase in the emission of sulfur dioxide, carbon monoxide, and nitrogen oxides. Besides the excess suction output of the sinter plant exhausters, the tests of functioning and adjusting the new control system of converter gas collecting added in this situation. The situation considerably improved in the first quarter of 2008 after the cloth filters placed behind the separators were installed in sinter plant No. 1. The further decrease of emissions will be achieved by building the secondary dusting off the hall of the BOF steel plant.

Table: Amount of emissions to the air in 2007 compared to previous years

Year	Solid pollutants (t/year)	Sulphur dioxide (t/year)	Nitrogen oxides (t/year)	Carbon monoxide (t/year)	Other emission (t/year)
2005	1 058.7	1 642.0	1 162.1	56 806.5	72.8
2006	996.8	1 589.2	1 370.2	59 587.1	87.8
2007	1 131.8	2 170.3	1 562.9	73 336.9	174.4

### Environmental investments

In 2007, equipment improving the environmental parameters was built. The most significant are:

- renovation of electrostatic separators at Sinter Plant No. 1 (2006 – 2008)
- dusting off of waste gases at Sinter Plant No. 1
- dusting off of tipplers No. 5 to 8
- technical reclamation of the Neboranka dumping site

We expended a total of CZK 223 million in these investments.



## Staff

In 2007, management of human resources was focused primarily on the accomplishment of the long-term goals and objectives, resulting from the personnel strategy and policy encompassed in the business plan. Fulfilling of the personnel strategy and policy leads to the effective solution of the rejuvenation of the workforce and staffing all recent as well as future projects and processes.

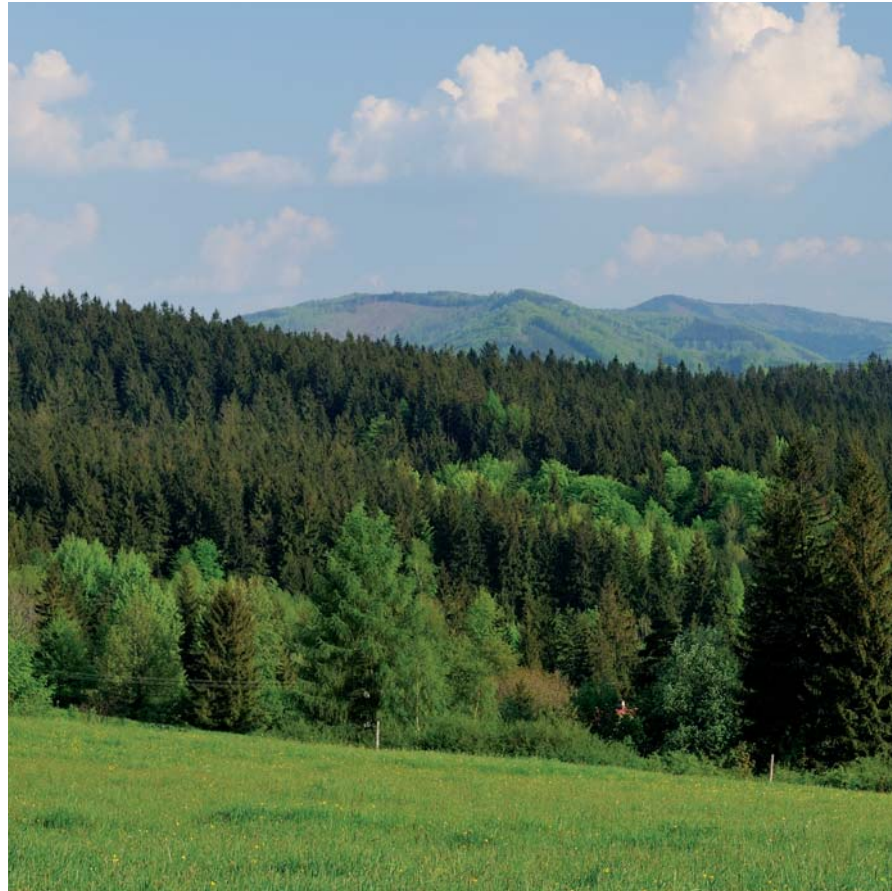
With the aim of rationalizing the consumption of direct labour and ensuring labour productivity, the process of shared services for selected personnel and accounting activities was commenced in 2007. The process of agency employment has been continually developed.

We achieved further growth and development in the quality of our intellectual capital through the education of our employees. Fulfilment of the qualification requirements grew by 1 % year on year to 65.5%. Besides the professional preparation, education was focused on the total productive maintenance, process management, and development of certified studies. In 2007, we expended the amount of CZK 37.7 million on the education of employees.

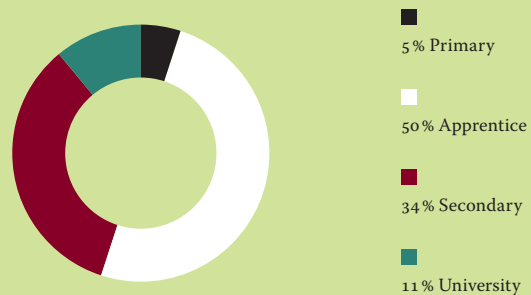
Considerable attention was paid to securing personnel replacements and the group of selected employees within career planning. Within that preparation, selected personnel development instruments such as stays, rotation, shading, mentoring, and coaching were applied.

In order to attract professionals, the well established methods of the personnel marketing were used according to the successful models: Collaboration with schools of all levels, Trainee program for University graduates, and goal directed services of selected personnel agencies.

In 2007, the motivation of employees was focused on fulfilling and exceeding the production plan indicators, maintaining required quality, and implementation of the investment projects. Changes in the staff evaluation system enabled the differentiation of remuneration in order to increase their material interest.



## Educational structure of employees





*We share responsibility for the life quality in our region*

Consistent expansion of the safety and occupational health policy resulted in favourable development of labour accidents. The number of labour accidents with an absence over 3 calendar days decreased to 15, which is the historical minimum. The labour accident frequency per 100 employees dropped to 0.28. The labour accident frequency per million hours reached the value of 1.72, which ranks our company in first place among steel producers.

Health care was intensified by the activities within the health program, including stays in the spas, topical programs (healthy backbone, coping with stress), group consulting for smoking cessation, anti-flu measures – vaccination, vitamins, and the health day.

The social peace was maintained by the observation of the Corporate Collective Agreement and Social Code with a view to retaining a high standard in the area of the social benefits.

In 2007, the average recalculated headcount grew by 11 to 5,428 as a result of introducing new products. The generation replacement of the staff is continually ensured. Those trends will continue in the coming period.

Table: The average adjusted count of employees by category of activities

Category of activities	2005		2006		2007	
	persons	%	persons	%	persons	%
Steel products total	2143	38.83	2084	38.47	2104	38.76
In which:						
– coke and chemical production	276	5.00	275	5.08	276	5.08
– blast furnace production and charge preparation	430	7.79	419	7.73	419	7.72
– steel production	479	8.68	469	8.66	469	8.64
– rolled material production	958	17.36	921	17.00	940	17.32
Engineering production	41	0.74	47	0.87	49	0.90
Power engineering plant	59	1.07	59	1.09	58	1.07
Transport	602	10.91	600	11.08	601	11.07
Repairs and maintenance	922	16.70	902	16.65	934	17.21
Managerial activities	312	5.65	312	5.76	314	5.78
Administrative activities	656	11.89	604	11.15	603	11.11
Technical development and design	432	7.83	433	7.99	396	7.30
Services and other activities	352	6.38	376	6.94	369	6.80
Total TŽ	5519	100.00	5417	100.00	5428	100.00



## Management System

During 2007, the change of the Quality Management System and Environmental Management System was in the process of preparation; this consisted of the introduction of the rules of process management. This change was approved by the company management in November 2007 and the regulatory legislation was elaborated at the end of the year.

The other significant change within the management system, which was prepared in 2007, was the introduction of the quality system pursuant to the ISO/TS 16949. The application of this standard ensures the continuity of the TŽ competency as the supplier of the long rolled products to the automotive industry. In that context, the expansion of the application of the process approach in the management of the all key activities within TŽ will continue. By extending the “quality services” the partnership with selected customers and steel fabricators will be strengthened.

The strategic management model is created by the system of the performance management indicators called Balanced scorecard and system of reporting, which is providing necessary feedback in order to specify and control the fulfilment of the strategic objectives. Besides the management within the organization chart, the system of project management is utilized in order to solve the development and intersectional projects.

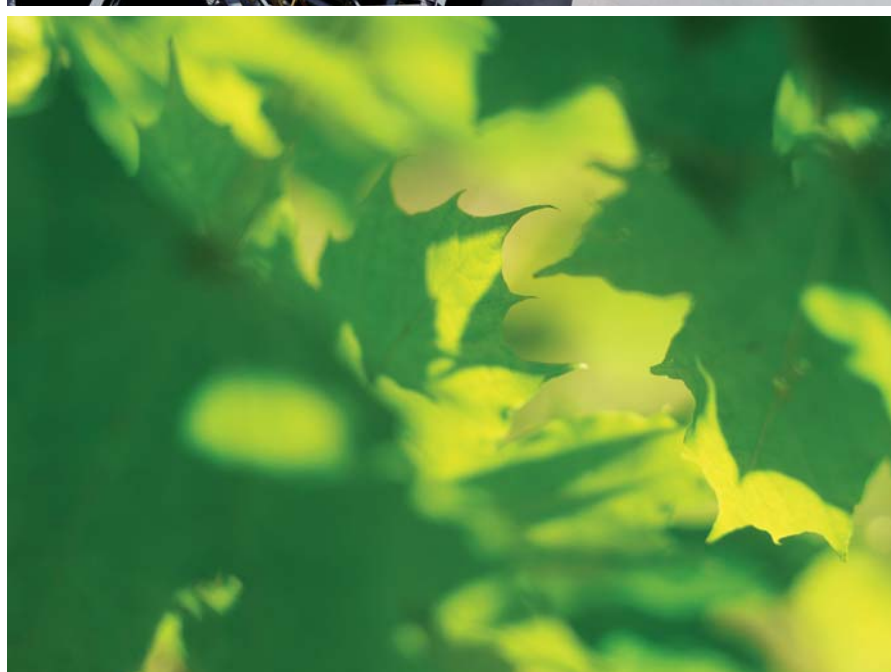
The information platform of TŽ is the SAP system, based on which the automatic control of BSC, reporting, and investment control was implemented. The introduction of the APS system resulted in the optimal production planning as well as the guarantee of amounts and terms of deliveries to the customers.

TŽ has an equity share in 23 companies, either with the deciding vote, or a substantial minor vote. The majority of the TŽ subsidiary companies focus on the activities related directly or implicitly to the business in the steel industry and this focus corresponds to the long term business strategy of TŽ.

The control of the TŽ capital shares is provided by means of the representatives in the statutory bodies of those companies and is focused on the creation of the strategic objectives, co-ordination of the business plans, creation of the investment, financial, and commercial strategy, as well as unifying the main processes. The objective of the control of all entities within the TŽ Group is increasing their values; their contribution to the group is regularly checked and evaluated in the form of analyses and reporting.



DEDUSTING OF SINTER PLANT NO. 1







#### Trends of total revenues during the past three years

Indicator (in CZK thousands)	2005	2006	2007
Rolled goods incl. steel	29 459 769	30 225 304	33 997 255
Other products	1 031 439	1 099 176	1 176 640
Sales of own products	30 491 208	31 324 480	35 173 895
Revenues from services	335 215	350 188	372 764
Sales of goods purchased for resale	665	781	5 969
Sale of own production, services and goods	30 827 088	31 675 449	35 552 628

#### Financial Situation

In 2007, our company achieved excellent economic results and some economic indicators even showed record values since the transformation from state enterprise to joint stock company. The 2007 thus ranks among the most successful years of TŽ.

We achieved profit before tax in the amount of CZK 4,524 million, which is CZK 1,109 million more than the 2006 profit and CZK 1,802 million more than the 2005 profit.

The continuing favourable commercial situation is also reflected in the company's total production, which amounted to the record of CZK 36,147 million (CZK 32,361 million in 2006 and CZK 32,327 million in 2005), which means an increase of CZK 3,786 million compared to 2006 or CZK 3,819 million when compared with 2005. Growth, when compared to 2006, can be attributed primarily to the higher sales of rolled goods and steel (+ CZK 3,722 million), which was influenced by the higher sales price (+1,438 CZK/t), as well as by the higher sales volume (+26 kt).

The purchased year-on-year consumables were CZK 2,050 million higher. The most significant effect on the year-on-year increase was the consumption of the raw materials, influenced by the growth of input prices as well as the higher production.

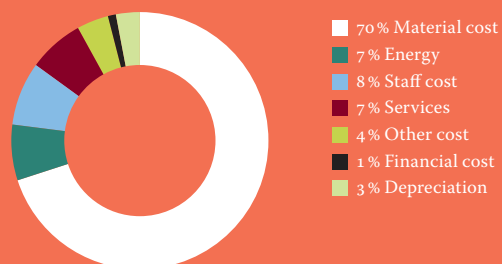
The highest added value in since the transformation from the state enterprise to the joint stock company has been achieved primarily as a result of faster growth of the production. The 2007 added value amounted to CZK 7,967 million. The labour productivity calculated as the per employee added value grew 27.6 % year on year to CZK 1,468 thousand.

The record operating profit was achieved, amounting to CZK 4,372 million, which represents an increase of CZK 1,377 million when compared to the previous year's result (that is, CZK 1,929 million when compared to 2005).

The profit from financial activities achieved the amount of CZK 152 million. The reduction of CZK 268 million when compared to 2006 is mainly caused by the lower dividend received as well as by the decline of income from the sale of securities.

*During last ten years we decreased the dust emissions five times*

Cost structure in 2007:



As of 31 December 2007, our company reported assets in the total amount of CZK 24,343 million, which is CZK 1,444 million more than that as of 31 December 2006 or, CZK 2,848 million compared to 2005. This increase was attributable to a growth in fixed assets of CZK 111 million (CZK 248 million compared to 2005); current assets increased by CZK 1,333 million (CZK 2,600 million compared to 2005).

The company's tangible fixed assets decreased as a result of the fact that the amount of investments was lower than the level of depreciation.

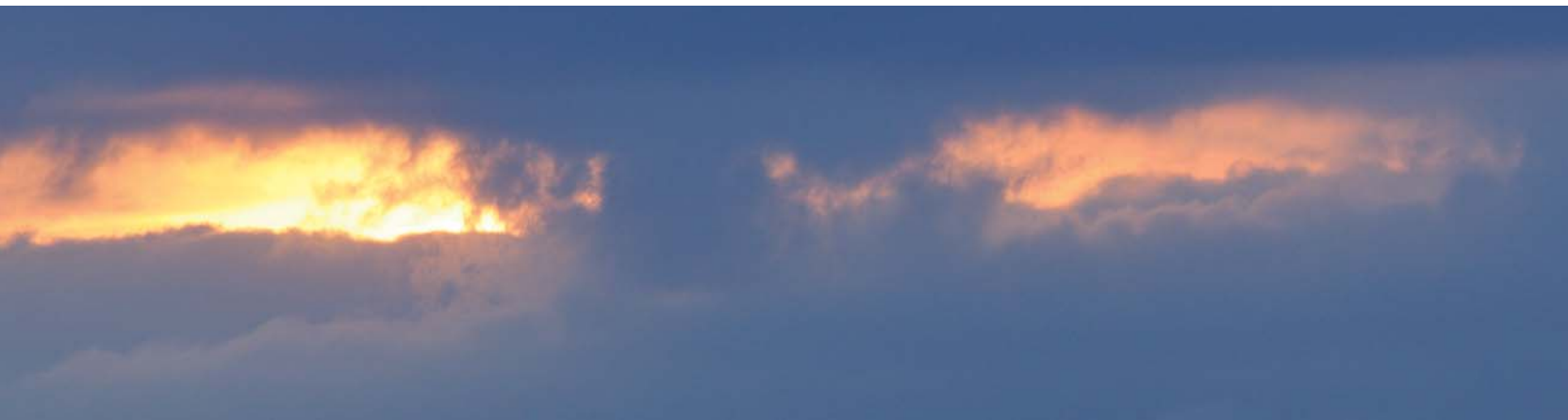
The company's intangible fixed assets decreased as a result of debiting the consumption of emission allowances.

The increase in the non-current financial assets relates to the purchase of the share in the companies of H & S Progress (VÚHŽ Dobrá) and Vítkovice – Výzkum a vývoj (currently Materiálový a metalurgický výzkum).

The main reason for the increase in the current assets was the growth of inventories, especially the semi-finished and finished products, this relates mainly to the higher price of the raw materials and higher evaluation of own production inventories. The short-term receivables decreased.

Regarding the shareholders' equity and liabilities, the structure of equity and liabilities has been improved in favour of the equity funds. The share of the equity funds in the company's total liabilities grew 2.3% to 74% (6.4% compared to 2005) as a result of the achieved profit.

Liabilities showed a decline of CZK 163 million or of CZK 619 million compared to 2005, with a decline in long-term payables, reserves and bank loans and an increase in short-term payables. The indebtedness rate dropped to 25.9% from 28.3% in 2006.



### Strategic Objectives

The optimistic prospects of the steel markets based on the anticipated growth of steel consumption is contributing to the implementation of the key investment decisions with the optimal return of expended resources. For Třinecké železářny, the forthcoming period can be characterized by the extensive renewal of the productive facilities and providing the competitiveness of the TŽ portfolio.

The strategic intentions of the company fully conform to the TŽ – MS Group fundamental strategy “Dynamic growth in the share of long products with a higher added value and its control within the up- and downstream product chains.” They are focused on broadening the product portfolio, more consistently fulfilling customers’ requirements, i.e. growing demands on quality, just in time deliveries, sophisticated test and full control of products. Details of the strategy are included in the TŽ Business Plan for the period from 2008 to 2012.

The significant strategic projects, which will influence the future development of Třinecké železářny include:

- modernization of the coking batteries
- modernization of the rolling mills of blooms and heavy profiles
- electromagnetic stirring for 4 strands at the continuous casting machine No. 1
- exchange of the casting crane in the converter steel mill
- extension of the storing capacities of the finished products
- secondary dusting off of the converter steel plant
- active development of new forms of co-operation with schools of all grades and participation in the creation of their education programs
- applying the policy of the salary differentiation and development of the motivation systems in order to achieve better identification of the individual interests with the corporate objectives and stabilize the key employees
- enforcing the health programs with the objective of the support of the employees’ health and decreasing their sickness rate
- re-definition of the management system



### Profit distribution proposal

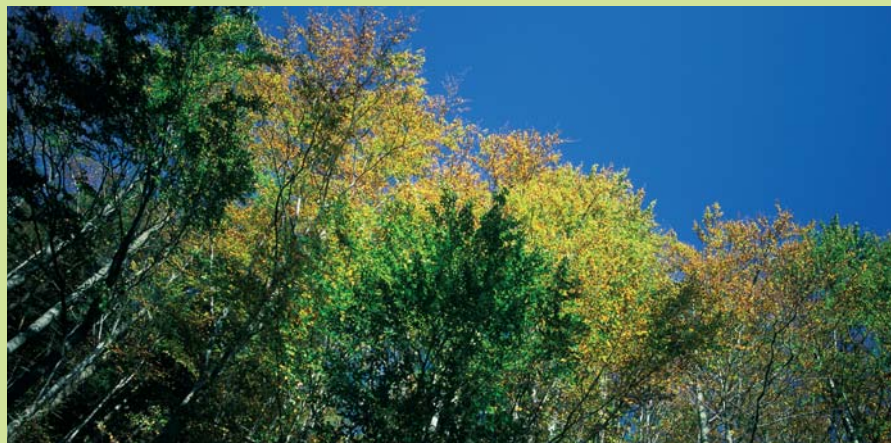
The after-tax net profit of TŘINECKÉ ŽELEZÁŘNY in 2007 amounted to CZK 3,633,114 thousand. The Board of Directors proposed the following distribution of the profit:

Allocation to reserve fund (5%)	CZK 181,656 thousand
Accumulated profits brought forward	CZK 3,451,458 thousand



# IX.

## REPORT OF THE SUPERVISORY BOARD



The Supervisory Board regularly supervised the activities of the Company's management and checked compliance of the business activities with legal regulations, Articles of Association, and resolutions of the General Meeting and the Supervisory Board. During the course of 2007, the Board of Directors informed it on the current economic situation of the Company as well as on fulfilling the Business Plan.

At its meetings, the Supervisory Board dealt with the most significant strategic intentions and projects, the significance and character of which were within its decision-making competence placing emphasis on meeting the long-term strategy of the Company.

At its meeting on 24 April 2008, the Supervisory Board reviewed the regular financial statements and regular consolidated financial statements of the Company for 2007, the proposal for distribution of the profit achieved in 2007, and the report of the Board of Directors on business activity and the assets of the Company.

Based on the audit of the unconsolidated financial statements and consolidated financial statements for the year ended 31 December 2007 by Deloitte and their opinions, which were without qualification, the Supervisory Board recommends that the General Meeting of shareholders of TRINECKÉ ŽELEZÁRNY approve all the above-mentioned documents.

The Supervisory Board also reviewed the report on relations for the 2007 accounting period and concluded that it was prepared in conformity with the Commercial Code and the actual state of relations between the affiliated entities.

**Tomáš Chrenek,**  
Chairman of the Supervisory Board

## FINANCIAL PART



## AUDITOR'S OPINION ON THE ANNUAL REPORT

**Deloitte.**

Deloitte Audit s.r.o.  
Karolinská 654/2  
186 00 Prague 8  
Czech Republic

Tel: +420 246 042 500  
Fax: +420 246 042 555  
DeloitteCZ@deloitteCE.com  
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 TŘINECKÉ ŽELEZÁRNY, a. s.

Having its registered office at : Třinec – Staré Město, Průmyslová 1000, 739 70  
Identification number: 18050646  
Principal activities: Metallurgy with a closed metallurgical cycle

#### Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 10 March 2008 on the financial statements which are included in this annual report in Section XI.:

“We have audited the accompanying financial statements of TŘINECKÉ ŽELEZÁRNY, 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 TRINECKÉ ŽELEZÁRNY, 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 7 April 2008 on the consolidated financial statements which are included in this annual report in Section XII.:

„We have audited the accompanying consolidated financial statements of TRINECKÉ ŽELEZÁRNY, 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 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.

### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of TRINECKÉ ŽELEZÁRNY, 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 Třinecké železářny, a. s. for the year ended 31 December 2007 which is included in this annual report in Section XIV. 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 Třinecké železářny, 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 28 April 2008

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

  
Václav Loubek, authorised employee

Statutory auditor:

  
Václav Loubek, certificate no. 2037

# XI.

## FINANCIAL PART I. – FINANCIAL STATEMENTS

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Name of the Company:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Průmyslová 1000, 739 70 Třinec-Staré Město
Legal Status:	Joint Stock Company
Corporate ID	18050646

#### 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 10 March 2008.

Statutory body of the reporting entity:	Signature
<b>Jiří Cíenciala</b> Chairman of the Board of Directors	
<b>Jaroslava Ciahotná</b> First Vice Chairwoman of the Board of Directors	



## BALANCE SHEET FULL VERSION

(CZK thousand)

		31.12.2007			31.12.2006	31.12.2005
		Gross	Adjustment	Net	Net	Net
	<b>TOTAL ASSETS</b>	<b>39 474 986</b>	<b>-15 131 992</b>	<b>24 342 994</b>	<b>22 899 029</b>	<b>21 494 904</b>
<b>B.</b>	<b>Fixed assets</b>	<b>27 724 135</b>	<b>-14 781 394</b>	<b>12 942 741</b>	<b>12 831 432</b>	<b>12 694 668</b>
I.	<i>Intangible fixed assets</i>	<b>145 549</b>	<b>-118 859</b>	<b>26 690</b>	<b>79 718</b>	<b>186 399</b>
3.	Software	118 130	-93 544	24 586	39 096	29 668
4.	Valuable rights	26 661	-25 315	1 346	442	182
6.	Other intangible fixed assets	0	0	0	39 993	136 930
7.	Intangible fixed assets under construction	758	0	758	187	19 619
II.	<i>Tangible fixed assets</i>	<b>23 846 950</b>	<b>-14 574 836</b>	<b>9 272 114</b>	<b>9 499 815</b>	<b>9 255 867</b>
1.	Land	320 162	0	320 162	320 744	321 557
2.	Structures	5 908 258	-3 258 893	2 649 365	2 615 859	2 548 020
3.	Individual movable assets and sets of movable assets	17 031 875	-11 313 025	5 718 850	5 705 817	5 937 948
6.	Other tangible fixed assets	1 736	0	1 736	1 736	1 757
7.	Tangible fixed assets under construction	471 705	-2 918	468 787	758 139	408 001
8.	Prepayments for tangible fixed assets	113 214	0	113 214	97 520	38 584
III.	<i>Non-current financial assets</i>	<b>3 731 636</b>	<b>-87 699</b>	<b>3 643 937</b>	<b>3 251 899</b>	<b>3 252 402</b>
1.	Equity investments in subsidiaries	3 528 457	-17 129	3 511 328	3 121 507	3 121 003
2.	Equity investments in associates	177 481	-67 097	110 384	109 671	109 545
3.	Other securities and investments	100	0	100	100	100
5.	Other non-current financial assets	19 965	0	19 965	20 621	21 754
6.	Acquisition of non-current financial assets	5 633	-3 473	2 160	0	0
C.	<b>Current assets</b>	<b>11 628 731</b>	<b>-350 598</b>	<b>11 278 133</b>	<b>9 980 286</b>	<b>8 711 877</b>
I.	<i>Inventories</i>	<b>5 488 700</b>	<b>-276 847</b>	<b>5 211 853</b>	<b>5 029 520</b>	<b>4 402 554</b>
1.	Material	2 265 418	-139 355	2 126 063	2 317 534	1 808 965
2.	Work in progress and semifinished goods	1 963 459	-80 952	1 882 507	1 707 455	1 641 544
3.	Products	1 250 115	-53 950	1 196 165	1 004 180	951 350
5.	Goods	9 683	-2 590	7 093	183	180
6.	Prepayments for inventory	25	0	25	168	515
II.	<i>Long-term receivables</i>	<b>2 549</b>	<b>0</b>	<b>2 549</b>	<b>7 540</b>	<b>102 557</b>
5.	Long-term prepayments made	635	0	635	660	646
7.	Other receivables	1 914	0	1 914	6 880	101 911
III.	<i>Short-term receivables</i>	<b>2 938 414</b>	<b>-73 751</b>	<b>2 864 663</b>	<b>2 997 891</b>	<b>2 848 497</b>
1.	Trade receivables	2 852 552	-62 826	2 789 726	2 829 179	2 572 271
2.	Receivables – controlling entity	0	0	0	0	15 314
6.	State-tax receivables	0	0	0	58 731	57 644
7.	Short-term prepayments made	60 405	0	60 405	6 669	15 241
8.	Estimated receivables	2 321	0	2 321	7 363	3 308
9.	Other receivables	23 136	-10 925	12 211	95 949	184 719
IV.	<i>Current financial assets</i>	<b>3 199 068</b>	<b>0</b>	<b>3 199 068</b>	<b>1 945 335</b>	<b>1 358 269</b>
1.	Cash on hand	1 483	0	1 483	1 216	1 213
2.	Cash at bank	956 866	0	956 866	1 282 581	637 349
3.	Short-term securities and investments	2 240 719	0	2 240 719	661 538	719 707
D.I.	<b>Other assets</b>	<b>122 120</b>	<b>0</b>	<b>122 120</b>	<b>87 311</b>	<b>88 359</b>
1.	Deferred expense	91 516	0	91 516	36 962	47 415
2.	Complex deferred expenses	30 399	0	30 399	50 044	40 491
3.	Accrued income	205	0	205	305	453

**LIABILITIES AND EQUITY**

(CZK thousand)

		31.12.2007	31.12.2006	31.12.2005
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>24 342 994</b>	<b>22 899 029</b>	<b>21 494 904</b>
<b>A.</b>	<b>Equity</b>	<b>18 009 959</b>	<b>16 404 427</b>	<b>14 537 573</b>
I.	<i>Share capital</i>	<b>8 109 863</b>	<b>8 109 863</b>	<b>8 109 863</b>
1.	Share capital	8 109 863	8 109 863	8 109 863
II.	<i>Capital funds</i>	<b>86 323</b>	<b>86 323</b>	<b>86 338</b>
2.	Other capital funds	86 376	86 376	86 376
3.	Gains or losses from the revaluation of assets and liabilities	-53	-53	-38
III.	<i>Statutory funds</i>	<b>2 507 799</b>	<b>2 373 707</b>	<b>2 276 603</b>
1.	Statutory reserve fund / Indivisible fund	523 531	389 324	285 927
2.	Statutory and other funds	1 984 268	1 984 383	1 990 676
IV.	<i>Retained earnings</i>	<b>3 672 860</b>	<b>3 150 386</b>	<b>1 996 830</b>
1.	Accumulated profits brought forward	3 672 860	3 150 386	1 996 830
V.	<i>Profit or loss for the current period (+/-)</i>	<b>3 633 114</b>	<b>2 684 148</b>	<b>2 067 939</b>
<b>B.</b>	<b>Liabilities</b>	<b>6 318 625</b>	<b>6 481 395</b>	<b>6 937 405</b>
I.	<i>Reserves</i>	<b>536 057</b>	<b>479 084</b>	<b>668 488</b>
1.	Reserves under special legislation	91 898	236 721	530 849
4.	Other reserves	444 159	242 363	137 639
II.	<i>Long-term liabilities</i>	<b>619 590</b>	<b>718 350</b>	<b>876 316</b>
1.	Trade payables	25 015	6 096	11 562
5.	Long-term prepayments received	369	0	0
7.	Long-term bills of exchange to be paid	0	27 495	58 010
9.	Other payables	0	706	3 390
10.	Deferred tax liability	594 206	684 053	653 214
11.	State-tax payables and subsidies	0	0	150 140
III.	<i>Short-term liabilities</i>	<b>3 697 964</b>	<b>3 178 657</b>	<b>3 139 217</b>
1.	Trade payables	2 753 379	2 230 819	2 280 889
4.	Payables to partners and association members	16 346	8 295	22 761
5.	Payables to employees	234 473	202 545	176 624
6.	Social security and health insurance payables	94 761	89 490	82 566
7.	State-tax payables and subsidies	436 666	544 083	458 572
8.	Short-term prepayments received	0	6 000	18
10.	Estimated payables	145 855	83 391	82 079
11.	Other payables	16 484	14 034	35 708
IV.	<i>Bank loans and borrowings</i>	<b>1 465 014</b>	<b>2 105 304</b>	<b>2 253 384</b>
1.	Long-term bank loans	1 021 975	1 496 044	1 677 150
2.	Short-term bank loans	443 039	609 260	576 234
<b>C.I.</b>	<b>Other liabilities</b>	<b>14 410</b>	<b>13 207</b>	<b>19 926</b>
1.	Accrued expenses	14 379	13 177	19 219
2.	Deferred income	31	30	707



**PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD**

(CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
I.	Sales of goods	5 969	781	665
A.	Costs of goods sold	5 651	744	612
+	<b>Gross margin</b>	<b>318</b>	<b>37</b>	<b>53</b>
II.	Production	36 146 844	32 361 040	32 327 364
1.	Sales of own products and services	35 546 658	31 674 668	30 826 423
2.	Change in internally produced inventory	183 606	268 973	1 022 169
3.	Own work capitalised	416 580	417 399	478 772
B.	Purchased consumables and services	28 180 333	26 130 491	26 784 689
1.	Consumed material and energy	25 707 575	23 463 163	24 048 266
2.	Services	2 472 758	2 667 328	2 736 423
+	<b>Added value</b>	<b>7 966 829</b>	<b>6 230 586</b>	<b>5 542 728</b>
C.	Staff costs	2 638 118	2 330 356	2 310 511
1.	Payroll costs	1 771 934	1 634 871	1 621 023
2.	Remuneration to members of statutory bodies	18 864	18 672	18 768
3.	Social security and health insurance costs	649 159	595 798	589 864
4.	Social costs	198 161	81 015	80 856
D.	Taxes and charges	14 864	14 611	15 651
E.	Depreciation of intangible and tangible fixed assets	1 002 827	929 921	861 933
III.	Sales of fixed assets and material	142 096	142 140	161 154
1.	Sales of fixed assets	22 959	30 605	45 836
2.	Sales of material	119 137	111 535	115 318
F.	Net book value of fixed assets and material sold	117 391	113 142	186 167
1.	Net book value of sold fixed assets	11 395	14 651	80 819
2.	Book value of sold material	105 996	98 491	105 348
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-142 965	-386 836	-191 459
IV.	Other operating income	196 120	1 975 035	1 735 287
H.	Other operating expenses	302 758	2 351 915	1 813 559
*	<b>Operating profit or loss</b>	<b>4 372 052</b>	<b>2 994 652</b>	<b>2 442 807</b>
VI.	Proceeds from the sale of securities and investments	79 985	105 180	165 602
J.	Cost of securities and investments sold	93 048	11 940	170 157
VII.	Income from non-current financial assets	196 567	341 785	396 374
1.	Income from subsidiaries and associates	195 798	341 266	396 001
3.	Income from other non-current financial assets	769	519	373
IX.	Income from the revaluation of securities and derivatives	309	61	21
M.	Change in reserves and provisions relating to financial activities	-11 658	-17 879	17 772
X.	Interest income	44 277	38 758	22 044
N.	Interest expenses	96 330	112 665	100 821
XI.	Other financial income	92 828	122 512	165 243
O.	Other financial expenses	84 571	81 584	108 683
*	<b>Financial profit or loss</b>	<b>151 675</b>	<b>419 986</b>	<b>351 851</b>
Q.	Income tax on ordinary activities	890 613	730 490	653 769
1.	–due	980 461	699 646	499 882
2.	–deferred	-89 848	30 844	153 887
**	<b>Profit or loss from ordinary activities</b>	<b>3 633 114</b>	<b>2 684 148</b>	<b>2 140 889</b>
XIII.	Extraordinary income	0	0	64 475
R.	Extraordinary expenses	0	0	137 425
*	<b>Extraordinary profit or loss</b>	<b>0</b>	<b>0</b>	<b>-72 950</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>3 633 114</b>	<b>2 684 148</b>	<b>2 067 939</b>
****	<b>Profit or loss before tax (+/-)</b>	<b>4 523 727</b>	<b>3 414 638</b>	<b>2 721 708</b>

## STATEMENT OF CHANGES IN EQUITY

(CZK thousand)

	Share capital	Capital funds	Statutory reserve fund	Statutory and other funds	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
<b>Balance at 31 December 2004</b>	<b>8 109 863</b>	<b>72 352</b>	<b>157 180</b>	<b>1 996 903</b>	<b>118 337</b>	<b>2 574 930</b>	<b>13 029 565</b>
Profit for the period	0	0	0	0	0	2 067 939	2 067 939
Allocation of profit of previous periods	0	0	128 747	0	1 878 493	-2 007 240	0
Dividends	0	0	0	0	0	-567 690	-567 690
Change of valuation of securities	0	13 986	0	0	0	0	13 986
Payments from the social fund	0	0	0	-6 227	0	0	-6 227
<b>Balance at 31 December 2005</b>	<b>8 109 863</b>	<b>86 338</b>	<b>285 927</b>	<b>1 990 676</b>	<b>1 996 830</b>	<b>2 067 939</b>	<b>14 537 573</b>
Profit for the period	0	0	0	0	0	2 684 148	2 684 148
Allocation of profit of previous periods	0	0	103 397	0	1 153 556	-1 256 953	0
Dividends	0	0	0	0	0	-810 986	-810 986
Change of valuation of securities	0	-15	0	0	0	0	-15
Payments from the social fund	0	0	0	-6 293	0	0	-6 293
<b>Balance at 31 December 2006</b>	<b>8 109 863</b>	<b>86 323</b>	<b>389 324</b>	<b>1 984 383</b>	<b>3 150 386</b>	<b>2 684 148</b>	<b>16 404 427</b>
Profit for the period	0	0	0	0	0	3 633 114	3 633 114
Allocation of profit of previous periods	0	0	134 207	0	522 475	-656 682	0
Dividends	0	0	0	0	0	-2 027 466	-2 027 466
Payments from the social fund	0	0	0	-116	0	0	-116
Other	0	0	0	1	-1	0	0
<b>Balance at 31 December 2007</b>	<b>8 109 863</b>	<b>86 323</b>	<b>523 531</b>	<b>1 984 268</b>	<b>3 672 860</b>	<b>3 633 114</b>	<b>18 009 959</b>

## CASH FLOW STATEMENT

(CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>1 699 119</b>	<b>903 812</b>	<b>163 998</b>
	<i>Cash flows from ordinary activities</i>			
Z.	Profit or loss from ordinary activities before tax	4 523 727	3 414 638	2 794 658
A.1.	Adjustments for non-cash transactions	756 617	131 794	395 417
A.1.1.	Depreciation of fixed assets	1 002 827	929 921	861 933
A.1.2.	Change in provisions and reserves	-154 623	-404 715	-173 687
A.1.3.	Profit (loss) on the sale of fixed assets	1 903	-109 194	50 254
A.1.4.	Revenues from dividends and profit shares	-196 567	-341 785	-396 374
A.1.5.	Interest expense and interest income	52 053	73 907	78 777
A.1.6.	Adjustments for other non-cash transactions	51 024	-16 340	-25 486
<b>A*</b>	<b>Net operating cash flow before changes in working capital</b>	<b>5 280 344</b>	<b>3 546 432</b>	<b>3 190 075</b>
A.2.	Change in working capital	837 429	-541 370	459 156
A.2.1.	Change in operating receivables and other assets	81 250	145 339	-21 459
A.2.2.	Change in operating payables and other liabilities	535 238	-84 563	1 016 849
A.2.3.	Change in inventories	-1 540	-798 678	-662 753
A.2.4.	Change in current financial assets	222 481	196 532	126 519
<b>A.**</b>	<b>Net cash flow from operations before tax and extraordinary items</b>	<b>6 117 773</b>	<b>3 005 062</b>	<b>3 649 231</b>
A.3.	Interest paid	-97 155	-106 045	-92 509
A.4.	Interest received	44 392	38 911	22 384
A.5.	Income tax paid from ordinary operations	-830 119	-500 808	-1 399 777
A.6.	Receipts and expenditures relating to extraordinary activities	10 290	10 290	10 290
A.7.	Received dividends and profit shares	196 454	333 785	395 474
<b>A.***</b>	<b>Net operating cash flow</b>	<b>5 441 635</b>	<b>2 781 195</b>	<b>2 585 093</b>
	<i>Cash flows from investing activities</i>			
B.1.	Fixed assets expenditures	-1 379 586	-1 154 425	-1 544 108
B.2.	Proceeds from fixed assets sold	112 951	318 762	120 002
<b>B.***</b>	<b>Net investment cash flow</b>	<b>-1 266 635</b>	<b>-835 663</b>	<b>-1 424 106</b>
	<i>Cash flows from financial activities</i>			
C.1.	Change in payables from financing	-692 384	-337 019	150 308
C.2.	Impact of changes in equity	-2 018 111	-813 206	-571 481
C.2.5.	Payments from capital funds	-116	-6 388	-6 276
C.2.6.	Dividends paid	-2 017 995	-806 818	-565 205
<b>C.***</b>	<b>Net financial cash flow</b>	<b>-2 710 495</b>	<b>-1 150 225</b>	<b>-421 173</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>1 464 505</b>	<b>795 307</b>	<b>739 814</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>3 163 624</b>	<b>1 699 119</b>	<b>903 812</b>



NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

TŘINECKÉ ŽELEZÁRNY, a.s. (henceforth the “Company”) was formed by the National Property Fund of the Czech Republic on the basis of a Deed of Foundation as a joint stock company registered in Třinec, Czech Republic, and was incorporated following its registration in the Register of Companies of the Regional Court in Ostrava on 21 March 1991. The Company is primarily engaged in metallurgy with a closed metallurgical cycle. In addition to the production of coke, pig iron and steel, the range of principal products provided by the Company involves the products of rolling mills, namely blooms, slabs, billets, rods, reinforcing bars and thin, medium and heavy sections. The Company benefits from its incumbent status of being the Czech monopoly in respect of the manufacture of rails.

The Company’s registered office is located in Třinec-Staré Město, Průmyslová 1000, 739 70.  
The Company’s issued share capital is CZK 8,109,863 thousand.

The following table shows individuals and legal entities exercising controlling or substantial influence over the Company and the amount of their equity interest:

Shareholder	Ownership percentage
MORAVIA STEEL a. s.	69.04 %
Other	30.96 %
Total	100.00%

1.2. CHANGES IN AND AMENDMENTS TO THE REGISTER OF COMPANIES

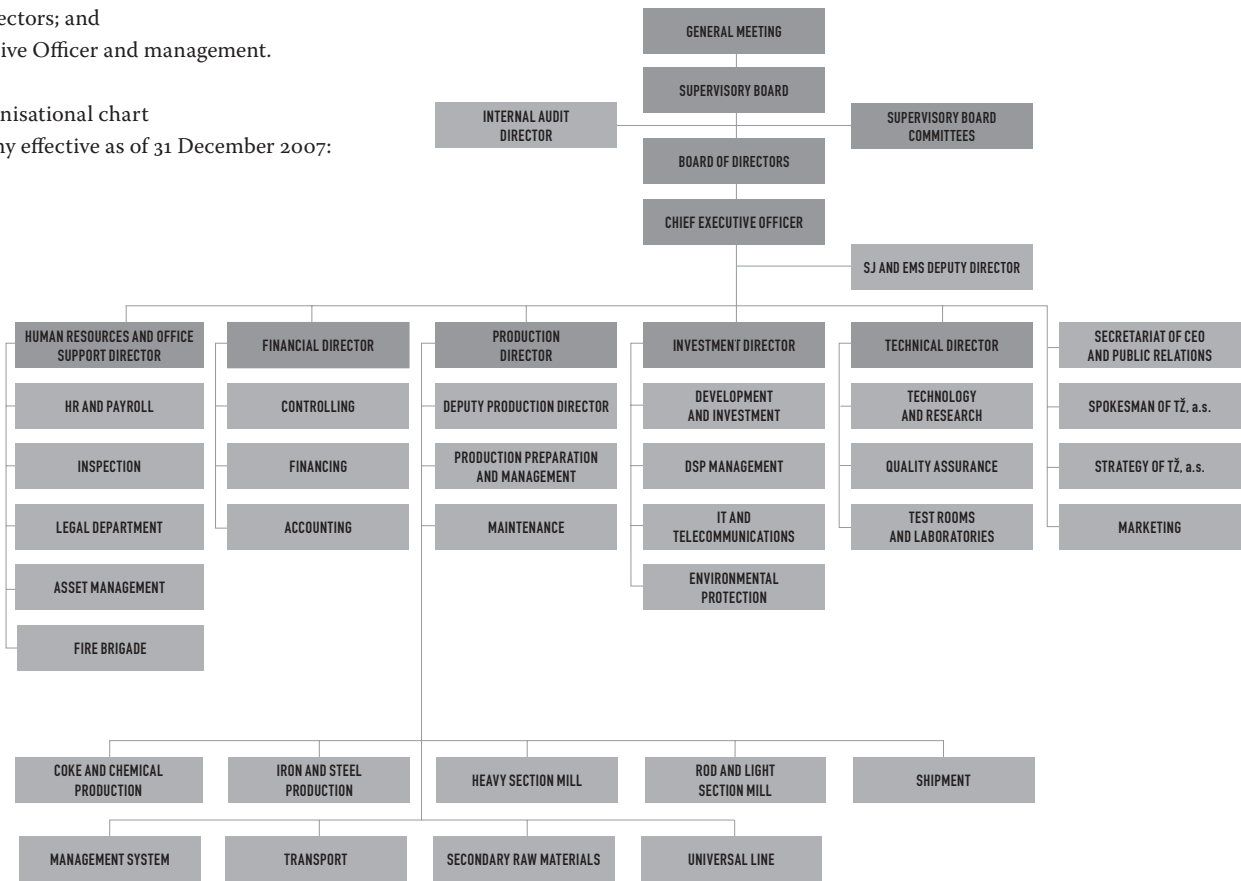
During the year ended 31 December 2007, the corporate details held at the Register of Companies were updated to reflect minor changes relating to the composition of the Supervisory Board (refer to Note 1.5.) and the form of shares (refer to Note 4.7.1.).

1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

The key governing bodies of the Company are as follows:

- General Meeting of Shareholders;
- Supervisory Board;
- Board of Directors; and
- Chief Executive Officer and management.

The basic organisational chart of the Company effective as of 31 December 2007:



The following organisational changes were made in the year ended 31 December 2007:

- Under GR – Chief Executive Officer, the position of RR – Management System Development Director was discontinued and the position IR – Investment Director was created which supervises IF – IT and Telecommunications, IK – DSp Management and newly Divisions IV – Development and Investments, IL – Environmental Protection which were transferred from the TR Section – Strategy and Technology Manager;
- Renaming of the TR Section – Strategy and Technology Manager to TR – Technical Manager which supervises TT Sections – Technology and Research, TJ – Quality Assurance and TZ – Test Rooms and Laboratories;
- RM Division – Marketing which reported to RR – Management System Development Director was transferred under GR – the Chief Executive Officer;
- PO Division – Public Relations which reported to PR – Human Resources and Office Support Director was transferred and merged with GS – Secretariat of CEO which reports to GR – Chief Executive Officer;
- In the VR Section – Production director VRn – Deputy VR, VY Division – Maintenance were created, VN – Handling and Storing of Material was discontinued and VS – Secondary Raw Materials which reported to PR – Human Resources and Office Support Director was transferred; and
- Discontinuation of Fn – Deputy of FR and Tn – Deputy of TR

#### 1.4. GROUP IDENTIFICATION

The Company is included in the MORAVIA STEEL a.s. Group. MORAVIA STEEL a.s. is controlled by FINITRADING a.s. and R.F.G., a.s., acting in concert.

#### 1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2007

	Position	Name
<b>Board of Directors</b>	Chairman	Jiří Cienciala
	1st Vice Chairwoman	Jaroslava Ciahotná
	2nd Vice Chairman	Jan Czudek
	Member	Jan Lasota
	Member	Česlav Marek
	Member	Petr Matuszek
<b>Supervisory Board</b>	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Hanns K. Zöllner
	Member	František Ligocki
	Member	Evžen Balko
	Member	Oldřich Cieslar
	Member	Jiří Stašák
	Member	Jozef Blaško
	Member	Pablo Alarcón Espinosa

There were the following changes in the Board of Directors in the reporting period:

#### Board of Directors:

Position	Original member	New member	Date of the change
Member	Ivo Dubš	Pablo Alarcón Espinosa	25 June 2007

#### 2. BASIS OF ACCOUNTING AND GENARAL ACCOUNTING PRINCIPES

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, the accruals principle, the prudence concept and the going concern assumption.

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

#### 2.1. REPORTING PERIOD

The financial statements of the 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, 31 December 2005 and 31 December 2004; and
- The cash flow statement comprises comparative amounts for the years ended 31 December 2006 and 31 December 2005.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

##### Valuation

Tangible fixed assets include assets with a cost greater than CZK 40,000 on an individual basis and an estimated useful life greater than one year.

Intangible fixed assets include assets (such as software, valuable rights, and research and development) with a cost greater than CZK 60,000 on an individual basis and an estimated useful life greater than one year.

Purchased tangible and intangible fixed assets are valued at cost. 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 Company's internal regulations.

Tangible and intangible assets with an estimated useful life greater than one year and a cost equal to or lower than CZK 40,000 and CZK 60,000, 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 60,000 and less are expensed through the account 'Services' in the year of acquisition.

The cost of a fixed asset improvement exceeding CZK 40,000 increases the acquisition cost of the related fixed asset.

The results of the Company'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 and are held in off balance sheet records at internal costs of production.

Greenhouse emission allowances are recognised as non-depreciable intangible fixed assets and are stated at cost, or replacement cost when acquired free of charge. The use of emission allowances is accounted for at the balance sheet date as a minimum, depending upon the level of emissions produced by the Company in the calendar year. An initial free-of-charge acquisition of the allowances is recognised as a subsidy not reducing the carrying amount of the intangible fixed assets. This 'subsidy' is released into income on a systematic basis as the allowances are used and charged to expenses. The sale of allowances is recorded as a component of 'Sales of fixed assets'.

As of the balance sheet date, emission allowances are valued according to the EUROPEAN ENERGY EXCHANGE rate. The change in the valuation of emission allowances as of the balance sheet date is recognised between balance sheet accounts 'Other intangible fixed assets' and 'State – tax payables and subsidies'. If there is a lack of allowances at the balance sheet date, the Company recognises a reserve as part of 'Other reserves' and 'Change in reserves and provisions relating to operating activities and complex deferred expenses'. The reserve for the purchase of allowances is released in the following accounting period when the missing allowances are purchased.

##### 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
Machines and equipment	2 – 42
Vehicles	3 – 40
Furniture and fixtures	6 – 15
Software	3 – 7

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

If the inventory count indicates that the estimated useful life of assets has changed, the Company 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 1 January 2002 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 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 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).

### **3.2. 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 Company records:

Equity investments at cost less any impairment provisions.

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 'Other non-current securities and equity investments' and 'Gains and losses from the revaluation of assets and liabilities'. A deferred tax is determined in respect of the revaluation difference where the value of available-for-sale securities increases, and is recorded through accounts 'Gains and losses from the revaluation of assets and liabilities' and 'Deferred tax liability'.

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

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'.

#### **Provisioning against Equity Investments**

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 reflects its interest in the entity's equity.

### **3.3. 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.

### **3.4. INVENTORY**

#### **Valuation**

Purchased inventory is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as custom 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.

The revaluation of internally developed inventory is performed as of 1 January of the current year by reference to the calculations made based on 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 the 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 revalued and the difference is accounted for as 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.

### **3.5. RECEIVABLES**

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

### **Provisioning**

The Company 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 (other than intercompany) 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 addition, the Company recognised provisions against specific receivables following an assessment of their collectability.

The Company creates provisions against interest-free long-term receivables. This provisioning charge is calculated as equal to the difference between the nominal value and the discounted value of these receivables.

### **3.6. PAYABLES**

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

### **3.7. LOANS AND BORROWINGS**

#### **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 an outstanding interest expense which is carried on the face of the balance sheet within issued short-term bonds.

### **3.8. RESERVES**

The Company creates other reserves to provide for future risks known at the balance sheet date. In addition, the Company 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. 294/2005 Coll. If the reserves are not drawn within the statutory period, they are released.

### **3.9. FOREIGN CURRENCY TRANSLATIONS**

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.

At 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.

At the balance sheet date, non-current financial assets are translated using the exchange rate promulgated 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.

### **3.10. 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.

### **3.11. TAXATION**

#### *3.11.1. 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 which are depreciated using the straight line method.

### *3.11.2. 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.

### *3.11.3. 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.

## **3.12. BORROWING COSTS**

Borrowing costs arising from loans are directly expensed regardless of the purpose for which the loans were drawn.

## **3.13. REVENUE RECOGNITION**

Revenues are recognised when goods are delivered and accepted by the customer 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.

## **3.14. USE OF ESTIMATES**

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of 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.

## **3.15. 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. A detailed analysis of the projects in progress is undertaken at the balance sheet date and the costs incurred are charged to expenses or recognised as complex deferred expenses with a corresponding recognition of a provision in the event that there is doubt over the completion or future utilisation of the project.

## **3.16. 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.

## **3.17. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES**

Since 2007, the Company has posted staff costs relating to employees hired through an employment agency to social security expenses, which comprise the actually paid wages including social security and health insurance expenses, and other staff costs, namely subsistence allowance. The expenses arising from personal protective aids and drinks for agency employees are charged to 'Consumed material and energy'. Other agency services, such as mediation fees or agency overheads, are charged to 'Services'.

In previous years, all expenses relating to employees hired through an employment agency were charged through 'Services'.

## **3.18. SUBSIDIES**

The Company receives operating subsidies. The funds drawn are charged to expenses and operating subsidies received are credited to income on an accruals basis (refer to Note 4.17.). In addition, the Company receives subsidies to fund the acquisition of fixed assets and these subsidies reduce the cost of the related assets.

In 2004, the Company 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 'State – tax payables and subsidies' and is split into short-term and long-term portions, and is gradually released to income on an accruals basis as the projects for which it was created are implemented.

## **3.19. CASH FLOW STATEMENT**

The cash flow statement is prepared using the indirect method.

For cash flow reporting purposes, cash and cash equivalents include cash and duty stamps, cash in bank except for deposits with maturity longer than



three months, and current liquid assets easily convertible into cash in an amount agreed in advance where no significant changes in the value of these assets are expected over time.

**Cash and cash equivalents can be analysed as follows:**

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Cash on hand	1 483	1 216	1 213
Current accounts	921 422	1 036 365	171 668
Term deposit	0	0	16 500
Short-term securities and equity investments	2 240 719	673 247	714 431
Provision against current financial assets	0	-11 709	0
<b>Total cash and cash equivalents</b>	<b>3 163 624</b>	<b>1 699 119</b>	<b>903 812</b>
Total cash and cash equivalents not included in cash flow	35 444	246 216	454 457
<b>Total current financial assets</b>	<b>3 199 068</b>	<b>1 945 335</b>	<b>1 358 269</b>

#### Comments on the Cash Flow Statement:

The change in the balance of current financial assets as of 31 December 2007 as compared to the balance sheet is associated with the opening of a special-purpose account of CZK 35,444 thousand as of 31 December 2007 in connection with the received state aid.

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

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, and equity interests in STEELTEC CZ, s.r.o. and MORAVIA ENERGO, a.s. of CZK 4,866 thousand and CZK 410 thousand, respectively, which were expected to be sold.

## 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 1 Jan 2005	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Software	81 524	13 851	1 945	93 430	23 510	2 403	114 537	3 848	255	118 130
Valuable rights	24 233	100	0	24 333	730	0	25 063	1 598	0	26 661
Other intangible FA	0	1 773 948	1 637 018	136 930	1 881 066	1 978 003	39 993	56 963	96 956	0
Intangible FA under construction	1 882	31 688	13 951	19 619	4 809	24 241	187	6 017	5 446	758
Prepayments made for intangible FA	0	487	487	0	0	0	0	0	0	0
<b>Total</b>	<b>107 639</b>	<b>1 820 074</b>	<b>1 653 401</b>	<b>274 312</b>	<b>1 910 115</b>	<b>2 004 647</b>	<b>179 780</b>	<b>68 426</b>	<b>102 657</b>	<b>145 549</b>

#### Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 1 Jan 2005	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Software	58 405	7 302	1 945	63 762	14 081	2 402	75 441	18 359	255	93 544
Valuable rights	23 964	187	0	24 151	470	0	24 621	694	0	25 315
<b>Total</b>	<b>82 369</b>	<b>7 489</b>	<b>1 945</b>	<b>87 913</b>	<b>14 551</b>	<b>2 402</b>	<b>100 062</b>	<b>19 053</b>	<b>255</b>	<b>118 859</b>

#### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Software	29 668	39 096	24 586
Valuable rights	182	442	1 346
Other intangible FA	136 930	39 993	0
Intangible FA under construction	19 619	187	758
<b>Total</b>	<b>186 399</b>	<b>79 718</b>	<b>26 690</b>

### Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 19,053 thousand, CZK 14,552 thousand, CZK 7,489 thousand as of 31 December 2007, 2006 and 2005, respectively.

Other intangible fixed assets include greenhouse emission allowances that were used as of 31 December 2007. A reserve of CZK 4 thousand was created for the missing allowances needed to cover the greenhouse emission consumption in the accounting period.

In the year ended 31 December 2007, the Company sold 150 thousand greenhouse emission allowances. The gain on the sale of the allowances amounted to CZK 3,783 thousand.

### Aggregate Balance of Low Value Intangible Assets not Reported on the Balance Sheet

The aggregate balance of low value intangible assets not reported on the face of the balance sheet was CZK 22,098 thousand, CZK 19,956 thousand and CZK 18,880 thousand as of 31 December 2007, 2006 and 2005, respectively.

#### 4.1.2. Tangible Fixed Assets

##### Cost

(CZK thousand)

	Balance at 1 Jan 2005	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Land	322 416	80	939	321 557	233	1 046	320 744	0	582	320 162
Structures	5 540 069	197 908	140 224	5 597 753	209 897	31 880	5 775 770	162 713	30 225	5 908 258
Individual movable assets	15 323 808	1 287 925	545 629	16 066 104	570 096	288 260	16 347 940	889 702	205 767	17 031 875
– Machinery and equipment	14 204 368	1 238 656	534 057	14 908 967	531 612	277 286	15 163 293	794 171	196 603	15 760 861
– Vehicles	1 097 378	47 325	11 442	1 133 261	38 366	10 597	1 161 030	95 055	9 164	1 246 921
– Furniture and fixtures	22 062	1 944	130	23 876	118	377	23 617	476	0	24 093
Other tangible FA	1 788	0	31	1 757	0	21	1 736	0	0	1 736
Tangible FA under construction	496 679	1 385 982	1 473 060	409 601	1 118 171	768 992	758 780	735 458	1 022 533	471 705
Prepayments for tangible FA	60 032	140 625	162 073	38 584	148 227	89 291	97 520	77 799	62 105	113 214
<b>Total</b>	<b>21 744 792</b>	<b>3 012 520</b>	<b>2 321 956</b>	<b>22 435 356</b>	<b>2 046 624</b>	<b>1 179 490</b>	<b>23 302 490</b>	<b>1 865 672</b>	<b>1 321 212</b>	<b>23 846 950</b>

##### Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 1 Jan 2005	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007
Structures	2 989 791	242 397	182 455	3 049 733	148 733	38 555	3 159 911	146 637	47 655	3 258 893
Individual movable assets	9 946 008	737 087	554 939	10 128 156	805 357	291 390	10 642 123	891 136	220 234	11 313 025
– Machinery and equipment	8 979 628	711 583	543 367	9 147 844	780 151	280 416	9 647 579	861 785	211 070	10 298 294
– Vehicles	946 313	25 116	11 442	959 987	24 656	10 597	974 046	28 790	9 164	993 672
– Furniture and fixtures	20 067	388	130	20 325	550	377	20 498	561	0	21 059
Tangible FA under construction	366	1 234	0	1 600	613	1 572	641	2 277	0	2 918
<b>Total</b>	<b>12 936 165</b>	<b>980 718</b>	<b>737 394</b>	<b>13 179 489</b>	<b>954 703</b>	<b>331 517</b>	<b>13 802 675</b>	<b>1 040 050</b>	<b>267 889</b>	<b>14 574 836</b>

##### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Land	321 557	320 744	320 162
Structures	2 548 020	2 615 859	2 649 365
Individual movable assets	5 937 948	5 705 817	5 718 850
– Machinery and equipment	5 761 123	5 515 714	5 462 567
– Vehicles	173 274	186 984	253 249
– Furniture and fixtures	3 551	3 119	3 034
Other tangible FA	1 757	1 736	1 736
Tangible FA under construction	408 001	758 139	468 787
Prepayments for tangible FA	38 584	97 520	113 214
<b>Total</b>	<b>9 255 867</b>	<b>9 499 815</b>	<b>9 272 114</b>

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 an oxygen converter steel plant	60 594
Construction of a new grinder	57 960

During the year ended 31 December 2007, assets with an aggregate net book value of CZK 41,261 thousand were removed from tangible fixed assets. Major disposals related to the liquidation of a light section mill, sale of leased equipment to Sochorová válcovna TŽ, a.s. and liquidation of a grinding line.

#### Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 983,774 thousand, CZK 915,369 thousand and CZK 854,444 thousand as of 31 December 2007, 2006 and 2005, respectively.

#### Aggregate Balance of Low Value Tangible Assets not Reported on the Balance Sheet

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 361,594 thousand, CZK 357,764 thousand and 318,333 CZK thousand as of 31 December 2007, 2006 and 2005, respectively.

#### 4.1.3. Assets Held under Finance and Operating Lease Agreements

##### Finance Leases

#### 31 December 2007

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2007
Total anticipated lease payments	17 971	179 329	197 300
Actual lease payments made through 31 Dec 2007	15 858	152 294	168 152
Future payments due by 31 Dec 2008	1 862	14 245	16 107
Future payments due in the following periods	251	12 790	13 041

#### 31 December 2006

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2006
Total anticipated lease payments	25 029	252 535	277 564
Actual lease payments made through 31 Dec 2006	19 181	204 004	223 185
Future payments due by 31 Dec 2007	3 677	21 496	25 173
Future payments due in the following periods	2 171	27 035	29 206

#### 31 December 2005

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2005
Total anticipated lease payments	29 987	285 844	315 831
Actual lease payments made through 31 Dec 2005	21 393	204 705	226 098
Future payments due by 31 Dec 2006	4 647	37 970	42 617
Future payments due in the following periods	3 947	43 169	47 116

#### Operating Leases

As of 31 December 2007, 2006 and 2005, the Company made lease payments of CZK 22,866 thousand, CZK 21,677 thousand, CZK 10,806 thousand, respectively.

#### 4.1.4. Pledged Fixed Assets

#### 31 December 2007

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	367 101	Loan from Komerční banka, a.s.
Land	12 341	
Tangible FA	503 752	Loan from Česká spořitelna, a.s.
Land	2 811	
Tangible FA	289 102	Loan from Československá obchodní banka, a.s.
Tangible FA	429 180	Loan from Citibank, a.s.
<b>Total</b>	<b>1 604 287</b>	



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	
Tangible FA	534 146	Loan from Česká spořitelna, a.s.
Land	2 811	
Tangible FA	314 988	Loan from Československá obchodní banka, a.s.
Tangible FA	472 216	Loan from Citibank, a.s.
<b>Total</b>	<b>1 655 264</b>	

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	
Land	3 275	Loan from PPF banky, a.s. – a third party guarantee – ENERGETIKA TŘINEC, a.s.
Tangible FA	543 152	Loan from Česká spořitelna, a.s.
Land	2 808	
Tangible FA	184 645	Loan from Československá obchodní banka, a.s.
<b>Total</b>	<b>1 082 670</b>	

#### 4.2. NON-CURRENT FINANCIAL ASSETS

##### Cost

(CZK thousand)

	Balance at 1 Jan 2005	Additions	Disposals	Revaluation	Balance at 31 Dec 2005	Additions	Disposals	Revaluation
Equity investments in subsidiaries	3 014 606	368 313	210 570	0	3 172 349	67 000	99 711	0
Equity investments in associates	174 084	1 760	410	0	175 434	0	0	0
Other non-current securities and equity investments	4 966	0	4 866	0	100	20	0	-20
Other non-current financial assets	22 849	0	0	-1 095	21 754	0	0	-1 133
Acquired non-current financial assets	0	0	0	0	0	70 774	67 020	0
<b>Total</b>	<b>3 216 505</b>	<b>370 073</b>	<b>215 846</b>	<b>-1 095</b>	<b>3 369 637</b>	<b>137 794</b>	<b>166 731</b>	<b>-1 153</b>

(CZK thousand)

	Balance at 31 Dec 2006	Additions	Disposals	Revaluation	Balance at 31 Dec 2007
Equity investments in subsidiaries	3 139 638	388 819	0	0	3 528 457
Equity investments in associates	175 434	2 047	0	0	177 481
Other non-current securities and equity investments	100	0	0	0	100
Other non-current financial assets	20 621	0	0	-656	19 965
Acquired non-current financial assets	3 754	393 129	391 250	0	5 633
<b>Total</b>	<b>3 339 547</b>	<b>783 995</b>	<b>391 250</b>	<b>-656</b>	<b>3 731 636</b>

## 4.2.1. Shares and Equity Investments in Subsidiaries

31 December 2007

(CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100,00	2 225 015	203 325	0	1 625 717	70 000
Strojírny Třinec, a.s., Třinec-Staré Město	500 000	500 000	599	100,00	689 837	81 800	0	500 000	50 000
Slévárny Třinec, a.s., Třinec-Staré Město	550 000	550 000	514	100,00	572 929	16 782	0	550 000	0
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s., Ostrava-Vítkovice	301 823	418 166	44	100,00	884 550	189 144	0	301 823	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 643	25 800	–	100,00	29 806	174	0	25 643	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	19 000	117	100,00	1 870	–94	–17 129	1 871	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100,00	58 380	22 178	0	15 755	0
H & S PROGRESS s.r.o., Dobrá	*	3 784	–	100,00	32 326	17 138	0	*	0
TRIALFA, s.r.o., Třinec- Kanada	100	100	–	100,00	17 785	2 651	0	100	0
VÍTKOVICE – Výzkum a vývoj, spol. s r.o., Ostrava-Vítkovice	*	45 738	–	99,00	32 223	2 090	0	*	0
TRISIA, a.s., Třinec	19 364	9 900	990	66,00	67 171	–1 669	0	19 364	0
Řetězárna a.s., Česká Ves	64 000	10 200	464	51,00	377 897	62 678	0	64 000	7 650
REFRASIL, s.r.o., Třinec-Konská	18 236	510	–	51,00	178 004	47 054	0	18 236	13 260
<b>Total</b>	<b>3 528 457</b>						<b>–17 129</b>	<b>3 511 328</b>	<b>140 910</b>

Note: \* confidential information, italics – preliminary results of operations

31 December 2006

(CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100,00	2 091 668	136 075	0	1 625 717	200 000
Strojírny Třinec, a.s., Třinec-Staré Město	500 000	500 000	599	100,00	658 673	57 160	0	500 000	25 000
Slévárny Třinec, a.s., Třinec-Staré Město	550 000	550 000	514	100,00	551 646	12 625	–1 096	548 904	0
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s., Ostrava-Vítkovice	301 823	418 166	44	100,00	695 420	119 388	0	301 823	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 643	25 800	–	100,00	29 632	–209	0	25 643	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100,00	36 215	12 689	0	15 755	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	19 000	117	100,00	1 965	–194	–17 035	1 965	0
TRIALFA, s.r.o., Třinec-Kanada	100	100	–	100,00	15 471	5 423	0	100	0
TRISIA, a.s., Třinec	19 364	9 900	990	66,00	68 761	–1 662	0	19 364	0
Řetězárna a.s., Česká Ves	64 000	10 200	464	51,00	330 223	36 424	0	64 000	12 240
REFRASIL, s.r.o., Třinec-Konská	18 236	510	–	51,00	156 950	52 922	0	18 236	7 650
<b>Total</b>	<b>3 139 638</b>						<b>–18 131</b>	<b>3 121 507</b>	<b>244 890</b>

31 December 2005

(CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100,00	2 155 593	91 629	0	1 625 717	200 000
Strojírny Třinec, a.s., Třinec-Staré Město*	500 000	500 000	599	100,00	626 513	66 340	0	500 000	100 000
Slévárny Třinec, a.s., Třinec-Staré Město	500 000	500 000	509	100,00	486 280	19 068	-10 788	489 212	0
VVT-VÍTKOVICE VÁLCOVNÁ TRUB, a.s., Ostrava-Vítkovice	301 823	418 166	44	100,00	576 057	145 147	0	301 823	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 642	25 800	–	100,00	29 841	730	0	25 642	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100,00	23 526	2 339	0	15 755	0
Steel Consortium Partners, a.s., Třinec-Staré Město	2 000	2 000	100	100,00	-14 841	-16 841	0	2 000	0
TRIALFA, s.r.o., Třinec – Kanada	100	100	–	100,00	10 378	2 738	0	100	0
Beskydská golfová, a.s., Třinec	93 048	63 028	107	90,04	57 869	-2 605	-40 558	52 490	0
TRISIA, a.s., Třinec	19 364	9 900	990	66,00	70 310	-1 693	0	19 364	0
Kabelová televize Třinec, spol. s r.o., Třinec	6 664	6 664	–	60,65	12 222	-215	0	6 664	0
Řetězárna a.s., Česká Ves	64 000	10 200	464	51,00	317 799	34 659	0	64 000	13 770
REFRASIL, s.r.o., Třinec-Konská	18 236	510	–	51,00	119 028	30 815	0	18 236	7 956
<b>Total</b>	<b>3 172 349</b>						<b>-51 346</b>	<b>3 121 003</b>	<b>321 726</b>

\* TŽ – strojírenská výroba, a.s. was renamed to Strojírny Třinec, a.s.

#### 4.2.2. Shares and Equity Investments in Associates

31 December 2007

(CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues for the year
SILESIAFLAG, a.s., Třinec- Staré Město	1 760	1 760	74	44,00	3 851	-27	-66	1 694	0
VESUVIUS ČR, a.s., Třinec	25 137	25 137	25 137	40,00	220 533	113 136	0	25 137	54 513
Hutnictví železa, a.s., Praha	25 620	16 191	26 985	38,71	48 436	182	-14 997	10 623	0
TŘINECKÁ PROJEKCE, a.s., Třinec – Kanada	750	1 125	75	34,09	11 761	2 398	0	750	375
Kvalifikační a pers. agentura, o.p.s., Třinec	34	34	–	33,33	852	350	-34	0	0
MS-UNIKOV OSTRAVA s.r.o., Ostrava Svinov	52 000	52 000	–	24,97	*	*	-52 000	0	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	72 180	72 180	180	18,00	1 591 845	392 197	0	72 180	0
<b>Total</b>	<b>177 481</b>						<b>-67 097</b>	<b>110 384</b>	<b>54 888</b>

Note.: \* – the bankruptcy trustee has not yet provided results, italics – preliminary results of operations



**31 December 2006**

(CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues for the year
SILESIALAG, a.s., Třinec-Staré Město	1 760	1 760	74	44,00	3 878	-67	-54	1 706	0
VESUVIUS ČR, a.s., Třinec	25 137	25 137	25 137	40,00	243 678	136 282	0	25 137	96 001
TŘINECKÁ PROJEKCE, a.s., Třinec – Kanada	750	1 125	75	34,09	10 478	1 843	0	750	375
Hutnictví železa, a.s., Praha	23 573	14 144	23 573	33,82	47 856	363	-13 675	9 898	0
Kvalifikační a pers. agentura, o.p.s., Třinec	34	34	–	33,33	501	139	-34	0	0
MS-UNIKOV OSTRAVA s.r.o., Ostrava Svinov	52 000	52 000	–	24,97	*	*	-52 000	0	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	72 180	72 180	180	18,00	1 199 648	291 638	0	72 180	0
<b>Total</b>	<b>175 434</b>						<b>-65 763</b>	<b>109 671</b>	<b>96 376</b>

Note: \* – the bankruptcy trustee has not yet provided results

**31 December 2005**

(CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues for the year
SILESIALAG, a.s., Třinec-Staré Město*	1 760	1 760	74	44,00	3 945	-34	0	1 760	0
VESUVIUS ČR, a.s., Třinec	25 137	25 137	25 137	40,00	347 396	88 528	0	25 137	60 000
TŘINECKÁ PROJEKCE, a.s., Třinec – Kanada	750	1 125	75	34,09	9 749	2 685	0	750	75
Hutnictví železa, a.s., Praha	23 573	14 144	23 573	33,82	47 796	-1 008	-13 855	9 718	0
Kvalifikační a pers. agentura, o.p.s., Třinec	34	34	–	33,33	362	71	-34	0	0
MS-UNIKOV OSTRAVA s.r.o., Ostrava Svinov **	52 000	52 000	–	24,97	**	**	-52 000	0	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	72 180	72 180	180	18,00	908 910	238 760	0	72 180	0
<b>Total</b>	<b>175 434</b>						<b>-65 889</b>	<b>109 545</b>	<b>60 075</b>

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

\*\* placed into bankruptcy

*4.2.3. Other Non-Current Securities and Equity Investments***31 December 2007**

(CZK thousand)

Company's name	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Gain or loss from revaluation	Fair value	Financial revenues for the year
HRAT, s.r.o., Třinec	50	50	–	11,63	1 583	570	-50	0	0
KPM CONSULT, a.s., Brno	100	100	10	10,00	11 648	1 738	0	100	0
ACRI, Praha	20	20	–	2,17	1 108	-223	-20	0	0
<b>Total</b>	<b>170</b>						<b>-70</b>	<b>100</b>	<b>0</b>

Note: italics – preliminary results of operations

**31 December 2006**

(CZK thousand)

Company's name	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Gain or loss from revaluation	Fair value	Financial revenues for the year
HRAT, s.r.o., Třinec	50	50	–	11,63	1 013	326	-50	0	0
KPM CONSULT, a.s., Brno	100	100	10	10,00	9 910	1 730	0	100	0
ACRI, Praha	20	20	–	2,33	1 271	488	-20	0	0
<b>Total</b>	<b>170</b>						<b>-70</b>	<b>100</b>	<b>0</b>

**31 December 2005**

(CZK thousand)

Company's name, address	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Gain or loss from revaluation	Fair value	Financial revenues for the year
HRAT, s.r.o., Třinec	50	50	–	11,63	687	256	–50	0	0
KPM CONSULT, a.s., Brno	100	100	10	10,00	8 180	–590	0	100	0
<b>Total</b>	<b>150</b>						<b>–50</b>	<b>100</b>	<b>0</b>

**4.2.4. Other Non-Current Financial Assets****31 December 2007**

(CZK thousand)

Investment	Cost	Description of investment/collateral	Provision	Financial revenue for the period to 31 Dec 2007
Term deposit	19 965	Bank guarantee collateral	0	769

**31 December 2006**

(CZK thousand)

Investment	Cost	Description of investment/collateral	Provision	Financial revenue for the period to 31 Dec 2006
Term deposit	20 621	Bank guarantee collateral	0	519

**31 December 2005**

(CZK thousand)

Investment	Cost	Description of investment/collateral	Provision	Financial revenue for the period to 31 Dec 2005
Term deposit	21 754	Bank guarantee collateral	0	373

Major additions to non-current financial assets as of 31 December 2007 include:

- Acquisition of a 100 percent shareholding in H & S PROGRESS s.r.o., which controls VÚHŽ, a.s., VÚHŽ-NEMO, a.s., ROLLSERVIS, a.s. and Regionální inovační centrum Frýdek-Místek, s.r.o.;
- Acquisition of a 99 percent shareholding in VÍTKOVICE – Výzkum a vývoj, spol. s r.o.; and
- Acquisition of a 3.03 percent shareholding in Hutnictví železa, a.s. (the Company's aggregate share amounted to 36.85 percent as of 31 December 2007).

**4.2.5. Non-current Financial Assets Pledged as Collateral**

The Company has no non-current financial assets pledged as collateral.

**4.3. INVENTORY**

(CZK thousand)

Structure of inventory	Balance at 31 Dec 2007	Provisions at 31 Dec 2007	Balance at 31 Dec 2006	Provisions at 31 Dec 2006	Balance at 31 Dec 2005	Provisions at 31 Dec 2005
Raw material	1 414 457	–1 153	1 670 736	– 1 950	1 103 926	–625
Spare parts	697 354	–137 004	668 680	– 136 612	702 950	–115 279
Technical and overhead material, goods	163 290	–3 788	117 609	– 746	119 583	– 1 410
Internally produced inventory:	3 213 574	–134 902	3 029 968	–318 333	2 761 482	–168 588
– Work in progress	19 787	0	21 627	0	21 728	0
– Semi-finished products	1 943 672	–80 952	1 894 494	–208 666	1 739 987	–120 171
– Finished products	1 250 115	–53 950	1 113 847	–109 667	999 767	–48 417
Prepayments	25	0	168	0	515	0
<b>Total</b>	<b>5 488 700</b>	<b>–276 847</b>	<b>5 487 161</b>	<b>–457 641</b>	<b>4 688 456</b>	<b>–285 902</b>

**4.4. RECEIVABLES****4.4.1. Long-Term Receivables****Breakdown of Long-Term Receivables**

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
– Prepayments made	635	660	646
– Other receivables	1 914	6 880	131 406
– Provisions against other receivables	0	0	–29 495
<b>Total</b>	<b>2 549</b>	<b>7 540</b>	<b>102 557</b>

Other receivables include loans advanced to employees as of 31 December 2007.

As of 31 December 2006, other receivables included predominantly loans advanced to employees and a long-term supplier loan, the maturity of which is in 2008. For this reason, the long-term supplier loan is recorded in 'Other short-term receivables' as of 31 December 2007.

As of 31 December 2006, the decrease in other long-term receivables and provisions against these receivables was predominantly due to the settlement of a long-term receivable from DOLVAP, s.r.o. of CZK 83,392 thousand and the derecognition of a provision against this company of CZK 25,276 thousand. Concurrently, the long-term receivable from Slévárny Třinec, a.s. of CZK 10,290 thousand was reclassified to other short-term receivables and a provision of CZK 4,219 thousand was derecognised as of 31 December 2006.

Long-term receivables are settled within their due dates.

#### 4.4.2. Short-Term Receivables

##### Aging of Short-Term Trade Receivables

(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	2 797 193	3 483	506	272	1 734	49 364	2 852 552
	Provisions	-11 486	-35	-72	-135	-1 734	-49 364	- 62 826
	<b>Total</b>	<b>2 785 707</b>	<b>3 448</b>	<b>434</b>	<b>137</b>	<b>0</b>	<b>0</b>	<b>2 789 726</b>
2006	Short-term	2 827 941	13 578	492	1 009	3 304	68 864	2 915 188
	Provisions	-13 321	-47	0	-473	-3 304	-68 864	-86 009
	<b>Total</b>	<b>2 814 620</b>	<b>13 531</b>	<b>492</b>	<b>536</b>	<b>0</b>	<b>0</b>	<b>2 829 179</b>
2005	Short-term	2 574 961	13 880	134	3 193	695	418 408	3 011 271
	Provisions	-16 795	-242	-29	-2 831	-695	-418 408	-439 000
	<b>Total</b>	<b>2 558 166</b>	<b>13 638</b>	<b>105</b>	<b>362</b>	<b>0</b>	<b>0</b>	<b>2 572 271</b>

##### Breakdown of Short-Term Trade Receivables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
- customers	2 852 469	2 904 949	2 886 348
- bills of exchange for collection	0	0	99 231
- other receivables	83	10 239	25 692
- provision	-62 826	-86 009	-439 000
<b>Total</b>	<b>2 789 726</b>	<b>2 829 179</b>	<b>2 572 271</b>

The decrease in provisions against trade receivables as of 31 December 2006 was predominantly due to the settlement of the provision with the bankrupt VT DIOSS Hladké trubky, s.r.o.

##### Other Short-Term Receivables

Short-term prepayments made principally involve prepayments for supplied services and prepayments of charges relating to air pollution.

Other receivables mainly relate to the received dividends, receivables associated with the sale of a business part and provided supplier loans.

Estimated receivables principally include amounts due from insurance proceeds.

Receivables typically mature within 30 days.



#### 4.4.3. Intercompany Receivables

##### Short-Term Receivables

(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.	11 190	9 175	5 311
ENERGETIKA TŘINEC, a.s.	35 689	66 272	60 291
Kabelová televize Třinec, spol. s r.o.*	–	–	4
MORAVIA ENERGO, a.s. *	–	–	47
MORAVIA STEEL a.s.	2 137 286	2 146 706	2 095 268
REFRASIL, s.r.o.	629	747	932
Řetězárna, a.s.	62	435	6
Slévárny Třinec, a.s.	73 330	84 613	68 934
TRIALFA, s.r.o.	6 081	7 752	10 680
TŘINECKÁ PROJEKCE, a.s.	144	75	139
Třinecké gastroslužby, s.r.o.	2 106	383	439
Strojírny Třinec, a.s.	15 787	4 861	8 483
Sochorová válcovna TŽ, a.s.	332 686	294 616	194 274
SILESIASLAG, a.s.	4	12	11
Steel Consortium Partners, a.s.	1	0	16 795
Kvalifikační a personální agentura, o.p.s.	4	5	6
TRISIA, a.s.	4	30	1
VESUVIUS ČR, a.s. Třinec	1 089	1 329	1 392
FERROMORAVIA, s.r.o.	70 133	81 402	52 122
Beskydská golfová, a.s.	399	957	840
VVT-VÍTKOVICE VALCOVNA TRUB, a.s.	62 354	38 253	2 426
VÚHŽ, a.s. *	407	–	–
<b>Total</b>	<b>2 749 385</b>	<b>2 737 623</b>	<b>2 518 401</b>
• Receivables – controlling entity			
Beskydská golfová, a.s.	0	0	15 314
<b>Total</b>	<b>0</b>	<b>0</b>	<b>15 314</b>
• Other intercompany receivables			
Slévárny Třinec, a.s.	0	10 290	10 290
Strojírny Třinec, a.s.	3 278	3 386	3 572
Sochorová válcovna TŽ, a.s.	0	3 219	7 890
VESUVIUS ČR, a.s. Třinec	8 113	8 000	0
<b>Total</b>	<b>11 391</b>	<b>24 895</b>	<b>21 752</b>
<b>Total short-term intercompany receivables</b>	<b>2 760 776</b>	<b>2 762 518</b>	<b>2 555 467</b>
Other than intercompany receivables	103 887	235 373	293 030
<b>Total short-term receivables</b>	<b>2 864 663</b>	<b>2 997 891</b>	<b>2 848 497</b>

\* Kabelová televize Třinec, spol. s r.o. was sold on 30 June 2006 and MORAVIA ENERGO, a.s. was sold on 11 April 2006. VÚHŽ, a.s. became part of the Group on 22 May 2007.

##### Long-Term Receivables

(CZK thousand)

Company's name	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Long-term receivables</b>			
• Other			
Slévárny Třinec, a.s.	0	0	6 070
Sochorová válcovna TŽ, a.s.	0	0	3 396
Strojírny Třinec, a.s.	0	3 385	7 143
<b>Total long-term intercompany receivables</b>	<b>0</b>	<b>3 385</b>	<b>16 609</b>
Other than intercompany receivables	2 549	4 155	85 948
<b>Total long-term receivables</b>	<b>2 549</b>	<b>7 540</b>	<b>102 557</b>

#### 4.4.4. Pledged Receivables

None of the Company's receivables were pledged.

#### 4.5. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Cash	1 483	1 216	1 213
Current accounts	921 422	1 036 365	171 668
Current deposit – special-purpose funds of the received state aid	35 444	246 216	449 181
Term deposit	0	0	16 500
Short-term securities and equity investments	2 240 719	673 247	719 707
Provision against current financial assets	0	–11 709	0
<b>Total current financial assets</b>	<b>3 199 068</b>	<b>1 945 335</b>	<b>1 358 269</b>

Short-term securities and equity investments as of 31 December 2007 include depository notes of Komerční banka, a.s. of CZK 1,195,145 thousand, Raiffeisenbank, a.s. of CZK 300,090 thousand, HSBC Bank plc. of CZK 101,010 thousand, Citibank, a.s. of CZK 69,007 thousand, ČSOB, a.s. of CZK 558,259 thousand and tradable securities of CZK 17,208 thousand.

Short-term securities and equity investments as of 31 December 2006 included depository notes of Komerční banka, a.s. of CZK 545,105 thousand, Československá obchodní banka, a.s. of CZK 24,752 thousand and Raiffeisenbank, a.s. of CZK 9,626 thousand, tradable securities of CZK 716 thousand and equity interest in Beskydská golfová, a.s. of CZK 93,048 thousand, reduced by a provision, which was sold in January 2007.

Short-term securities and equity investments as of 31 December 2005 included depository notes of Komerční banka, a.s. of CZK 171,020 thousand, Československá obchodní banka, a.s. of CZK 29,007 thousand, HSBC Bank plc. of CZK 9,283 thousand and Raiffeisenbank, a.s. of CZK 501,842 thousand, tradable securities in the aggregate amount of CZK 3,279 thousand, and equity interests in STEELTEC CZ, s.r.o. and MORAVIA ENERGO, a.s. of CZK 4,866 thousand and CZK 410 thousand, respectively, which were expected to be sold.

#### 4.6. DEFERRED EXPENSES AND ACCRUED INCOME

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Deferred expenses</b>	<b>91 516</b>	<b>36 962</b>	<b>47 415</b>
Deferred expenses – lease contracts	9 983	17 882	23 644
Other deferred expenses – studies, projects, interest, subscription payments, right of use	81 533	19 080	23 771
<b>Complex deferred expenses</b>	<b>30 399</b>	<b>50 044</b>	<b>40 491</b>
<b>Accrued income</b>	<b>205</b>	<b>305</b>	<b>453</b>
<b>Total deferred expenses and accrued income</b>	<b>122 120</b>	<b>87 311</b>	<b>88 359</b>

Deferred expenses principally consist of deferred finance lease instalments, projects, and analyses relating to repairs scheduled for the coming period.

As of 31 December 2007, a significant portion of deferred expenses relates to the right to use new technologies.

Complex deferred expenses primarily consist of deferred implementation of information systems.

#### 4.7. SHAREHOLDERS' EQUITY

Allocations to the statutory reserve fund are made at 5 percent of net profits until the fund reaches 20 percent of the Company's share capital, that is, the level required by law.

Gains and losses from revaluation comprise the gain or loss from the revaluation of available-for-sale securities net of the deferred tax liability.

At the General Meeting held on 25 June 2007, the shareholders approved the allocation of the profit of CZK 2,684,148 thousand generated in 2006 as follows:

(CZK thousand)

Allocation to the statutory reserve fund	134 207
Shares in profit (dividends)	2 027 466
Retained earnings	522 475

The General Meeting of Shareholders decided to declare gross dividends for 2006, 2005 and 2004 in the gross amounts of CZK 250 per share, CZK 100 per share and CZK 70 per share, respectively.

##### 4.7.1. Share Capital

The Company's share capital is composed of 8,109,863 ordinary registered shares, fully subscribed and paid up, with a nominal value of CZK 1,000 per share. The Extraordinary General Meeting held on 19 November 2007 approved a change of the book-entry to the certificate form of shares. The change of the form of the Company's shares was registered in the Register of Companies on 13 December 2007. The shares were deregistered from the Prague Stock Exchange in 2002.

#### 4.8. RESERVES

(CZK thousand)

	Reserves under special legislation		Other reserves	Total reserves
	Reserve for repairs of tangible FA	Reserve for restoration		
<b>Balance at 31 Dec 2005</b>	<b>527 833</b>	<b>3 016</b>	<b>137 639</b>	<b>668 488</b>
Creation	47 945	305	136 357	184 607
Use	341 028	1 350	31 633	374 011
<b>Balance at 31 Dec 2006</b>	<b>234 750</b>	<b>1 971</b>	<b>242 363</b>	<b>479 084</b>
Creation	11 250	257	235 368	246 875
Use	156 000	330	33 572	189 902
<b>Balance at 31 Dec 2007</b>	<b>90 000</b>	<b>1 898</b>	<b>444 159</b>	<b>536 057</b>

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, allowances, additionally assessed taxes, real estate transfer tax, employee bonuses, commitments in litigation, losses incurred in connection with a concluded long-term contract, and removal of old environmental burdens.

#### 4.9. PAYABLES

##### 4.9.1. Long-Term Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Long-term payables</b>			
– Long-term trade payables	25 015	6 096	11 562
– Long-term prepayments received	369	0	0
– Long-term bills of exchange to be settled	0	27 495	58 010
– Other payables	0	706	3 390
– Deferred tax liability	594 206	684 053	653 214
– Tax liabilities and subsidies	0	0	150 140
<b>Total</b>	<b>619 590</b>	<b>718 350</b>	<b>876 316</b>

Long-term trade payables include the aggregate amount of CZK 25,015 thousand relating to retentions from suppliers under concluded contracts.

As of 31 December 2005, tax liabilities and subsidies included the long-term portion of permitted public aid which was reclassified to short-term payables as of 31 December 2006. As of 31 December 2007, the state aid is posted to short-term payables.

As of 31 December 2006 and 2005, long-term bills of exchange to be settled 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, the bills of exchange are posted to short-term trade payables.

##### 4.9.2. Deferred Income Tax

The deferred tax liability is analysed as follows:

(CZK thousand)

Deferred tax arising from	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Difference between tax and accounting carrying value of fixed assets	–4 019 885	–3 679 365	–3 232 727
Revaluation of available-for-sale securities	0	20	50
Accounting reserves	444 139	242 303	134 917
Provisions	329 790	536 199	376 560
Outstanding default interest	0	0	–525
Expenses tax deductible in the following periods	64 583	50 621	0
<b>Total</b>	<b>–3 181 373</b>	<b>–2 850 222</b>	<b>–2 721 725</b>
Tax rate (in %)	21, 19	24	24
<b>Deferred tax liability</b>	<b>–594 206</b>	<b>–684 053</b>	<b>–653 214</b>



As of 31 December 2007, the Company anticipates realising certain temporary differences giving rise to a deferred tax asset in 2008 and hence it used the tax rate of 21 percent. By contrast, the Company used the 19 percent tax rate in respect of other temporary differences giving rise to a deferred tax liability and a deferred tax asset to be realised after 2009.

(CZK thousand)

Analysis of movements	
<b>1 January 2007</b>	<b>-684 053</b>
Current changes charged against the profit and loss account	-79 476
Effect of the tax rate change	169 324
<b>Total changes against the profit and loss account</b>	<b>89 848</b>
Current changes charged against equity	0
Other (rounding)	-1
<b>31 December 2007</b>	<b>-594 206</b>

#### 4.9.3. Income Tax on Ordinary and Extraordinary Activities

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Profit before tax	4 523 727	3 414 638	2 721 708
Tax at the domestic income tax rate of 24 % (24%, 26%)	1 085 694	819 513	707 644
Tax effect of expenses that are not deductible in determining taxable profit	-206 068	-75 909	-58 725
Additional taxes of prior years	10 987	-13 114	4 850
<b>Total income tax on ordinary and extraordinary activities</b>	<b>890 613</b>	<b>730 490</b>	<b>653 769</b>

#### 4.9.4. Short-Term Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Short-term payables</b>			
– suppliers	2 726 759	2 203 324	2 251 390
– bills of exchange to be settled	26 620	27 495	29 005
– other payables	0	0	494
<b>Totals</b>	<b>2 753 379</b>	<b>2 230 819</b>	<b>2 280 889</b>

#### Aging of short-term trade payables

(CZK thousand)

Period	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	2 724 083	26 952	2 051	293	0	0	2 753 379
2006	Short-term	2 213 708	15 598	595	18	900	0	2 230 819
2005	Short-term	2 227 160	50 981	2 748	0	0	0	2 280 889

Payables typically fall due for settlement within 30 days. Significant payables past due more than 90 days predominantly arise from offset agreements in progress.

#### Other Payables

As of 31 December 2007, payables associated with social security and the state employment policy contribution amounted to CZK 64,913 thousand, health insurance payables totalled CZK 27,604 thousand, and pension insurance payables totalled CZK 2,244 thousand. The Company has no past due social security or health insurance payables.

The category 'State – tax payables and subsidies' principally comprises payables related to the state aid and an income tax payable.

Estimated payables mainly consist of unbilled supplies of work and services, estimated amount for outstanding vacation days and annual bonuses including insurance.

Other payables primarily relate to the short-term portion of supplier loans, employee deductions and payables arising from acquisitions of equity interests.

4.9.5. 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			
Doprava TŽ, a.s.	5 571	6 200	7 780
ENERGETIKA TŘINEC, a.s.	196 831	207 876	324 571
Hutnictví železa, a.s.	594	540	869
Kabelová televize Třinec, spol. s r.o.*	–	–	494
MORAVIA STEEL a.s.	1 173 314	1 005 420	783 708
REFRASIL, s.r.o.	33 670	32 968	26 455
Řetězárna Česká Ves, a.s.	23	0	0
Slévárny Třinec, a.s.	5 033	14 222	7 211
TRIALFA, s.r.o.	17 038	16 460	13 378
TRISIA, a.s.	3 890	223	61
TŘINECKÁ PROJEKCE, a.s.	12 693	8 911	1 561
Třinecké gastroslužby, s.r.o.	8 270	4 132	3 776
Strojírny Třinec, a.s.	63 598	78 021	98 144
Sochorová válcovna TŽ, a.s.	12 556	4 706	3 480
VESUVIUS ČR, a.s. Třinec	17 168	17 946	16 640
Beskydská golfová, a.s.	18	16	4
MORAVIA ENERGO, a.s.*	–	–	934
VVT-VÍTKOVICE VALCOVNA TRUB, a.s.	5 719	196	0
VÚHŽ, a.s.*	649	–	–
<b>Total short-term intercompany payables</b>	<b>1 556 635</b>	<b>1 397 837</b>	<b>1 289 066</b>
Other than intercompany payables	2 141 329	1 780 820	1 850 151
<b>Total short-term payables</b>	<b>3 697 964</b>	<b>3 178 657</b>	<b>3 139 217</b>

\* Kabelová televize Třinec, spol. s r.o. was sold on 30 June 2006, MORAVIA ENERGO, a.s. was sold on 11 April 2006 and VÚHŽ, a.s. became part of the Group on 22 May 2007.

Long-Term Payables

(CZK thousand)

Company's name	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Long-term payables</b>			
• Trade			
Strojírny Třinec, a.s.	850	0	0
<b>Total long-term intercompany payables</b>	<b>850</b>	<b>0</b>	<b>0</b>
Other than intercompany payables	618 740	718 350	876 316
<b>Total long-term payables</b>	<b>619 590</b>	<b>718 350</b>	<b>876 316</b>

4.9.6. Bank Loans

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	Interest rate %	Form of collateral at 31 Dec 2007
Investment	EUR	3 113	10 783	19 357	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	490 143	659 379	855 242	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	17 633	36 424	57 637	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	0	7 124	22 546	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	0	0	18 764	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	0	6 610	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	6 306	19 956	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	EUR	0	0	7 325	6M EUROLIBOR + 1.25	KUKE guarantee insurer
Investment	CZK	0	18 750	93 750	6M PRIBOR + 1.95	Real estate, blank bill of exchange, LoC MS
Investment	EUR	32 960	64 008	99 135	6M EURIBOR + 0.625	SACE guarantee insurer
Investment	EUR	31 370	17 203	0	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	50 000	90 000	130 000	6M PRIBOR + 1.25	Real estate, blank bill of exchange, LoC MS
Investment	CZK	78 867	157 734	220 828	FIX 3.76	Immovable and movable assets, blank bill of exchange
Investment	CZK	54 000	90 000	126 000	3M PRIBOR + 1.65	Movable assets, guarantee statement of MS
Investment	CZK	75 000	105 000	0	FIX 4.3	Movable assets, guarantee statement of MS
Investment	CZK	188 889	233 333	0	FIX 4.65	Immovable and movable assets, guarantee statement, blank bill of exchange
<b>Total</b>		<b>1 021 975</b>	<b>1 496 044</b>	<b>1 677 150</b>		

## 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	Interest rate %	Form of collateral at 31 Dec 2007
Operating	CZK	0	0	155		No collateral
Investment	EUR	7 326	7 567	7 982	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	153 565	197 301	226 352	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	17 633	18 212	19 212	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	6 897	14 248	15 030	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	0	17 787	18 764	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	6 266	6 611	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	6 105	12 611	13 304	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	EUR	0	6 944	14 650	6M EUROLIBOR + 1.25	KUKE guarantee insurer
Investment	EUR	0	0	8 469	6M EUROLIBOR + 1.875	KUKE guarantee insurer
Investment	CZK	0	75 000	75 000	6M PRIBOR + 1.95	Real estate, blank bill of exchange, LoC MS
Investment	EUR	29 012	29 965	31 611	6M EURIBOR + 0.625	SACE guarantee insurer
Investment	EUR	8 963	9 820	0	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	40 000	40 000	40 000	6M PRIBOR + 1.25	Real estate, blank bill of exchange, LoC MS
Investment	CZK	63 094	63 094	63 094	FIX 3.76	Real estate and movable assets, blank bill of exchange
Investment	CZK	36 000	36 000	36 000	3M PRIBOR + 1.65	Movable assets, guarantee statement of MS
Investment	CZK	30 000	30 000	0	FIX 4.3	Movable assets, guarantee statement of MS
Investment	CZK	44 444	44 445	0	FIX 4.65	Real estate and movable assets, guarantee statement of MS, blank bill of exchange
<b>Total</b>		<b>443 039</b>	<b>609 260</b>	<b>576 234</b>		

## Repayment Schedule

(CZK thousand)

Years	2008	2009	2010	2011	2012	Following periods	Total
Loan instalments	443 039	425 318	231 265	156 021	130 108	79 263	<b>1 465 014</b>

## 4.10. ACCRUED EXPENSES AND DEFERRED INCOME

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
<b>Accrued expenses</b>	<b>14 379</b>	<b>13 177</b>	<b>19 219</b>
– Interest	9 070	12 850	11 291
– Invoices, credit notes	5 309	327	7 928
<b>Deferred income</b>	<b>31</b>	<b>30</b>	<b>707</b>
<b>Total accrued expenses and deferred income</b>	<b>14 410</b>	<b>13 207</b>	<b>19 926</b>

## 4.11. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

31 December 2007

(CZK thousand)

	CZK	GBP	USD	EUR	SKK	Other	Total
Tangible fixed assets	23 780 165	0	39 642	27 143	0	0	23 846 950
Non-current financial assets	3 711 671	0	0	19 965	0	0	3 731 636
Inventory	5 488 676	0	0	24	0	0	5 488 700
Short-term receivables	2 908 998	0	12 170	16 488	758	0	2 938 414
Current financial assets	3 060 320	0	240	138 472	36	0	3 199 068
<b>Total</b>	<b>38 949 830</b>	<b>0</b>	<b>52 052</b>	<b>202 092</b>	<b>794</b>	<b>0</b>	<b>39 204 768</b>
Short-term payables	3 605 440	1 197	8 571	82 285	192	279	3 697 964
Bank loans and borrowings	660 294	0	0	804 720	0	0	1 465 014
<b>Total</b>	<b>4 265 734</b>	<b>1 197</b>	<b>8 571</b>	<b>887 005</b>	<b>192</b>	<b>279</b>	<b>5 162 978</b>

### 31 December 2006

(CZK thousand)

	CZK	CHF	USD	EUR	SKK	Other	Total
Tangible fixed assets	23 223 464	0	0	79 026	0	0	23 302 490
Non-current financial assets	3 318 926	0	0	20 621	0	0	3 339 547
Inventory	5 486 993	0	0	168	0	0	5 487 161
Long-term receivables	4 155	0	0	3 385	0	0	7 540
Short-term receivables	3 025 241	0	14 054	53 742	916	0	3 093 953
Current financial assets	1 643 646	0	1 441	311 928	29	0	1 957 044
<b>Total</b>	<b>36 702 425</b>	<b>0</b>	<b>15 495</b>	<b>468 870</b>	<b>945</b>	<b>0</b>	<b>37 187 735</b>
Long-term payables	690 855	0	0	27 495	0	0	718 350
Short-term payables	3 095 296	0	5 472	76 562	42	1 285	3 178 657
Bank loans and borrowings	983 356	0	0	1 121 948	0	0	2 105 304
<b>Total</b>	<b>4 769 507</b>	<b>0</b>	<b>5 472</b>	<b>1 226 005</b>	<b>42</b>	<b>1 285</b>	<b>6 002 311</b>

### 31 December 2005

(CZK thousand)

	CZK	CHF	USD	EUR	SKK	Other	Total
Tangible fixed assets	22 400 807	0	8 112	26 437	0	0	22 435 356
Non-current financial assets	3 347 883	0	0	21 754	0	0	3 369 637
Inventory	4 687 941	0	0	515	0	0	4 688 456
Long-term receivables	38 121	0	0	93 931	0	0	132 052
Short-term receivables	3 124 829	0	931	175 659	1 227	0	3 302 646
Current financial assets	810 530	0	954	546 785	0	0	1 358 269
<b>Total</b>	<b>34 410 111</b>	<b>0</b>	<b>9 997</b>	<b>865 081</b>	<b>1 227</b>	<b>0</b>	<b>35 286 416</b>
Long-term payables	816 463	1 843	0	58 010	0	0	876 316
Short-term payables	3 056 152	0	6 541	76 524	0	0	3 139 217
Bank loans and borrowings	784 827	0	0	1 468 557	0	0	2 253 384
<b>Total</b>	<b>4 657 442</b>	<b>1 843</b>	<b>6 541</b>	<b>1 603 091</b>	<b>0</b>	<b>0</b>	<b>6 268 917</b>

### 4.12. DETAILS OF INCOME

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Proceeds of the sale of goods	5 969	781	665
Proceeds of the sale of products and services, of which:	35 546 658	31 674 668	30 826 423
– Products	34 858 579	31 022 107	30 202 627
– Energy	315 315	302 373	288 581
– Services	372 764	350 188	335 215
Change in internally produced inventory	183 606	268 973	1 022 169
Own work capitalised	416 580	417 399	478 772
<b>Total income</b>	<b>36 152 813</b>	<b>32 361 821</b>	<b>32 328 029</b>

### 4.13. CONSUMED PURCHASES AND PRODUCTS SOLD

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Consumed material	23 508 024	21 300 407	22 055 263
Consumed energy	2 199 551	2 162 756	1 993 003
Goods sold	5 651	744	612
<b>Total consumed purchases</b>	<b>25 713 226</b>	<b>23 463 907</b>	<b>24 048 878</b>



#### 4.14. SERVICES

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Repairs and maintenance	1 103 160	1 179 781	1 399 055
Transportation expenses	315 735	312 189	369 662
Cooperation	150 340	158 832	149 868
Leasing	35 168	56 649	75 027
Right of use	33 030	81 245	84 079
Promotion	99 202	78 836	84 487
Rental, leases	98 153	100 079	83 755
Cleaning services	57 798	56 550	57 711
Gas and oil distribution	56 879	51 663	56 741
Other services	523 293	591 504	376 038
<b>Total</b>	<b>2 472 758</b>	<b>2 667 328</b>	<b>2 736 423</b>

Other services primarily include security guard services, expert and consultation services, services related to the disposal and demolition of assets, lease of facilities, training, transport and telecommunication services.

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

(CZK thousand)

	Movements in 2007	Movements in 2006	Movements in 2005
Change in the reserve under special legislation:	-144 823	-294 128	-151 677
– reserves for repairs	-144 750	-293 083	-151 916
– reserves for waste	-73	-1 045	239
Change in other reserves:	201 796	104 724	-188 114
– reserve for contractual losses	220 955	-26 993	-41 796
– reserve for fidelity bonuses	-524	-436	-138
– reserve for legal disputes	-3 429	186	3 525
– reserve for removing environmental burdens	0	123 400	0
– reserve for real estate transfer tax	-557	286	5
– other	-14 649	8 281	-149 710
Change in complex deferred expenses	20 760	17 795	16 704
Change in the provisions under special legislation	-14 776	-351 562	-11 605
Change in accounting provisions:	-205 922	136 335	143 233
– change in provisions against receivables	-7 534	-36 019	12 277
– change in provisions against assets	-17 594	615	-25 248
– change in provisions against inventory	-180 794	171 739	156 204
<b>Total</b>	<b>-142 965</b>	<b>-386 836</b>	<b>-191 459</b>

#### 4.16. OTHER OPERATING INCOME

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Contractual penalties and default interest	512	1 035	697
Recoveries of receivables written off and transferred	2 559	1 035	1 469
Received subsidies	68 772	107 879	85 775
Other operating income	124 277	1 865 086	1 647 346
<b>Total other operating income</b>	<b>196 120</b>	<b>1 975 035</b>	<b>1 735 287</b>

Received subsidies reflect the allowed state subsidy for operating purposes (refer to Note 4.17).

As of 31 December 2007, other operating income of the Company mainly involves the release of the subsidy related to the use of greenhouse emission allowances of CZK 69,942 thousand and other operating subsidies and contributions (refer to Note 4.17). The year-on-year decrease in the release of the subsidy relating to the use of greenhouse emission allowances was attributable to the exchange rate and a reduction of allowance prices.

#### 4.17. SUBSIDIES

Other subsidies for operating purposes of CZK 591 thousand received for the year ended 31 December 2007 (CZK 2,819 thousand and CZK 2,596 thousand in 2006 and 2005, respectively) included subsidies for research purposes and subsidies received from the Employment Office in prior years.

In addition, the Company received allowances of CZK 5,741 thousand, CZK 18,624 thousand and CZK 17,894 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.

### Drawing of Allowed State Aid

The state aid is provided both for operating and investment purposes.

Until 2007, the Company received CZK 267,166 thousand and CZK 149,279 thousand for operating and investment purposes, respectively.

(CZK thousand)

	Eligible expenses in 2004	Allowed state aid in 2004 (drawn)	Eligible expenses in 2005	Allowed state aid in 2005 (drawn)	Eligible expenses in 2006	Allowed state aid in 2006 (drawn)
Research and development	11 323	5 175	233 510	99 235	235 847	96 822
Environment	0	0	50 721	28 911	50 960	29 047
Education	7 842	2 745	20 250	8 537	45 628	22 361
<b>Total</b>	<b>19 165</b>	<b>7 920</b>	<b>304 481</b>	<b>136 683</b>	<b>332 435</b>	<b>148 230</b>

(CZK thousand)

	Eligible expenses in 2007	Allowed state aid in 2007 (drawn)	Total eligible expenses until 31 Dec 2007	Total allowed state aid until 31 Dec 2007 (drawn)	Allowed state aid (received)	Returned allowed state aid	Allowed state aid (to be drawn)
Research and development	144 691	57 034	625 371	258 266	388 100	94 904	34 930
Environment	98 479	56 133	200 160	114 091	140 335	26 244	0
Education	29 576	10 445	103 296	44 088	48 241	4 153	0
<b>Total</b>	<b>272 746</b>	<b>123 612</b>	<b>928 827</b>	<b>416 445</b>	<b>576 676</b>	<b>125 301</b>	<b>34 930</b>

Environmental and educational projects were completed as of 31 December 2007. Research and development projects will be completed in 2008.

### 4.18. OTHER OPERATING EXPENSES

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Gifts	21 928	33 273	18 368
Penalties and default interest	886	191	112
Write-offs of receivables and transferred receivables	22 977	305 476	11 495
Other operating expenses	215 221	1 973 002	1 744 151
Deficits and damage relating to operating activities	41 746	39 973	39 433
<b>Total other operating expenses</b>	<b>302 758</b>	<b>2 351 915</b>	<b>1 813 559</b>

As of 31 December 2007, other operating expenses primarily reflect the use of greenhouse emission allowances of CZK 69,942 thousand. The year-on-year decrease in the use of greenhouse emission allowances was namely attributable to the exchange rate and reduction of the allowance prices.

Write-offs of receivables and transferred receivables as of 31 December 2007 predominantly include receivables written off as a result of the bankruptcy proceedings of Besta Přestanov, s.p., FELD, spol. s r. o. and ZVL – ZKL akciová spoločnosť.

Write-offs of receivables and transferred receivables as of 31 December 2006 predominantly included a written-off receivable of the bankrupt VT DIOSS Hladké trubky, s.r.o.

### 4.19. OTHER FINANCIAL INCOME

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Foreign exchange rate gains	90 000	120 184	91 742
Other financial income	2 828	2 328	73 501
<b>Total</b>	<b>92 828</b>	<b>122 512</b>	<b>165 243</b>

Other financial income as of 31 December 2005 included income from the disposal of the equity interest in TRIFINAL, a.s. „v likvidaci“ of CZK 70,619 thousand.

### 4.20. OTHER FINANCIAL EXPENSES

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Foreign exchange rate losses	77 083	76 665	36 050
Banking fees	2 817	2 482	4 060
Other financial expenses	4 671	2 437	68 573
<b>Total</b>	<b>84 571</b>	<b>81 584</b>	<b>108 683</b>

Other financial expenses as of 31 December 2005 reflected the write-off of an equity interest in TRIFINAL, a.s. „v likvidaci“ of CZK 66,000 thousand.

**4.21. RESEARCH AND DEVELOPMENT COSTS**

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Research and development costs (net of subsidies)	89 183	145 504	146 519

**4.22. EXTRAORDINARY INCOME**

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Extraordinary income – received compensation for damage – flood	0	0	64 475

**4.23. EXTRAORDINARY EXPENSES**

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
Extraordinary expenses – flood	0	0	137 425

Extraordinary expenses of the Company are associated with the damage caused by flooding in August 2005. Recorded expenses totalled CZK 137,425 thousand; insurance compensation amounted to CZK 64,475 thousand.

**4.24. RELATED PARTY TRANSACTIONS***4.24.1. Income Generated with Related Parties***2007**

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	12	104 189	4 012	84	0	108 297
ENERGETIKA TŘINEC, a.s.	Controlled entity	333	315 337	35 365	4 631	0	355 666
Kvalif. a pers. Agentura, o.p.s.	Controlled entity	0	0	199	0	0	199
MORAVIA STEEL a.s.	Controlling entity	222	27 053 927	167 507	2 562	79 985	27 304 203
REFRASIL, s.r.o.	Controlled entity	12	686	5 142	1 425	0	7 265
Řetězárna Česká Ves, a.s.	Controlled entity	0	0	2 672	42	0	2 714
Slévárny Třinec, a.s.	Controlled entity	195	453 082	27 035	38 966	0	519 278
TRIALFA, a.s.	Controlled entity	7	58 434	4 022	2 210	0	64 673
TRISIA, a.s.	Controlled entity	9	0	3 776	1 160	0	4 945
SILESIASLAG, a.s.	Controlled entity	0	0	46	0	0	46
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	0	724	1	0	725
Třinecké gastroslužby, s.r.o.	Controlled entity	8	0	3 776	1 160	0	4 944
Strojírny Třinec, a.s.	Controlled entity	206	464 546	31 471	15 779	251	512 253
VESUVIUS ČR, a.s.	Controlled entity	0	0	7 202	40	0	7 242
Sochorová válcovna TŽ, a.s.	Controlled entity	437	4 279 506	11 041	14 262	14	4 305 260
FERROMORAVIA, s.r.o.	Controlled entity	0	1 047 354	1 367	45	0	1 048 766
VÚHŽ, a.s.	Controlled entity	39	12	68	1 940	0	2 059
Steel Consortium Partners, a.s.	Controlled entity	0	0	51	0	0	51
Beskydská golfová, a.s.	Fellow subsidiary	0	0	153	0	0	153
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.	Controlled entity	358	1 001 518	6 172	1 290	0	1 009 338
<b>Total</b>		<b>1 838</b>	<b>34 778 591</b>	<b>311 801</b>	<b>85 597</b>	<b>80 250</b>	<b>35 258 077</b>

2006

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	16	48 530	3 474	118	0	52 138
ENERGETIKA TŘINEC, a.s.	Controlled entity	170	302 409	37 789	2 416	0	342 784
Kabelová televize Třinec, spol. s r.o.	Controlled entity	0	0	36	0	0	36
Kvalif. a pers. Agentura, o.p.s.	Controlled entity	0	0	190	0	0	190
MORAVIA ENERGO, a.s.	Controlled entity	0	0	361	2	0	363
MORAVIA STEEL a.s.	Controlling entity	203	24 303 183	164 118	1 186	0	24 468 690
REFRASIL, s.r.o.	Controlled entity	14	460	5 018	1 677	0	7 169
Řetězárna Česká Ves, a.s.	Controlled entity	0	0	644	27	0	671
Slévárny Třinec, a.s.	Controlled entity	60	416 320	25 713	23 337	0	465 430
TRIALFA, a.s.	Controlled entity	12	39 341	2 511	1 844	0	43 708
TRISIA, a.s.	Controlled entity	0	0	48	43	0	91
SILESIAFLAG, a.s.	Controlled entity	0	0	64	0	0	64
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	46	0	1 117	3	0	1 166
Třinecké gastroslužby, s.r.o.	Controlled entity	15	0	2 778	999	0	3 792
Strojírny Třinec, a.s.	Controlled entity	80	377 490	24 012	10 828	365	412 775
VESUVIUS ČR, a.s.	Controlled entity	0	0	6 742	8	0	6 750
Sochorová válcovna TŽ, a.s.	Controlled entity	31	3 664 262	11 088	10 226	266	3 685 873
FERROMORAVIA, s.r.o.	Controlled entity	0	890 696	909	79	0	891 684
Beskydská golfová, a.s.	Controlled entity	0	0	300	0	64	364
Steel Consortium Partners, a.s.	Controlled entity	0	0	39	0	94	133
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.	Controlled entity	28	813 569	6 448	1 002	0	821 047
<b>Total</b>		<b>675</b>	<b>30 856 260</b>	<b>293 399</b>	<b>53 795</b>	<b>789</b>	<b>31 204 918</b>

2005

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	5	25 952	3 451	148	0	29 556
ENERGETIKA TŘINEC, a.s.	Controlled entity	133	288 615	30 030	4 695	0	323 473
Kabelová televize Třinec, spol. s r.o.	Controlled entity	0	0	64	0	0	64
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	193	5	0	198
MORAVIA ENERGO, a.s.	Controlled entity	0	0	388	2	0	390
MORAVIA STEEL a.s.	Controlling entity	128	23 855 617	159 452	510	0	24 015 707
REFRASIL, s.r.o.	Controlled entity	3	314	4 593	1 311	0	6 221
Řetězárna Česká Ves, a.s.	Controlled entity	0	0	28	44	0	72
Slévárny Třinec, a.s.	Controlled entity	51	376 723	22 848	29 315	0	428 937
TRIALFA, a.s.	Controlled entity	0	30 510	2 437	1 643	0	34 590
TRISIA, a.s.	Controlled entity	0	0	36	2	0	38
SILESIAFLAG, a.s.	Controlled entity	0	0	15	0	0	15
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	84	0	700	2	0	786
Třinecké gastroslužby, s.r.o.	Controlled entity	4	0	2 787	1 101	0	3 892
Strojírny Třinec, a.s.	Controlled entity	90	343 364	23 340	10 371	463	377 628
VESUVIUS ČR, a.s.	Controlled entity	0	0	6 832	93	0	6 925
Sochorová válcovna TŽ, a.s.	Controlled entity	20	4 135 362	11 229	1 704	3 807	4 152 122
FERROMORAVIA, s.r.o.	Controlled entity	0	905 962	973	70	0	907 005
Beskydská golfová, a.s.	Controlled entity	0	38	0	0	314	352
TRIFINAL, a.s. "v likvidaci"	Controlled entity	0	0	190	0	241	431
Steel Consortium Partners, a.s.	Controlled entity	0	0	21	0	896	917
VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.	Controlled entity	0	0	528	2 210	0	2 738
<b>Total</b>		<b>518</b>	<b>29 962 457</b>	<b>270 135</b>	<b>53 226</b>	<b>5 721</b>	<b>30 292 057</b>



## 4.24.2. Purchases

2007

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	608	69 669	0	70 277
ENERGETIKA TŘINEC, a.s.	Controlled entity	154	1 719 392	29 534	0	1 749 080
Hutnictví železa, a. s.	Controlled entity	0	0	5 988	0	5 988
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	0	0	204	0	204
MORAVIA STEEL a.s.	Controlling entity	37	19 536 392	239 754	40 836	19 817 019
REFRASIL, s.r.o.	Controlled entity	0	238 219	0	0	238 219
Řetězárna Česká Ves, a.s.	Controlled entity	0	1 380	0	0	1 380
Slévárny Třinec, a.s.	Controlled entity	1 238	115 404	497	0	117 139
TRIALFA, s.r.o.	Controlled entity	0	12 723	17 062	68 019	97 804
TRISIA, a.s.	Controlled entity	0	0	28 763	148	28 911
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	22 911	17	4 869	0	27 797
Třinecké gastroslužby, s.r.o.	Controlled entity	0	11 886	2 246	43 062	57 194
Strojírny Třinec, a.s.	Controlled entity	46 561	288 108	189 484	47	524 200
VESUVIUS ČR, a.s.	Controlled entity	80	0	63 477	0	63 557
Sochorová válcovna TŽ, a.s.	Controlled entity	0	32 603	42 142	3 859	78 604
VÚHŽ, a.s.	Controlled entity	127	698	2 206	0	3 031
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.	Controlled entity	0	35 529	125	0	35 654
FERROMORAVIA, s.r.o.	Controlled entity	0	67	0	0	67
Beskydská golfová, a.s.	Fellow subsidiary	0	0	1 983	4	1 987
<b>Total</b>		<b>71 108</b>	<b>21 993 026</b>	<b>698 003</b>	<b>155 975</b>	<b>22 918 112</b>

2006

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	73	549	67 604	1	68 227
ENERGETIKA TŘINEC, a.s.	Controlled entity	80	1 696 608	31 438	0	1 728 126
Hutnictví železa, a. s.	Controlled entity	0	0	6 490	0	6 490
Kabelová televize, spol. s r.o.	Controlled entity	0	0	254	0	254
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	0	0	220	0	220
MORAVIA STEEL a.s.	Controlling entity	5	19 870 102	203 187	36 583	20 109 877
REFRASIL, s.r.o.	Controlled entity	0	89 473	146 380	0	235 853
Řetězárna Česká Ves, a.s.	Controlled entity	0	1 452	0	0	1 452
Slévárny Třinec, a.s.	Controlled entity	1 119	122 275	485	0	123 879
TRIALFA, s.r.o.	Controlled entity	0	9 429	79 962	0	89 391
TRISIA, a.s.	Controlled entity	0	0	32 200	192	32 392
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	16 239	0	5 593	0	21 832
Třinecké gastroslužby, s.r.o.	Controlled entity	0	11 642	1 874	42 306	55 822
Strojírny Třinec, a.s.	Controlled entity	95 473	395 633	192 822	0	683 928
VESUVIUS ČR, a.s.	Controlled entity	0	0	65 980	0	65 980
Sochorová válcovna TŽ, a.s.	Controlled entity	147	779	25 083	5 363	31 372
Beskydská golfová, a.s.	Controlled entity	0	0	500	0	500
MORAVIA ENERGO, a.s.	Controlled entity	0	11 120	0	0	11 120
VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.	Controlled entity	0	2 085	0	0	2 085
FERROMORAVIA, s.r.o.	Controlled entity	0	0	358	0	358
<b>Total</b>		<b>113 136</b>	<b>22 211 147</b>	<b>860 430</b>	<b>84 445</b>	<b>23 269 158</b>

2005

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	63	622	71 829	0	72 514
ENERGETIKA TŘINEC, a.s.	Controlled entity	700	1 558 247	28 472	0	1 587 419
Hutnictví železa, a. s.	Controlled entity	0	0	5 680	0	5 680
Kabelová televize, spol. s r.o.	Controlled entity	830	49	355	0	1 234
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	0	0	220	0	220
MORAVIA STEEL a.s.	Controlling entity	13	19 555 793	188 337	5 394	19 749 537
REFRASIL, s.r.o.	Controlled entity	0	84 463	119 650	0	204 113
Řetězárna Česká Ves, a.s.	Controlled entity	0	1 631	0	0	1 631
Slévárny Třinec, a.s.	Controlled entity	1 013	119 177	677	0	120 867
TRIALFA, s.r.o.	Controlled entity	0	10 378	60 648	0	71 026
TRISIA, a.s.	Controlled entity	0	0	16 046	232	16 278
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	10 330	0	4 444	0	14 774
Třinecké gastroslužby, s.r.o.	Controlled entity	0	11 208	1 463	42 604	55 275
Strojírny Třinec, a.s.	Controlled entity	59 366	463 728	176 397	32	699 523
VESUVIUS ČR, a.s.	Controlled entity	40	84	61 744	0	61 868
Sochorová válcovna TŽ, a.s.	Controlled entity	800	1 055	13 552	1 822	17 229
Beskydská golfová, a.s.	Controlled entity	0	0	259	0	259
MORAVIA ENERGO, a.s.	Controlled entity	0	10 155	568	0	10 723
<b>Total</b>		<b>73 155</b>	<b>21 816 590</b>	<b>750 341</b>	<b>50 084</b>	<b>22 690 170</b>

## 4.24.3. Sale of Fixed Assets and Non-Current Financial Assets

2007

(CZK thousand)

Entity	Relation to the Company	Non-current financial assets		Tangible fixed assets	
		NBV	Selling price	NBV	Selling price
MORAVIA STEEL a.s.	Controlling entity	93 048	79 985	0	0
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	0	0	44
Strojírny Třinec, a.s.	Controlled entity	0	0	371	385
Sochorová válcovna TŽ, a.s.	Controlled entity	0	0	10 164	10 700
<b>Total</b>		<b>93 048</b>	<b>79 985</b>	<b>10 535</b>	<b>11 129</b>

2006

(CZK thousand)

Entity	Relation to the Company	Intangible fixed assets		Tangible fixed assets	
		NBV	Selling price	NBV	Selling price
Sochorová válcovna TŽ, a.s.	Controlled entity	0	0	7 880	8 911
REFRASIL, s.r.o.	Controlled entity	0	0	35	45
MORAVIA STEEL a.s.	Controlling entity	0	0	0	2
<b>Total</b>		<b>0</b>	<b>0</b>	<b>7 915</b>	<b>8 958</b>

2005

(CZK thousand)

Entity	Relation to the Company	Intangible fixed assets		Tangible fixed assets	
		NBV	Selling price	NBV	Selling price
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	0	2 221	2 283
Sochorová válcovna TŽ, a.s.	Controlled entity	0	0	0	2
<b>Total</b>		<b>0</b>	<b>0</b>	<b>2 221</b>	<b>2 285</b>

## 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:

#### 31 December 2007

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance, incl. pension insurance contributions	Bonuses to the members of stat. bodies	Social costs	Total staff costs
Employees	5 422	1 728 251	632 242	1 272	74 478	2 436 243
Foreign employees		279	1 695	15 216	123 618	140 808
Management	6	33 062	11 602	2 376	65	47 105
– Management remuneration for 2007		26 881	9 439	2 376	65	38 761
– bonuses for 2006		6 181	2 163	0	0	8 344
Estimated amounts for outstanding vacation days and bonuses		10 342	3 620	0	0	13 962
<b>Total</b>	<b>5 428</b>	<b>1 771 934</b>	<b>649 159</b>	<b>18 864</b>	<b>198 161</b>	<b>2 638 118</b>

#### 31 December 2006

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance, incl. pension insurance contributions	Bonuses to the members of stat. bodies	Social costs	Total staff costs
Employees	5 411	1 590 569	578 626	696	65 769	2 235 660
Foreign employees		103	1 681	15 120	2 034	18 938
Management	6	44 902	15 746	2 856	13 212	76 716
– Management remuneration for 2006		38 602	13 541	2 856	13 212	68 211
– bonuses for 2005		6 300	2 205	0	0	8 505
Estimated amounts for outstanding vacation days and bonuses		–703	–255	0	0	–958
<b>Total</b>	<b>5 417</b>	<b>1 634 871</b>	<b>595 798</b>	<b>18 672</b>	<b>81 015</b>	<b>2 330 356</b>

#### 31 December 2005

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance, incl. pension insurance contributions	Bonuses to the members of stat. bodies	Social costs	Total staff costs
Employees	5 513	1 540 246	559 890	696	66 183	2 167 015
Foreign employees		56	1 662	15 168	1 606	18 492
Management	6	42 521	14 912	2 904	13 067	73 404
– Management remuneration for 2005		36 221	12 707	2 904	13 067	64 899
– bonuses for 2004		6 300	2 205	0	0	8 505
Estimated amounts for outstanding vacation days and bonuses		38 200	13 400	0	0	51 600
<b>Total</b>	<b>5 519</b>	<b>1 621 023</b>	<b>589 864</b>	<b>18 768</b>	<b>80 856</b>	<b>2 310 511</b>

The number of employees is based on the average recalculated headcount. The category of management includes the Chief Executive Officer and divisional directors.

#### Total Remuneration

(CZK thousand)

	Board of Directors	Supervisory Board
Remuneration for 2007	3 576	15 288
Remuneration for 2006	3 384	15 288
Remuneration for 2005	3 480	15 288

## 5.2. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

31 December 2007

(CZK thousand)

	Board of Directors	Supervisory Board	Management
Company cars used for both business and private purposes (the figure increases the tax base of employees)	726	44	192
Liability insurance	445	667	148

31 December 2006

(CZK thousand)

	Board of Directors	Supervisory Board	Management
Company cars used for both business and private purposes (the figure increases the tax base of employees)	731	120	118
Insurance contribution	13 470	0	1 204
Liability insurance	345	518	0

31 December 2005

(CZK thousand)

	Board of Directors	Supervisory Board	Management
Company cars used for both business and private purposes (the figure increases the tax base of employees)	719	120	120
Insurance contribution	13 367	0	1 200
Liability insurance	373	559	0

## 6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS

The Company retains the following commitments off balance sheet:

31 December 2007

Type of commitment	Total amount	Balance at 31 Dec 2007
<i>Parent company debt acceptance</i>	EUR 60,000 thousand	CZK 99,825 thousand
<i>Guarantee statements</i>		
– to Group companies	EUR 77 thousand	CZK 2,050 thousand
<i>Guarantees</i>		
– to other entities	USD 1,279 thousand	CZK 23,119 thousand
	EUR 750 thousand	CZK 19,965 thousand
	CZK 5,000 thousand	CZK 5,000 thousand

31 December 2006

Type of commitment	Total amount	Balance at 31 Dec 2006
<i>Parent company debt acceptance</i>	EUR 60,000 thousand	CZK 515,531 thousand
<i>Guarantees</i>		
– to other entities	USD 729 thousand	CZK 15,216 thousand
	EUR 750 thousand	CZK 20,621 thousand
	CZK 5,000 thousand	CZK 5,000 thousand
<i>Collateralising blank bills of exchange</i>		
– to other entities	SKK 500,000 thousand	CZK 399,290 thousand

31 December 2005

Type of commitment	Total amount	Balance at 31 Dec 2005
<i>Parent company debt acceptance</i>	EUR 60,000 thousand	CZK 978,919 thousand
<i>Guarantee statements</i>		
– to Group companies	CZK 25,000 thousand	CZK 0
	CZK 31,524 thousand	CZK 11,524 thousand
<i>Guarantees</i>		
– to other entities	USD 1,364 thousand	CZK 33,543 thousand
	EUR 750 thousand	CZK 21,754 thousand
	CZK 5,000 thousand	CZK 5,000 thousand
<i>Collateralising blank bills of exchange</i>		
– to other entities	SKK 500,000 thousand	CZK 382,825 thousand



**Environmental Liabilities**

The Company was subject to an environmental audit which highlighted the Company's environmental obligations. Based upon the audit, the Company entered into an agreement with the National Property Fund of the Czech Republic for the settlement of expenses involved in removing environmental liabilities up to CZK 514 million that had arisen prior to privatisation. As of 31 December 2007, 2006 and 2005, the Company drew CZK 286,735 thousand, CZK 259,744 thousand and CZK 79,004 thousand, respectively.

The Company monitors possible additional environmental damage and resulting liabilities and assesses the amount of the reserve provided it anticipates costs or expenses related to this damage in future (refer to the Note 'Reserves').

**7. POST BALANCE SHEET EVENTS**

On 15 January 2008, the Company entered into a contract for the transfer of equity investments in Šroubárna Kyjov, spol. s r.o.

# XII.

## FINANCIAL PART II. – CONSOLIDATED FINANCIAL STATEMENTS

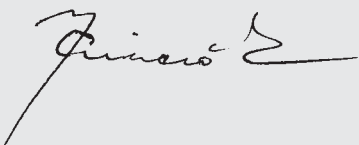
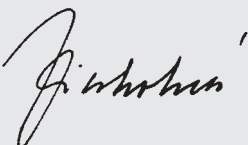
### CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

Name of the Company:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Průmyslová 1000, 739 70 Třinec-Staré Město
Legal Status:	Joint Stock Company
Corporate	ID 18050646

#### 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 7 April 2008.

Statutory body of the reporting entity:	Signature
<b>Jiří Cienciala</b> Chairman of the Board of Directors	
<b>Jaroslava Ciahotná</b> First Vice Chairwoman of the Board of Directors	

CONSOLIDATED BALANCE SHEET – FULL VERSION

(CZK thousand)

		31.12.2007			31.12.2006	31.12.2005
		Gross	Adjustment	Net	Net	Net
	<b>TOTAL ASSETS</b>	<b>46 262 862</b>	<b>-18 738 136</b>	<b>27 524 726</b>	<b>25 387 428</b>	<b>24 016 389</b>
<b>B.</b>	<b>Fixed assets</b>	<b>32 009 405</b>	<b>-18 323 276</b>	<b>13 686 129</b>	<b>13 239 790</b>	<b>13 107 280</b>
I.	<i>Intangible fixed assets</i>	<b>273 278</b>	<b>-193 846</b>	<b>79 432</b>	<b>169 178</b>	<b>385 317</b>
3.	Software	197 015	-158 399	38 616	54 890	44 224
4.	Valuable rights	75 398	-35 447	39 951	1 155	517
6.	Other intangible fixed assets	0	0	0	112 946	137 342
7.	Intangible fixed assets under construction	865	0	865	187	203 234
II.	<i>Tangible fixed assets</i>	<b>31 413 214</b>	<b>-18 086 794</b>	<b>13 326 420</b>	<b>12 933 191</b>	<b>12 473 828</b>
1.	Land	389 046	0	389 046	359 499	360 307
2.	Structures	7 915 171	-3 934 442	3 980 729	3 822 654	3 699 863
3.	Individual movable assets and sets of movable assets	21 876 303	-14 150 096	7 726 207	7 640 781	7 862 334
6.	Other tangible fixed assets	3 275	-243	3 032	1 918	2 015
7.	Tangible fixed assets under construction	1 014 823	-4 526	1 010 297	917 208	486 595
8.	Prepayments for tangible fixed assets	217 289	0	217 289	191 490	63 253
9.	Valuation difference on acquired assets	-2 693	2 513	-180	-359	-539
III.	<i>Non-current financial assets</i>	<b>209 358</b>	<b>-87 836</b>	<b>121 522</b>	<b>100 959</b>	<b>161 153</b>
1.	Equity investments in subsidiaries	103 013	-17 129	85 884	67 762	126 950
2.	Equity investments in associates	80 507	-67 234	13 273	12 354	12 228
3.	Other securities and investments	241	0	241	221	221
5.	Other non-current financial assets	19 965	0	19 965	20 622	21 754
6.	Acquisition of non-current financial assets	5 632	-3 473	2 159	0	0
IV.	<i>Consolidation differences (goodwill)</i>	<b>-263 105</b>	<b>45 200</b>	<b>-217 905</b>	<b>-276 948</b>	<b>-290 229</b>
1.	Positive consolidation difference (goodwill)	45 571	-1 031	44 540	0	0
2.	Negative consolidation difference (negative goodwill)	-308 676	46 231	-262 445	-276 948	-290 229
V.	Securities and equity investments under equity accounting	<b>376 660</b>	<b>0</b>	<b>376 660</b>	<b>313 410</b>	<b>377 211</b>
<b>C.</b>	<b>Current assets</b>	<b>14 117 952</b>	<b>-414 860</b>	<b>13 703 092</b>	<b>12 049 118</b>	<b>10 809 967</b>
I.	<i>Inventories</i>	<b>6 972 836</b>	<b>-316 045</b>	<b>6 656 791</b>	<b>6 122 201</b>	<b>5 511 131</b>
1.	Material	3 038 925	-164 543	2 874 382	2 889 999	2 353 819
2.	Work in progress and semifinished goods	2 400 450	-90 192	2 310 258	2 009 522	1 945 360
3.	Products	1 517 060	-58 478	1 458 582	1 212 338	1 199 304
5.	Goods	15 876	-2 832	13 044	9 811	11 921
6.	Prepayments for inventory	525	0	525	531	727
II.	<i>Long-term receivables</i>	<b>11 021</b>	<b>0</b>	<b>11 021</b>	<b>25 815</b>	<b>101 335</b>
1.	Trade receivables	4 838	0	4 838	9 475	2 733
5.	Long – term prepayments made	765	0	765	789	704
7.	Other receivables	5 418	0	5 418	7 819	93 042
8.	Deferred tax asset	0	0	0	7 732	4 856
III.	<i>Short-term receivables</i>	<b>3 649 404</b>	<b>-98 815</b>	<b>3 550 589</b>	<b>3 580 590</b>	<b>3 509 620</b>
1.	Trade receivables	3 444 571	-87 860	3 356 711	3 337 811	3 145 877
2.	Receivables from subsidiaries	0	0	0	0	15 314
5.	Social security and health insurance contributions	20	0	20	0	0
6.	State – tax receivables	70 165	0	70 165	117 729	118 545
7.	Other prepayments made	101 224	0	101 224	26 719	52 469
8.	Estimated receivables	4 989	0	4 989	12 463	5 746
9.	Other receivables	28 435	-10 955	17 480	85 868	171 669
IV.	<i>Current financial assets</i>	<b>3 484 691</b>	<b>0</b>	<b>3 484 691</b>	<b>2 320 512</b>	<b>1 687 881</b>
1.	Cash on hand	3 428	0	3 428	2 698	2 531
2.	Cash at bank	1 226 157	0	1 226 157	1 626 276	861 052
3.	Short-term securities and investments	2 255 106	0	2 255 106	691 538	824 298
<b>D.</b>	<b>Other assets</b>	<b>135 505</b>	<b>0</b>	<b>135 505</b>	<b>98 520</b>	<b>99 142</b>
1.	Deferred expenses	104 251	0	104 251	48 139	57 958
2.	Complex deferred expenses	30 550	0	30 550	50 153	40 533
3.	Accrued income	704	0	704	228	651

**LIABILITIES AND EQUITY**

(CZK thousand)

		31.12.2007	31.12.2006	31.12.2005
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>27 524 726</b>	<b>25 387 428</b>	<b>24 016 389</b>
<b>A.</b>	<b>Equity</b>	<b>19 473 596</b>	<b>17 353 618</b>	<b>15 360 996</b>
I.	<i>Share capital</i>	<b>8 109 863</b>	<b>8 109 863</b>	<b>8 109 863</b>
1.	Share capital	8 109 863	8 109 863	8 109 863
II.	<i>Capital funds</i>	<b>86 285</b>	<b>89 004</b>	<b>86 278</b>
2.	Other capital funds	86 338	86 316	86 316
3.	Gains or losses from the revaluation of assets and liabilities	-53	2 688	-38
III.	<i>Statutory funds</i>	<b>2 841 868</b>	<b>2 686 447</b>	<b>2 571 533</b>
1.	Statutory reserve fund/Indivisible fund	636 265	479 927	358 570
2.	Statutory and other funds	2 205 603	2 206 520	2 212 963
IV.	<i>Profit or loss of previous periods</i>	<b>3 842 050</b>	<b>3 342 501</b>	<b>2 248 643</b>
	Retained earnings	3 846 913	3 359 353	2 289 266
	Accumulated losses brought forward	-4 863	-16 852	-40 623
V.	<i>Profit or loss for the current period net of minority interests</i>	<b>4 151 080</b>	<b>2 795 024</b>	<b>2 027 465</b>
1.	Profit or loss for the period	4 033 317	2 674 164	1 916 585
2.	Share of income from associates	117 763	120 860	110 880
VI.	<i>Consolidation reserve fund</i>	<b>442 450</b>	<b>330 779</b>	<b>317 214</b>
<b>B.</b>	<b>Liabilities</b>	<b>7 721 939</b>	<b>7 738 934</b>	<b>8 375 665</b>
I.	<i>Reserves</i>	<b>649 851</b>	<b>576 255</b>	<b>788 410</b>
1.	Reserves under special legislation	154 866	304 006	601 302
4.	Other reserves	494 985	272 249	187 108
II.	<i>Long-term liabilities</i>	<b>840 169</b>	<b>917 322</b>	<b>1 026 171</b>
1.	Trade payables	24 189	6 096	11 583
5.	Long-term prepayments received	369	0	0
7.	Long-term bills of exchange to be paid	0	27 495	58 010
9.	Other payables	0	706	3 390
10.	Deferred tax liability	815 611	883 025	803 048
11.	State-tax payables and subsidies	0	0	150 140
III.	<i>Short-term liabilities</i>	<b>4 343 800</b>	<b>3 695 673</b>	<b>3 720 138</b>
1.	Trade payables	3 146 215	2 490 219	2 450 756
4.	Payables to partners and association members	16 346	8 295	22 761
5.	Payables to employees	322 910	262 686	239 098
6.	Social security and health insurance payables	144 618	126 142	120 584
7.	State-tax payables and subsidies	501 278	661 143	724 903
8.	Short-term prepayments received	4 162	15 143	13 579
10.	Estimated payables	186 046	109 338	106 131
11.	Other payables	22 225	22 707	42 326
IV.	<i>Bank loans and borrowings</i>	<b>1 888 119</b>	<b>2 549 684</b>	<b>2 840 946</b>
1.	Long-term bank loans	1 314 456	1 687 609	1 939 656
2.	Short-term bank loans	573 663	862 075	901 290
<b>C.</b>	<b>Other liabilities</b>	<b>56 267</b>	<b>55 670</b>	<b>65 289</b>
1.	Accrued expenses	55 222	46 057	62 831
2.	Deferred income	1 045	9 613	2 458
<b>D.</b>	<b>Minority equity</b>	<b>272 924</b>	<b>239 206</b>	<b>214 439</b>
	Minority share capital	10 290	10 290	10 290
	Minority capital funds	2	1	1
	Minority profit funds incl. retained earnings and accumulated losses	208 823	185 037	171 967
	Minority profit or loss for the period	53 809	43 878	32 181



CONSOLIDATED PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
I.	Sales of goods	8 530	11 525	1 385
A.	Costs of goods sold	5 488	7 304	608
+	<b>Gross margin</b>	<b>3 042</b>	<b>4 221</b>	<b>777</b>
II.	Production	40 259 987	36 111 346	34 989 828
1.	Sales of own products and services	39 389 101	35 081 821	33 110 802
2.	Change in internally produced inventory	324 460	227 764	1 184 921
3.	Own work capitalised	546 426	801 761	694 105
B.	Purchased consumables and services	29 560 609	27 592 255	27 669 116
1.	Consumed material and energy	26 656 942	24 466 469	24 569 827
2.	Services	2 903 667	3 125 786	3 099 289
+	<b>Added value</b>	<b>10 702 420</b>	<b>8 523 312</b>	<b>7 321 489</b>
C.	Staff costs	4 204 916	3 618 155	3 360 715
1.	Payroll costs	2 833 313	2 546 123	2 364 757
2.	Remuneration to members of statutory bodies	30 917	29 224	28 943
3.	Social security and health insurance costs	1 032 430	925 039	857 376
4.	Social costs	308 256	117 769	109 639
D.	Taxes and charges	20 045	19 242	22 492
E.	Depreciation of intangible and tangible fixed assets	1 371 771	1 270 222	1 172 066
KR A.	Amortisation of consolidation difference (goodwill)	1 031	0	2 151
KR 1.	Release of negative consolidation difference (negative goodwill)	15 822	15 822	6 059
III.	Sales of fixed assets and material	289 804	302 667	185 775
1.	Sales of fixed assets	43 268	39 879	46 451
2.	Sales of material	246 536	262 788	139 324
F.	Net book value of fixed assets and material sold	215 971	263 138	200 971
1.	Net book value of sold fixed assets	22 004	19 149	84 778
2.	Book value of sold material	193 967	243 989	116 193
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-140 164	-393 998	-227 638
IV.	Other operating income	333 910	3 316 541	2 789 509
H.	Other operating expenses	469 289	3 714 005	2 881 653
*	<b>Operating profit or loss</b>	<b>5 199 097</b>	<b>3 667 578</b>	<b>2 890 422</b>
VI.	Proceeds from the sale of securities and investments	79 985	105 180	171 514
J.	Cost of securities and investments sold	93 048	112 492	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
IX..	Income from the revaluation of securities and derivatives	8 131	61	21
M.	Change in reserves and provisions relating to financial activities	-10 562	-8 187	41 023
X.	Interest income	46 977	42 079	24 242
N.	Interest expenses	115 640	133 896	116 008
XI.	Other financial income	125 198	142 056	208 416
O.	Other financial expenses	137 472	126 380	166 298
*	<b>Financial profit or loss</b>	<b>-74 162</b>	<b>-74 310</b>	<b>-102 189</b>
Q.	Income tax on ordinary activities	1 037 892	875 639	765 151
1.	-due	1 118 677	795 993	567 098
2.	-deferred	-80 785	79 646	198 053
**	<b>Profit or loss from ordinary activities</b>	<b>4 087 043</b>	<b>2 717 629</b>	<b>2 023 082</b>
XIII.	Extraordinary income	112	413	64 475
R.	Extraordinary expenses	0	0	139 951
S.	Income tax on extraordinary activities	28	0	0
1.	-due	28	0	0
*	<b>Extraordinary profit or loss</b>	<b>84</b>	<b>413</b>	<b>-75 476</b>
**	<b>Consolidated profit or loss net of share of income of associates</b>	<b>4 087 127</b>	<b>2 718 042</b>	<b>1 947 606</b>
	Consolidated profit or loss net of minority interests	4 033 318	2 674 164	1 916 585
	Minority profit or loss	53 809	43 878	31 021
*	<b>Share of income of associates</b>	<b>117 763</b>	<b>120 860</b>	<b>110 880</b>
	Profit or loss for the current period (+/-)	4 204 889	2 838 902	2 058 486
***	<b>Profit or loss for the current period net of minority interests (+/-)</b>	<b>4 151 080</b>	<b>2 795 024</b>	<b>2 027 465</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(CZK thousand)

	Share capital	Capital funds	Statutory reserve fund	Statutory and other funds	Accumulated profits brought forward	Profit or loss for the current period	Consolidation reserve fund	Share of income from associates	TOTAL EQUITY
<b>Balance at 31 Dec 2004</b>	<b>8 109 863</b>	<b>70 594</b>	<b>218 847</b>	<b>2 220 391</b>	<b>293 470</b>	<b>2 645 159</b>	<b>225 101</b>	<b>92 300</b>	<b>13 875 725</b>
Profit for the period	0	0	0	0	0	1 916 585	0	110 880	2 027 465
Distribution of retained earnings	0	0	140 667	0	1 937 561	-2 077 469	92 300	-92 300	759
Dividends	0	0	0	0	0	-567 690	0	0	-567 690
Revaluation of assets	0	13 986	0	0	0	0	0	0	13 986
Payments from the social fund	0	0	0	-7 428	0	0	-187	0	-7 615
Impact of changes in the consolidated group	0	1 694	-944	0	17 610	0	0	0	18 360
Other	0	4	0	0	2	0	0	0	6
<b>Balance at 31 Dec 2005</b>	<b>8 109 863</b>	<b>86 278</b>	<b>358 570</b>	<b>2 212 963</b>	<b>2 248 643</b>	<b>1 916 585</b>	<b>317 214</b>	<b>110 880</b>	<b>15 360 996</b>
Profit for the period	0	0	0	0	0	2 674 164	0	120 860	2 795 024
Distribution of retained earnings	0	0	121 357	0	984 242	-1 105 599	110 880	-110 880	0
Dividends	0	0	0	0	0	-810 986	0	0	-810 986
Revaluation of assets	0	2 726	0	0	0	0	0	0	2 726
Payments from the social fund	0	0	0	-6 443	0	0	0	0	-6 443
Impact of changes in the consolidated group	0	0	0	0	109 616	0	-97 315	0	12 301
<b>Balance at 31 Dec 2006</b>	<b>8 109 863</b>	<b>89 004</b>	<b>479 927</b>	<b>2 206 520</b>	<b>3 342 501</b>	<b>2 674 164</b>	<b>330 779</b>	<b>120 860</b>	<b>17 353 618</b>
Profit for the period	0	0	0	0	0	4 033 317	0	117 763	4 151 080
Distribution of retained earnings	0	0	154 241	0	492 457	-646 698	120 860	-120 860	0
Dividends	0	0	0	0	0	-2 027 466	0	0	-2 027 466
Revaluation of assets	0	-2 741	0	0	0	0	0	0	-2 741
Payments from the social fund	0	0	0	-920	0	0	0	0	-920
Impact of changes in the consolidated group	0	0	2 097	0	7 092	0	-9 189	0	0
Other	0	22	0	3	0	0	0	0	25
<b>Balance at 31 Dec 2007</b>	<b>8 109 863</b>	<b>86 285</b>	<b>636 265</b>	<b>2 205 603</b>	<b>3 842 050</b>	<b>4 033 317</b>	<b>442 450</b>	<b>117 763</b>	<b>19 473 596</b>

# CONSOLIDATED CASH FLOW STATEMENT

(CZK thousand)

		Year ended 31.12.2007	Year ended 31.12.2006	Year ended 31.12.2005
<b>P.</b>	<b>Cash and cash equivalents at the beginning of the accounting period</b>	<b>2 044 296</b>	<b>1 233 834</b>	<b>395 321</b>
	<i>Cash flows from ordinary activities (operating activities)</i>			
<b>Z.</b>	<b>Profit/(loss) from ordinary activities before tax</b>	5 124 935	3 593 271	2 788 233
A.1.	Adjustments for non-cash transactions	1 327 042	918 024	1 101 109
A.1.1.	Depreciation of fixed assets(+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 356 884	1 254 707	1 168 099
A.1.2.	Change in provisions and reserves	-151 038	-401 220	-192 888
A.1.3.	Profit/(loss) on the sale of fixed assets (+/-)	-7 758	-11 503	64 018
A.1.4.	Revenues from dividends and profit shares (-), with the exception of dividends paid by Group entities	12 118	-894	-6 448
A.1.5.	Interest expense (+) excluding capitalised interest and interest income (-)	66 427	90 462	90 480
A.1.6.	FX differences and other non-cash transaction	50 409	-13 528	-22 152
<b>A*</b>	<b>Net cash flow from operating activities before tax, movements in working capital and extraordinary items</b>	<b>6 451 977</b>	<b>4 511 295</b>	<b>3 889 342</b>
A.2.	Change in non-cash components of working capital	725 017	-421 463	654 526
A.2.1.	Change in receivables from operating activities(+/-), deferred expenses, accrued income and estimated assets	189 860	180 865	34 337
A.2.2.	Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	542 585	22 105	1 080 455
A.2.3.	Change in inventory	-259 909	-790 965	-586 785
A.2.4.	Change in current financial assets not included in cash and cash equivalents	252 481	166 532	126 519
<b>A.**</b>	<b>Net cash flow from operating activities before tax and extraordinary items</b>	<b>7 176 994</b>	<b>4 089 832</b>	<b>4 543 868</b>
A.3.	Interest paid (-), except interest capitalised	-114 135	-126 192	-106 615
A.4.	Interest received (+)	46 998	42 077	24 531
A.5.	Income tax paid from operating activities, additional tax paid for previous periods (-)	-954 943	-649 004	-1 458 324
A.6.	Receipts and expenditures relating to extraordinary activities, which from extraordinary profit or loss, including income tax paid from extraordinary activities	84	413	0
A.7.	Received dividends and profit shares (+)	42 281	88 895	73 748
<b>A.***</b>	<b>Net cash flow from operating activities</b>	<b>6 197 279</b>	<b>3 446 021</b>	<b>3 077 208</b>
	<i>Cash flows from investing activities</i>			
B.1.	Fixed assets expenditures	-1 784 181	-1 656 487	-1 708 485
B.2.	Receipts from fixed assets sold	132 755	328 059	121 113
B.4.	Cash flows from the acquisition of business or its part	-344 634	0	-276 213
B.5.	Cash flows from the deconsolidation of business or its part	0	0	-8 128
<b>B.***</b>	<b>Net cash flow from investing activities</b>	<b>-1 996 060</b>	<b>-1 328 428</b>	<b>-1 871 713</b>
	<i>Cash flows from financial activities</i>			
C.1.	Impact of change in long-term or short-term payables which fall into cash and cash equivalent in financing activities on cash and cash equivalents	-771 162	-477 984	225 861
C.2.	Impact on cash and cash equivalents due to change in equity	-2 025 106	-829 147	-594 537
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 settlement with partners (-), expect for dividends and profit shares paid between Group entities	-2 024 826	-825 928	-588 081
<b>C.***</b>	<b>Net cash flow from financial activities</b>	<b>-2 796 268</b>	<b>-1 307 131</b>	<b>-368 676</b>
<b>D.</b>	<b>Differences arising from the impact of FX differences on the basis of including entities in consolidation</b>	<b>0</b>	<b>0</b>	<b>1 694</b>
<b>F.</b>	<b>Net increase or decrease of cash and cash equivalents</b>	<b>1 404 951</b>	<b>810 462</b>	<b>838 513</b>
<b>R.</b>	<b>Cash and cash equivalents at the end of the accounting period</b>	<b>3 449 247</b>	<b>2 044 296</b>	<b>1 233 834</b>

## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

TŘINECKÉ ŽELEŽÁRNY, a. s. (henceforth the “Company”) was formed by the National Property Fund of the Czech Republic on the basis of a Deed of Foundation as a joint stock company registered in Třinec, Czech Republic, and was incorporated following its registration in the Register of Companies of the Regional Court in Ostrava on 21 March 1991. The Company is primarily engaged in metallurgy with a closed metallurgical cycle. In addition to the production of coke, pig iron and steel, the range of principal products provided by the Company involves the products of rolling mills, namely blooms, slabs, , billets, rods, reinforcing bars and thin, medium and heavy sections. The Company benefits from its incumbent status of being the Czech monopoly in respect of the manufacture of rails.

The Company's registered office is located in Třinec-Staré Město, Průmyslová 1000, 739 70.

The Company's issued share capital is CZK 8,109,863 thousand.

The following table shows individuals and corporate entities with ownership interest greater than 20 percent and the amount of their interest:

Shareholder	Ownership percentage
MORAVIA STEEL a. s.	69.04 %
Other legal entities and individuals	30.96 %
<b>Total</b>	<b>100.00 %</b>

### 1.2. GROUP IDENTIFICATION

The Company is included in the MORAVIA STEEL a.s. Group. MORAVIA STEEL a.s. is controlled by FINITRADING a.s. and R.F.G., a.s., acting in concert.

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

	Position	Name
<b>Board of Directors</b>	Chairman	Jiří Cienciala
	1st Vice Chairwoman	Jaroslava Ciahotná
	2nd Vice Chairman	Jan Czudek
	Member	Jan Lasota
	Member	Petr Matuszek
	Member	Česlav Marek
<b>Supervisory Board</b>	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Hanns K. Zöllner
	Member	František Ligocki
	Member	Evžen Balko
	Member	Jozef Blaško
	Member	Oldřich Cieslar
	Member	Jiří Stašák
	Member	Pablo Alarcón Espinosa

During the year ended 31 December 2007, the following changes were made to the composition of the Company's Supervisory Board:

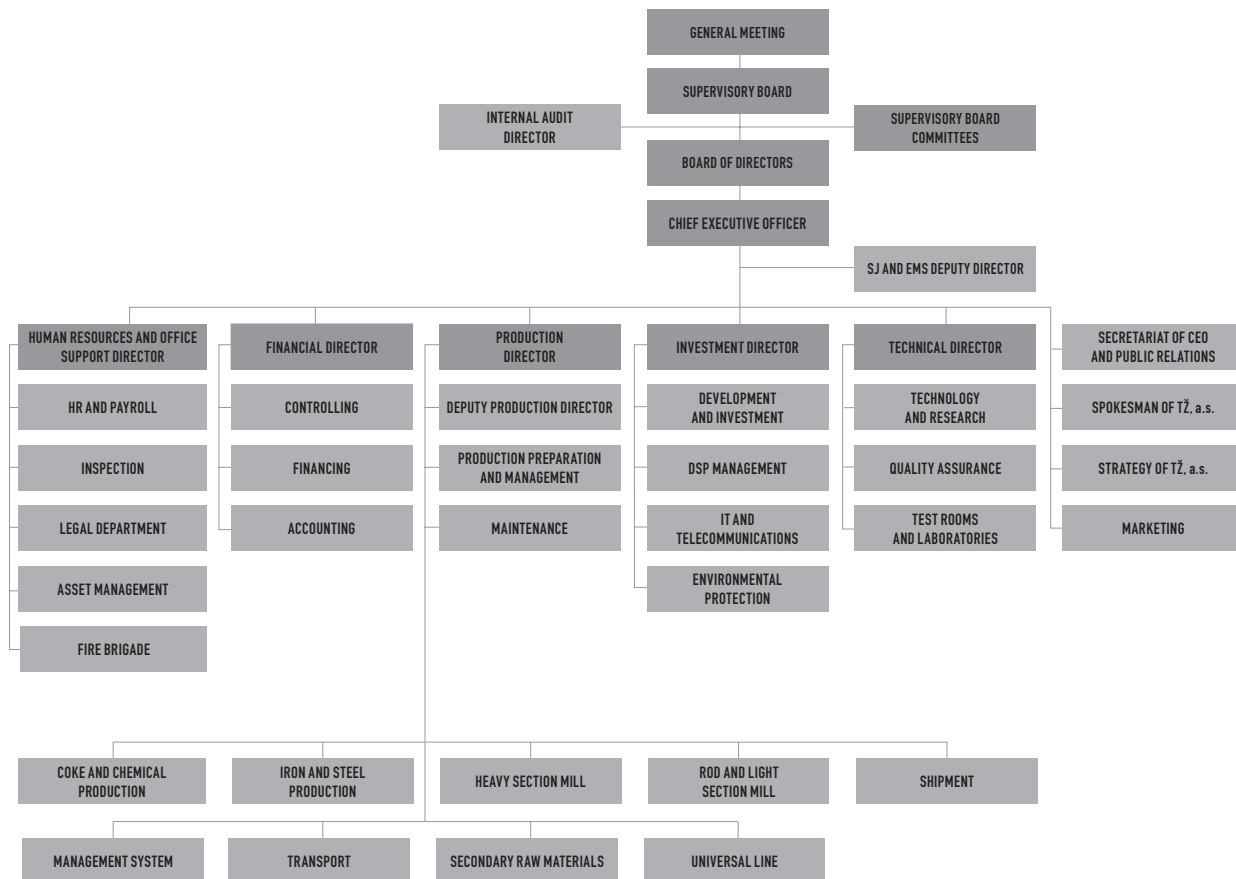
#### Supervisory Board:

Position	Original member	New member	Date of the change
Member	Ivo Dubš	Pablo Alarcón Espinosa	25 June 2007



## 2. DEFINITION OF THE CONSOLIDATED GROUP, CONSOLIDATION SYSTEM AND METHODS

### 2.1. BASIC ORGANISATIONAL STRUCTURE



### 2.2. NAMES AND REGISTERED OFFICES OF SUBSIDIARIES AND ASSOCIATES INCLUDED IN THE CONSOLIDATED GROUP

The following companies were included into the consolidated group (the “Group”) for the year ended 31 December 2007:

#### Subsidiaries

Name of the compan	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 tubes	100.00 %
VÚHŽ a.s.	Dobrá 240, 739 51	Production of car, metallurgical, manufacturing 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	Wholesale mediation	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-Konská, Průmyslová 720, 739 65	Production of fireproof products	51.00 %

#### Associates

Name of the company	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 %

Given the acquisition of the 100 percent equity investment in H&S PROGESS s.r.o., the consolidation group for the year ended 31 December 2007 is extended to include H&S PROGESS 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.

The following companies were included into the consolidated group (the “Group”) for the year ended 31 December 2006:

#### Subsidiaries

Name of the company	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 tubes	100.00 %
Řetězárna, a.s.	Česká Ves, Polská 57, 790 81	Production of chains and chain products	51.00 %
REFRASIL, s.r.o.	Třinec-Konská, Průmyslová 720, 739 65	Production of fireproof products	51.00 %

#### Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2006
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 %
MORAVIA ENERGO, a.s.	Třinec-Staré Město, Průmyslová 1018, 739 65	Distribution of electricity, energy advisory services	41.00 %

Due to the sale of the equity investment in MORAVIA ENERGO, a.s. as of 24 March 2006, the entity was removed from the consolidation group for the year ended 31 December 2006. The deconsolidation was performed as of 31 March 2006.

The consolidation methods were used in compliance with the consolidation rules of the consolidated group – full consolidation was applied in the case of subsidiaries, consolidation under the equity method was used for the associates. The Company participates in the financial and operating policies of Sochorová válcovna TŽ, a.s., which was therefore consolidated using the equity method of accounting.

Financial statements of all entities, both included and excluded from the consolidation, are maintained in the registered office of the parent company for presentation purposes.

### 2.3. THE BALANCE SHEET DATES AND REGISTERED OFFICES 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 period 2005 – 2007 are based in the Czech Republic.

### 2.4. COMPANIES EXCLUDED FROM CONSOLIDATION

Entities in which the Company has control, joint control or substantial influence are not included in the consolidated group if:

- The assets of such an entity do not exceed CZK 150 million;
- The equity share in the entity in proportion to the equity in the group is less than 1.5 percent;
- 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 one whole. The total assets of this whole must be less than CZK 500 million, the equity share of this whole in the Group must be less than 5 percent and the share in the net turnover (revenues of account class 6) in the group must be less than 5 percent. If the assets are less than CZK 500 million and 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. For calculating materiality levels, all companies in the Group with the exception of companies in liquidation or subject to bankruptcy proceedings are taken into account;
- 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.

### 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 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.

For the purpose of preparing the consolidated financial statements of the TRINECKÉ železářny, a.s. Group, accounting principles and policies used within the Group were brought into line. Significant accounting principles and policies as they are used by individual companies are set out below.

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

#### 3.1. FINANCIAL REPORTING PERIOD

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

- The balance sheet contains comparative amounts 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 as of 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.

#### 3.2. VALUATION, DEPRECIATION AND PROVISIONING POLICIES

##### 3.2.1. *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 assets are accounted for as inventory and when brought into use they are charged to 'Consumables' in the profit and loss account. Intangible assets costing CZK 60 thousand and less are also expensed through the account 'Services' in the year of acquisition.

The cost of fixed asset improvements exceeding CZK 40 thousand 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 and are recorded off balance sheet in the valuation of own costs.

Greenhouse emission allowances are recognised as non-depreciable intangible fixed assets and are stated at cost, or replacement cost when acquired free of charge. The use of emission allowances is accounted for at the balance sheet date as a minimum, depending upon the level of emissions produced by the Company in the calendar year. An initial free-of-charge acquisition of the allowances is recognised as a subsidy not reducing the carrying amount of the intangible fixed assets. This 'subsidy' is released into income on a systematic basis as the allowances are used and charged to expenses. The sale of allowances is recorded as a component of 'Sales of fixed assets'.

As of the balance sheet date, emission allowances are valued according to the EUROPEAN ENERGY EXCHANGE rate. The change in the valuation of emission allowances as of the balance sheet date is recognised between balance sheet accounts 'Other intangible fixed assets' and 'State – tax payables and subsidies'. If there is a lack of allowances at the balance sheet date, the Company recognises a reserve as part of 'Other reserves' and 'Change in reserves and provisions relating to operating activities and complex deferred expenses'. The reserve for the purchase of allowances is released in the following accounting period when the missing allowances are purchased.

## 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
Machines and equipment	2 – 42
Vehicles	3 – 40
Furniture and fixtures	6 – 15
Software	3 – 7

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 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).

### 3.2.2. 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 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 'Other non-current securities and equity investments' and 'Gains and losses from the revaluation of assets and liabilities'. A deferred tax is determined in respect of the revaluation difference where the value of available-for-sale securities increases, and is recorded through accounts 'Gains and losses from the revaluation of assets and liabilities' and '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 a non-current financial asset 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.

### 3.2.3. Inventory

#### Valuation

Purchased inventory is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as custom 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.

The revaluation of internally developed inventory is performed as of 1 January of the current year with reference to the calculations made based on 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, namely in '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 recognised as a provisioning charge 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.

### 3.2.4. 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 (against receivables from other than Group companies) 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 addition, provisions are recognised against specific receivables following an assessment of their collectability.

The Group recognises provisions against other interest-free long-term receivables. This provisioning charge is calculated as equal to the difference between the nominal and the discounted value of repayments of these receivables.

### 3.2.5. 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.

### 3.2.6. Payables

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

### 3.2.7. 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 an outstanding interest expense. Interest expense is reported in the balance sheet as a component of short-term bonds issued.

### 3.2.8. Reserves

The Company creates other reserves to provide for future risks known at the balance sheet date. In addition, the Company 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. 294/2005 Coll. If the reserves are not drawn within the statutory period, they are released.



### **3.3. 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.

### **3.4. 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.

### **3.5. 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.

### **3.6. BORROWING COSTS**

Borrowing costs arising from loans are included directly in expenses regardless of the purpose for which they were drawn.

### **3.7. REVENUE RECOGNITION**

Revenues are recognised when goods are delivered and accepted by the customer 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 as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Group believes that the estimates and assumptions used will not significantly differ from the actual results and outcomes in the following reporting periods.

### **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 provided for three years; it is reported as a component of the balance sheet line 'State – tax payables and subsidies' and is split into short-term and long-term portions and is gradually released to income on an accruals basis as the projects for which it was created are implemented.

### 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. A detailed analysis of the projects in progress is undertaken at the balance sheet date and the costs incurred are charged to expenses or recognised as complex deferred expenses with a corresponding recognition of a provision in the event that there is doubt over the completion or future utilisation of the project.

### 3.12. CASH FLOW STATEMENT

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

Cash and cash equivalents can be analysed as follows:

	(CZK thousand)		
	31 Dec 2007	31 Dec 2006	31 Dec 2005
Cash	3 428	2 698	2 531
Current accounts	1 069 518	1 366 362	395 316
Term deposit	121 195	13 698	16 555
Debt securities and investments	2 255 106	673 247	819 432
Provision	0	-11 709	0
<b>Total cash and cash equivalents</b>	<b>3 449 247</b>	<b>2 044 296</b>	<b>1 233 834</b>
Total cash and cash equivalents not included in cash flow	35 444	276 216	454 047
<b>Total current financial assets</b>	<b>3 484 691</b>	<b>2 320 512</b>	<b>1 687 881</b>

#### Comments on the Cash Flow Statement for the Years Ended 31 December 2005 – 2007:

The change in the balance of current financial assets as of 31 December 2007 as compared to the balance sheet represents the opening of a special-purpose account of CZK 35,444 thousand as of 31 December 2007 in connection with the received state aid.

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

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.

The provision in 2006 includes the provision recognised against Beskydská golfová, a.s.

### 3.13. 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, inter-company 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 in 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.

Goodwill arising on consolidation represents the difference between the cost of an investment in a subsidiary and its value determined on the basis of the Parent Company's interest in the fair value of equity which arises as a difference between the fair values of assets and the fair values of liabilities as of the acquisition date or as of the date of a further capital increase (a further increase of securities or investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated company.

Goodwill arising on consolidation is amortised on a straight line basis over 20 years if there are no reasons for a shorter amortisation period. The selected amortisation period must be clearly provable and must not breach the principle of a true and fair view of the subject-matter of accounting and the financial position of the company. Goodwill arising on consolidation is credited to positive consolidation goodwill in income on ordinary activity or charged to negative consolidation goodwill in expenses on ordinary activities as appropriate.

Amortisation charges of goodwill arising on consolidation are recognised in a special consolidated profit and loss account line item.

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

The consolidation of the financial statements was performed using the direct 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 Company.

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

#### 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)
Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a.s.	3 633 114
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	203 618
Profit/(loss) of the current period – Strojírny Třinec, a.s.	81 800
Profit/(loss) of the current period – Slévárny Třinec, a.s.	13 681
Profit/(loss) of the current period – FERROMORAVIA, s.r.o.	84 957
Profit/(loss) of the current period – VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.	189 144
Profit/(loss) of the current period – H&S PROGRESS s.r.o.	14 491
Profit/(loss) of the current period – ROLLSERVIS a.s.	2 782
Profit/(loss) of the current period – VÚHŽ NEMO a.s.	1 540
Profit/(loss) of the current period – VÚHŽ a.s.	17 633
Share in profit of the current period – REFRASIL, s.r.o.	23 996
Share in profit of the current period – Řetězárna a.s.	31 965
Share in profit/(loss) of equity accounted investments	117 763
Adjustments within full consolidation (see below)	–210 891
Adjustments within the equity method of consolidation (see below)	–54 513
<b>Consolidated profit</b>	<b>4 151 080</b>

###### 4.1.2. Adjustments within Full Consolidation for 2007

	(CZK thousand)
Elimination of profit from intercompany sales of fixed assets, including the deferred tax impact	683
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact	–29 032
Revaluation of assets to fair value	–17 067
Amortisation of positive goodwill on consolidation of H&S PROGRESS s.r.o.	–1 031
Amortisation of negative goodwill on consolidation of FERROMORAVIA, s.r.o.	1 080
Amortisation of negative goodwill on consolidation of Řetězárna a.s.	1 648
Amortisation of negative goodwill on consolidation of VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.	13 096
Elimination of the release of the provision recorded against Slévárny Třinec, a.s.	–1 096
Elimination of declared dividends of the consolidated group entities	–179 172
<b>Total adjustments</b>	<b>–210 891</b>

###### 4.1.3. Adjustments within the Equity Method for 2007

	(CZK thousand)
Elimination of dividends paid by VESUVIUS ČESKÁ REPUBLIKA, a.s.	–54 513
<b>Total adjustments</b>	<b>–54 513</b>

## 4.2. CONSOLIDATED PROFIT/LOSS FOR 2006

### 4.2.1. Structure of the Consolidated Profit/Loss for 2006

(CZK thousand)

Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a. s.	2 684 148
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	136 075
Profit/(loss) of the current period – Strojírny Třinec, a.s.	57 160
Profit/(loss) of the current period – Slévárny Třinec, a.s.	12 624
Profit/(loss) of the current period – FERROMORAVIA, s.r.o.	75 364
Profit/(loss) of the current period – VVT – VÍTKOVICE VÁLCOVNA TRUB,a.s.	119 387
Share in profit of the current period – REFRASIL, s.r.o.	26 990
Share in profit of the current period – Řetězárna, a.s.	18 576
Share in profit/(loss) of equity accounted investments	116 198
Adjustments within full consolidation (see below)	-258 488
Adjustments within the equity method of consolidation (see below)	-193 010
<b>Consolidated profit</b>	<b>2 795 024</b>

### 4.2.2. Adjustments within Full Consolidation for 2006

(CZK thousand)

Elimination of profit from intercompany sales of fixed assets, including the deferred tax impact	17 233
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact	-22 152
Amortisation of negative goodwill on consolidation of FERROMORAVIA s.r.o.	1 079
Amortisation of negative goodwill on consolidation of Řetězárna, a.s.	1 648
Amortisation of negative goodwill on consolidation of VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s	13 096
Revaluation of assets to fair value of VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s	-10 590
Elimination of the release of the provision recorded against Slévárny Třinec, a.s.	-13 912
Elimination of declared dividends of the consolidated group entities	-244 890
<b>Total adjustments</b>	<b>-258 488</b>

### 4.2.3. Adjustments within the Equity Method for 2006

(CZK thousand)

Elimination of dividends received from VESUVIUS ČESKÁ REPUBLIKA, a.s.	-96 001
Deconsolidation of MORAVIA ENERGO s.r.o.	-100 552
Elimination of profit from unrealised inventory	3 543
<b>Total adjustments</b>	<b>-193 010</b>

## 4.3. CONSOLIDATED PROFIT/LOSS FOR 2005

### 4.3.1. Structure of the Consolidated Profit/Loss for 2005

(CZK thousand)

Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a. s.	2 067 939
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	91 630
Profit/(loss) of the current period – Strojírny Třinec, a.s.	66 340
Profit/(loss) of the current period – Slévárny Třinec, a.s.	19 068
Profit/(loss) of the current period – TRIFINAL Třinec, a.s.	-1 596
Profit/(loss) of the current period – FERROMORAVIA, s.r.o.	37 003
Profit/(loss) of the current period – VVT – VÍTKOVICE VÁLCOVNA TRUB,a.s.	30 453
Share in profit of the current period – REFRASIL, s.r.o.	15 716
Share in profit of the current period – EX IM TRANS LLC.	-14 837
Share in profit of the current period – Řetězárna, a.s.	18 841
Share in profit/(loss) of equity accounted investments	115 542
Adjustments within full consolidation (see below)	-346 891
Adjustments within the equity method of consolidation (see below)	-71 743
<b>Consolidated profit</b>	<b>2 027 465</b>

## 4.3.2. Adjustments within Full Consolidation for 2005

(CZK thousand)

Elimination of profit from intercompany sales of fixed assets, including the deferred tax impact	20 292
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact	–9 611
Deconsolidation of EX IM TRANS LLC	3 749
Amortisation of negative goodwill on consolidation of FERROMORAVIA s.r.o.	1 080
Amortisation of negative goodwill on consolidation of Řetězárna, a.s.	1 706
Amortisation of negative goodwill on consolidation of VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s	3 274
Deconsolidation of a 7 % sale of shares of Řetězárna, a.s.	–10 435
Revaluation of assets to fair value of VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s	–1 951
Elimination of the release of the provision recorded against Slévárny Třinec, a.s.	–24 365
Deconsolidation of TRIFINAL , a.s.	–8 904
Elimination of declared dividends of the consolidated group entities	–321 726
<b>Total adjustments</b>	<b>–346 891</b>

## 4.3.3. Adjustments within the Equity Method for 2005

(CZK thousand)

Elimination of dividends received from VESUVIUS ČESKÁ REPUBLIKA, a.s.	–60 000
Elimination of dividends received from MORAVIA ENERGO s.r.o.	–8 200
Elimination of profit from unrealised inventory	–3 543
<b>Total adjustments</b>	<b>–71 743</b>

## 5. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

## 5.1. INTANGIBLE FIXED ASSETS

## Cost

(CZK thousand)

	Balance at 1 Jan 2005	New acquisition	Additions	Disposals	Balance at 31 Dec 2005	Additions	Disposals
Start-up costs	0	624	0	0	624	0	624
Software	111 368	29 913	18 255	1 945	157 591	30 506	3 065
Valuable rights	35 418	467	100	0	35 985	1 410	176
Other intangible FA	0	0	1 775 890	1 638 548	137 342	3 270 089	3 294 485
Intangible FA under construction	2 316	854	216 632	16 568	203 234	8 723	211 770
<b>Total</b>	<b>149 102</b>	<b>31 858</b>	<b>2 010 877</b>	<b>1 657 061</b>	<b>534 776</b>	<b>3 310 728</b>	<b>3 510 120</b>

(CZK thousand)

	Balance at 31 Dec 2006	New acquisition	Additions	Disposals	Balance at 31 Dec 2007
Start-up costs	0	0	0	0	0
Software	185 032	8 375	5 387	1 779	197 015
Valuable rights	37 219	42 677	1 597	6 095	75 398
Other intangible FA	112 946	0	102 159	215 105	0
Intangible FA under construction	187	0	6 124	5 446	865
<b>Total</b>	<b>335 384</b>	<b>51 052</b>	<b>115 267</b>	<b>228 425</b>	<b>273 278</b>

## Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 1 Jan 2005	New acquisition	Additions	Disposals	Balance at 1 Jan 2005	Additions	Disposals
Start-up costs	0	624	0	0	624	0	624
Software	76 472	27 856	10 984	1 945	113 367	19 901	3 126
Valuable rights	35 027	165	276	0	35 468	772	176
Other intangible FA	0	0	0	0	0	0	0
Intangible FA under construction	0	0	0	0	0	0	0
<b>Total</b>	<b>111 499</b>	<b>28 645</b>	<b>11 260</b>	<b>1 945</b>	<b>149 459</b>	<b>20 673</b>	<b>3 926</b>



(CZK thousand)

	Balance at 31 Dec 2006	New acquisition	Additions	Disposals	Balance at 31 Dec 2007
Start-up costs	0	0	0	0	0
Software	130 142	5 006	25 076	1 825	158 399
Valuable rights	36 064	2 823	2 655	6 095	35 447
Other intangible FA	0	0	0	0	0
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>166 206</b>	<b>7 829</b>	<b>27 731</b>	<b>7 920</b>	<b>193 846</b>

## Net Book Value

(CZK thousand)

	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Software	44 224	54 890	38 616
Valuable rights	517	1 155	39 951
Other intangible FA	137 342	112 946	0
Intangible FA under construction	203 234	187	865
<b>Total</b>	<b>385 317</b>	<b>169 178</b>	<b>79 432</b>

The tables of movements within intangible fixed assets include the column 'new acquisition' relating to the expansion of the consolidated group to include H&S PROGRESS s.r.o., VÚHŽ a.s., VÚHŽ NEMO a.s. and ROLLSERVIS a.s. in 2007, and VVT – VÍTKOVICE VALCOVNA TRUB, a.s. in 2005.

Additions to and disposals of intangible fixed assets predominantly include the allocation and consumption of greenhouse emission allowances. The year-on-year decrease in the consumed emission allowances was predominantly due to the impact of the rate and decrease in the price of allowances.

## Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 26,203 thousand, CZK 21,333 thousand and CZK 11,260 thousand as of 31 December 2007, 2006 and 2005, respectively.

## Aggregate Balance of Low Value Intangible Assets not Reported on the Balance Sheet

The aggregate balance of low value intangible assets not reported on the face of the balance sheet was CZK 28,542 thousand, CZK 21,050 thousand and CZK 21,220 thousand as of 31 December 2007, 2006 and 2005, respectively. With effect from 2002, the Group decided not to report these assets on the balance sheet.

## 5.2. TANGIBLE FIXED ASSETS

### Cost

(CZK thousand)

	Balance at 1 Jan 2005	New acquisition	Divestment	Additions	Disposals	Balance at 31 Dec 2005	Additions
Land	333 534	26 629	0	1 083	939	360 307	238
Structures	6 988 545	132 288	0	292 713	140 718	7 272 828	326 040
Individual movable assets	18 909 286	254 016	130 444	1 789 660	574 374	20 248 144	865 525
Other tangible FA	6 094	0	0	128	4 008	2 214	0
Tangible FA under construction	613 450	12 615	0	1 887 361	2 023 618	489 808	1 637 045
Prepayments	147 727	3 606	0	308 886	396 966	63 253	397 506
Valuation difference on acquired assets	-2 693	0	0	0	0	-2 693	0
<b>Total</b>	<b>26 995 943</b>	<b>429 154</b>	<b>130 444</b>	<b>4 279 831</b>	<b>3 140 623</b>	<b>28 433 861</b>	<b>3 226 354</b>

(CZK thousand)

	Disposals	Balance at 31 Dec 2006	New acquisition	Additions	Disposals	Balance at 31 Dec 2007
Land	1 046	359 499	30 106	23	582	389 046
Structures	35 403	7 563 465	147 132	244 670	40 096	7 915 171
Individual movable assets	318 986	20 794 683	162 760	1 222 596	303 736	21 876 303
Other tangible FA	110	2 104	1 155	16	0	3 275
Tangible FA under construction	1 207 836	919 017	5 687	1 525 694	1 435 575	1 014 823
Prepayments	269 269	191 490	8 652	412 205	395 058	217 289
Valuation difference on acquired assets	0	-2 693	0	0	0	-2 693
<b>Total</b>	<b>1 832 650</b>	<b>29 827 565</b>	<b>355 492</b>	<b>3 405 204</b>	<b>2 175 047</b>	<b>31 413 214</b>

## Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 1 Jan 2005	New acquisition	Divestment	Additions	Disposals	Balance at 31 Dec 2005	Additions
Land	0	0	0	0	0	0	0
Structures	3 445 871	8 840	0	301 042	182 788	3 572 965	209 850
Individual movable assets	11 844 435	139 345	28 014	1 007 267	577 223	12 385 810	1 090 962
Other tangible FA	2 761	0	0	160	2 722	199	75
Tangible FA under construction	1 979	0	0	1 234	0	3 213	613
Valuation difference on acquired assets	-1 975	0	0	-179	0	-2 154	-180
<b>Total</b>	<b>15 293 071</b>	<b>148 185</b>	<b>28 014</b>	<b>1 309 524</b>	<b>762 733</b>	<b>15 960 033</b>	<b>1 301 320</b>

(CZK thousand)

	Disposals	Balance at 31 Dec 2006	New acquisition	Additions	Disposals
Land	0	0	0	0	0
Structures	42 004	3 740 811	40 568	214 704	61 641
Individual movable assets	322 870	13 153 902	105 364	1 201 538	310 708
Other tangible FA	88	186	3	54	0
Tangible FA under construction	2 017	1 809	485	2 277	45
Valuation difference on acquired assets	0	-2 334	0	-179	0
<b>Total</b>	<b>366 979</b>	<b>16 894 374</b>	<b>146 420</b>	<b>1 418 394</b>	<b>372 394</b>

(CZK thousand)

	Balance at 31 Dec 2007
Land	0
Structures	3 934 442
Individual movable assets	14 150 096
Other tangible FA	243
Tangible FA under construction	4 526
Prepayments	0
Valuation difference on acquired assets	-2 513
<b>Total</b>	<b>18 086 794</b>

## Net Book Value

(CZK thousand)

Net book value	Balance at 31 Dec 2005	Balance at 31 Dec 2006	Balance at 31 Dec 2007
Land	360 307	359 499	389 046
Structures	3 699 863	3 822 654	3 980 729
Individual movable assets	7 862 334	7 640 781	7 726 207
Other tangible FA	2 015	1 918	3 032
Tangible FA under construction	486 595	917 208	1 010 297
Prepayments for tangible FA	63 253	191 490	217 289
Valuation difference on acquired assets	-539	-359	-180
<b>Total</b>	<b>12 473 828</b>	<b>12 933 191</b>	<b>13 326 420</b>

The tables of movements within tangible fixed assets include the column 'new acquisition' in 2007 relating to the expansion of the consolidated group to include H&S PROGRESS s.r.o., VÚHŽ a.s., VÚHŽ NEMO a.s. and ROLLSERVIS a.s., in 2005 to include VVT – VÍTKOVICE VALCOVNA TRUB, a.s. Divestments in 2005 mean the reduction of the consolidated group to eliminate EX IM TRANS LLC. and TRIFINAL, a.s.

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 converter 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 amounted to CZK 1,345,568 thousand, CZK 1,248,889 thousand and CZK 1,160,806 thousand as of 31 December 2007, 2006 and 2005, respectively.

### Aggregate Balance of Low Value Tangible Assets not Reported on the Balance Sheet

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 422,394 thousand, CZK 392,336 thousand and CZK 350,482 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., and H&S PROGRESS s.r.o.

In the year ended 31 December 2007, the revaluation of assets to fair value increased the balance of tangible fixed assets by CZK 92,224 thousand, increased the balance of intangible fixed assets by CZK 36,822 thousand and resulted in the recognition of a deferred tax liability of CZK 19,071 thousand using the 19 percent tax rate.

As of the acquisition date, the Company revalued the assets of VVT – VÍTKOVICE VÁLCOVNÁ TRUB, a.s. to fair value.

In the year ended 31 December 2007, the revaluation of assets to fair value decreased the balance of tangible fixed assets by CZK 1,456 thousand.

In the year ended 31 December 2006, the revaluation of assets to 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 recognition of a deferred tax liability of CZK 1,319 thousand using the 24 percent tax rate.

In the year ended 31 December 2005, the revaluation of assets to fair value increased the balance of tangible fixed assets by CZK 16,369 thousand, decreased the balance of intangible fixed assets by CZK 109 thousand, decreased the balance of short-term receivables by CZK 177 thousand and resulted in the recognition of a deferred tax liability of CZK 3,860 thousand using the 24 percent tax rate.

## 5.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS

### Finance Leases

#### 31 December 2007

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2007
Total anticipated lease payments	49 136	277 673	326 809
Actual lease payments made through 31 Dec 2007	38 467	206 421	244 888
Future payments due by 31 Dec 2008	6 348	30 476	36 824
Future payments due in the following periods	4 321	40 776	45 097

#### 31 December 2006

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2006
Total anticipated lease payments	50 823	272 298	323 121
Actual lease payments made through 31 Dec 2006	39 283	222 342	261 625
Future payments due by 31 Dec 2007	7 111	22 776	29 887
Future payments due in the following periods	4 429	27 180	31 609

#### 31 December 2005

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2005
Total anticipated lease payments	47 848	457 634	505 482
Actual lease payments made through 31 Dec 2005	32 769	297 144	329 913
Future payments due by 31 Dec 2006	7 259	56 967	64 226
Future payments due in the following periods	7 820	103 523	111 343

The Group made lease payments of CZK 26,981 thousand, CZK 33,328 thousand and CZK 27,329 thousand in the years ended 31 December 2007, 2006 and 2005, respectively.

#### 5.4. PLEDGED FIXED ASSETS

31 December 2007

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	15 274	Komerční banka, a.s.
Tangible fixed assets	19 231	Komerční banka, a.s.
Tangible fixed assets	42 806	Long-term loan from UniCredit Bank Czech Republic, a.s.
Technology	221 035	Raiffeisen Bank, a.s.
Tangible fixed assets	367 101	Loan from Komerční banky, a.s.
Land	12 341	Loan from Komerční banky, a.s.
Tangible fixed assets	503 752	Loan from Česká spořitelna, a.s.
Land	2 811	Loan from Česká spořitelna, a.s.
Tangible fixed assets	289 102	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	429 180	Loan from Citibank, a.s.
Tangible fixed assets	2 255	Loan from Citibank, a.s.
Tangible fixed assets	1 125	Loan from Citibank, a.s.
Tangible fixed assets	1 085	Loan from Citibank, a.s.
Tangible fixed assets	466	Loan from Citibank, a.s.
Tangible fixed assets	2 119	Loan from Citibank, a.s.
Tangible fixed assets	9 673	Loan from Citibank, a.s.
Tangible fixed assets	2 120	Investment loan from Československá obchodní banka, a.s.
<b>Total</b>	<b>1 921 476</b>	

31 December 2006

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	319 028	Loan from Komerční banka, a.s.
Land	12 075	Loan from Komerční banka, a.s.
Tangible fixed assets	17 051	Loan from Komerční banka, a.s.
Tangible fixed assets	48 922	Loan from HVB, a.s.
Technology	234 161	Loan from Raiffeisen Bank, a.s.
Tangible fixed assets	472 216	Loan from Citibank, a.s.
Tangible fixed assets	314 988	Loan from ČSOB, a.s.
Tangible fixed assets	534 146	Loan from Česká spořitelna, a.s.
Land	2 811	Loan from Česká spořitelna, a.s.
<b>Total</b>	<b>1 955 398</b>	

31 December 2005

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	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 PPF banka, a.s.
Land	3 873	Loan from PPF banka, a.s.
Technology	246 681	Loan from Raiffeisen Bank, 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.
<b>Total</b>	<b>1 574 591</b>	

## 5.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

### 5.5.1. Summary of Unconsolidated Investments for 2007

(CZK thousand)

Equity securities and investments in subsidiaries									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
Třinecké gastroslužby, s.r.o.	25 643	25 800	–	100	29 806	174	0	25 643	0
Doprava TŽ, a.s.	15 755	16 000	115	100	58 380	22 178	0	15 755	0
TRIALFA, s.r.o.	100	100	–	100	17 785	2 651	0	100	0
Steel Consortium Partners, a.s.	19 000	19 000	117	100	1 870	–94	–17 129	1 871	0
Refaze Slovakia s.r.o.	4 936	4 936	–	80	14 975	1 585	0	4 936	0
VÍTKOVICE – VaV, spol. s.r.o.	*	45 738	–	99	32 223	2 090	0	*	0
TRISIA, a.s.	19 364	9 900	990	66	67 171	–1 669	0	19 364	0
Regionální inovační centrum F-M, s.r.o.	180	180	–	75	2 320	18	0	180	0
<b>Total</b>	<b>103 013</b>						<b>–17 129</b>	<b>85 884</b>	<b>0</b>

Note: \* confidential

(CZK thousand)

Equity securities and investments in associates									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
SILESIAFLAG, a.s.	1 760	1 760	74	44	3 851	–27	–66	1 694	0
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34.09	11 761	2 398	0	750	375
Hutnictví železa, a.s.	25 963	16 397	27 328	39.21	48 436	182	–15 134	10 829	0
Kvalif. a personální agentura, o.p.s.	34	34	–	33.33	852	350	–34	0	0
MS-UNIKOV OSTRAVA, s.r.o.	52 000	52 000	–	24.97	*	*	–52 000	0	0
<b>Total</b>	<b>80 507</b>						<b>–67 234</b>	<b>13 273</b>	<b>375</b>

(CZK thousand)

Equity securities and investments in companies with a minority interest									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Valuation difference	Fair value	Financial income for the year
HRAT, s.r.o.	50	50	–	11.63	1 583	570	–50	0	0
KPM CONSULT, a.s.	100	100	10	10	11 648	1 738	0	100	0
SAVAREN Česká Ves, s.r.o.	121	121	–	10	7 586	2 822	0	121	0
Informatel zájmové sdružení	20	20	–	5				20	
ACRI, Praha	20	20	–	2.17	1 108	–223	–20	0	0
<b>Total</b>	<b>311</b>						<b>–70</b>	<b>241</b>	<b>0</b>

### Other Non-Current Financial Assets

(CZK thousand)

Investment	Acquisition cost	Description of investment/collateral	Provision	Financial income for 2007
Term deposit	19 965	Bank guarantee collateral	0	770

(CZK thousand)

	Value of investment	Financial income
<b>Total financial assets</b>	<b>121 522</b>	<b>1 145</b>



## 5.5.2. Summary of Unconsolidated Investments for 2006

(CZK thousand)

Equity securities and investments in subsidiaries									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
Třinecké gastroslužby, s.r.o.	25 642	25 800	–	100.00	29 831	184	0	25 642	0
Doprava TŽ, a.s.	15 755	16 000	115	100.00	39 718	16 192	0	15 755	0
TRIALFA, s.r.o.	100	100	–	100.00	17 407	7 359	0	100	0
Steel Consortium Partners, a.s.	19 000	19 000	117	100.00	1 965	–194	–17 035	1 965	0
Reťaze Slovakia s.r.o.	4 936	4 936	–	80.00	13 505	1 854	0	4 936	0
TRISIA, a.s.	19 364	9 900	990	66.00	68 770	–1 654	0	19 364	0
<b>Total</b>	<b>84 797</b>						<b>–17 035</b>	<b>67 762</b>	<b>0</b>

(CZK thousand)

Equity securities and investments in associates									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
SILESIALAG, a.s.	1 760	1 760	74	44.00	3 878	–67	–54	1 706	0
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34.09	11 290	2 655	0	750	375
Hutnictví železa, a.s.	23 573	14 144	23 573	33.82	47 886	482	–13 675	9 898	0
Kvalif. a personální agentura, o.p.s.	34	34	–	33.33	501	139	–34	0	0
MS-UNIKOV OSTRAVA, s.r.o.	52 000	52 000	–	24.97	0	0	–52 000	0	0
<b>Total</b>	<b>78 117</b>						<b>–65 763</b>	<b>12 354</b>	<b>375</b>

(CZK thousand)

Equity securities and investments in companies with a minority interest									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Valuation difference	Fair value	Financial income for the year
HRAT, s.r.o.	50	50	–	11.63	1 155	463	–50	0	0
KPM CONSULT, a.s.	100	100	10	10.00	8 791	611	0	100	0
SAVAREN Česká Ves, s.r.o.	121	121	–	10.00	4 764	1 823	0	121	0
<b>Total</b>	<b>271</b>						<b>–50</b>	<b>221</b>	<b>0</b>

## Other Non-Current Financial Assets

(CZK thousand)

Investment	Acquisition cost	Description of investment/collateral	Provision	Financial income for 2006
Term deposit	20 622	Bank guarantee collateral	0	520

(CZK thousand)

	Value of investment	Financial income
<b>Total non-current financial assets</b>	<b>100 959</b>	<b>895</b>

## 5.5.3. Summary of Unconsolidated Investments for 2005

(CZK thousand)

Equity securities and investments in subsidiaries									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
Třinecké gastroslužby, s.r.o.	25 642	25 800	–	100.00	29 841	730	0	25 642	0
Doprava TŽ, a.s.	15 755	16 000	115	100.00	23 526	2 339	0	15 755	0
TRIALFA, s.r.o.	100	100	–	100.00	10 378	2 738	0	100	0
Steel Consortium Partners, a.s.	2 000	2 000	100	100.00	–14 841	–16 841	0	2 000	0
Beskydská golfová, a.s.	93 048	63 028	107	90.04	57 869	–2 605	–40 558	52 490	0
Refaze Slovakia s.r.o.	4 936	–	–	80.00	11 170	2 424	0	4 936	0
TRISIA, a.s.	19 364	9 900	990	66.00	70 310	–1 693	0	19 364	0
Kabelová televize Třinec, spol. s r.o.	6 663	6 664	–	60.65	12 222	–215	0	6 663	0
<b>Total</b>	<b>167 508</b>						<b>–40 558</b>	<b>126 950</b>	<b>0</b>

(CZK thousand)

Equity securities and investments in associates									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
SILESIALAG, a.s.*	1 760	1 760	74	44.00	3 945	–34	0	1 760	0
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34.09	9 749	2 685	0	750	75
Hutnictví železa, a.s.	23 573	14 144	23 573	33.82	47 796	–1 008	–13 855	9 718	0
Kvalif. a personální agentura, o.p.s.	34	34	–	33.33	362	71	–34	0	0
MS-UNIKOV OSTRAVA, s.r.o.	52 000	52 000	–	24.97	**	**	–52 000	0	0
<b>Total</b>	<b>78 117</b>						<b>–65 889</b>	<b>12 228</b>	<b>75</b>

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

\*\* the company was placed in bankruptcy

(CZK thousand)

Equity securities and investments in companies with a minority interest									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Valuation difference	Fair value	Financial income for the year
HRAT, s.r.o.	50	50	–	11.63	687	256	–50	0	0
KPM CONSULT, a.s.	100	100	10	10.00	8 180	–590	0	100	0
SAVAREN Česká Ves, s.r.o.	121	–	–	10.00	2 941	176	0	121	0
<b>Total</b>	<b>271</b>						<b>–50</b>	<b>221</b>	<b>0</b>

## Other Non-Current Financial Assets

(CZK thousand)

Investment	Acquisition cost	Description of investment/collateral	Provision	Financial income for 2005
Term deposit	21 754	Bank guarantee collateral	0	373

(CZK thousand)

	Value of investment	Financial income
<b>Total non-current financial assets</b>	<b>161 153</b>	<b>6 448</b>

Financial income from non-current financial assets includes the financial income of CZK 6,000 thousand from ENVIFORM, s.r.o. which was sold on 27 January 2005.

The principal additions to non-current financial assets as of 31 December 2007 include:

- The acquisition of a 99 percent equity investment in VÍTKOVICE – Výzkum a vývoj, spol. s r.o.; and
- The acquisition of a 3.03 percent equity investment in Hutnictví železa, a.s. (the aggregate investment of TŽ amounts to 36.85 percent as of 31 December 2007).

## 5.6. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2007

(CZK thousand)

	Gross	Correction	Net	Recognition to expenses	Recognition to income
<b>Positive goodwill arising on consolidation</b>					
H&S PROGRESS s.r.o.	45 571	−1 031	44 540	1 031	−
<b>Total</b>	<b>45 571</b>	<b>−1 031</b>	<b>44 540</b>	<b>1 031</b>	<b>−</b>
<b>Negative goodwill arising on consolidation</b>					
FERROMORAVIA, s.r.o.	−21 581	5 146	−16 435	−	1 080
VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.	−261 852	29 486	−232 366	−	13 095
Řetězárna a.s.	−25 243	11 599	−13 644	−	1 647
<b>Total</b>	<b>−308 676</b>	<b>46 231</b>	<b>−262 445</b>	<b>−</b>	<b>15 822</b>

2006

(CZK thousand)

	Gross	Correction	Net	Recognition to expenses	Recognition to income
<b>Negative goodwill arising on consolidation</b>					
FERROMORAVIA, s.r.o.	−21 581	4 066	−17 515	−	1 079
VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.	−260 534	16 394	−244 140	−	13 093
Řetězárna a.s.	−25 242	9 949	−15 293	−	1 650
<b>Total</b>	<b>−307 357</b>	<b>30 409</b>	<b>−276 948</b>	<b>−</b>	<b>15 822</b>

2005

(CZK thousand)

	Gross	Correction	Net	Recognition to expenses	Recognition to income
<b>Positive goodwill arising on consolidation</b>					
EX IM TRANS LLC. (settlement of the goodwill arising on consolidation)	−	−	−	2 151	−
<b>Total</b>	<b>−</b>	<b>−</b>	<b>−</b>	<b>2 151</b>	<b>−</b>
<b>Negative goodwill arising on consolidation</b>					
FERROMORAVIA, s.r.o.	−21 581	2 988	−18 593	−	1 079
VVT – VÍTKOVICE VÁLCOVNA TRUB, a.s.	−257 992	3 299	−254 693	−	3 274
Řetězárna a.s.	−25 242	8 299	−16 943	−	1 706
<b>Total</b>	<b>−304 815</b>	<b>14 586</b>	<b>−290 229</b>	<b>−</b>	<b>6 059</b>

## 5.7. 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.	0	0	79 471
Sochorová válcovna TŽ, a.s.	288 447	215 939	158 782
<b>Total</b>	<b>376 660</b>	<b>313 410</b>	<b>377 211</b>

### 5.7.1. Pledged Securities and Equity Investments under Equity Accounting

As of 31 December 2007, 2006 and 2005, the Group carries no pledged non-current financial assets.

## 5.8. INVENTORY

(CZK thousand)

Structure of inventory	Balance at 31 Dec 2007	Provisions at 31 Dec 2007	Net balance at 31 Dec 2007	Balance at 31 Dec 2006	Provisions at 31 Dec 2006	Net balance at 31 Dec 2006
Material	3 038 925	−164 543	2 874 382	3 066 567	−176 568	2 889 999
Internally produced inventory:	3 917 510	−148 670	3 768 840	3 544 825	−322 965	3 221 860
<i>Work in progress and semi-finished products</i>	<i>2 400 450</i>	<i>−90 192</i>	<i>2 310 258</i>	<i>2 220 960</i>	<i>−211 438</i>	<i>2 009 522</i>
<i>Finished products</i>	<i>1 517 060</i>	<i>−58 478</i>	<i>1 458 582</i>	<i>1 323 865</i>	<i>−111 527</i>	<i>1 212 338</i>
Goods	15 876	−2 832	13 044	9 811	0	9 811
Prepayments	525	0	525	531	0	531
<b>Total</b>	<b>6 972 836</b>	<b>−316 045</b>	<b>6 656 791</b>	<b>6 621 734</b>	<b>−499 533</b>	<b>6 122 201</b>

(CZK thousand)

Structure of inventory	Balance at 31 Dec 2005	Provisions at 31 Dec 2005	Net balance at 31 Dec 2005
Material	2 500 848	-147 029	2 353 819
Internally produced inventory:	3 317 940	-173 276	3 144 664
<i>Work in progress and semi-finished products</i>	<i>2 068 031</i>	<i>-122 671</i>	<i>1 945 360</i>
<i>Finished products</i>	<i>1 249 909</i>	<i>-50 605</i>	<i>1 199 304</i>
Goods	11 921	0	11 921
Prepayments	727	0	727
<b>Total</b>	<b>5 831 436</b>	<b>-320 305</b>	<b>5 511 131</b>

## 5.9. RECEIVABLES

### 5.9.1. 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	765	789	704
- Other receivables	5 418	7 819	118 318
- Provisions against other receivables	0	0	-25 276
- Deferred tax asset	0	7 732	4 856
<b>Total</b>	<b>11 021</b>	<b>25 815</b>	<b>101 335</b>

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

Other long-term receivables and provisions against these receivables 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 prepayments made	Other receivables	Total
2009	3 749	3 662	7 411
2010	1 340	657	1 997
2011	112	351	463
2012	0	441	441
2013	0	139	139
After 2013	402	168	570
<b>Total</b>	<b>5 603</b>	<b>5 418</b>	<b>11 021</b>

Long-term receivables are settled within their due terms.

### 5.9.2. Short-Term Receivables

#### Aging of Short-Term Trade Receivables

(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	3 213 989	145 104	8 318	2 560	6 502	68 098	3 444 571
	Provisions	-11 486	-41	-821	-1 241	-6 489	-67 782	-87 860
	<b>Total</b>	<b>3 202 503</b>	<b>145 063</b>	<b>7 497</b>	<b>1 319</b>	<b>13</b>	<b>316</b>	<b>3 356 711</b>
2006	Short-term	3 199 192	139 795	9 724	6 053	5 825	90 410	3 450 999
	Provisions	-13 339	-288	-825	-2 981	-5 825	-89 930	-113 188
	<b>Total</b>	<b>3 185 853</b>	<b>139 507</b>	<b>8 899</b>	<b>3 072</b>		<b>480</b>	<b>3 337 811</b>
2005	Short-term	3 035 219	111 113	7 518	7 241	8 552	444 432	3 614 075
	Provisions	-16 797	-243	-1 755	-4 989	-8 425	-435 989	-468 198
	<b>Total</b>	<b>3 018 422</b>	<b>110 870</b>	<b>5 763</b>	<b>2 252</b>	<b>127</b>	<b>8 443</b>	<b>3 145 877</b>

## Breakdown of Short-Term Trade Receivables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
– Customers	3 443 968	3 438 204	3 480 002
– Bills of exchange for collection	0	1 902	100 620
– Other receivables	603	10 892	33 453
– Provision	–87 860	–113 187	–468 198
<b>Total</b>	<b>3 356 711</b>	<b>3 337 811</b>	<b>3 145 877</b>

## Other Short-Term Receivables

Other short-term prepayments made principally involve prepayments for supplied services. Other receivables mainly relate to short-term loans, provided supplier loans and receivables arising from the sale of business parts.

Estimated receivables principally include unbilled supplies of rails.

Receivables typically mature within 30 days.

### 5.9.3. Pledged Receivables

#### Existing and future receivables pledged as collateral for own payables:

(CZK thousand)

Receivables pledged on behalf of	Receivables from	Receivable balance 31 Dec 2007	Receivable balance 31 Dec 2006	Receivable balance 31 Dec 2005
Komerční banka, a.s.	Siemens VAI MetalsTechnologies.	10 445	0	0
	Vesuvius Group S.A.	4 555	0	0
CSOB, a.s.	Edscha Bohemia	5 000	0	0
Citibank, a.s..	Cebes a.s.	2 992	0	0
	Edscha Bohemia s.r.o.	3 898	0	0
	ED Scharvachter	677	0	0
	Hayes Lemmers Alukola s.r.o.	345	0	0
	Hoesch Schwerter Profile	1 387	0	0
	Ocrim Societa Per 1 Industria	878	0	0
	Romil s.r.o.	361	0	0
	V.I.P. Trading Copany s.r.o.	362	0	0
	Železiarne Podbrezová, a.s.	353	0	0
	Prokop Invest, a.s.	170	0	0
PPF Banka,a.s.	1.Realitní kancelář v Třinci, s.r.o.	0	0	4 010
	Distribuce Tepla Třinec, a.s.	0	0	18 456
	VESUVIUS Třinec, a.s.	0	0	2 686
<b>Total</b>		<b>31 423</b>	<b>0</b>	<b>25 152</b>



#### 5.9.4. Intercompany Receivables

##### Short-Term Receivables

(CZK thousand)

Company's name	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
• Trade payables			
Doprava TŽ, a.s.	11 424	9 332	5 541
Kabelová televize Třinec, spol. s r.o. *	–	–	5
MORAVIA ENERGO, a.s. *	–	–	2 271
MORAVIA STEEL a.s.	2 232 359	2 419 711	2 141 020
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.	2 219	907	979
Sochorová válcovna TŽ, a.s.	346 225	306 266	194 364
Kvalifikační a personální agentura, o.p.s.	4	5	6
TRISIA, a.s.	4	30	1
VESUVIUS ČESKÁ REPUBLIKA, a.s.	4 056	6 134	4 080
CMC Třinec Stahlhandel GmbH	8 963	7 809	9 395
Beskydská golfová, a.s.	399	957	840
SILESIA SLAG, a.s.	4	12	11
Steel Consortium Partners, a.s.	1	0	16 795
<b>Total</b>	<b>2 613 782</b>	<b>2 760 095</b>	<b>2 395 672</b>
• Receivables – controlling entity			
Beskydská golfová, a.s.	0	0	15 314
<b>Total</b>	<b>0</b>	<b>0</b>	<b>15 314</b>
• Other intercompany receivables			
Sochorová válcovna TŽ, a.s.	0	3 219	7 890
VESUVIUS ČESKÁ REPUBLIKA, a.s.	8 113	8 000	0
<b>Total</b>	<b>8 113</b>	<b>11 219</b>	<b>7 890</b>
<b>Total short-term intercompany receivables</b>	<b>2 621 895</b>	<b>2 771 314</b>	<b>2 418 876</b>
Other than intercompany receivables	928 694	809 276	1 090 744
<b>Total short-term receivables</b>	<b>3 550 589</b>	<b>3 580 590</b>	<b>3 509 620</b>

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

##### Long-Term Receivables

(CZK thousand)

Company's name	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
• Other			
Sochorová válcovna TŽ, a.s.	0	0	3 396
<b>Total</b>	<b>0</b>	<b>0</b>	<b>3 396</b>
<b>Total long-term intercompany receivables</b>	<b>0</b>	<b>0</b>	<b>3 396</b>
Other than intercompany receivables	11 021	25 815	97 939
<b>Total long-term receivables</b>	<b>11 021</b>	<b>25 815</b>	<b>101 335</b>

#### 5.10. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Cash	3 428	2 698	2 531
Current accounts	1 069 518	1 366 362	395 316
Current deposit – special-purpose funds of the received state aid	35 444	246 216	449 182
Term deposit	121 195	13 698	16 554
Current securities and investments	2 255 106	703 247	824 298
Provision against securities	0	–11 709	0
<b>Total current financial assets</b>	<b>3 484 691</b>	<b>2 320 512</b>	<b>1 687 881</b>

Short-term securities and equity investments as of 31 December 2007 include depository notes of Komerční banka, a.s. of CZK 1,208,145 thousand, Raiffeisen-bank, a.s. of CZK 300,090 thousand, HSBC Bank plc. of CZK 101,010 thousand, Citibank, a.s. of CZK 69,007 thousand, ČSOB, a.s. of CZK 558,259 thousand and tradable securities of CZK 18,596 thousand.

Current securities and investments as of 31 December 2006 include depository bills of exchange of Komerční banka, a.s., Československá obchodní banka, a.s. and Raiffeisenbank, a.s. in the amounts of CZK 575,105 thousand, CZK 24,752 thousand and CZK 9,626 thousand, respectively, marketable securities of CZK 716 thousand and an equity investment in Beskydská golfová, a.s. of CZK 93,048 thousand decreased by a provision, which was sold in February 2007.

Short-term securities and equity investments as of 31 December 2005 principally included depository notes of Komerční banka, a.s. of CZK 171,020 thousand, Československá obchodní banka, a.s. of CZK 29,007 thousand, HSBC Bank plc. of CZK 9,283 thousand and Raiffeisenbank, a.s. of CZK 501,842 thousand, tradable securities in the aggregate amount of CZK 3,279 thousand, and equity interests in STEELTEC CZ, s.r.o. of CZK 4,866 thousand.

#### 5.11. TEMPORARY ASSETS

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
<b>Deferred expenses</b>	<b>104 251</b>	<b>48 139</b>	<b>57 958</b>
Deferred expenses – lease contracts	14 914	21 872	27 115
Other deferred expenses – studies, projects, interest, subscription payments	89 337	26 267	30 843
<b>Complex deferred expenses</b>	<b>30 550</b>	<b>50 153</b>	<b>40 533</b>
<b>Accrued income</b>	<b>704</b>	<b>228</b>	<b>651</b>
<b>Total deferred expenses and accrued income</b>	<b>135 505</b>	<b>98 520</b>	<b>99 142</b>

Deferred expenses principally consist of deferred finance lease instalments, projects, and analyses relating to repairs scheduled for the coming period.

As of 31 December 2007, a significant portion of deferred expenses relates to the right to use new technologies.

Complex deferred expenses primarily consist of deferred implementation of information systems.

#### 5.12. 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 percent of net profits until the fund reaches 20 percent of the Company's share capital as required by legislation.

Gains and losses from revaluation comprise the gain or loss from the revaluation of available-for-sale securities net of the deferred tax liability.

The General Meeting of Shareholders decided to declare gross dividends for 2006, 2005 and 2004 of CZK 250, CZK 100 and CZK 70 per share, respectively.

##### 5.12.1. Share Capital

The Company's share capital is composed of 8,109,863 ordinary registered shares, fully subscribed for and paid up, with a nominal value of CZK 1,000 per share. On 19 November 2007, the Company held a General Meeting which approved the change in the form of shares from the shares in the book entry form to shares in the certificate form. The change was recorded in the Register of Companies on 13 December 2007. The shares were deregistered from the Prague Stock Exchange in 2002.

#### 5.13. RESERVES

(CZK thousand)

	Reserves under special legislation		Other reserves	Total reserves
	Reserve for repairs of tangible FA	Reserve for restoration		
<b>Balance at 1 Jan 2005</b>	<b>786 430</b>	<b>3 158</b>	<b>383 156</b>	<b>1 172 744</b>
Creation	140 485	347	64 437	205 269
Use	329 011	107	260 485	589 603
<b>Balance at 31 Dec 2005</b>	<b>597 904</b>	<b>3 398</b>	<b>187 108</b>	<b>788 410</b>
Creation	64 657	305	148 439	213 401
Use	360 908	1 350	63 298	425 556
<b>Balance at 31 Dec 2006</b>	<b>301 653</b>	<b>2 353</b>	<b>272 249</b>	<b>576 255</b>
<b>New acquisition</b>	<b>644</b>	<b>0</b>	<b>0</b>	<b>644</b>
Creation	20 571	257	270 290	291 118
Use	170 281	331	47 554	218 166
<b>Balance at 31 Dec 2007</b>	<b>152 587</b>	<b>2 279</b>	<b>494 985</b>	<b>649 851</b>

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, and for business risks mainly arising from the operation of fixed assets.

## 5.14. PAYABLES

### 5.14.1. Long-Term Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Long-term payables</b>			
– Trade payables	24 189	6 096	11 583
– Long-term bills of exchange to be settled	0	27 495	58 010
– Long-term prepayments received	369	0	0
– Other payables	0	706	3 390
– Deferred tax liability	815 611	883 025	803 048
– Tax liabilities and grants	0	0	150 140
<b>Total</b>	<b>840 169</b>	<b>917 322</b>	<b>1 026 171</b>

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.

### 5.14.2. Short-Term Trade Payables

(CZK thousand)

	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
<b>Short-term trade payables</b>			
– Customers	3 119 305	2 460 840	2 413 773
– Bills of exchange to be settled	26 620	27 495	29 005
– Other payables	290	1 884	7 978
<b>Total</b>	<b>3 146 215</b>	<b>2 490 219</b>	<b>2 450 756</b>

### 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	3 081 127	61 843	2 850	327	14	54	3 146 215
2006	Short-term	2 445 207	43 231	867	29	885	0	2 490 219
2005	Short-term	2 348 408	90 611	2 749	8 789	0	199	2 450 756

Payables typically fall due for settlement within 30 days. Significant payables past due more than 90 days predominantly arise from offset agreements in progress.

### Other Payables

As of 31 December 2007, payables associated with social security and the state employment policy contribution amounted to CZK 99,054 thousand, health insurance payables totalled CZK 42,418 thousand. The Company has no outstanding social security or health insurance payables. Payables arising from additional pension scheme amounted to CZK 3,146 thousand as of 31 December 2007.

The category 'State – tax payables and subsidies' principally comprises the short-term portion of payables related to the state aid and an income tax payable.

Estimated payables mainly consist of unbilled supplies of work and services and an estimated amount for outstanding vacation days and annual bonuses including insurance.

Other payables primarily relate to short-term supplier loans, deductions from employee salaries and payables arising from the acquisition of equity investments.

## 5.14.3. Intercompany Payables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
• Trade payables			
Doprava TŽ, a.s.	6 984	7 569	9 195
Kvalifikační a personální agentura, v.o.s.	37	0	0
Hutnictví železa, a.s.	678	540	869
Kabelová televize Třinec, spol. s r.o. *	–	–	494
MORAVIA STEEL, a.s.	1 408 890	1 242 285	994 266
MORAVIA ENERGO, a.s. *	–	–	12 865
Reťaze Slovakia s.r.o.	0	0	0
TRIALFA, s.r.o.	17 074	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.	10 541	6 238	6 166
Sochorová válcovna TŽ, a.s.	12 556	4 706	3 480
VESUVIUS ČESKA REPUBLIKA, a.s.	17 170	17 950	16 647
Beskydská golfová, a.s.	18	16	4
CMC-Třinec Stahlhandel GmbH	0	23	0
<b>Total short-term intercompany payables</b>	<b>1 491 907</b>	<b>1 305 474</b>	<b>1 063 713</b>
Other than intercompany payables	2 851 893	2 390 199	2 656 425
<b>Total short-term payables</b>	<b>4 343 800</b>	<b>3 695 673</b>	<b>3 720 138</b>

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

## 5.15. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET

## 5.15.1. Deferred Tax Liability

In determining the deferred tax liability amount, the Group used the tax rate for the period in which the deferred tax liability is anticipated to be realised.

(CZK thousand)

Deferred tax basis	Tax rate in %	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Difference between tax and accounting net book value of fixed assets	24	–	–5 174 964	–4 531 576
Difference between tax and accounting net book value of fixed assets	19	–5 534 325	–	–
Difference between tax and accounting net book value of fixed assets	21	–146 817	–	–
Re-measurement of securities available for sale	24	–	20	50
Re-measurement of tangible fixed assets to fair value	19	–100 372	–	–
Re-measurement of assets to fair value charged against equity	24	–	–5 496	–16 084
Accounting reserves	24	–	242 732	136 242
Accounting reserves	21	272 940	–	–
Accounting reserves	19	186 400	–	–
Provisions	24	–	597 744	421 926
Provisions	21	232 421	–	–
Provisions	19	150 550	–	–
Outstanding default interest	24	–	–	–525
Expenses to be utilised in subsequent periods	21	84 433	–	–
Expenses to be utilised in subsequent periods	24	–	64 893	5 134
Utilisable tax losses	24	–	102 567	147 255
Unrealised gains on the intra-group sale of inventory	21	110 303	–	–
Unrealised gains on inventory	24	–	76 458	51 969
Unrealised gains on intragroup sales of tangible fixed assets	24	–	416 773	439 576
Unrealised gains on intragroup sales of tangible fixed assets	21	25 978	–	–
Unrealised gains on intragroup sales of tangible fixed assets	19	364 816	–	–
<b>Total tax base</b>		<b>–4 353 673</b>	<b>–3 679 273</b>	<b>–3 346 033</b>
<b>Deferred tax liability</b>		<b>–815 611</b>	<b>–883 025</b>	<b>–803 048</b>

(CZK thousand)

<b>Analysis of movements</b>	
<b>1 Jan 2006</b>	<b>-803 048</b>
Current changes charged to the profit and loss account	-82 522
Current changes recognised in equity	2 545
<b>31 Dec 2006</b>	<b>-883 025</b>
Current changes charged to the profit and loss account	88 517
Current changes recognised in equity	-21 103
<b>31 Dec 2007</b>	<b>-815 611</b>

## 5.15.2. Deferred Tax Asset

(CZK thousand)

	<b>Tax rate in %</b>	<b>Balance at 31 Dec 2007</b>	<b>Balance at 31 Dec 2006</b>	<b>Balance at 31 Dec 2005</b>
Difference between tax and accounting net book value of fixed assets	24	0	8 421	-3 717
Accounting reserves	24	0	12 500	11 813
Provisions	24	0	5 350	6 333
Utilisable tax losses	24	0	5 946	5 803
<b>Total tax base</b>		<b>0</b>	<b>32 217</b>	<b>20 232</b>
<b>Deferred tax asset</b>		<b>0</b>	<b>7 732</b>	<b>4 856</b>

(CZK thousand)

<b>Analysis of movements</b>	
<b>1 January 2006</b>	<b>4 856</b>
Current changes charged to the profit and loss account	2 876
<b>31 December 2006</b>	<b>7 732</b>
Current changes charged to the profit and loss account	-7 732
<b>31 December 2007</b>	<b>0</b>

## 5.16. INCOME TAX ON ORDINARY AND EXTRAORDINARY ACTIVITY

(CZK thousand)

	<b>Balance at 31 Dec 2007</b>	<b>Balance at 31 Dec 2006</b>	<b>Balance at 31 Dec 2005</b>
Profit before tax	5 125 019	3 593 681	2 712 757
Tax at the domestic income tax rate 24 % (24 %, 26 %)	1 230 005	862 483	705 316
Tax effect of expenses that are not allowable in determining taxable profit	-196 748	29 958	54 191
Tax reliefs	-6 583	-656	-600
Additional taxes of prior years	11 050	-13 808	6 224
Corrections of estimates	196	-2 338	0
<b>Total income tax on ordinary and extraordinary activities</b>	<b>1 037 920</b>	<b>875 639</b>	<b>765 151</b>



## 5.17. BANK LOANS AND BORROWINGS

### 5.17.1. 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	Interest rate in %	Form of collateral at 31 Dec 2007
Investment	EUR	31 370	17 203	0	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	75 000	105 000	0	Fixed 4.3	Movable assets, MS guarantee statement
Investment	EUR	3 113	10 783	19 357	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	490 143	659 379	855 242	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	17 633	36 424	57 637	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	32 960	64 008	99 135	6MEURIBOR + 0.625	SACE guarantee insurer
Investment	CZK	50 000	90 000	130 000	6M PRIBOR + 1.25	Real estate, blank bill of exchange
Investment	EUR	11 508	23 773	37 618	EURIBOR + 0.6	Hermes guarantee insurer
Investment	CZK	9 801	0	0	3MPRIBOR + 0.79	Letter of Comfort–Strojírny Třinec, a.s
Operating	EUR	0	8 249	20 304	1M EURORIBOR + 1,1	TŽ guarantee statements
Investment	CZK	78 867	157 734	220 828	Fixed 3.76 %	Real estate, blank bill of exchange
Investment	CZK	54 000	90 000	126 000	3M PRIBOR + 1.65	Movable assets, MS guarantee statement
Investment	CZK	88 200	122 600	157 000	3M PRIBOR + 1.59	Immovable assets and movable assets, blank bill of exchange
Investment	CZK	188 889	233 333	0	Fixed 4.65	Immovable assets and movable assets, blank bill of exchange
Investment	EUR	15 972	24 745	0	3M EURIBOR + 0.5	Movable assets, blank bill of exchange
Investment	CZK	11 979	0	0	1M EURIBOR + 06.5	
Investment	EUR	126 421	12 198	0	3M EURIBOR + 0.9	Real estate, blank bill of exchange
Investment	CZK	7 198	0	0	PRIBOR + 0.75	Unprotested blank bill of exchange
Investment	EUR	11 180	0	0	1M PRIBOR + 0.9	Blank bill of exchange, pledged movable assets
Investment	CZK	8 552	0	0	6M PRIBOR + 2.5	Blank bill of exchange, pledged movable assets
Investment	CZK	1 670	0	0	1M PRIBOR + 2	Blank bill of exchange, pledged movable assets
Investment	EUR	0	7 124	22 546	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	0	0	18 764	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	0	6 610	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	6 306	19 956	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	EUR	0	0	0	6M EUROLIBOR + 1.875	KUKE guarantee insurer
Investment	EUR	0	0	7 325	6M EUROLIBOR + 1.25	KUKE guarantee insurer
Investment	CZK	0	18 750	93 750	6M PRIBOR + 1.95	Real estate, blank bill of exchange
Investment	CZK	0	0	36 060	3M PRIBOR + 2	Pledged movable and immovable assets, blank bill of exchange
Investment	CZK	0	0	11 524	3M PRIBOR + 2	TŽ guarantee statements, blank bill of exchange
<b>Total</b>		<b>1 314 456</b>	<b>1 687 609</b>	<b>1 939 656</b>		

## 5.17.2. 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	Interest rate in %	Form of collateral at 31 Dec 2007
Investment	CZK	30 000	30 000	0	Fixed 4.3	Movable assets, guarantee statement of MS, a.s.
Investment	CZK	44 445	44 445	0	Fixed 4.65	Immovable and movable assets, blank bill of exchange
Investment	EUR	7 326	7 567	7 982	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	153 565	197 301	226 352	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	17 633	18 212	19 212	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	6 897	14 248	15 030	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	6 105	12 611	13 304	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	EUR	29 012	29 965	31 611	6M EURIBOR + 0.625	SACE guarantee insurer
Operating	CZK	7 500	0	0	3M PRIBOR + 0.79	
Operating	CZK	7 986	0	0	1M EURIBOR + 1.1	Guarantee statements of TŽ, a.s.
Investment	CZK	1 413	0	0	6M PRIBOR + 1.4	
Investment	CZK	4 000	0	0	1M EURIBOR + 1.4	
Investment	CZK	4 712	0	0		
Investment	CZK	7 986	0	0	3 M EURIBOR+ 0.5	Movable assets
Investment	CZK	1 331	0	0	1 M EURIBOR+ 0.65	
Investment	EUR	11 508	11 887	12 540	EURIBOR + 0.6	
Investment	EUR	10 000	0	0	3 M EURIBOR + 0.9	Real estate, blank bill of exchange
Investment	CZK	40 000	40 000	40 000	6M PRIBOR + 1.25	Real estate, blank bill of exchange
Investment	CZK	63 094	63 094	63 094	Fixed 3.76 %	Immovable and movable assets, blank bill of exchange
Investment	CZK	36 000	36 000	36 000	3 M PRIBOR + 1.65	Movable assets, guarantee statement of MS
Investment	CZK	34 400	34 400	34 400	PRIBOR + 1.59	Pledged movables, immovables and blank promissory note
Investment	EUR	8 963	9 821	0	6M EURIBOR + 0.6	SACE guarantee insurer
Operating	CZK	64	35	29	PRIBOR + 1.2	
Operating	CZK	4 000	0	0	1M PRIBOR + 1.7	Blank bill of exchange, receivables
Operating	CZK	11 423	0	0	1M PRIBOR + 1.7	Blank bill of exchange, receivables
Operating	CZK	15 000	0	0	1M PRIBOR + 1.4	Blank bill of exchange, receivables
Operating	CZK	9 300	0	0	1M PRIBOR + 1.7	Blank bill of exchange, pledged real estate
Investment	EUR	0	6 944	14 650	6M EUROLIBOR + 1.25	KUKE guarantee insurer
Investment	EUR	0	0	8 469	6M EUROLIBOR + 1.875	KUKE guarantee insurer
Operating	CZK	0	4 847	84 096	PRIBOR + 1.9	Guarantee statements of TŽ, a.s., blank bill of exchange
Investment	EUR	0	2 750	0	3M EURIBOR + 0.5	Movable assets, blank bill of exchange
Operating	CZK	0	29 995	0	PRIBOR + 0.55	
Investment	CZK	0	0	25 000	3M PRIBOR +2	Pledged movables, immovables and receivables, blank bill
Operating	CZK	0	0	155		No collateral
Operating	CZK	0	155 000	155 000	PRIBOR + 1.75	Receivables, current account
Operating	CZK	0	1 000	1 000	1M PRIBOR + 1.6	
Operating	CZK	0	1 902	1 389	6M PRIBOR + 1.4	
Operating	EUR	0	10 998	11 602	1M EURORIBOR + 1.1	Guarantee statements of TŽ, a.s.
Investment	CZK	0	75 000	75 000	6M PRIBOR + 1.95	Real estate, blank bill of exchange
Investment	EUR	0	17 787	18 764	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	6 266	6 611	6M EURIBOR + 0.75	EKN guarantee insurer
<b>Total</b>	<b>CZK</b>	<b>573 663</b>	<b>862 075</b>	<b>901 290</b>		

## Repayment Schedule

(CZK thousand)

Years	2008	2009	2010	2011	2012	In subsequent periods	Total
Loan instalments	573 663	553 773	311 186	208 705	161 530	79 262	1 888 119

## 5.18. TEMPORARY LIABILITIES

(CZK thousand)

	31 Dec 2007	31 Dec 2006	31 Dec 2005
<b>Accrued expenses</b>	<b>55 222</b>	<b>46 057</b>	<b>62 831</b>
– Interest	9 322	13 481	11 452
– Invoices, credit notes	45 900	32 576	51 379
<b>Deferred income</b>	<b>1 045</b>	<b>9 613</b>	<b>2 458</b>
<b>Total accrued expenses and deferred income</b>	<b>56 267</b>	<b>55 670</b>	<b>65 289</b>

## 5.19. OTHER OFF BALANCE SHEET LIABILITIES

### 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 liability	Aggregate amount	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Balance at 31 Dec 2005
Blank bills of exchange – collateral for long-term bank loans	200 000	200 000	200 000	300 000
Blank bills of exchange – collateral for overdraft loans	100 000	100 000	100 000	20 000
<b>Total</b>	<b>300 000</b>	<b>300 000</b>	<b>300 000</b>	<b>320 000</b>

The company holds the ČSN EN ISO 14001 certificate and successfully passed an EMS compliance audit in 2007 performed by EZU, a.s. Praha. According to the results of the audit, no extraordinary environmental expenses are anticipated to be incurred in the 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 been named as a defendant in an insignificant legal dispute filed by Lesy ČR, a.s. regarding the payment of contributions to the planting of new forests. The company creates an accounting 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. If the plaintiff is successful, management of the Company anticipates that all costs, including the disputed sum, 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.

Slévárny Třinec, a.s., REFRASIL, s.r.o., Řetězárna a.s., H&S PROGRESS 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 PROFIT AND LOSS ACCOUNT INFORMATION

### 6.1. INCOME FROM ORDINARY ACTIVITIES

#### 6.1.1. The Group's Income from Ordinary Activities and Sale of Goods for 2007

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	36 640 959	210 843	36 851 802
Power generation	308 701	0	308 701
Production of refractory material	55 352	110 998	166 350
Foundry production	322 046	752 371	1 074 417
Engineering production	165 143	428 290	593 433
Sale of goods	8 108	422	8 530
Services	381 223	13 175	394 398
Change in inventory	324 460	0	324 460
Capitalisation	546 426	0	546 426
<b>Total</b>	<b>38 752 418</b>	<b>1 516 099</b>	<b>40 268 517</b>

#### 6.1.2. The Group's Income from Ordinary Activities and Sale of Goods for 2006

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	31 955 562	109 358	32 064 920
Power generation	300 512	0	300 512
Production of refractory material	63 804	105 328	169 132
Foundry production	290 349	651 512	941 861
Engineering production	496 460	744 022	1 240 482
Sale of goods	9 732	1 793	11 525
Services	347 788	17 126	364 914
Change in inventory	227 764	0	227 764
Capitalisation	801 761	0	801 761
<b>Total</b>	<b>34 493 732</b>	<b>1 629 139</b>	<b>36 122 871</b>

#### 6.1.3. The Group's Income from Ordinary Activities and Sale of Goods for 2005

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	29 901 769	458 928	30 360 697
Power generation	261 869	0	261 869
Production of refractory material	38 913	114 268	153 181
Foundry production	262 261	610 882	873 143
Engineering production	401 156	693 865	1 095 021
Sale of goods	1 336	49	1 385
Services	337 424	29 467	366 891
Change in inventory	1 184 921	0	1 184 921
Capitalisation	694 105	0	694 105
<b>Total</b>	<b>33 083 754</b>	<b>1 907 459</b>	<b>34 991 213</b>

### 6.2. CONSUMED PURCHASES AND GOOD SOLD

(CZK thousand)

	2007	2006	2005
Consumed material	25 333 201	23 146 623	23 486 604
Consumed energy	1 323 741	1 319 846	1 083 223
Goods sold	5 488	7 304	608
<b>Total consumed purchases</b>	<b>26 662 430</b>	<b>24 473 773</b>	<b>24 570 435</b>

### 6.3. SERVICES

(CZK thousand)

	2007	2006	2005
Repairs and maintenance	1 161 953	1 265 413	1 425 376
Transportation expenses	397 382	392 544	433 184
Cooperation	295 514	281 535	286 816
Leasing	44 045	66 062	92 090
Right of use	35 860	82 395	85 222
Promotion costs	117 670	86 116	89 196
Rental	108 843	106 216	89 099
Cleaning services	72 373	71 825	69 596
Other services	670 027	773 680	528 710
<b>Total</b>	<b>2 903 667</b>	<b>3 125 786</b>	<b>3 099 289</b>

Other services largely include services which were outsourced in prior years (health security and protection, security guard services, training, cleaning and other auxiliary work).

### 6.4. OTHER OPERATING INCOME

(CZK thousand)

	2007	2006	2005
Contractual penalties and default interest	2 231	1 367	1 882
Recoveries of receivables written off and transferred	3 676	1 837	800
Received subsidies	72 439	107 879	85 775
Settlement of CO <sub>2</sub> emission allowances in income under the National Allocation Plan	187 920	3 172 948	2 663 095
Sundry operating income	67 644	32 510	37 957
<b>Total other operating income</b>	<b>333 910</b>	<b>3 316 541</b>	<b>2 789 509</b>

The year-on-year decrease 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	29 001	40 033	23 458
Contractual penalties and default interest	1 003	628	1 193
Other penalties and fines	2 091	70	265
Write-offs of receivables and transferred receivables	28 178	310 261	18 539
Sundry operating expenses	179 498	144 872	135 123
Settlement of CO <sub>2</sub> emission allowances in expenses under the National Allocation Plan	187 920	3 173 460	2 663 405
Deficits and damage relating to operating activities	41 598	44 681	39 670
<b>Total other operating expenses</b>	<b>469 289</b>	<b>3 714 005</b>	<b>2 881 653</b>

The year-on-year decrease 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.



## Drawing of Allowed State Aid

The state aid is provided both for operating and investment purposes.

Until 2007, the Company received CZK 267,166 thousand and CZK 149,279 thousand for operating and investment purposes, respectively.

(CZK thousand)

	Eligible expenses in 2004	Allowed state aid in 2004 (drawn)	Eligible expenses in 2005	Allowed state aid in 2005 (drawn)	Eligible expenses in 2006	Allowed state aid in 2006 (drawn)
Research and development	11 323	5 175	233 510	99 235	235 847	96 822
Environment	0	0	50 721	28 911	50 960	29 047
Education	7 842	2 745	20 250	8 537	45 628	22 361
<b>Total</b>	<b>19 165</b>	<b>7 920</b>	<b>304 481</b>	<b>136 683</b>	<b>332 435</b>	<b>148 230</b>

(CZK thousand)

	Eligible expenses in 2007	Allowed state aid in 2007 (drawn)	Total eligible expenses until 31 Dec 2007	Total allowed state aid until 31 Dec 2007 (drawn)	Allowed state aid (received)	Returned allowed state aid	Allowed state aid (to be drawn)
Research and development	144 691	57 034	625 371	258 266	388 100	94 904	34 930
Environment	98 479	56 133	200 160	114 091	140 335	26 244	0
Education	29 576	10 445	103 296	44 088	48 241	4 153	0
<b>Total</b>	<b>272 746</b>	<b>123 612</b>	<b>928 827</b>	<b>416 445</b>	<b>576 676</b>	<b>125 301</b>	<b>34 930</b>

Environmental and educational projects were completed as of 31 December 2007. Research and development projects will be completed in 2008.

## 6.7. EXTRAORDINARY INCOME

(CZK thousand)

	2007	2006	2005
Received damage compensations – floods	0	0	64 475
Other	112	413	0
<b>Total extraordinary income</b>	<b>112</b>	<b>413</b>	<b>64 475</b>

## 6.8. EXTRAORDINARY EXPENSES

(CZK thousand)

	2007	2006	2005
Extraordinary expenses – floods	0	0	137 425
Other	0	0	2 526
<b>Total extraordinary expenses</b>	<b>0</b>	<b>0</b>	<b>139 951</b>

## 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	4 012	84	0	108 895
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	199	0	0	199
MORAVIA STEEL a.s.	Controlling entity	222	31 091 752	168 678	56 496	79 895	31 397 043
Refaze Slovakia s.r.o.	Controlled entity	0	24 144	0	0	0	24 144
TRIALFA, a.s.	Controlled entity	7	60 083	4 223	2 210	0	66 523
TRISIA, a.s.	Controlled entity	9	2	3 776	1 160	0	4 947
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	2 715	729	1	0	3 445
Třinecké gastroslužby, s.r.o.	Controlled entity	8	2 122	4 179	1 160	0	7 469
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	0	5 154	17 554	57	0	22 765
Sochorová válcovna TŽ, a.s.	Controlled entity	437	4 294 145	12 267	14 406	14	4 321 269
CMC Třinec Stahlhandel GmbH	Controlled entity	0	97 377	0	0	0	97 377
Beskydská golfová, a.s.	Controlled entity	0	24	153	26	0	203
SILESIA SLAG, a.s.	Controlled entity	0	0	46	0	0	46
Steel Consortium Partners, a.s.	Controlled entity	0	0	51	0	0	51
<b>Total</b>		<b>695</b>	<b>35 682 305</b>	<b>215 867</b>	<b>75 600</b>	<b>79 909</b>	<b>36 054 376</b>

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	0	52 151
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	190	0	0	190
MORAVIA STEEL a.s.	Controlling entity	203	27 850 516	167 030	68 582	0	28 086 331
Reťaze Slovakia s.r.o.	Controlled entity	0	24 271	0	0	0	24 271
TRIALFA, a.s.	Controlled entity	12	40 743	2 682	1 844	0	45 281
TRISIA, a.s.	Controlled entity	0	0	48	43	0	91
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	46	417	1 120	3	0	1 586
Třinecké gastroslužby, s.r.o.	Controlled entity	15	2 187	3 208	999	0	6 409
VESUVIUS ČR, a.s.	Controlled entity	7	4 344	18 646	29	0	23 026
Sochorová válcovna TŽ, a.s.	Controlled entity	31	3 701 091	13 481	10 324	266	3 725 193
CMC Třinec Stahlhandel GmbH	Controlled entity	0	108 335	0	0	0	108 335
Beskydská golfová, a.s.	Controlled entity	0	0	300	0	119	419
SILESIAFLAG, a.s.	Controlled entity	0	0	64	0	0	64
Steel Consortium Partners, a.s.	Controlled entity	0	0	39	0	94	133
<b>Total</b>		<b>330</b>	<b>31 780 447</b>	<b>210 282</b>	<b>81 942</b>	<b>479</b>	<b>32 073 480</b>

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	0	30 271
Kabelová televize Třinec, spol. s r.o.	Controlled entity	0	0	64	0	0	64
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	193	5	0	198
MORAVIA ENERGO, a.s.	Controlled entity	0	20 485	1 708	2	0	22 195
MORAVIA STEEL a.s.	Controlling entity	128	25 093 996	161 881	5 520	0	25 261 525
Reťaze Slovakia s.r.o.	Controlled entity	0	22 208	0	0	0	22 208
TRIALFA, a.s.	Controlled entity	0	31 935	2 449	1 643	0	36 027
TRISIA, a.s.	Controlled entity	0	0	36	2	0	38
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	84	706	699	2	0	1 491
Třinecké gastroslužby, s.r.o.	Controlled entity	4	1 924	3 168	1 114	0	6 210
ENVIFORM, s.r.o.	Controlled entity	0	109	57	5	0	171
VESUVIUS ČR, a.s.	Controlled entity	0	3 916	16 657	73	0	20 646
Sochorová válcovna TŽ, a.s.	Controlled entity	20	4 138 915	11 229	1 732	3 807	4 155 703
CMC Třinec Stahlhandel GmbH	Controlled entity	0	0	0	0	0	0
FINITRADING, a.s.	Controlling entity	0	0	0	0	0	0
Beskydská golfová, a.s.	Controlled entity	0	38	0	0	314	352
SILESIAFLAG, a.s.	Controlled entity	0	0	15	0	0	15
TRIFINAL, a.s. „v likvidaci“	Controlled entity	0	0	190	1 084	241	1 515
Steel Consortium Partners, a.s.	Controlled entity	0	0	21	0	896	917
<b>Total</b>		<b>241</b>	<b>29 340 900</b>	<b>201 817</b>	<b>11 330</b>	<b>5 258</b>	<b>29 559 546</b>

### 6.9.2. Purchases from Related Parties

Relation to the company (type of entity) 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	0	978	84 662	0	85 640
Hutnictví železa, a.s.	Controlled entity	0	30	6 247	0	6 277
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	0	0	316	0	316
MORAVIA STEEL a.s.	Controlling entity	136	21 018 171	280 375	45 871	21 344 553
Refaze Slovakia, s.r.o.	Controlled entity	0	534	1 708	0	2 242
TRIALFA, s.r.o.	Controlled entity	0	14 022	17 161	68 019	99 202
TRISIA, a.s.	Controlled entity	0	0	28 982	148	29 130
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	25 374	40	10 324	0	35 738
Třinecké gastroslužby, s.r.o.	Controlled entity	0	14 320	18 036	49 995	82 351
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	80	22	63 477	0	63 579
Sochorová válcovna TŽ, a.s.	Controlled entity	0	33 461	42 552	3 859	79 872
Beskydská golfová, a.s.	Controlled entity	0	0	2 484	0	2 484
<b>Total</b>		<b>25 590</b>	<b>21 081 578</b>	<b>556 324</b>	<b>167 892</b>	<b>21 831 384</b>

**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	0	0	6 490	0	6 490
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	0	0	443	0	443
MORAVIA STEEL a.s.	Controlling entity	5	21 197 100	205 772	37 711	21 440 588
Refaze Slovakia, s.r.o.	Controlled entity	0	2 172	0	0	2 172
TRIALFA, s.r.o.	Controlled entity	0	10 627	79 962	0	90 589
TRISIA, a.s.	Controlled entity	0	0	32 299	192	32 491
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	34 025	0	7 518	0	41 543
Třinecké gastroslužby, s.r.o.	Controlled entity	0	13 995	14 527	47 884	76 406
VESUVIUS ČR, a.s.	Controlled entity	0	20	65 980	0	66 000
Sochorová válcovna TŽ, a.s.	Controlled entity	147	1 371	25 083	5 363	31 964
CMC Třinec Stahlhandel GmbH	Controlled entity	0	0	164	4	168
Beskydská golfová, a.s.	Controlled entity	0	0	676	0	676
<b>Total</b>		<b>34 250</b>	<b>21 225 861</b>	<b>518 884</b>	<b>91 155</b>	<b>21 870 150</b>

**2005**

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	63	669	82 228	0	82 960
Hutnictví železa, a.s.	Controlled entity	0	0	5 680	0	5 680
Kabelová televize, spol. s r.o.	Controlled entity	830	49	355	0	1 234
Kvalifikační a pers. agentura, o.p.s.	Controlled entity	0	0	537	0	537
MORAVIA STEEL a.s.	Controlling entity	68	20 318 786	209 611	31 647	20 560 112
MORAVIA ENERGO, s.r.o.	Controlled entity	0	143 683	15 940	0	159 623
Refaze Slovakia, s.r.o.	Controlled entity	0	0	2 172	0	2 172
TRIALFA, s.r.o.	Controlled entity	0	11 466	60 648	0	72 114
TRISIA, a.s.	Controlled entity	0	0	16 102	232	16 334
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	11 482	0	5 758	20	17 260
Třinecké gastroslužby, s.r.o.	Controlled entity	0	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	0	61 867
Sochorová válcovna TŽ, a.s.	Controlled entity	800	1 055	13 552	4 930	20 337
CMC Třinec Stahlhandel GmbH	Controlled entity	0	0	0	0	0
Beskydská golfová, a.s.	Controlled entity	0	0	259	0	259
TRIFINAL, a.s. „v likvidaci“	Controlled entity	0	0	0	1 084	1 084
<b>Total</b>		<b>13 299</b>	<b>20 488 759</b>	<b>485 080</b>	<b>44 396</b>	<b>21 031 534</b>

## 7. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 7.1. STAFF COSTS AND NUMBER OF EMPLOYEES

#### 7.1.1. Staff Costs and Number of Employees for 2007

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
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.	0	0	46	0
<b>Total under full consolidation</b>	<b>9 441</b>	<b>57</b>	<b>4 204 916</b>	<b>148 881</b>

#### 7.1.2. Staff Costs and Number of Employees for 2006

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽLEZÁRNY, 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
<b>Total under full consolidation</b>	<b>9 082</b>	<b>41</b>	<b>3 618 155</b>	<b>161 226</b>

#### 7.1.3. Staff Costs and Number of Employees for 2005

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽLEZÁRNY, 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
<b>Total under full consolidation</b>	<b>9 262</b>	<b>46</b>	<b>3 360 715</b>	<b>160 766</b>

\* figure not available

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

Set out below are the amounts of bonuses, advances, borrowings, other receivables, payables and other benefits in respect of members of the statutory, management and supervisory bodies:

(CZK thousand)

Company/benefit	2007	2006	2005
<b>TŘINECKÉ ŽELEZÁRNY, a. s.</b>	<b>21 086</b>	<b>35 178</b>	<b>35 226</b>
Use of management cars	962	969	959
Life insurance contribution	0	14 674	14 567
Liability insurance	1 260	863	932
Bonuses	18 864	18 672	18 768
<b>ENERGETIKA TŘINEC, a.s.</b>	<b>1558</b>	<b>1 775</b>	<b>1 660</b>
Use of management cars	488	744	639
Life insurance contribution	207	228	228
Liability insurance	197	155	145
Bonuses	666	648	648
<b>Strojírny Třinec, a.s.</b>	<b>1 076</b>	<b>1 106</b>	<b>1 108</b>
Use of management cars	443	389	388
Life insurance contribution	0	38	72
Liability insurance	0	31	0
Bonuses	633	648	648
<b>Slévárny Třinec, a.s.</b>	<b>705</b>	<b>700</b>	<b>956</b>
Use of management cars	5	5	254
Life insurance contribution	29	24	54
Liability insurance	23	23	0
Bonuses	648	648	648
<b>Refrasil, s.r.o.</b>	<b>1 480</b>	<b>1 746</b>	<b>1 670</b>
Use of management cars	237	0	0
Life insurance contribution	856	1 284	1 284
Liability insurance	3	2	2
Bonuses	384	460	384
<b>FERROMORAVIA, s.r.o.</b>	<b>125</b>	<b>1 923</b>	<b>1 015</b>
Use of management cars	0	577	619
Liability insurance	125	118	72
Bonuses	0	1 228	324
<b>Trifinal, a.s.</b>	<b>0</b>	<b>0</b>	<b>96</b>
Bonuses	0	0	96
<b>Řetězárna, a.s.</b>	<b>8 366</b>	<b>8 243</b>	<b>8 143</b>
Bonuses	7 470	7 176	7 176
Life insurance contribution	0	168	0
Use of management cars	872	899	967
Liability insurance	24	0	0
<b>VVT Vítkovice Válcovna trub, a.s.</b>	<b>972</b>	<b>1 105</b>	<b>320</b>
Use of management cars	305	457	93
Life insurance contribution	19	0	0
Bonuses	648	648	227
<b>H&amp;S PROGRESS s.r.o.</b>	<b>190</b>	<b>0</b>	<b>0</b>
Liability insurance	1	0	0
Bonuses	189	0	0
<b>ROLLSERVIS a.s.</b>	<b>439</b>	<b>0</b>	<b>0</b>
Use of management cars	14	0	0
Liability insurance	2	0	0
Bonuses	423	0	0
<b>VÚHŽ a.s.</b>	<b>9 904</b>	<b>0</b>	<b>0</b>
Use of management cars	510	0	0
Life insurance contribution	13	0	0
Liability insurance	25	0	0
Bonuses	9 356	0	0
<b>VUHŽ NEMO a.s.</b>	<b>46</b>	<b>0</b>	<b>0</b>
Bonuses	46	0	0
<b>Total</b>	<b>45 947</b>	<b>51 776</b>	<b>50 194</b>



## 8. POST BALANCE SHEET EVENTS

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

The parent company, 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 the company is increased by CZK 65,000 thousand, i.e. from CZK 500,000 thousand to CZK 565 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.

# XIII. SELECTED CAPITAL INTERESTS OF TŘINECKÉ ŽELEZÁRNY, a. s.

## ENERGETIKA TŘINEC, a.s.

Registered office: Třinec-Staré Město, Průmyslová 1024, ID 47 67 58 96

Subscribed capital: CZK 1 680 000 000

Share in registered capital: 100%

The company is an energy facility supplying a full range of energy and energy services to its customers. It supplies electricity; process steam; heat; fuel gas; compressed and blast air; and process, service and drinking water to Třinecké železářny and other companies as well as the communal sphere in the region of Třinec. It operates wastewater treatment plants and a sewerage system. In the environmental area, the company introduced a control system according to the ISO 14001 standard.

CZK '000	2007*	2006	2005
Equity	2 225 308	2 091 668	2 155 593
Balance sum	2 859 795	2 870 758	3 073 317
Revenues	2 194 677	2 167 448	1 973 502
Profit/Loss after tax	203 618	136 075	91 629
Employees	386	391	402

\* audited results

## Strojírny Třinec, a.s.

Registered office: Třinec-Staré Město, Průmyslová 1038, ID 25 36 36 54

Subscribed capital: CZK 500 000 000

Share in registered capital: 100%

The company deals in the production of railway superstructures, manufacture and renovation of metallurgical rolls, as well as a wide range of general machinery production. The goal of the company is to maintain and strengthen its position on the market as the supplier of top quality products and services, especially parts for railways, rolls, forges, and machinery. The company has a quality control system in place according to the ČSN EN ISO 9001:2000 standard and an environmental system according to ČSN EN ISO 14001. The company owns a 100% share in FERROMORAVIA, s.r.o., which produces drawn steel.

CZK '000	2007*	2006	2005
Equity	689 837	658 673	626 513
Balance sum	955 477	913 805	925 648
Revenues	1 375 518	1 527 890	1 391 988
Profit/Loss after tax	81 800	57 160	66 340
Employees	1 025	1 002	971

\* audited results

## Slévárny Třinec, a.s.

Registered office: Třinec-Staré Město, Průmyslová 1001, ID 25 83 07 16

Subscribed capital: CZK 550 000 000

Share in registered capital: 100%

The company draws on a nearly 160-year tradition in the foundry industry in Třinecké železářny. Its key business activity is production and sales of castings of steel, gray iron, and to a lesser extent of non-ferrous metals. In recent years, the product portfolio has evolved into a range of products dedicated to the steel industry, construction machines, mining, machinery, and the automotive industry. The strategy of the company focuses on the valuation of the material inputs outside the TŽ – MS Group. The foundry has introduced a quality control system according to ISO 9001 and an environmental control system according to ISO 14001.

CZK '000	2007*	2006	2005
Equity	562 586	551 646	486 280
Balance sum	934 042	776 708	679 902
Revenues	1 221 898	1 147 445	1 093 920
Profit/Loss after tax	13 681	12 625	19 068
Employees	673	660	658

\* audited results

**VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s.**

Registered office: Ostrava – Vítkovice, Výstavní 1132, ID 25 82 52 91

Subscribed capital: CZK 418 166 000

Share in registered capital: 100%

The company is hot rolling the seamless steel tubes using the Mannesmann technology. The production is characteristic by sophisticated technology of wide portfolio of steel grades as well as the dimensions not only pursuant to the ČSN standard, but pursuant to the international DIN, ASTM, GOST, NFA, API standards as well. The company is certified according to ISO 9001.

<b>CZK '000</b>	<b>2007*</b>	<b>2006</b>	<b>2005</b>
Equity	884 550	695 420	576 057
Balance sum	1 242 764	1 121 388	1 055 910
Revenues	2 648 529	2 338 700	2 421 050
Profit/Loss after tax	189 144	119 388	145 147
Employees	801	826	929

\* audited results

**H & S PROGRESS s.r.o.**

Registered office: Dobrá 240, ID 61 94 64 60

Subscribed capital: CZK 3 784 000

Share in registered capital: 100 %

The company is the only shareholder of the joint stock company VÚHŽ, which is an established supplier for the automotive, steel, and machinery industries, produces the automation technique, as well as the facilities for the secondary metallurgy.

<b>CZK '000</b>	<b>2007*</b>
Equity	32 178
Balance sum	33 126
Revenues	15 366
Profit/Loss after tax	17 170
Employees	8

\* the company is not audited

**Řetězárna a.s.**

Registered office: Česká Ves, Polská 48, ID 47 67 20 81

Subscribed capital: CZK 10 200 000

Share in registered capital: 51%

The company is based in Česká Ves u Jeseníku and is the manufacturer of a wide assortment of chains from wire rod and bars produced predominantly in Třinecké železářny. Its product range consists of an extensive assortment of chain lengths for various applications, snow chains for trucks and cars, as well as protective and engagement chains. The company responds to changes in market requirements with new products, such as fishing chains, cage-draw bars and lugs, and substitute elements. The company is certified according to ISO 9001 and ISO 14001.

<b>CZK '000</b>	<b>2007*</b>	<b>2006</b>	<b>2005</b>
Equity	377 897	330 223	317 799
Balance sum	576 523	523 224	468 135
Revenues	550 783	502 834	484 366
Profit/Loss after tax	62 678	36 424	34 659
Employees	325	328	330

\* audited results

**REFRASIL, s.r.o.**

Registered office: Třinec-Konská, Průmyslová 720, ID 48 39 58 62

Subscribed capital: CZK 510 000

Share in registered capital: 51%

The company focuses on the production of refractory materials for the lining of metallurgical facilities, production of building refractory materials and substances. The decline in consumption of refractory materials in the domestic market has been offset by the introduction of new progressive types of refractory materials such as refractory concrete, refractory concrete precast units, special substances and insulation materials. The international prestige of the company grew upon its admission to the European Association of Refractory Material Manufacturers. The company has implemented a quality control system according to ISO 9001.

<b>CZK '000</b>	<b>2007*</b>	<b>2006</b>	<b>2005</b>
Equity	178 004	156 950	119 028
Balance sum	236 513	220 757	201 353
Revenues	415 351	424 849	367 098
Profit/Loss after tax	47 054	52 922	30 815
Employees	217	215	204

\* audited results

**VESUVIUS ČESKÁ REPUBLIKA, a.s.**

Registered office: Třinec, Průmyslová 715, ID 45 19 28 47

Subscribed capital: CZK 25 137 000

Share in registered capital: 40%

The company's activity focuses on the production and sale of special isostatically pressed ceramics for continuous steel casting such as plug sticks, screening tubes and teeming nozzles. The company was founded in compliance with the strategy of the international company Vesuvius, i.e. as close to the customer as possible, with ensured flexibility in supplies of refractory material.

<b>CZK '000</b>	<b>2007*</b>	<b>2006</b>	<b>2005</b>
Equity	220 532	243 678	347 396
Balance sum	352 184	364 737	423 842
Revenues	800 562	803 281	791 982
Profit/Loss after tax	113 136	136 282	88 528
Employees	160	155	154

\* audited result

**Sochorová válcovna TŽ, a.s.**

Registered office: Třinec-Staré Město, Průmyslová 1000, ID 25 87 29 40

Subscribed capital: CZK 72 180 000

Share in registered capital: 18%

The goal of the company is fulfilling the long-term intention of the TŽ – MS Group through the building of product chains and achieving a higher grade of finalizing the TŽ products. The product portfolio of the company consists of long rolled products and semis for a wide range of domestic as well as foreign customers. The company focuses to the production of high carbon and alloyed construction steel grades, stainless and tool steel grades are produced to a lesser extent.

<b>CZK '000</b>	<b>2007*</b>	<b>2006</b>	<b>2005</b>
Equity	1 602 467	1 199 648	908 010
Balance sum	2 601 200	2 247 336	2 030 103
Revenues	5 630 944	4 972 631	5 083 878
Profit/Loss after tax	402 819	291 638	238 760
Employees	717	714	711

\* audited results

**TŘINECKÉ ŽELEZÁRNY, a.s.**, registered at Průmyslová 1000, 739 70 Třinec-Staré Město, corporate ID 18050646, entered in the Register of Companies, Section B, File No. 146, maintained by the Regional Court in Ostrava (hereinafter the “Company”) together with the entities below (the “related parties”) forms a group in terms of the second sentence of Section 66a (7) of the Commercial Code.

The report on relations between the related parties was prepared in compliance with the provisions of Section 66a (9) of the Commercial Code for the year ended 31 December 2007 (the “accounting period”).

## I. DEFINITION OF RELATED PARTIES

### A. CONTROLLING ENTITIES

**MORAVIA STEEL** a.s. Registered office: Průmyslová 1000, 739 70 Třinec-Staré Město, Corporate ID 63474808

Relation: The company is the Company’s controlling entity acting in concert with FINITRADING a.s., which is another shareholder of the Company. MORAVIA STEEL a.s. is controlled by the entities below acting in concert under Section 66b (1) and Section 66b (2) (b) of the Commercial Code:

- FINITRADING, a.s. with its registered office at nám. Svobody 526, Třinec 73961, Corporate ID 61974692
- R.F.G., a.s. with its registered office at nám. Svobody 526, Třinec 73961, Corporate ID 63079658

**FINITRADING**, a.s. Registered at nám. Svobody 526, 739 61 Třinec, Corporate ID 61974692

Relation: The company is the Company’s controlling entity acting in concert with MORAVIA STEEL a.s., which is another shareholder of the Company.

### B. OTHER RELATED PARTIES

#### B.1. COMPANIES CONTROLLED BY THE CONTROLLING ENTITIES

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

Relation: company controlled by MORAVIA STEEL a.s.

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

Relation: company controlled by MORAVIA STEEL a.s.

MORAVIA GOEL TRADE d.o.o., “in liquidation”, registered at Perkovčeva 48, 10430 Samobor, Croatia

Relation: company controlled by MORAVIA STEEL a.s.

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

Relation: company controlled by MORAVIA STEEL a.s.

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

Relation: company controlled by MORAVIA STEEL a.s.

CMC – TRINEC Stahlhandel, GmbH registered at Cliev 19, 51515 Kürten, Germany

Relation: company controlled by MORAVIA STEEL a.s.

TRINEC – CMC LIMITED registered at Bradwall Court, Bradwall Road, Sandbach, Cheshire, CW11 1 GE, England

Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Televizní Studio a.s. registered at Kříženeckého nám. 322, Prague 5, Corporate ID 41693311

- originally Barrandov Studio a.s.; as of 1 November 2007 the name has been changed to Barrandov Televizní Studio a.s.

Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Studio a.s. registered at Kříženeckého nám. 322/5, Prague 5, Hlupočepy, 15200, Corporate ID 28172469

- was 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: company controlled by MORAVIA STEEL a.s.



Barrandov Lands a.s. registered at Kříženeckého nám. 322/5, Prague 5, 15200, corporate ID 27225674  
Relation: company controlled by MORAVIA STEEL a.s.

MS – Slovensko s.r.o. registered at Palisády 56, 81106 Bratislava  
Relation: company controlled by MORAVIA STEEL a.s.

MORAVIA STEEL ISRAEL Ltd. registered at Petach Tikva 49511, 23 Eyal St., P.O.B. 3286 Israel  
Relation: company controlled by MORAVIA STEEL a.s.

Beskydská golfová, a.s., registered at Ropice 415, 73956, Corporate ID 25352920  
Relation: company controlled by MORAVIA STEEL a.s. since 1 February 2007

Sochorová válcovna TŽ, a.s. registered at Průmyslová 1000, 73970 Třinec-Staré Město; Corporate ID 25872940  
Relation: company controlled by FINITRADING, a.s., together with R.F.G., a.s., and the Company as entities acting in concert until 10 September 2007.  
After this date, the company is controlled by MORAVIA STEEL a.s. and the Company acting in concert.

## **B.2. COMPANIES CONTROLLED BY THE COMPANY**

ENERGETIKA TŘINEC, a.s. registered at Průmyslová 1024, 73965 Třinec-Staré Město; Corporate ID 47675896  
Relation: company controlled by the Company

Strojírny Třinec, a.s. registered at Průmyslová 1038, 73965 Třinec-Staré Město, Corporate ID 25363654  
Relation: company controlled by the Company

Slévárny Třinec, a.s. registered at Průmyslová 1001, 73965 Třinec-Staré Město, Corporate ID 25830716  
Relation: company controlled by the Company

Třinecké gastroslužby, s.r.o. registered at Průmyslová 1035, 73965 Třinec-Staré Město; Corporate ID 25838148  
Relation: company controlled by the Company

SILESIALAG, a.s. registered at Průmyslová 1032, 73965 Třinec-Staré Město, Corporate ID 25893882  
Relation: company controlled by the Company

Doprava TŽ, a.s. registered at Průmyslová 1008, 73965 Třinec-Staré Město, Corporate ID 25398083  
Relation: company controlled by the Company

TRIALFA, s.r.o. registered at ul. Míru 272, 73965 Třinec-Kanada, Corporate ID 25839888  
Relation: company controlled by the Company

Beskydská golfová, a.s. registered at Ropice 415, 73956, Corporate ID 25352920  
Relation: company controlled by the Company until 1 February 2007

Řetězárna a.s. registered at Polská 48, 79081 Česká Ves, Corporate ID 47672081  
Relation: company controlled by the Company

TRISIA, a.s. registered at nám. Svobody 526, Třinec, District of Frýdek-Místek, 73965, Corporate ID 64610152  
Relation: company controlled by the Company

REFRASIL, s.r.o. registered at Průmyslová 720, Třinec-Konská 73965, Corporate ID 48395862  
Relation: company controlled by the Company

Steel Consortium Partners, a.s. registered at Průmyslová 1000, 73970 Třinec-Staré Město; Corporate ID 27242382  
Relation: company controlled by the Company

VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s. registered at Výstavní 1132, Ostrava-Vítkovice; Corporate ID 25825291  
Relation: company controlled by the Company

H & S PROGRESS s.r.o. registered at Dobrá 240, 73951, Corporate ID 61946460

Relation: company controlled by the Company since 22 May 2007

VÍTKOVICE – Výzkum a vývoj, spol. s r.o., registered at Pohraniční 693/31, Ostrava Vítkovice, 70602, Corporate ID 25870807

Relation: company controlled by the Company since 22 May 2007

Sochorová válcovna TŽ, a.s. registered at Průmyslová 1000, 73970 Třinec-Staré Město; Corporate ID 25872940

Relation: company controlled by FINITRADING a.s. together with R.F.G., a.s. and the Company as entities acting in concert until 10 September 2007.

After this date, the company is controlled by MORAVIA STEEL a.s. and the Company acting in concert.

## **II. DESCRIPTION OF THE RELATIONS**

### **A. DEFINITION OF THE RELATION BETWEEN RELATED PARTIES**

a) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and MORAVIA STEEL a.s. as the controlling company are presented below in section B hereof.

b) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and FINITRADING, a.s. as the controlling entity are presented below in section C hereof.

The relations in terms of the provisions of Section 66a (9) of the Commercial Code between the Company and R.F.G., a.s. were not established in the accounting period, i.e. no contracts were effected, no other legal acts were performed, and no measures were taken in terms of the above-mentioned provisions in the accounting period.

c) The relations in terms of the provisions of Section 66a (9) of the Commercial Code between the Company and other companies – except for Sochorová válcovna TŽ, a.s. and Beskydská golfová, a.s. – that are controlled by the controlling entities, were not established in the accounting period, i.e. no contracts were effected among the related parties, no other legal acts were performed and no measures were taken at the initiative or on behalf of the related parties.

d) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and Sochorová válcovna TŽ, a.s. are presented below in section D hereof.

e) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and Beskydská golfová, a.s., are presented below in section E hereof.

f) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and the above-stated companies controlled by the Company are stated in the reports on relations of each of the controlled companies that prepare their reports separately, providing a detailed description of individual relations with the Company for the relevant accounting period. The Company incurred no damage as a result of the relationships.

### **B. DESCRIPTION OF THE COMPANY'S RELATIONS WITH THE CONTROLLING ENTITY, MORAVIA STEEL a.s.**

#### **Introduction**

a) The principal contract applicable to the day-to-day business relations between the Company and MORAVIA STEEL a.s. is the General Commercial Contract of 30 December 2002 whereby both parties declared their common interest in the further development of their mutual business relations. This contract is updated for the relevant accounting period:

aa) by the Master Contract mentioned below of 30 December 2002 for the sale area; and

ab) by the Contract for the Supply of Materials and Raw Materials mentioned below of 12 January 1999 for the purchase area.

The individual performances are presented in the partial purchase contracts executed pursuant to the above contracts for a particular product, amount, shape and type, the agreed upon price and performance deadline. The agreed upon prices respect the specific features of purchases and sales in the metallurgic industry and take into account the elimination of foreign exchange risks, the adjustment of payment conditions, and business risks.

b) Due to the high number of contracts entered into during the accounting period, the report includes:

ba) separate references to the individual contracts important for the relations between the Company and MORAVIA STEEL a.s., primarily the contracts whereby the performance fee exclusive of VAT agreed upon in the contract amounted to no less than 1 percent of the Company's share capital within the day-to-day course of business relations, and 0.5 percent of the Company's share capital outside of day-to-day business relations; and

bb) a collective reference to other contracts, mainly contracts whereby the performance fee is below the amount set out under section ba).

#### **B.1 SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF THE CONTROLLING ENTITY, MORAVIA STEEL a.s.**

##### **B.1.1. MASTER CONTRACT**

The contract between the Company and the controlling entity was entered into on 30 December 2002. Under the contract, as amended by Amendment No. 1 of 31 December 2004 and Amendment No. 2 of 30 June 2005, the Company agrees to sell its metallurgical products to the controlling entity. Partial sale contracts are prepared for individual performances. The prices for goods are arm's length prices derived from market prices.

During the accounting period ended 31 December 2007, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and credit notes for the sale of products, or expenses associated with complaints was provided for consideration of CZK 27,052,796 thousand.

##### **B.1.2. LICENCE CONTRACT FOR THE USE OF THE "THREE HAMMERS IN A CIRCLE" TRADEMARK**

The contract between the Company and the controlling entity was entered into on 30 June 2002, as subsequently amended by Amendment No 1 of 1 December 2003, Amendment No. 2 of 19 March 2004 and Amendment No. 3 of 30 July 2004. Under the contract, the Company provided a non-exclusive right to the controlling entity to use the Company's trademark as part of the logo of MORAVIA STEEL a.s. The right was provided for consideration.

During the accounting period, the consideration for the right provided under the above contract amounted to CZK 123,000 thousand.

##### **B.1.3. CONTRACT ON THE PROVISION OF SERVICES**

The contract between the Company and the controlling entity was entered into on 1 January 2003. Under the contract, the Company provided the controlling entity with services involving building guards, fire protection, postal services, archiving and documentation services, dispatch services, transport and customs clearance, information technology, selected technical services, pricing services, selected accounting services and complaint resolution services.

During the accounting period, the performance under the above contract was provided for consideration of CZK 30,207 thousand.

##### **B.1.4. LEASE CONTRACT**

The contract between the Company and the controlling entity was entered into on 9 March 2000. Under the contract, as amended by Amendment No. 1 of 10 November 2005, Amendment No. 2 of 19 January 2006, Amendment No. 3 of 7 September 2006 and Amendment No. 4 of 24 October 2007, the lease right to real estate and non-residential premises and movable assets owned by the Company was agreed upon for the location of the controlling entity's registered office and business activities.

The rent and other payments arising from the above contract during the accounting period amounted to CZK 6,122 thousand.

##### **B.1.5. CONTRACT FOR THE PROVISION OF TELECOMMUNICATIONS SERVICES**

The contract between the Company and the controlling entity was entered into on 31 December 1998 and was amended by Amendment No. 1 of 1 July 2002. Under the contract, the Company rendered telecommunications services to the controlling entity.

During the accounting period, the performance under the above contract was provided for consideration of CZK 3,741 thousand.

##### **B.1.6. CONTRACT FOR THE PURCHASE OF SECURITIES**

The contract between the Company and the controlling entity was entered into on 31 January 2007. Under the contract, the Company undertook to transfer securities of Beskydská golfová, a.s. to the controlling entity.

During the accounting period, the performance under the above contract was provided for consideration of CZK 79,985 thousand.

##### **B.1.7. OTHER PERFORMANCES PROVIDED**

1. During the accounting period, the Company provided the controlling entity with other performances under special contracts involving, for example, the sale of goods and other assets, provision of internet services or other services for a total consideration of CZK 7,221 thousand.

2. The Company assumed the payable of the controlling entity under the Payable Assumption Contract of 19 December 2003 for the benefit of HSBC Bank plc-Praha, Commerzbank Aktiengesellschaft, Prague branch, and Dresdner bank AG. The Company did not execute any performance thereunder.

Note: The amount of the payables collateralised under 2. is subject to business secrecy and confidentiality restrictions placed on the Company.

## **B.2. PURCHASES AND OTHER PERFORMANCES PROVIDED BY THE CONTROLLING ENTITY, MORAVIA STEEL a.s., IN FAVOUR OF THE COMPANY**

### **B.2.1. PURCHASE CONTRACT FOR THE SUPPLY OF MATERIALS AND RAW MATERIALS**

The contract between the Company and the controlling entity was entered into on 12 January 1999 and amended by Amendment No. 1 of 30 December 2002. Under the contract, the Company agrees to purchase basic metallurgical raw materials, mainly ores, coal, fuels and metallurgical semi-finished products, from the controlling entity. The volume of the supplies and fees are specified on a quarterly basis in the form of partial sale contracts. The contract was entered into for an indefinite period of time.

During the accounting period, the performance under the above contract was provided for consideration of CZK 19,413,600 thousand.

### **B.2.2. MASTER FORWARDING CONTRACT**

The contract between the Company and the controlling entity was entered into on 30 December 2002. Under the contract, as worded in the subsequent amendments and appendices, the controlling entity agrees to provide transport for goods and to perform activities associated with such transport and to arrange for any other action necessary for the operation of national railway freight transport for the Company. The performance was provided on the basis of contractual prices agreed for one year with respect to a specific shipment and volume.

During the accounting period, the performance under the above contract was provided for consideration of CZK 188,156 thousand.

### **B.2.3. MANDATE CONTRACT**

The contract between the Company and the controlling entity was entered into on 1 July 2005 and amended by Amendment No. 1 of 1 December 2005 and Amendment No. 2 of 27 September 2007. Under the contract, the controlling entity, on behalf and on the account of the Company, agrees to deal with all business matters relating to the purchase of work and services necessary for performing the activity of the Company, primarily providing for the maintenance and repairing of the production facility, technology, structures, land and other assets owned or used by the Company.

During the accounting period, the performance under the above contract was provided for consideration of CZK 90,682 thousand.

### **B.2.4. MANDATE CONTRACT**

The contract between the Company and the controlling entity was entered into on 29 June 2007. Under the contract, the controlling entity, on behalf and on the account of the Company agrees to deal with business matters relating to the purchase of metal scrap category No. 170405 (Iron and Steel) complying with the requirements of ČSN 420030 (Steel and Alloy scrap) – i.e. scrap for the production needs of the Company, as well as to deal with the relating activities, in the scope and under the conditions defined in the mandate contract.

During the accounting period, the performance under the above contract was provided for consideration of CZK 81,613 thousand.

### **B.2.5. OTHER PERFORMANCES RECEIVED**

1. The Company received other performances from the controlling entity under special contracts during the accounting period involving, for example, the provision of liability insurance, insurance against natural hazards, insurance for the corporate body members, purchase of goods, lease rights and provision of other services totalling CZK 41,582 thousand.

2. The controlling entity provided the Company with guarantees for its obligations under:

a) The guarantees for investment loan settlement of CZK 630,000 thousand:

Creditor: ČSOB, a.s.	CZK 180,000 thousand.	The contract was effected on 31 March 2004.
ČSOB, a.s.	CZK 150,000 thousand.	The contract was effected on 31 March 2004.
Citibank, a.s.	CZK 300,000 thousand.	The contract was effected on 9 September 2004.

The controlling entity provided no performance under the guarantees.

### **B.3. OTHER CONTRACTUAL RELATIONS**

No other contractual relationships were established between the Company and the controlling entity under Section 66a (9) of the Commercial Code during the accounting period.

### **B.4. OTHER LEGAL ACTS**

No other legal acts were performed within the relationship between the Company and the controlling entity under Section 66a (9) of the Commercial Code during the accounting period.

#### **B.5. OTHER MEASURES**

No other measures were taken within the relationship between the Company and the controlling entity under Section 66a (9) of the Commercial Code during the accounting period.

#### **C. DESCRIPTION OF THE COMPANY'S RELATIONS WITH THE CONTROLLING ENTITY, FINITRADING, a.s.**

##### **C.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF THE CONTROLLING ENTITY, FINITRADING, a.s.**

###### **C.1.1. OTHER PERFORMANCES PROVIDED**

1. The Company provided an aval to the controlling entity under the loan contract of 8 December 2003 in favour of Slovenská sporiteľňa, a.s. The Company provided no performance thereunder. The aval was cancelled on 9 November 2007.

Note: The amount of the payables collateralised under section 1 is subject to the business secrecy and confidentiality restrictions placed on the Company.

###### **C.2. OTHER CONTRACTUAL RELATIONS**

No other contractual relationships were established between the Company and the controlling entity under Section 66a (9) of the Commercial Code during the accounting period.

###### **C.3. OTHER LEGAL ACTS**

No other legal acts were performed within the relationship between the Company and the controlling entity under Section 66a (9) of the Commercial Code during the accounting period.

###### **C.4. OTHER MEASURES**

No other measures were taken within the relationship between the Company and the controlling entity under Section 66a (9) of the Commercial Code during the accounting period.

#### **D. DESCRIPTION OF THE COMPANY'S RELATIONS WITH Sochorová válcovna TŽ, a.s.**

##### **D.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF Sochorová válcovna TŽ, a.s.**

###### **D.1.1. MASTER CONTRACT**

The Company effected this contract with the company on 30 June 2002 and it was amended by Amendment No. 1 of 30 January 2004, Amendment No. 2 of 29 October 2004 and Amendment No. 3 of 30 December 2005. Under the contract, as amended, the Company agrees to provide ingots, continuous ingots and billets as well as charges for the company's manufacturing programme. Partial sale contracts are executed for individual performances. The prices for goods are arm's length prices derived from the prices for the relevant product mix under common commercial relationships.

During the accounting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and credit notes for the sale of products, or expenses associated with complaints was provided for consideration of CZK 4,272,256 thousand.

###### **D.1.2. LICENCE CONTRACT FOR THE USE OF THE "THREE HAMMERS IN A CIRCLE" TRADEMARK**

The Company entered into the contract on 30 June 2002 which was amended by Amendment No. 1 of 19 March 2004. Under the contract, as amended, the Company provides a non-exclusive right to use the trademark for products as well as a non-exclusive right to use the Company's trademark as part of the logo of Sochorová válcovna TŽ, a.s. The right was provided for consideration.

During the accounting period, the consideration for the right ensuing from the above contract amounted to CZK 113 thousand.

###### **D.1.3. CONTRACT FOR THE PROVISION OF SERVICES**

The contract between the Company and the company was executed on 2 January 2004. Under this contract, the Company provides services involving building guards, fire protection, filing room, archiving and documentation services, information technology, selected technical services, selected accounting services, protection of the environment, payroll and personnel services, audit, marketing, and procurement services.

During the accounting period, the performance under the above contract was provided for consideration of CZK 6,480 thousand.



#### **D.1.4. LEASE CONTRACT**

The Company executed the contract on 30 June 2002, as amended. Under the contract, as amended, the Company leases the tangible and intangible assets assigned for the operation of Sochorová válcovna TŽ, a.s. to this company.

During the accounting period, the consideration for the rental and other payments under the above contract amounted to CZK 2,078 thousand.

#### **D.1.5. CONTRACT FOR THE LEASE OF NON-RESIDENTIAL PREMISES**

The Company executed this contract on 13 May 2002, as subsequently amended by Amendment No. 1 of 5 December 2003, Amendment No. 2 of 1 May 2004 and Amendment No. 3 of 14 April 2007. Under this contract, the Company acquires the right to lease non-residential premises.

During the accounting period, the consideration for the lease and other services under the above contract amounted to CZK 32 thousand.

#### **D.1.6. OTHER PERFORMANCES PROVIDED**

During the accounting period, the Company provided other performances under special contracts involving, for example, the sale of goods and other assets or other services for an aggregate consideration of CZK 20,445 thousand.

### **D.2. PURCHASES AND OTHER PERFORMANCES PROVIDED BY Sochorová válcovna TŽ, a.s. TO THE COMPANY**

#### **D.2.1. MASTER AGREEMENT NO. 4600000076**

The Company executed the contract on 9 January 2003, as subsequently amended by Amendment No. 1 of 30 August 2004, Amendment No. 2 of 31 January 2005, Amendment No. 3 of 30 March 2006 and Amendment No. 4 of 28 February 2007. Under the contract, Sochorová válcovna TŽ, a.s. agrees to deliver work to the Company involving heat treatment or other adjustments of rolled material necessary for technological reasons.

During the accounting period, the performance under the above contract was provided for consideration of CZK 41,260 thousand.

#### **D.2.2. MANDATE CONTRACT**

The Company executed the contract on 25 April 2005. Under the contract, Sochorová válcovna TŽ, a.s. agrees to act on behalf of the Company in connection with the sale of the Company's land in Kladno and, in parallel, to perform other work and activities relating to the appreciation of this land due to its preparation for a planned sale.

During the accounting period, the performance under the above contract was provided for consideration of CZK 124 thousand.

#### **D.2.3. OTHER PERFORMANCES RECEIVED**

The Company received other performances under special contracts during the accounting period involving, for example, the purchase of slag, scrap, other assets and material, services in the aggregate amount of CZK 33,361 thousand.

### **D.3. OTHER CONTRACTUAL RELATIONS**

During the accounting period, the Company and Sochorová válcovna TŽ, a.s. established no other contractual relationships under Section 66a (9) of the Commercial Code.

### **D.4. OTHER LEGAL ACTS**

No other legal acts were performed within the relationship between the Company and Sochorová válcovna TŽ, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

### **D.5. OTHER MEASURES**

No other measures were taken within the relationship between the Company and Sochorová válcovna TŽ, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

## **E. DESCRIPTION OF THE COMPANY'S RELATIONS WITH Beskydská golfová, a.s.**

### **E.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF Beskydská golfová, a.s.**

#### **E.1.1. OTHER PERFORMANCES PROVIDED**

During the accounting period, the Company provided other performances under contracts involving the provision of postal, telecommunications and other services for an aggregate consideration of CZK 153 thousand.

## **E.2. PURCHASES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY TO Beskydská golfová, a.s.**

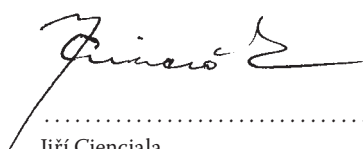
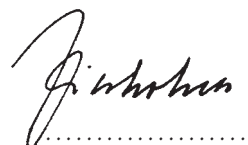
### **E.2.1. OTHER PERFORMANCES RECEIVED**

The Company received other performances under special contracts during the accounting period involving, for example, the purchase of other services in the aggregate amount of CZK 1,987 thousand.

## **III. OVERALL ASSESSMENT OF RELATIONS UNDER SECTION 66A (9) OF THE COMMERCIAL CODE**

The Report presents all major contracts entered into during the accounting period as well as the total volume of received and provided performances within the relations between the Company and the controlling entities, and the Company and the entities controlled by the same controlling entities. The analyses of provided and received performances as shown in sections B, C, D and E indicate that all performances were provided under standard business conditions. The Company did not incur any damage as a result of the relations during the accounting period.

In Třinec on 31 March 2008

  
.....  
Jiří Cienciala  
Chairman of the Board of Directors  
.....  
Jaroslava Ciahotná  
First Vice-Chairwoman of the Board of Directors

