TŘINECKÉ ŽELEZÁRNY, a. s. / ANNUAL REPORT 2008

### **CONTENTS**

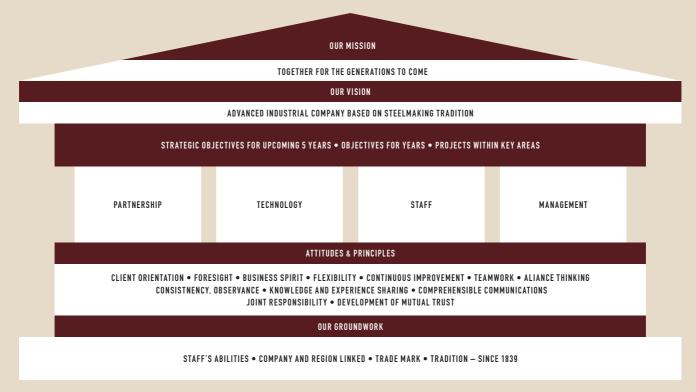
2	1. Company Profile
3	2. Organisational Structure
4	3. Characteristics of the Production Plants
6	4. Events of 2008
8	5. Selected Economic Indicators 2004 – 2008
9	5. Statutory Bodies and Company Management
10	7. Introductory Word of the Chairman of the Supervisory Board
12	8. Board of Directors' Report
12	<ul> <li>Development of the Macroeconomic Environment and Competition</li> </ul>
13	– Shareholder Structure
14	<ul> <li>Production and Position on the Market</li> </ul>
16	– Investments and Modernisation
17	– Technology and Research
18	– Environment
20	– Employees
22	– Management System
23	– Financial Situation
25	– Strategic Objectives
25	– Profit Distribution Proposal
26	9. Report of the Supervisory Board
28	10. Auditor's Opinion on the Annual Report
31	11. Financial Part I. – Financial Statements
32	– Balance Sheet Full Version
34	<ul> <li>Profit and Loss Account Structured by the Nature of Expense Method</li> </ul>
35	- Statement of Changes in Equity
36	– Cash Flow Statement
37	– Notes to the Financial Statements
66	12. Financial Part II. – Consolidated Financial Statements
67	– Consolidated Balance Sheet – Full Version
69	<ul> <li>Consolidated Profit and Loss Account Structured by the Nature of Expense Method</li> </ul>
70	<ul> <li>Consolidated Statement of Changes in Equity</li> </ul>
71	<ul> <li>Consolidated Cash Flow Statement</li> </ul>
72	<ul> <li>Notes to the Consolidated Financial Statements</li> </ul>
110	13. Selected Capital Interests of TŘINECKÉ ŽELEZÁRNY, a. s.
114	14. Report on Related Party Transaction

### Company Profile

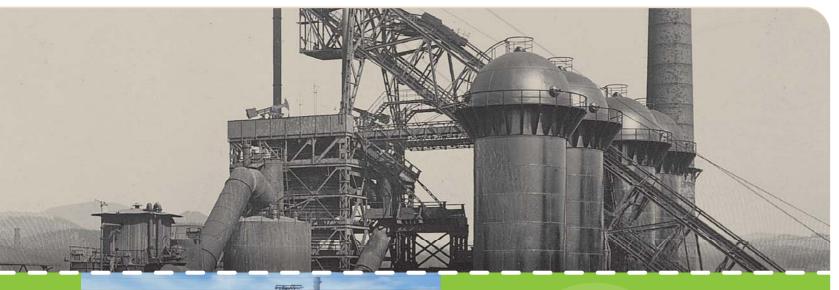
TŘINECKÉ ŽELEZÁRNY, a.s. (The Třinec Iron and Steel Works), which was established 170 years ago, in 1839, is among the steel companies with the longest tradition in the Czech Republic. It produces 2.5 million tonnes of steel annually in an integrated metallurgical cycle, which represents more than one third of the total production of steel in the Czech Republic. The main product portfolio consists of long rolled products — wire rod, rebars and sections, special bar steel, rails, wide steel and semis. Additional products include coke, by-products resulting from production, artificial compact aggregates and granulated slag. Třinecké železárny 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 železárny — 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. A gradual diversification of the product portfolio increases our resistance to market swings.

The Třinecké železárny – Moravia Steel Group also includes companies that are part of the product chains of Třinecké železárny or which provide other services. Třinecké železárny holds a majority stake in 17 companies and significant capital share in a further 10 companies belonging to the Group. In 2008, the Třinecké železárny – Moravia Steel Group was enlarged to include Hanácké železárny a pérovny, a.s., Šroubárna Kyjov, spol. s r.o. and D 5, akciová společnost Třinec. The production facilities included in the Třinecké železárny – Moravia Steel Group are located in Třinec, Kladno, Staré Měste u Uherského Hradiště, Bohumín, Česká Ves u Jeseníku, Ostrava, Dobrá u Frýdku-Místku, Kyjov, and Prostějov.

To date, Třinecké železárny has produced more than 160 million tonnes of steel, especially long rolled products, which have been placed on the domestic market as well as bought by customers all over the world. Moravia Steel sells the products of Třinecké železárny 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 has been directed to customers in more than 50 countries worldwide.



The corporate mission of Třinecké železárny "Together for the Next Generations" accents the role of the historically dominant industrial company which influences a region with approximately 100,000 citizens. The responsibility for the further development of the surrounding region is included in our corporate mission and vision. This annual report confirms the successful fulfilment of our mission and vision and achieved results.





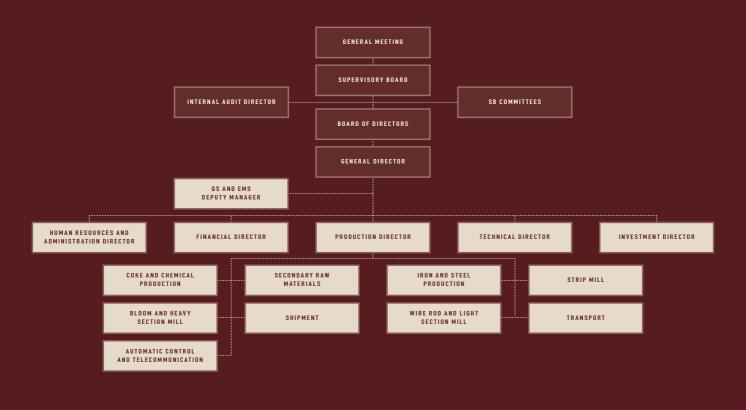
### **BLAST FURNACES**

BLAST FURNACE NO. 4 THAT WAS BUILT

IN 1923 WAS THE BIGGEST ONE

N CZECHOSLOVAKIA THEN

### Organisational Structure



### 3 CHARACTERISTICS OF THE PRODUCTION PLANTS

### Steel Production in Třinecké železárny Includes the Following Facilities:

In the **Coke-Chemical Production 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 desulphurised and supplied to the gas networks of Třinecké železárny for subsequent utilisation. Numerous coke chemical products, especially crude coking tar, benzyl, and ammonium sulphate are produced in the consecutive chemical section.

**The Iron and Steel Production plant** comprises: • production of hot iron; and • 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. In 2007 and 2008, the renovation of electrostatic separators at sinter plant No.1 took place which significantly reduced the amount of air pollution. The input material of the sintering plants consists of the powdery iron ores, dolomite, lime, pulverised coke, and reverse charging material 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 percent 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 chemical and temperature homogenisation, alloying, preheating, and vacuum degassing of steel. Converter steel is mostly cast at two continuous casting machines; approximately 5 percent 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 that ensures an increase in added value to: Sochorová válcovna TŽ located in Kladno, Válcovna trub TŽ located in Ostrava-Vítkovice and VÚHŽ in Dobrá.

According to technology, the **Rolling Mill of Blooms and Heavy Profiles** 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, special profiles for railway accessories 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 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 modernised; one of the results of the modernisation 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 finalising facilities enabling heat treatment, peeling, drawing, or the combination of those operations based on customer specifications including the inspection of surface and internal defects.

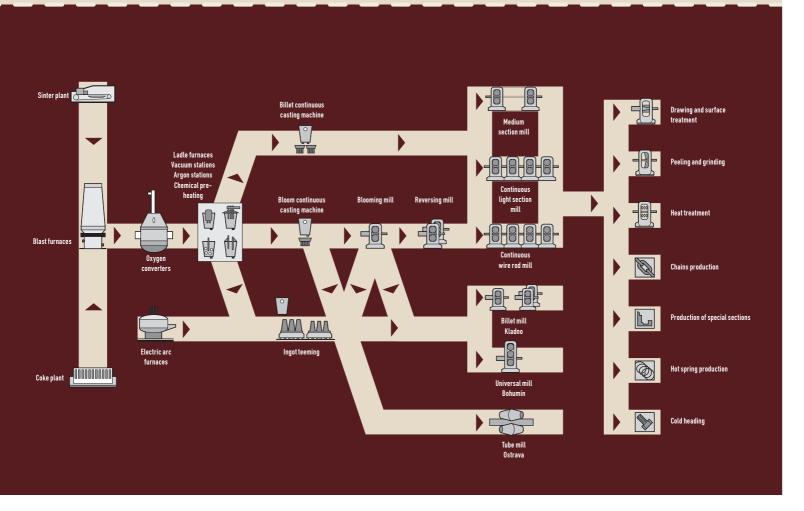
The modern continuous wire rod rolling mill with controlled cooling produces wire rod with diameters of 5.5 to 20 mm in two-tonne coils. It has the highest production capacity within the whole  $T\check{R}INECK\acute{E}$   $\check{Z}ELEZ\acute{R}NY-MORAVIA$  STEEL Group.

A part of the wire rod mill output is processed by the wire drawing mills in Staré Město u Uherského Hradiště, the screw mill in Kyjov, the spring mill in Prostějov, and the chain mill in Česká ves u Jeseníku, which is a part of the TŘINECKÉ ŽELEZÁRNY – MORAVIA STEEL Group.

The Universal Strip 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 accompanying products resulting from metallurgical production, such as blast furnace and steel slag, sludge, scales, debris and other wastes including those obtained from heaps are processed at the **Secondary Raw Material Plant**. 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 multipurpose environmental area together with a dumpsite for inert 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. Sludge and granulated slag are processed in the cement plants. The remaining materials are disposed of as waste.



## 4 EVENTS OF 2008

### **JANUARY**

In 2007, a record volume of steel was produced in the Třinec BOF steel plants. The result is the highest number in the recent history. Labour productivity calculated as an amount of produced steel per employee reached 472 t/employee and surpassed the record of 2006 by 7 tonnes.

### **FEBRUARY**

The process of issuance of collective documents shares and documents to shareholders was initialised, following the decision of the extraordinary General Meeting November 2007 regarding the change from book-entry form of shares to the certificate form of shares.

### MARCH

The most significant investment in the last fifty years was commenced in the subsidiary  $V\acute{U}H\r{Z}$  in Dobrá, which became a part of the  $T\r{Z}-MS$  Group in 2007. The company  $V\'{U}H\r{Z}$  significantly expanded production areas in its division – the Special Profile Rolling Mill by the end of 2008. A total of CZK 20 million was spent with regard to this investment. This action will be followed by future investments in 2009 and 2012 and aimed at the implementation of a new portfolio of special sections.

The most considerable ecological investment has been recently finished. The total reconstruction and modernisation of dedusting from sintering bands No. 1 and No. 2 of Sinter plant No. 1. The construction of a new facility based on eight segments of highly efficient cloth filters together with existing electrostatic separators makes it possible that the Sinter plant No. 1 has been ranked among the top European producers of sinter thanks to a significant decrease in the amount of solid emissions from 100 mg to less than 50 mg/m3.

### APRIL

Třinecké železárny became the only shareholder of Šroubárna Kyjov (screw mill). The Třinecké železárny – Moravia Steel Group has completed its product portfolio by a renowned producer of rail screws, nuts, bearing hanks, mining stirrups and accessories for special application such as rivets, turnbuckles, and anchor bolts. This acquisition is directly connected to Třinecké železárny material inputs.

Třinecké železárny ranked in the prestigious competition the Czech TOP 100 once again. Based on the voting of a domestic jury, the Třinec company ranked first in the 10th Czech TOP 100 competition in the field of Metallurgy and Metal Treatment. On the whole, Třinecké železárny ranked eighth in ten most significant Czech companies.

### May

The reconstruction and modernisation of Garret coilers in the Continuous Light Section Mill was finished in May 2008. This allowed coiling bigger diameters of round bars to coils up to the weight of 2 tonnes. Yearlong construction of one of the major production investments in the last ten years reached CZK 350 million. After the modernisation, the production of coils in the Continuous Light Section Mill amounted to 100 kt from the previous 30 – 40 kt annually. In this way, Třinecké železárny enlarged the portfolio of the steel grades shifting them towards higher quality.

The subsidiary Energetika Třinec came second in the Czech competition "The Energetic Project of 2007" and gained an award from the Ministry of Industry and Trade of Czech Republic for general overhaul, modernisation and reconstruction of the exhaust-heat boiler. The jury judged 19 projects by energetic, economic and environmental parameters.

### IUNE

Třinecké železárny obtained all the necessary integrated allowances from the regional authority of the Moravskoslezský region. The seven legitimate regulations determine the conditions for operation of steel complex consisting of coke and sinter production together with iron and steel making facilities and rolling mills as well.

In the CZECH TOP 100 ranking, Moravia Steel, the dominant shareholder of Třinecké železárny, came seventh in the 10 most significant Czech export companies by revenues in 2007. Moravia steel ranked first in this prestigious ranking of the biggest Czech companies regarding the Moravskoslezský region with its revenues of CZK 26.8 billion.

Třinecké železárny became the only shareholder of the D5 joint-stock company on 20 June 2008.

### JULY

The teachers of Technical High School in Frýdek-Místek gained a special training at Třinecké železárny aimed at new information about steel trends and particularly about technical facilities and the organisation of the steelmaking process.

### AUGUST

Třinecké železárny ranked second in the ecological competition "Entrepreneur of 2008 with regard to environmental protection in the Moravskoslezký region" in the category of entrepreneurs above 50 employees. The competition was part of the Development of the Moravian-Silesian Environmental Advisory and Information Centres Network project and focused on increasing the motivation of Moravian-Silesian businesses with regard to environment protection and implementation of environmental education.

### SEPTEMBER

The 50th International Engineering Fair in Brno welcomed the Třinecké železárny – Moravia steel Group and honoured the Group with a loyalty prize as an acknowledgment of its participation in all fifty Brno fairs to date.

### **OCTOBER**

A new drawing facility for the drawing of steel from coils to bars was put into operation in the subsidiary Ferromoravia in Staré město u Uherského Hradiště. A total of CZK 90 million was expended with regard to this investment. This new facility should gradually replace the older, less efficient aggregates and significantly increase the labour productivity. The advanced facility is connected with the investment of new Garret coilers in the Continuous Light Section Mill in Třinecké železárny.

### November

Třinecké železárny employees have elected Vladislav Heczko and Roman Mitręga to the Supervisory Board. The new Supervisory Board members replaced Oldřich Cieslar and Jiří Stašák after their mandate period expired.

The subsidiary of Třinecké železárny, VÁLCOVNA TRUB TŽ, which is the most significant Czech producer of seamless steel tubes, put into operation a modernised main production line – Big Mannesmann. The total expenses of the renovation and modernisation that is historically the greatest investment in this rolling mill reached approximately CZK 700 million.

### **DECEMBER**

A public auction of Třinecké železárny's certificate shares not yet assumed by the shareholders took place in Brno on 16 December. No bid was made during the public auction. A repeated public auction will be held in 2009. The competent shareholders have still the opportunity to assume the certificate form of shares.

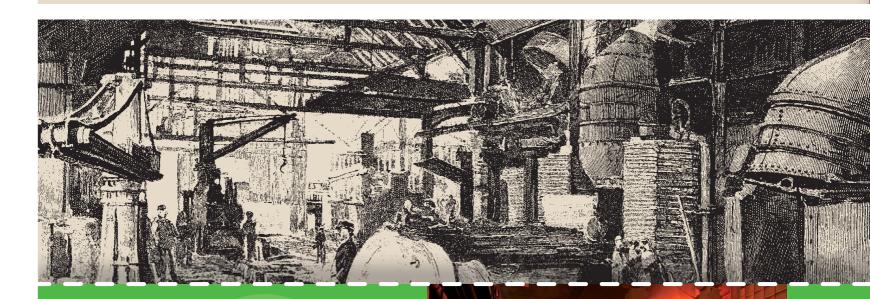
Because of the rapid decline in demand for rolled goods in the last months of 2008, production regulation was initialised. The longest shutdown of production aggregates happened in December when the rolling in the majority of rolling mills was stopped for two weeks. The reversing mill was the only exception as it only stopped running during Christmas.

The management and trade union of Třinecké železárny suspended negotiations regarding a new Collective Agreement for 2009 due to the present economic and financial crisis. The validity of the Collective Agreement from 2008 was prolonged through the end of March 2009 and all the conditions of the contract remain valid.

## 5 SELECTED ECONOMIC INDICATORS 2004 – 2008

INDICATOR	UNIT	2003	2004	2005	2006	2007	2008
Pig iron production	kt	1 873	1 979	1 814	2 033	2 074	1 983
Crude steel production	kt	2 333	2 427	2 248	2 516	2 563	2 448
Of this continuous castings	kt	2 164	2 255	2 104	2 356	2 401	2 296
Sales of rolled products including steel	kt	2 190	2 301	2 205	2 366	2 392	2 301
Total revenues	CZK mil.	22 579	32 193	35 038	35 087	36 905	40 308
Income from sales of products, goods and services	CZK mil.	21 034	29 276	30 827	31 675	35 553	37 095
Export share*	%	49.8	48	48.1	51.1	50.8	52.1
Total costs excluding tax	CZK mil.	22 053	28 709	32 317	31 673	32 381	38 791
Profit	CZK mil.	518	2 575	2 068	2 684	3 633	1 204
Consolidated profit	CZK mil.	701	2 737	2 027	2 795	4 151	1 409
Total assets	CZK mil.	18 395	19 511	21 495	22 899	24 343	24724
Long-term tangible fixed assets (depreciated)	CZK mil.	20 479	21 421	22 112	22 980	23 525	24 409
Adjustments	CZK mil.	12 311	12 936	13 179	13 749	14 539	15 163
Amortisation	%	60.1	60.4	59.6	59.8	61.8	63.0
Equity	CZK mil.	11 264	13 030	14 538	16 404	18 010	19 214
Capital investments	CZK mil.	1 305	1 201	1 418	1 225	832	1 010
Not-own capital including other liabilities	CZK mil.	7 131	6 482	6 957	6 495	6 333	5 509
Employees (average adjusted total)	persons	5 777	5 599	5 519	5 417	5 428	5 539
Average monthly wage	CZK/person	20 980	22 840	23 662	24 858	26 799	27 402
Steel production per employee	t/person	404	433	407	465	472	442

 $<sup>^{\</sup>circ}$  including exports through MORAVIA STEEL a.s.



### STEEL PLANTS

TŘINECKÉ ŽELEZÁRNY HAS PRODUCED

ALMOST 160 MILLION TONS OF STEEL

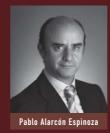
**DURING ITS EXISTENCE** 

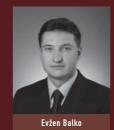
### **6**◆ STATUTORY BODIES AND COMPANY MANAGEMENT





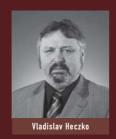


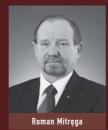








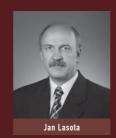
















### Supervisory Board

TITLE	NAME	RESIDENCE	CHANGES
Chairman	Tomáš Chrenek	Praha 1, Nové Město, Ve Smečkách 1326/11, Postcode 110 00	
1st Vice-Chairman	Ján Moder	Bystřice 1241, Postcode 739 95	
2nd Vice-Chairman	Hanns Kurt Zöllner	6314 Unteraegeri, Zimmelstrasse 68, Switzerland	
Member	Pablo Alarcón Espinoza	Madrid, Serrano Galvache 42, Kingdom of Spain	
Member	Evžen Balko	Bystřice 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	Till 14.11.2008
Member	Jiří Stašák	Český Těšín, Kolonie 3, Postcode 737 01	Till 14.11.2008
Member	Vladislav Heczko	Návsí 316, Postcode 739 92	Since 14.11.2008
Member	Roman Mitrega	Bystřice 458, Postcode 739 95	Since 14.11.2008

### Board of Directors

TITLE	NAME	RESIDENCE
Chairman	Jiří Cieńciała	Vendryně 902, Postcode 739 94
1st Vice-Chairwoman	Jaroslava Ciahotná	Komorní Lhotka 350, Postcode 739 53
2nd 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
General Director	Jiří Cieńciała
Financial Director	Jaroslava Ciahotná
Human Resources and Administration Director	Boguslaw Heczko
Production Director	Česlav Marek
Technical Director	Henryk Huczala
Investment Director	Jan Czudek

### Introductory Word of the Chairman of the Supervisory Board

Dear Shareholders, Customers, Partners, and Employees,



The year 2008 showed us two faces. The first favourable one lasted over the first three quarters of the year and continued the previous extremely successful period. The second one was characterised by a considerable drop of demand as a consequence of the financial crisis. Despite the difficulties brought by the crisis, we succeeded in achieving profit before taxation in the amount of CZK 1.517 billion, that is about one third compared to the previous year, which stands as a record success.

The level of added value also decreased to CZK 5.94 billion, which is a drop by 25.5 percent compared to 2007. The sales of our products declined by 3.8 percent to the level of 2,301 kilotonnes year-on-year.

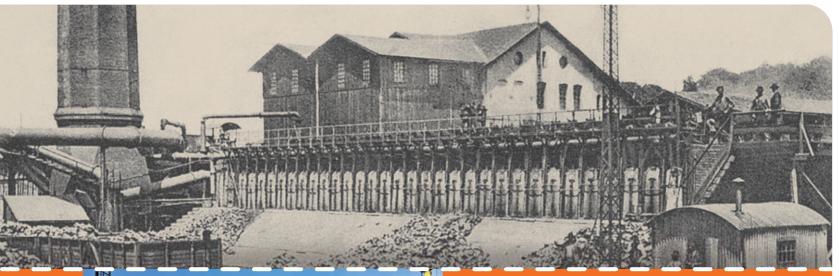
The global financial crisis, which started in the second half of 2008, perceivably hit Europe as well as the Czech Republic in the last quarter of 2008. As the statistics and forecasts of the World Steel Association show, the automotive industry, a significant market segment for our products, faces extensive problems. Steel consumption dropped by more than 20 percent on a year-on-year basis in the automotive segment. The price index plummeted by 40 percent from the maximum values of summer 2008. The year-on-year decline in global steel production was 27 percent.

These trends will continue in 2009. Even optimistic forecasts do not expect improvement earlier than at the end of 2009.

The return to the level of previous years will be slow and it could even last several years.

These circumstances define the situation we are now facing. Nevertheless, the financial results of previous years are the guaranty of surviving the period of crisis. Successfully coping with the crisis is also credited to the foresighted management of Třinecké železárny and the devotion of our employees.

The investment activities of 2008 were both well planned and successfully managed with regard to the crisis. Our Group increased by two companies whose production fit into our strategy of downstream product chains. We completed the





### **COKE PRODUCTION PLANT**

THE FIRST COKE PRODUCTION PLANT IN TŘINEC WAS BUILT IN 1873

environmental investments at the sinter plant; this resulted in a significant decrease in dust emissions as well as a substantial drop in dioxin and furans. The installation of the Garret coilers at the light section rolling mill enabled us to produce two-tonne coils of steel of a diameter up to 50 mm. We invested CZK 1.5 billion in the development of our subsidiary companies; this sustains our long term efforts to maximise the value of product within our product chains. In 2009 we will celebrate the 170th anniversary of the establishment of our company. During that time, Trinecké żelezárny faced complicated situations, however all of them were successfully overcome. I believe that the solid framework of our corporate culture, mutual goodwill, and team spirit in the relationships of shareholders, management, employees, as well as of our partners will significantly contribute to successfully overcoming the complicated situation we are now facing.

Tomáš Chrenek

Chairman of the Supervisory Board

### 8 Board of Directors' Report

### DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

In 2008, the Czech Republic witnessed the lowest gross domestic product growth of past six years, which climbed year on year by 3.1 percent. Foreign trade and industrial production which have been drivers of the Czech economy were influenced mostly by the significantly different development in the last two quarters of 2008 compared with previous years. The alternations caused by the financial crisis, particularly a decline in export orders and tightening credit conditions led to unprecedented performance drops in the Czech economy as well as in Europe and as a consequence caused an increase in stock levels and work in progress. In relation to foreign trade, neither export nor import reached the level of 2007. The negative contribution of foreign trade to gross domestic product growth is due to the decline of total goods export volume (–8.4 percent) which is higher than the decline of the goods import volume (–6.2 percent).

In 2008, steel production in the Czech Republic fell year on year by almost 10 percent, from 7.1 million tonnes to 6.4 million tonnes. Třinecké železárny's share in this volume is 38.3 percent which represents year-on-year growth of 2 percent. The Czech Republic's trade balance showed year-on-year growth in imported steel products by 4.8 percent due to the increased import of semis and flat products. Conversely, the export of steel products declined by 5.5 percent, particularly regarding semis and steel tubes. The portfolio of long and flat rolled products witnessed a partial decrease in exports as well. Considering the total balance, the drop in the debit balance was slightly reduced and reached the value of CZK 18,155 million. This result is principally due to the year-on-year increase in export prices and decrease in import prices. For the first time the average import price fell below the level of the average export price of steel products. With regard to the annual consumption of steel products, the Czech Republic placed third and ranked in the top global category once again. The per capita consumption of steel products is nearly 250 kg higher than the average in EU countries, where it amounted to 378 kg per capita in 2008.



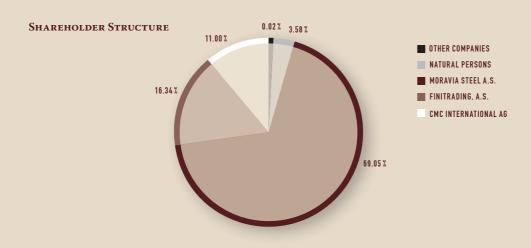
### TRANSPORT

TŘINECKÉ ŽELEZÁRNY USES ON ITS AREA
RAILWAY TRACKS WITH THE LENGTH OF 121 KM
WITH 676 SWITCHES AND 137 GRADE CROSSINGS



The metallurgical industry worldwide was hit by the global financial and economic crisis in the second half of 2008. Many steel companies were forced to regulate production and consequently to implement cost cutting in all operational fields due to a rapid decline in demand. Economy measures, staff reduction, investment loss and deceleration of the implementation of strategic investments focus on the internal efficiency and rationality of all activities in the metallurgical field.

The total global production of crude steel in 2008, in accordance with the statistics of the World Steel Association, recorded a decrease of -1.2 percent compared to 2007 and reached 1,329.7 million tonnes. Nevertheless, 2008 is the second consecutive year that world steel production has been over 1,300 million tonnes. The production of crude steel declined in EU-27 (-5.3 percent), North America (-5.5 percent) and South America (-1.4 percent), and Russia (-5.4 percent). Conversely, Asia, particularly China, but also the Middle East recorded an increase in crude steel production in 2008. Worldwide steel production has shown an acceleration in negative growth from September to the 2008 year-end, when the highest decrease of -24.3 percent compared to 2007 was recorded in December 2008. China became the first country ever to produce more than 500 mmt in one year, to be exact China's crude steel production in 2008 reached 502 mmt which presents an increase of 2.6 percent compared to 2007. Since 2002, when China's production reached "only" 222 million tonnes, the production volume has more than doubled. China's share of world steel production already represents 38 percent of world total crude steel.



### PRODUCTION AND POSITION ON THE MARKET

Because of a decline in demand at the end of 2008 Třinecké železárny had to initiate forced regulation of production, which affected the production of pig iron and rolled products. Třinecké železárny produced 1,983 kt of pig iron and 2.448 kt of hot steel in 2008. The total production of finished products reached 2,301 kt.

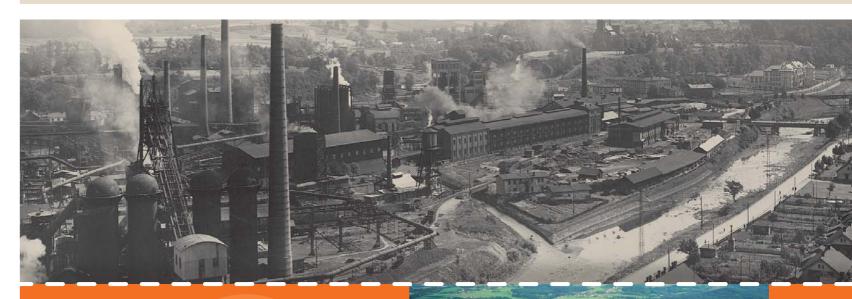
In the middle of 2008, Třinecké železárny enlarged the portfolio of steel grades with higher added value thanks to the new Garret coiling line designated for production of coils at the Continuous Light Section Mill. This line enables coiling of steel coils of diameter 16-50 mm and of a weight up to 2 tonnes together with more than doubling of the coiling capacity. The subsidiaries that are a part of the TŽ product chain invested in the improvement of product quality as well. The most significant investment was the construction of walking-beam furnace in Sochorová válcovna TŽ, renovation and modernisation of the rolling mill of the Big Mannesmann in Válcovna trub TŽ, and the building of a new composite drawing facility in Ferromoravia.

The total sales of rolled goods, including castings, reached a year-on-year decrease of 91t and thus amounted to 2,301 kt. Rolled products and castings were sold exclusively through the Moravia Steel trade network.

The total share of domestic deliveries reached 48 percent. As in previous years, wire rod was the best selling product of Třinecké železárny. The total sales of products from this assortment amounted to 820 kt and 58 percent of the produced wire rod was exported to foreign markets. The sales of rails, where Třinecké železárny is the only Czech producer, recorded an increase of 8 percent compared to 2007 and exceeded 254 kt. This assortment is successfully sold especially on foreign markets, particularly in Germany, Canada, USA and Switzerland.

Developments in the automotive industry, building industry and machinery have stimulated the demand for our sections and bar steel. Although a rapid decline in demand took place in the last quarter of 2008, the total sales of this assortment have grown year on year by 13 percent, amounting to 428 kt. The export share of total sales of sections and bar steel was 46 percent.

A part of Třinecké železárny's strategy is to produce higher-added-value products. That is why the total sales of rebars dropped by 19 percent year on year and amounted to 112 kt.



### WORKS AND THE TOWN

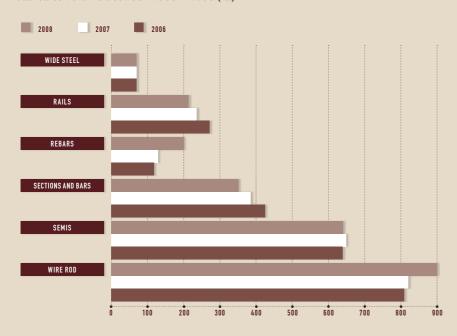
TŘINEC WORKS SPREADS THE AREA OF 350
HECTARES; TŘINEC BECAME A TOWN IN 1931 WHEN
WORKS WAS 92 YEARS



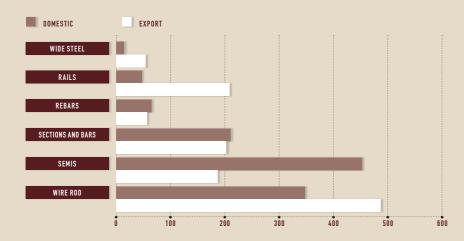
Total sales divided into product groups 2006 – 2008 (kt)

		WIRE ROD	SEMIS	SECTIONS AND BARS	REBARS	RAILS	WIDE STEEL
Export	2006	559	150	127	107	204	48
	2007	303	167	207	71	200	45
	2008	478	190	206	63	217	44
Domestic	2006	329	490	224	91	26	11
	2007	523	478	171	62	36	13
	2008	342	441	222	49	37	12
Total	2006	888	640	351	198	230	59
	2007	826	645	378	133	236	58
	2008	820	631	428	112	254	56

### Total sales volume between 2006 – 2008 (kt)



### Domestic and export sales in 2008 (kt)



### INVESTMENTS AND MODERNISATION

The technical development projects plan in 2008 is a part of the five-year business plan and fully corresponds with the commercial – production strategy of the TŽ-MS Group defined as "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 investments on modernisation activities, which will enable us to further increase the share of more sophisticated products in place of the plain steel grades, further diversification of production and also further environmental protection, based on the conclusions of the integrated permissions, and the renewal of the existing production facilities.

We continued in the completion of the 15 construction projects initiated in the previous years. The implementation of 33 new projects commenced. As far as the volume of investments is concerned, the major construction projects in 2008 include:

- Reconstruction of the electrostatic separators at sinter plant No. 1 ecological investment, which significantly reduced the amount of emissions under the level of 50mg/m3;
- Increase the continuity of finishing and detection lines in the light section rolling mill this investment enables us to meet customers' demands for bars together with the inspection of surface and internal defects;
- Replacement of the grinding machine in the long billet cleaning shop the new grinding machine enables full-surface grinding of billets aimed at production of high-grade wire rods and bars;
- The Garret coilers were put into operation the new coilers provide the production of bars in coils with diameters of 16 to 50 mm in two-tonne coils:
- Out-of-furnace hot metal desulphurisation a facility with a significant impact on the environment as well as on operating expenses.
- The significant investments continuing into the coming period are:
- Reconstruction of the washer for benzol absorption;
- Reconstruction of the coke unloading from railway wagons together with dedusting;
- Replacement of filling crane 250/63/20tonnes at the BOF steel plant;
- Increase the continuity of finishing and detection lines in the light section rolling mill third stage.

A total of CZK 1031 million was expended with regard to investments in 2008, divided into CZK 1010 million on investments and CZK 21 million on operating expenses.



### CONTINUOUS WIRE ROD ROLLING MILL

OUR CUSTOMERS APPRECIATE PARTICULARLY
THE TOP QUALITY OF OUR HIGH-CARBON WIRE
ROD THAT IS MARKED AS THE BEST IN EUROPE



### TECHNOLOGY AND RESEARCH

The technology of Třinecké železárny controls the product flow from the production of hot steel through the rolling mills to the finalisation lines through technological regulations and instructions. They are closely connected to the research and development activities, or innovation based on the needs of customers. In relation to these facts, 79 new steel grades were introduced or upgraded in 2008.

The technology and its exacting character is closely related to the quality. Standard assurance and evaluation of the production quality is above all provided through 12 supporting product groups as well as through quality meetings; both are connected with the profitability and feedback from the most significant customers.

In 2008 the start of two facilities for out-of-furnace hot metal desulphurisation was managed at the converter steel plant. The test of the new casting bloom of  $300 \times 385$  mm, used for production of rails, was commenced at the bloom continuous caster. The production of round ingots especially of higher steel grades for Válcovny trub TŽ started at the EAF steel plant.

The technology of rails production was stabilised at the bloom and heavy section mill; this enabled the record annual production of rails.

After the controlled rolling of the SBQ bars had been mastered at the light section mill, attention was paid to the possibility of their winding into coils. The new investment of Garret coilers enabled the rolling mill to increase the flexibility of products from rebars, through sections up to the SBQ bars, including steel in two-tonne coils. This investment includes the technology of accelerated and decelerated cooling of coils in the diameter range of 16 to 50 mm.

Within the rolling technology, we extended the production of high carbon wire rods (cords and wires for pre-stressed concrete), screw high-tensile wire rods, bearing wire rods, and above all the spring wire rods.

The wire rod production is connected with the finalising line – spherical annealing in the STC furnaces to the surface treatment connected with the equalisation drawing at the STAKU line.

The technological activities in  $T\check{Z}$  do not directly relate to the  $T\check{Z}$  facilities only, but are connected with the finalising technologies of Třinec products within the subsidiaries.

In 2008 a total of 57 research assignments were completed, of which 42 had commenced in 2007.

A total of 15 technological and research projects were commenced:

- Measuring of emissions at the quenching tower during the coke quenching;
- Continuous measurement of SO3 and O2 concentration at the chemical part of the coke plant;
- Verification of the calculation of the specific need of heat for coking in the  $T\check{Z}$  coke plant;
- Controlled cooling of rails;
- Research and development of new tool steels for wood cutting knives;
- Development, verification, and production start up of controlled cooling of spring steel in coils after controlled rolling;
- Increasing the utility value of steels determined for production of high strength chains;
- Research and development of new possibilities of environmental processing of the metallurgical waste, and recycling of secondary materials:
- Research, development and verification of new technologies for the production of the 9 Cr tubes for power engineering;
- Research, development and verification of microwave technologies in metallurgy;
- $\ Out-of-furnace \ desulphur is at ion \ of \ the \ hot \ metal;$
- $\ Development \ of the \ technology \ for \ reducing \ surface \ and \ internal \ defects \ of \ the \ continuously \ cast \ billets;$
- Research and optimisation of the production of special steels for accessory materials for welding;
- Research and optimisation of the efficiency of the protection of the casting flow to ingot-moulds, development and design of the
  technology of bearing steel production with Ti contents up to 20 ppm including optimisation of the methodology of determining the
  Ti content in TŽ;
- Research and optimisation of continuous casting at the bloom CCM.

A total of 38 technological projects were completed:

- Measuring of emissions at the quenching tower during the coke quenching;
- Development and introduction of the technique of SBQ grades production;
- $-36 \ sub-projects \ within \ project \ FI-IM2/o43: "New \ progressive \ technological \ procedures \ of \ the \ production \ of \ steel \ products"$

### Other significant projects completed in 2008:

- Research of conditions and creation of a model of the occurrence of chemical non-homogeneity, tension states, and dislocation of material at continuous casting of steel;
- Development and verification of new technological procedures of production of ultra-clear bearing steel designated for the automotive and aerospace industry.

These technological projects were completed within the Impuls and Tandem programmes of the Czech Ministry of Industry and Trade with state support and in the form of in-house projects.

### Environment

### **Air Protection**

The year-on-year trend in air pollution is unambiguously positive.

The sources of emissions at the Iron and Steel Production plant have the most significant share in this result, especially the sintering belts of the sinter plant, converter steel plant and some sources at the blast furnaces. The implemented environmental projects also had favourable effects. Another reason for the lower emissions was the regulation of production at the end of 2008.

Table: Amount of emissions to the air in 2008 compared to the previous year

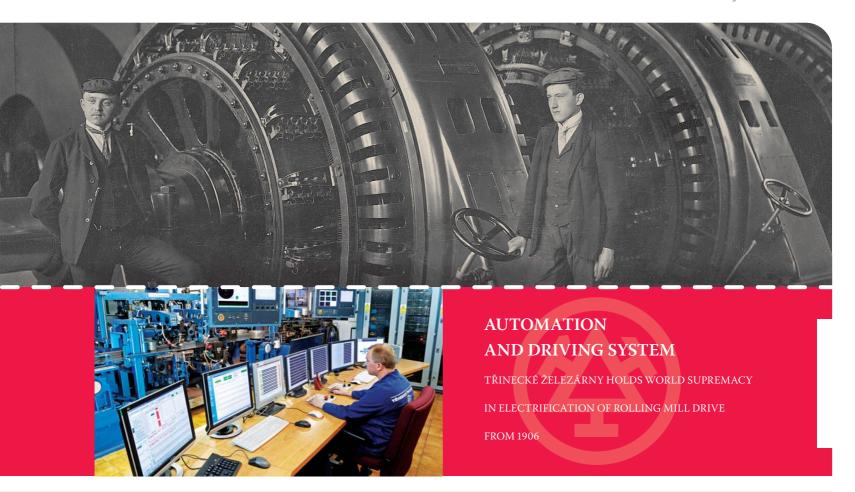
YEAR	SOLID POLLUTANTS (T/Y)	SULPHUR DIOXIDE (T/Y)	NITROGEN OXIDES (T/Y)	CARBON MONOXIDE (T/Y)	OTHER EMISSIONS (T/Y)
2007	1 132	2 170	1 563	73 337	174
2008	832	1 440	934	47 166	99



### SECONDARY RAW MATERIALS

AT PRESENT WE PROCEED ALL SLAGS FOR CEMENT
PRODUCTION AND ROAD CONSTRUCTIONS; MOREOVER
WE ARE GRADUALLY EXPLOITING SLAG FROM DUMP
THAT HAS ARISED DURING ALL THE HISTORY OF TŽ





### **Water Protection**

The volume of industrial waste water released to the waterway of the Olše river and the rate of pollution in the water show values in 2008 similar to those in the previous year. The quality of the waste water is at a good level with regard to the fulfilment of the set pollution limits.

In 2008 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 water.

### Table: Pollution discharged to the waterways in 2008 compared to 2007 (data for the whole $T\check{Z}$ area)

YEAR	VOLUME OF WASTEWATER [m³/year]	UNDISSOLVED Substances [t/year]	NON-POLAR EXTRACTED SUBSTANCES [t/year]	DISSOLVED Inorganical salts [t/year]	CHEMICAL OXYGEN CONSUMPTION USING DICHROMATIC METHOD [t/year]	TOTAL IRON [t/year]
2007	4 998 445	72	3.6	2 765	88	7.8
2008	5 004 735	68	4.9	2 623	106	7.3

### Waste Disposal

Currently, the production of waste in  $T\check{Z}$  is stable, free of fluctuations. It is predominantly dependent on the volume of the steel production and varies around 100 kg per tonne of produced steel.

In 2008, a total of 212 kt of waste were produced in TŽ; this represents a slight increase compared to 2007, which is caused mainly by waste which occurred during the investment projects (excavated soil, debris) and because of the maintenance and repair of the facilities (exchange of railway sub-base) etc.

### Table: Volume of waste deposited at the Neboranka dumping site

DEPOSITED (T)					CHARGE*
Year	Total	Year	Total	Year	Total
2007	6 787	2 020	4 767	698 292	400
2008	3 222	1 768	1 454	951 444	400

### **Environmental Investments**

In 2008, the following environmental projects were commenced or completed (settled by investment resources, the repair fund, or from the operational costs):

- Reconstruction of electric separators at the sinter plant No. 1 (2006 2008);
- Reconstruction of the tubing of Blast furnace No. 6 to dedust the skip pits (2008);
- Reconstruction of the emissions measurement of the hot stoves of blast furnaces No. 4 and 6 (2008);
- Reconstruction of the secondary dusting off of the converter steel plant (2008 2011);
- Technical reclamation of the Neboranka dumping site (2008 2012);
- Dusting off of the crusher No. 2 (2007 2008).

In 2008, a total of CZK 34.2 million was covered by the investment resources (besides the redevelopment and projects covered by operational resources).

### **Emissions of Greenhouse Gases**

The emissions of greenhouse gases in 2007 amounted to 2,661,643 tonnes, the specific emissions are 1.039 tonnes of carbon dioxide per tonne of steel.

The volume of greenhouse gas emissions in 2008 reached the level of 2,712,074 tonnes. This represents a year-on-year increase by 1.89 percent. The main reason for higher emissions is the stricter monitoring set by legislation, especially the procedure of setting up the emission factors of the cogeneration gases according to their chemical composition. The specific emissions of carbon dioxide reached the value of 1.108 tonnes per tonne of crude steel.

### **EMPLOYEES**

In 2008, management, in the scope 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. Fulfilment of the personnel strategy and policy leads to the effective rejuvenation of the workforce and staffing all recent as well as future projects and processes.

In connection with these aspects, the process of shared services for selected personnel and accounting activities as well as the process of agency employment was developed in 2008. The type of agency employment was tailored to current needs.

Considerable attention was paid to securing personnel replacements.

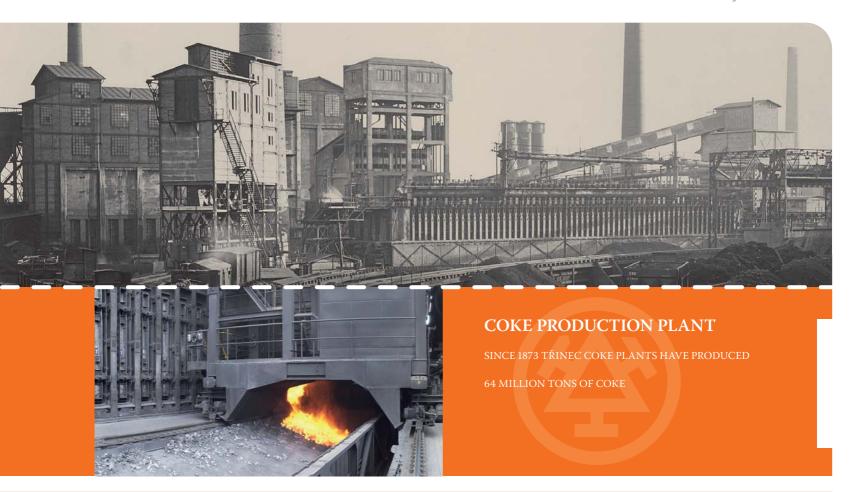
Gradual modernisation and environmental care of facilities required qualitative changes in the structure of professions. This was ensured by controlled selection of graduates of apprentice schools and secondary schools, either to new working positions or to positions made vacant by the natural fluctuation.

Low fluctuation was maintained during the year and employees in key professions were stabilised. Co-operating with the selected personnel agencies we acquired new qualified employees, mainly graduates of technical schools.

In order to achieve the required number of technically proficient employees, well-proven methods of personnel marketing were used: co-operation with all kinds of schools, Trainee Centre, the section Career on our webpage as well as services of selected personnel agencies including the Labour Market Institute. The model of cross border co-operation with the aim of broadening the attraction zone of new potential employees with technical education is newly developed.

The process of transforming the secondary school Trinec-Kanada into a private school has been commenced; this will prepare specialists with regard to the needs of the  $T\check{Z}$  – MS Group.

Through education of employees, further development of the intellectual capital was achieved. The qualification requirements were fulfilled at the level of 70 percent for all employees, the year-on-year growth was 5 percent. Besides the professional preparation, the education was oriented towards to training relating to the standard ISO/TS 16949, preparation of managers, and improving language skills.



The health care of employees was enhanced through activities within the health programmes, such as recuperation vacations in spas, topical programmes for selected groups of employees (healthy back, managing stress), group sessions for quitting smoking, weight reduction, flu vaccinations, vitamins, health days in the plants.

The rate of employee satisfaction reflects the level of corporate activities connected to the human resources management. Based on the measurement of employee satisfaction, the positive trend and the result achieved in 2008 is the best result in the last ten years.

Consistent expansion of the safety and occupational health policy resulted in a reduction in labour accidents. The number of labour accidents with an absence over 3 calendar days decreased in 2008 to 12, which is also an historical minimum. The labour accident frequency per 100 employees dropped to 0.22. The labour accident frequency per million hours reached the value of 1.34. This ranks our company in first place among steel producers.

In 2008, the motivation of employees focused on fulfilling and exceeding the production plan indicators, maintaining required quality, and implementing investment and environmental projects. Changes in the staff evaluation system enabled the differentiation of remuneration in order to increase focus.

The social harmony 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 social benefits.

At the end of the year, the human resources work was influenced by the irregular operation of the facilities because of the financial crisis. In connection with this fact, preventive measures in the personnel strategy were under preparation.

In 2007, the average recalculated headcount grew by 111 to 5,539. The reason for the growing number was the environmental adjustment of selected facilities (dusting off the sinter plant fumes), the technological development projects (out-of-furnace desulphurisation of hot metal) and transfer of key activities from the labour agencies and purchasing of services to the permanent staff of TŽ.

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

	2006		2007		2008	
CATEGORY OF ACTIVITIES	persons		persons		persons	
Steel products total	2084	38.47	2104	38.76	2152	38.85
In which:						
— coke and chemical production	275	5.08	276	5.08	276	4.98
— blast furnace production and charge preparation	419	7.73	419	7.72	421	7.60
- steel production	469	8.66	469	8.64	493	8.90
— rolled material production	921	17.00	940	17.32	962	17.37
Engineering production	47	0.87	49	0.90	49	0.88
Power engineering plant	59	1.09	58	1.07	58	1.05
Transport	600	11.08	601	11.07	592	10.69
Repairs and maintenance	902	16.65	934	17.21	942	17.01
Managerial activities	312	5.76	314	5.78	315	5.69
Administrative activities	604	11.15	603	11.11	650	11.73
Technical development and design	433	7.99	396	7.30	414	7.47
Services and other activities	376	6.94	369	6.80	367	6.63
TŽ total	5,417	100.00	5,428	100.00	5,539	100.00

### Ensuring and achieving personal strategy goals embedded in the Business Plan will require the following in the following period:

- Exerting the policy of salary differentiation and development of motivational systems in order to reach higher involvement of individual interests with corporate objectives and stabilising the key employees;
- Deepening the efficiency of established shared services in selected personnel and accounting activities;
- Fulfilling the Corporate Collective Agreement and Social Codex provisions in order to maintain the social harmony;
- Increasing the qualification of employees in correspondence with the development of new technologies and introducing the new products and product chains;
- Completing the transformation of the secondary school in Třinec-Kanada into the Třinec private school as of 1 September 2009;
- Maintaining the existing key professions;
- Recruitment of graduates from the labour market and border regions;
- Ensuring the needs of new professions, solved by the controlled selection of appropriate university graduates to the trainee programmes;
- Ensuring co-operation with schools;
- Achieving a higher level of individuals' identification with the set corporate objectives;
- Ensuring the needs of technical specialists through effective personnel marketing; and
- Emphasis on the long-term prospects of studying the technical subjects with the possibility of employing graduates of these branches within the  $T\check{Z}$  MS Group with reference to our mission "Together for the generations to come".

### MANAGEMENT SYSTEM

The strategic management model of TŽ consists of the performance control indicator system "Balanced Scorecard" (BSC) and the reporting system providing the feedback necessary for determination and checking the fulfillment of the strategic objectives.

In order to efficiently fulfil the strategic objectives, three essential tools are used in  $T\check{Z}$  – control of the organisational structure, process management and project management.

The information platform of  $T\check{Z}$  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 optimal production planning as well as the guarantee of amounts and terms of deliveries to the customers.

During 2008, the regulations of process management were implemented into the integrated quality management system (QMS) and environmental management system (EMS). Another substantial change of the management system was the implementation of the quality system pursuant to the ISO/TS 16949 Standard, which assures the continuity of TŽ capability as the supplier of long rolled products for the automotive industry.

 $T\check{Z}$  has an equity share in 27 companies, either with the deciding vote or a substantial minor vote. The majority of the  $T\check{Z}$  subsidiary companies focus on activities related directly or indirectly to the business in the steel industry and this focus corresponds to the long term business strategy of  $T\check{Z}$ .

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

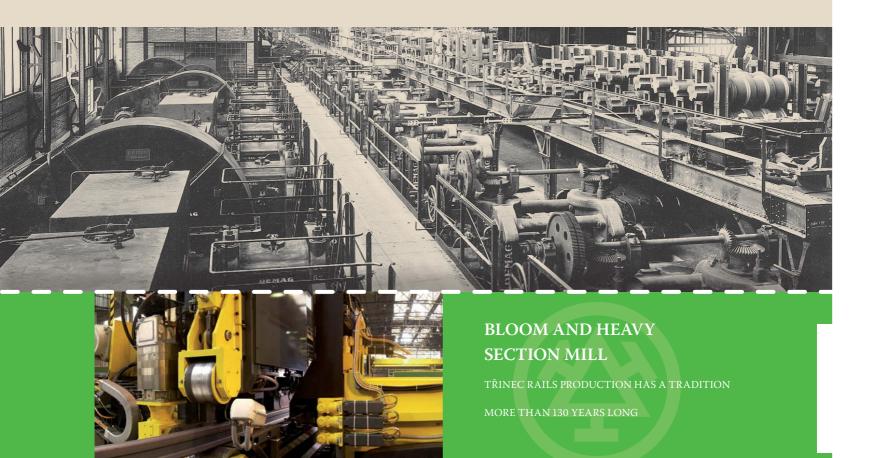
### FINANCIAL SITUATION

At the end of 2008, the financial situation of  $T\check{Z}$  was significantly influenced by the developing financial crisis and resulting dramatic drop of demand for rolled products as well as the prices; that is why we were forced to regulate production.

Mainly thanks to the favourable development in three quarters of 2008, we managed to achieve a favourable profit in the amount of CZK 1,517 million (compared to 2007 lower by CZK 3,007 million, or by CZK 1,894 million compared to 2006).

Regarding production, the year-on-year output of pig iron decreased by 91 kt and output of crude steel dropped by 115 kt, or a 50 kt drop in pig iron and 68 kt drop in crude steel compared to 2006. This was caused by the negative trends of the commercial situation in the last quarter of 2008.

Total production achieved the amount of CZK 38,242 million (CZK 36,147 million in 2007 and CZK 32,361 million in 2006), which represents growth by CZK 2,095 million compared to 2007 (or by CZK 5,881 million compared to 2006). Growth, when compared to 2006, can be attributed primarily to the higher sales of rolled goods and steel (+CZK 1,415 million), which was influenced by the higher sales price (+1,182 CZK/t), whilst the sales volume had a negative effect (-91 kt). The year-on-year growth of total production was also influenced by the re-evaluation of own production inventories.



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

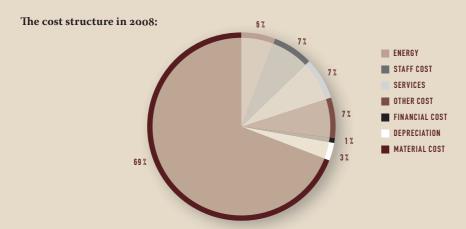
INDICATOR (IN CZK THOUSANDS)	2006	2007	2008
Rolled goods incl. steel	30 225 304	33 997 255	35 412 197
Other products	1 099 176	1 176 640	1 288 467
Sales of own products	31 324 480	35 173 895	36 700 664
Revenues from services	350 188	372 764	384 187
Sales of goods purchased for resale	781	5 969	10 217
Sale of own production, services and goods	31 675 449	35 552 628	37 095 068

The purchased year-on-year consumables were CZK 4,123 million higher (or by CZK 6,173 million compared to 2006). The most significant effect on the year-on-year increase was the consumption of raw materials, influenced by the growth of input prices.

Due to faster growth of input materials compared to the sales prices as well as because of the drop in orders at the end of the year, the added value was lower by CZK 2,028 million year on year and reached the level of CZK 5,939 million. The labour productivity from added value per employee was CZK 1,072 thousand.

The operating profit amounted to CZK 1,377 million, which is a decrease by CZK 2,995 million compared to the previous year (CZK 1,618 million compared to 2006).

The profit from financial activities achieved the amount of CZK 140 million. It was positively influenced by the dividend received from the subsidiary companies.



On 31 December 2008, our company stated assets in the amount of CZK 24,724 million, which is an increase by CZK 381 million compared to 31 December 2007 (or by CZK 1,825 compared to 2006). This increase was influenced by the growth of long-term assets by CZK 1,045 million (CZK 1,157 million), the current assets including the accruals decreased by CZK 664 million (rose by CZK 668 million compared to 2006).

In 2008 the long-term financial assets increased in connection with the purchase of shares in the companies Šroubárna Kyjov, D<sub>5</sub>, the investment in Moravia Security and the non-monetary investment in Strojírny Třinec.

The increased level of inventories compared to the beginning of the year was influenced by the growth of products in progress and semifinished products due to growing prices of raw materials as well as increased stock (especially iron ore, coal, and coke).

The decrease of the short term receivables is related to lower trading receivables.

Concerning liabilities, we are succeeding in the long-term in improving the structure of equity and liabilities. The share of equity grew by 3.7 percent year-on-year to the level of 77.7 percent (by 6.1 percent compared to 2006) due to achieved financial results.

Liabilities dropped by CZK 817 million (by CZK 980 million compared to 2006), whereas bank credits, reserves, and payables decreased.



### STRATEGIC OBJECTIVES

The developments in the steel market as well as other industrial segments suffered a significant setback relating to the economic depression in the fourth quarter of 2008. A significant drop of demand caused by the uncertainty of future development forced the companies to be more cautious and take savings measures. On the other hand, this required more active co-operation with the customers and searching for new uses for its products. The upcoming period will involve ensuring a solvent company.

Maintaining the integrated steel company is very demanding regarding investments. The goal of  $T\check{Z}$  for the upcoming period will be balancing the needs of renewing the facilities, environmental investments and modernisation regarding the financial possibilities.

The strategic investment projects which will influence the future of Třinecké železárny include:

- Modernisation of the coking batteries;
- Modernisation of the rolling mills of blooms and heavy profiles;
- Modernisation of the continuous wire rod mill;
- Modernisation of the bloom continuous casting machine; and  $\,$
- Renovation of dust removal and major overhaul of the gas cleaning station at the converter steel plant.

### PROFIT DISTRIBUTION PROPOSAL

The after-tax net profit of TŘINECKÉ ŽELEZÁRNY in 2007 amounted to CZK 1,204,420 thousand. The Board of Directors proposed the following distribution of the profit:

١	Allocation to reserve fund	CZK 60,221 thousand
	Accumulated profits brought forward	CZK 1,144,199 thousand

### REPORT OF THE SUPERVISORY BOARD

The Supervisory Board regularly checked compliance of the business activities with legal regulations, the Articles of Association, and resolutions of the General Meeting and the Supervisory Board. During the course of 2008, 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 27 April 2009, the Supervisory Board reviewed the regular financial statements and regular consolidated financial statements of the Company for 2008, the proposal for distribution of the profit achieved in 2008, 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 on the date of 31 December 2008 by Deloitte Audit s.r.o. and their opinions, which were without qualification, the Supervisory Board recommends that the General Meeting of the shareholders of TŘINECKÉ ŽELEZÁRNY, a.s. approve all the above-mentioned documents.

The Supervisory Board also reviewed the Report on Relations for the 2008 accounting period considering the Deloitte Audit s.r.o. Auditor's opinion 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

# 10 Auditor's Opinion on the Annual Report

### **Deloitte**

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

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Registered at the Municipal Court 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 9 March 2009 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 2008, 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.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/cz/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

Member of Deloitte Touche Tohmatsu

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2008, 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 2009 on the consolidated financial statements which are included in this annual report in Section XII.:

"We have audited the accompanying consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., which comprise the balance sheet as of 31 December 2008, 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 TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2008, 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 železárny, a. s. for the year ended 31 December 2008 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 železárny, a.s. for the year ended 31 December 2008 contains material factual misstatements.

### Report on the Annual Report

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

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

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

In Prague on 5 May 2009

Audit firm:

Deloitte Audit s.r.o.

Certificate no. 79 Represented by:

Václav Loubek, authorised employee

Statutory auditor:

Václav Loubek, certificate no. 2037

## 11 FINANCIAL PART I. – FINANCIAL STATEMENTS

### Financial Statements for the Year Ended 31 December 2008

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 9 March 2009.

Statutory body of the reporting entity:	Signature
Ing. Jiří Cieńciała, CSc. Chairman of the Board of Directors	Fried &
Ing. Jaroslava Ciahotná First Vice Chairwoman of the Board of Directors	J. whohin'

		31.12.2008 31.12.2007				31.12.2006	
	Gross Adjustment			Net	Net	Net	
	TOTAL ASSETS	41 212 771	-16 489 192	24 723 579	24 342 994	22 899 029	
В.	Fixed assets	29 354 473	-15 366 652	13 987 821	12 942 741	12 831 432	
I.	Intangible fixed assets	158 505	-133 102	25 403	26 690	79 718	
2.	Research and development	4 553	-228	4 325	0	0	
3.		126 011	-107 230	18 781	24 586	39 096	
4.	Valuable rights	26 661	-25 644	1 017	1 346	442	
6.	Other intangible fixed assets	0	0	0	0	39 993	
7.	Intangible fixed assets under construction	1 280	0	1 280	758	187	
II.	Tangible fixed assets	24 408 686	-15 196 950	9 211 736	9 272 114	9 499 815	
1.	Land	319 843	0	319 843	320 162	320 744	
2.	Structures	5 822 695	-3 272 215	2 550 480	2 649 365	2 615 859	
3.	Individual movable assets and sets of movable assets	17 764 030	-11 921 343	5 842 687	5 718 850	5 705 817	
6.	Other tangible fixed assets	1 679	0	1 679	1 736	1 736	
7.		462 488	-3 392	459 096	468 787	758 139	
8.	Prepayments for tangible fixed assets	37 951	0	37 951	113 214	97 520	
III.	Non-current financial assets	4 787 282	-36 600	4 750 682	3 643 937	3 251 899	
1.	Equity investments in subsidiaries	4 637 679	-17 214	4 620 465	3 511 328	3 121 507	
2.	Equity investments in associates	125 841	-16 011	109 830	110 384	109 671	
3.	Other securities and investments	100	0	100	100	100	
5.	Other non-current financial assets	20 198	0	20 198	19 965	20 621	
6.	Acquisition of non-current financial assets	3 464	-3 375	89	2 160	0	
C.	Current assets	11 770 876	-1 122 540	10 648 336	11 278 133	9 980 286	
I.	Inventories	7 061 685	-1 054 654	6 007 031	5 211 853	5 029 520	
1.	Material	3 078 883	-200 503	2 878 380	2 126 063	2 317 534	
2.	Work in progress and semifinished goods	2 829 905	-721 890	2 108 015	1 882 507	1 707 455	
3.	Products	1 144 925	-132 261	1 012 664	1 196 165	1 004 180	
5.	Goods	2 552	0	2 552	7 093	183	
6.	Prepayments for inventory	5 420	0	5 420	25	168	
II.	Long-term receivables	3 656	0	3 656	2 549	7 540	
5.	Long-term prepayments made	635	0	635	635	660	
7.	Other receivables	3 021	0	3 021	1 914	6 880	
III.	Short-term receivables	2 555 049	-67 886	2 487 163	2 864 663	2 997 891	
1.	Trade receivables	2 195 427	-44 627	2 150 800	2 789 726	2 829 179	
6.	State - tax receivables	213 411	0	213 411	0	58 731	
7.	Short-term prepayments made	59 146	О	59 146	60 405	6 669	
8.	Estimated receivables	4 525	0	4 525	2 321	7 363	
9.	Other receivables	82 540	-23 259	59 281	12 211	95 949	
IV.	Current financial assets	2 150 486	0	2 150 486	3 199 068	1 945 335	
1.	Cash on hand	1 016	О	1 016	1 483	1 216	
2.	Cash at bank	36 998	0	36 998	956 866	1 282 581	
3.	Short-term securities and investments	2 112 472	0	2 112 472	2 240 719	661 538	
4.	Acquisition of current financial assets	0	0	0	0	0	
D. I.	Other assets	87 422	0	87 422	122 120	87 311	
1.	Deferred expenses	72 381	0	72 381	91 516	36 962	
2.	Complex deferred expenses	14 356	0	14 356	30 399	50 044	
3.	Accrued income	685	0	685	205	305	

32 FINANCIAL PART

JABILI	TIES AND EQUITY			(CZK thousand)
		31.12.2008	31.12.2007	31.12.2006
	TOTAL LIABILITIES & EQUITY	24 723 579	24 342 994	22 899 029
Α.	Equity	19 214 416	18 009 959	16 404 427
I.	Share capital	8 109 863	8 109 863	8 109 863
1.	Share capital	8 109 863	8 109 863	8 109 863
II.	Capital funds	86 360	86 323	86 323
2.	Other capital funds	86 376	86 376	86 376
3.	Gains or losses from the revaluation of assets and liabilities	-16	-53	-53
III.	Statutory funds	2 689 454	2 507 799	2 373 707
1.	Statutory reserve fund / Indivisible fund	705 187	523 531	389 324
2.	Statutory and other funds	1 984 267	1 984 268	1 984 383
IV.	Retained earnings	7 124 319	3 672 860	3 150 386
1.	Accumulated profits brought forward	7 124 319	3 672 860	3 150 386
V.	Profit or loss for the current period (+ -)	1 204 420	3 633 114	2 684 148
В.	Liabilities	5 501 184	6 318 625	6 481 395
I.	Reserves	402 364	536 057	479 084
1.	Reserves under special legislation	46 657	91 898	236 721
4.	Other reserves	355 707	444 159	242 363
II.	Long-term liabilities	525 520	619 590	718 350
1.	Trade payables	11 570	25 015	6 096
5.	Long-term prepayments received	1 361	369	0
7.	Long-term bills of exchange to be paid	0	0	27 495
9.	Other payables	1 000	0	706
10.	Deferred tax liability	511 589	594 206	684 053
III.	Short-term liabilities	3 553 115	3 697 964	3 178 657
1.	Trade payables	3 108 662	2 753 379	2 230 819
4.	Payables to partners and association members	13 451	16 346	8 295
5.	Payables to employees	271 852	234 473	202 545
6.	Social security and health insurance payables	77 206	94 761	89 490
7.	State – tax payables and subsidies	27 134	436 666	544 083
8.	Short-term prepayments received	0	0	6 000
10.	Estimated payables	43 592	145 855	83 391
11.	Other payables	11 218	16 484	14 034
IV.	Bank loans and borrowings	1 020 185	1 465 014	2 105 304
1.	Long-term bank loans	589 023	1 021 975	1 496 044
2.	Short-term bank loans	431 162	443 039	609 260
C. I.	Other liabilities	7 979	14 410	13 207
1.	Accrued expenses	7 979	14 379	13 177
2.	Deferred income	0	31	30

		Year ended 31.12.2008	Year ended 31.12.2007	Year ended 31.12.2006
I.	Sales of goods	10 217	5 969	781
A.	Costs of goods sold	9 944	5 651	744
+	Gross margin	273	318	37
II.	Production	38 241 802	36 146 844	32 361 040
1.	Sales of own products and services	37 084 851	35 546 658	31 674 668
2.	Change in internally produced inventory	762 064	183 606	268 973
3.	Own work capitalized	394 887	416 580	417 399
B.	Purchased consumables and services	32 303 284	28 180 333	26 130 491
1.	Consumed material and energy	29 609 889	25 707 575	23 463 163
2.	Services	2 693 395	2 472 758	2 667 328
+	Added value	5 938 791	7 966 829	6 230 586
C.	Staff costs	2 685 883	2 638 118	2 330 356
1.	Payroll costs	1 828 737	1 771 934	1 634 871
2.	Remuneration to members of statutory bodies	18 528	18 864	18 672
		633 507	649 159	595 798
		205 111	198 161	81 015
D.	Taxes and charges	14 323	14 864	14 611
E.	Depreciation of intangible and tangible fixed assets	1 027 628	1 002 827	929 921
III.	Sales of fixed assets and material	131 469	142 096	142 140
1.	Sales of fixed assets	32 210	22 959	30 605
2.	Sales of material	99 259	119 137	111 535
F.	Net book value of fixed assets and material sold	106 252	117 391	113 142
	Net book value of sold fixed assets	18 622	11 395	14 651
2.	Book value of sold material	87 630	105 996	98 491
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	654 125	-142 965	-386 836
IV.	Other operating income	1 582 719	196 120	1 975 035
H.	Other operating expenses	1 787 639	302 758	2 351 915
*	Operating profit or loss	1 377 129	4 372 052	2 994 652
VI.	Proceeds from the sale of securities and investments		79 985	105 180
J.	Cost of securities and investments sold		93 048	11 940
VII.	Income from non-current financial assets	159 415	196 567	341 785
1.	Income from subsidiaries and associates	158 620	195 798	341 266
3.	Income from other non-current financial assets	795	769	519
IX.	Income from the revaluation of securities and derivates	983	309	61
M.	Change in reserves and provisions relating to financial activities	-51 099	-11 658	-17 879
Χ.	Interest income	64 600	44 277	38 758
N.	Interest expenses	68 922	96 330	112 665
XI.	Other financial income	117 261	92 828	122 512
O.	Other financial expenses	184 395	84 571	81 584
*	Financial profit or loss	140 041	151 675	419 986
Q.	Income tax on ordinary activities	312 750	890 613	730 490
1.		395 380	980 461	699 646
2.		-82 630	-89 848	30 844
**	Profit or loss from ordinary activities	1 204 420	3 633 114	2 684 148
***	Profit or loss for the current period (+/-)	1 204 420	3 633 114	2 684 148
非非非非	Profit or loss before tax	1 517 170	4 523 727	3 414 638
	Control number	164 735 611	162 769 667	148 068 075

34 FINANCIAL PART

### STATEMENT OF CHANGES IN EQUITY

(CZK thousand)

	Share capital	Capital funds	Statutory reserve fund	Statutory and other funds	Retained earnings		TOTAL EQUITY
Balance at 31 December 2005	8 109 863	86 338	285 927	1 990 676	1 996 830	2 067 939	14 537 573
Profit for the period						2 684 148	2 684 148
Distribution of retained earnings			103 397		1 153 556	-1 256 953	0
Dividends						-810 986	-810 986
Revaluation of securities		-15					-15
Payments from the social fund				-6 293			-6 293
Balance at 31 December 2006	8 109 863	86 323	389 324	1 984 383	3 150 386	2 684 148	16 404 427
Profit for the period						3 633 114	3 633 114
Distribution of retained earnings			134 207		522 475	-656 682	0
Dividends						-2 027 466	-2 027 466
Payments from the social fund				-116			-116
Other				1	-1		0
Balance at 31 December 2007	8 109 863	86 323	523 531	1 984 268	3 672 860	3 633 114	18 009 959
Profit for the period						1 204 420	1 204 420
Distribution of retained earnings			181 656		3 451 458	-3 633 114	0
Revaluation of securities		37					37
Other				-1	1		0
Balance at 31 December 2008	8 109 863	86 360	705 187	1 984 267	7 124 319	1 204 420	19 214 416

CASH FLOW STATEMENT (CZK thousand)

JASIII	LOW STATEMENT			(CZK thousand)
		Year ended 31.12.2008	Year ended 31.12.2007	Year ended 31.12.2006
P.	Cash and cash equivalents at the beginning of the accounting period	3 163 624	1 699 119	903 812
	Cash flows from ordinary activities			
Z.	Profit/(loss) from ordinary activities before tax	1 517 170	4 523 727	3 414 638
A.1.	Adjustments for non-cash transactions	1 511 866	756 617	131 794
A.1.1.	Depreciation of fixed assets	1 027 628	1 002 827	929 921
A.1.2.	Change in provisions and reserves	603 026	-154 623	-404 715
A.1.3.	Profit/(loss) on the sale of fixed assets	-13 588	1 903	-109 194
A.1.4.	Revenues from dividends and profit shares	-159 415	-196 567	-341 785
A.1.5.	Interest expense and interest income	4 322	52 053	73 907
A.1.6.	Adjustments, if any, and other non-cash transactions	49 893	51 024	-16 340
A.*	Net cash flow from operating activities before changes in working capital	3 029 036	5 280 344	3 546 432
A.2.	Changes in working capital	-763 139	837 429	-541 370
A.2.1.	Change in receivables from operating activities, deferred expenses, accrued income and estimated assets	400 498	81 250	145 339
A.2.2.	Change in short-term payables from operating activities, accrued expenses, deferred income and estimated liabilities	373 252	535 238	-84 563
A.2.3.	Change in inventory	-1 572 333	-1 540	-798 678
A.2.4.	Change in current financial assets not included in cash and cash equivalents	35 444	222 481	196 532
A.**	Net cash flow from operating activities before tax and extraordinary items	2 265 897	6 117 773	3 005 062
A.3.	Interest paid	-70 638	-97 155	-106 045
A.4.	Interest received	64 105	44 392	38 911
A.5.	Income tax paid from operating activities	-862 654	-830 119	-500 808
A.6.	Receipts and expenditures relating to extraordinary activities		10 290	10 290
A.7.	Received dividends and profit shares	159 528	196 454	333 785
A.***	Net cash flow from operating activities	1 556 238	5 441 635	2 781 195
	Cash flows from investing activities			
B.1.	Fixed assets expenditures	-2 087 466	-1 379 586	-1 154 425
B.2.	Receipts from fixed assets sold	33 679	112 951	318 762
B.***	Net cash flow from investing activities	-2 053 787	-1 266 635	-835 663
	Cash flow from financial activities			
C.1.	Change in payables from financing	-514 112	-692 384	-337 019
C.2.	Impact on cash and cash equivalents due to change in equity	-1 477	-2 018 111	-813 206
C.2.5.	Payments made from funds		-116	-6 388
C.2.6.	Dividends paid	-1 477	-2 017 995	-806 818
C.***	Net cash flow from financial activities	-515 589	-2 710 495	-1 150 225
F.	Net increase or decrease of cash and cash equivalents	-1 013 138	1 464 505	795 307
R.	Cash and cash equivalents at the end of the accounting period	2 150 486	3 163 624	1 699 119

#### 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 Companys registered office is located in Třinec-Staré Město, Průmyslová 1000, 739 70. The Companys 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.	69.05 %
Other	30.95 %
Total	100.00 %

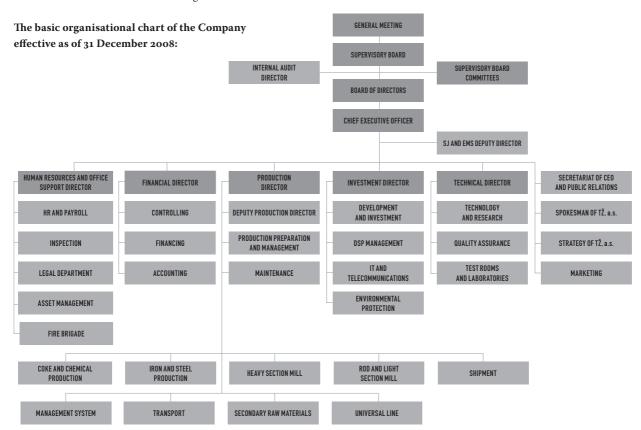
#### 1.2. Changes in and Amendments to the Register of Companies

During the year ended 31 December 2008, the corporate details held at the Register of Companies were updated to reflect the change in the composition of the Supervisory Board (refer to Note 1.5.).

#### 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.



There were no significant organisational changes in the year ended 31 December 2008.

## 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 2008

	Position	Name
Board of Directors	Chairman	Jiří Cienciala
	1st Vice Chairwoman	Jaroslava Ciahotná
	2nd Vice Chairman	Jan Czudek
	Member	Jan Lasota
	Member	Česlav Marek
	Member	Petr Matuszek
Supervisory Board	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Hanns K. Zöllner
	Member	František Ligocki
	Member	Evžen Balko
	Member	Roman Mitręga
	Member	Vladislav Heczko
	Member	Jozef Blaško
	Member	Pablo Alarcón Espinosa

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

#### **Supervisory Board:**

Position	Original member	New member	Date of the change
Member	Oldřich Cieslar	Roman Mitręga	14 Nov 2008
Member	Jiří Stašák	Vladislav Heczko	14 Nov 2008

On 21 January 2009, the change in the name of the Chairman of the Board of Directors from Jiří Cienciala to Jiří Cienciala was recorded in the Register of Companies.

# 2. Basis of Accounting and General Accounting Principles

The Companys 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 2008 were prepared as follows:

- The balance sheet contains comparative balances as of 31 December 2007 and 31 December 2006;
- The profit and loss account comprises comparative amounts for the years ended 31 December 2007 and 31 December 2006;
- The statement of changes in equity contains comparative amounts for the years ended 31 December 2007, 31 December 2006 and 31 December 2005; and
- The cash flow statement comprises comparative amounts for the years ended 31 December 2007 and 31 December 2006.

#### 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 thousand 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 thousand 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 Companys 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 thousand and CZK 60 thousand, respectively, are not treated as fixed assets. Such tangible assets are accounted for as inventory and when brought into use they are charged to Consumed material and energy in the profit and loss account. Intangible assets costing CZK 60 thousand and less are expensed through the account Services in the year of acquisition.

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

The results of the Companys 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 year				
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/expected proceeds from the intended sale.

#### **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, securities of the same type are valued on the basis of the weighted average of acquisition costs.

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 entitys 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 customs fees, freight costs and storage fees during transportation, commissions and insurance charges.

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

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

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.

#### 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, the relevant assets and liabilities are translated at the Czech National Banks exchange rate prevailing as of that date.

## 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 Companys 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. Costs Relating to Employees Hired through an Employment Agency

Since 2007, the Company has reported staff costs of employees hired through an employment agency as part of social costs which include the actually paid salaries including social security costs and health instance and other aids and protective drinks for agency employees. These costs are reported under Consumed material and energy. Other services of the agency such as mediation fees and agency overheads are reported under Services.

In the past, all costs relating to employees hired through an employment agency were reported under Services.

#### 3.14. 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.

#### 3.15. Use of Estimates

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

#### 3.16. 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 in the event that there is doubt over the completion or future utilisation of the project.

#### 3.17. 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.

#### 3.18. 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 2008	31 Dec 2007	31 Dec 2006
Cash on hand	1 016	1 483	1 216
Current accounts	36 998	921 422	1 036 365
Short-term securities and equity investments	2 112 472	2 240 719	673 247
Provision against current financial assets	o	0	-11 709
Total cash and cash equivalents	2 150 486	3 163 624	1 699 119
Total cash and cash equivalents not included in cash flow	0	35 444	246 216
Total current financial assets	2 150 486	3 199 068	1 945 335

#### **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.

# 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 2006	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Research and development	0	0	0	0	0	0	0	4 553	0	4 553
Software	93 430	23 510	2 403	114 537	3 848	255	118 130	8 339	458	126 011
Valuable rights	24 333	730	0	25 063	1 598	0	26 661	0	0	26 661
Other intangible FA	136 930	1 881 066	1 978 003	39 993	56 963	96 956	0	1 608 153	1 608 153	0
Intangible FA under construction	19 619	4 809	24 241	187	6 017	5 446	758	110 517	109 995	1 280
Total	274 312	1 910 115	2 004 647	179 780	68 426	102 657	145 549	1 731 562	1 718 606	158 505

#### **Accumulated Amortisation and Provisions**

(CZK thousand)

		Additions	Disposals	Balance at	Additions	Disposals	Balance at	Additions	Disposals	Balance at
	1 Jan 2006			31 Dec			31 Dec			31 Dec
				2006			2007			2008
Research and development	0	0	0	0	0	0	0	228	0	228
Software	63 762	14 081	2 402	75 441	18 359	256	93 544	14 144	458	107 230
Valuable rights	24 151	470	0	24 621	694	0	25 315	329	0	25 644
Total	87 913	14 551	2 402	100 062	19 053	256	118 859	14 701	458	133 102

Net Book Value (CZK thousand)

	•	Balance at 31 Dec 2007	Balance at 31 Dec 2008
Research and development	0	0	4 325
Software	39 096	24 586	18 781
Valuable rights	442	1 346	1 017
Other intangible FA	39 993	0	0
Intangible FA under construction	187	758	1 280
Total	79 718	26 690	25 403

# Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 14,701 thousand, CZK 19,053 thousand, CZK 14,552 thousand as of 31 December 2008, 2007 and 2006, respectively.

## Other Intangible Fixed Assets

Other intangible fixed assets include greenhouse emission allowances.

In the year ended 31 December 2008, the Company purchased 19,500 emission allowances for CZK 9,624 thousand and 84,000 CER credits for CZK 42,287 thousand. The Company exchanged 111,474 emission allowances for 120,000 CER credits in the amount of CZK 45,192 thousand. These emission allowances and CER credits were used as of 31 December 2008. A reserve of CZK 39,991 thousand was created for the missing allowances needed to cover the greenhouse emission consumption.

## 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 23,559 thousand, CZK 22,098 thousand and CZK 19,956 thousand as of 31 December 2008, 2007 and 2006, respectively.

Cost (CZK thousand)

	Balance at 1 Jan 2006	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Land	321 557	233	1 046	320 744	0	582	320 162	8	327	319 843
Structures	5 597 753	209 897	31 880	5 775 770	162 713	30 225	5 908 258	80 366	165 929	5 822 695
Individual movable assets	16 066 104	570 096	288 260	16 347 940	889 702	205 767	17 031 875	1 015 096	282 941	17 764 030
– Machinery and equipment	14 908 967	531 612	277 286	15 163 293	794 171	196 603	15 760 861	949 011	268 863	16 441 009
– Vehicles	1 133 261	38 366	10 597	1 161 030	95 055	9 164	1 246 921	66 085	13 763	1 299 243
– Furniture and fixtures	23 876	118	377	23 617	476	0	24 093	0	315	23 778
Other tangible FA	1 757	0	21	1 736	0	0	1 736	0	57	1 679
Tangible FA under construction	409 601	1 118 171	768 992	758 780	735 458	1 022 533	471 705	1 084 870	1 094 087	462 488
Prepayments for tangible FA	38 584	148 227	89 291	97 520	77 799	62 105	113 214	88 288	163 551	37 951
Total	22 435 356	2 046 624	1 179 490	23 302 490	1 865 672	1 321 212	23 846 950	2 268 628	1 706 892	24 408 686

## **Accumulated Depreciation and Provisions**

(CZK thousand)

	Balance at 1 Jan 2006	Additions	Disposals	Balance at 31 Dec 2006	Additions	Disposals	Balance at 31 Dec 2007	Additions	Disposals	Balance at 31 Dec 2008
Structures	3 049 733	148 733	38 555	3 159 911	146 637	47 655	3 258 893	181 052	167 730	3 272 215
Individual movable assets	10 128 156	805 357	291 390	10 642 123	891 136	220 234	11 313 025	893 300	284 982	11 921 343
– Machinery and equipment	9 147 844	780 151	280 416	9 647 579	861 785	211 070	10 298 294	857 880	270 904	10 885 270
– Vehicles	959 987	24 656	10 597	974 046	28 790	9 164	993 672	34 854	13 763	1 014 763
– Furniture and fixtures	20 325	550	377	20 498	561	0	21 059	566	315	21 310
Tangible FA under construction	1 600	613	1 572	641	2 277	0	2 918	738	264	3 392
Total	13 179 489	954 703	331 517	13 802 675	1 040 050	267 889	14 574 836	1 075 090	452 976	15 196 950

Net Book Value (CZK thousand)

		Balance at 31 Dec 2007	
Land	320 744	320 162	319 843
Structures	2 615 859	2 649 365	2 550 480
Individual movable assets	5 705 817	5 718 850	5 842 687
– Machinery and equipment	5 515 714	5 462 567	5 555 739
– Vehicles	186 984	253 249	284 480
– Furniture and fixtures	3 119	3 034	2 468
Other tangible FA	1 736	1 736	1 679
Tangible FA under construction	758 139	468 787	459 096
Prepayments for tangible FA	97 520	113 214	37 951
Total	9 499 815	9 272 114	9 211 736

# Principal additi ons to tangible fixed assets for the year ended 31 December 2008 are as follows:

(CZK thousand)

	1 0	,
1	Garett winding line	273 693
	Equipment for the desulphurisation of pig iron	208 421
	Filtration equipment for agglomerations	152 390

During the year ended 31 December 2008, assets with an aggregate net book value of CZK 68,173 thousand were removed from tangible fixed assets. Major disposals related to the investment of the real estate in Strojírny Třinec, a.s., sale of testing equipment and vehicles.

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

Depreciation of tangible fixed assets amounted to CZK 1,012,927 thousand, CZK 983,774 thousand and CZK 915,369 thousand as of 31 December 2008, 2007 and 2006, 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 383,636 thousand, CZK 361,594 thousand and 357,764 CZK thousand as of 31 December 2008, 2007 and 2006, respectively.

## **Finance Leases**

31 December 2008 (CZK thousand)

	Cars	Machinery	Balance at 31 Dec 2008
		and equipment	
Total anticipated lease payments	8 448	90 967	99 415
Actual lease payments made through 31 Dec 2008	8221	86 635	94 856
Future payments due by 31 Dec 2009	227	3 678	3 905
Future payments due in the following periods	0	654	654

31 December 2007 (CZK thousand)

	Cars	Machinery	Balance at 31 Dec 2007
		and equipment	
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	Balance at 31 Dec 2006
		and equipment	
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

# **Operating Leases**

As of 31 December 2008, 2007 and 2006, the Company made lease payments of CZK 21,804 thousand, CZK 22,866 thousand, CZK 21,677 thousand, respectively.

# 4.1.4. Pledged Fixed Assets

31 December 2008 (CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	419 290	Loan from Komerční banka, a.s.
Land	15 410	
Tangible FA	436 336	Loan from Česká spořitelna, a.s.
Land	2 811	
Tangible FA	263 135	Loan from Československá obchodní banka, a.s.
Tangible FA	387 108	Loan from Citibank, a.s.
Total	1 524 090	

31 December 2007 (CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	367 101	
Land	12 341	Loan from Komerční banka, a.s.
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.
Total	1 604 287	

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	0	Loan from Československá obchodní banka, a.s.
Tangible FA	472 216	Loan from Citibank, a.s.
Total	1 655 264	

# 4.2. Non-Current Financial Assets

Cost (CZK thousand)

	Balance at 1 Jan 2006	Additions	Disposals	Revalua- tion	Balance at 31 Dec 2006	Additions	Disposals
Equity investments in subsidiaries	3 172 349	67 000	99 711	0	3 139 638	388 819	0
Equity investments in associates	175 434	0	0	0	175 434	2 047	0
Other non-current securities and equity investments	100	20	0	-20	100	0	0
Other non-current financial assets	21 754	0	0	-1 133	20 621	0	0
Acquired non-current financial assets	0	70 774	67 020	0	3 754	393 129	391 250
Total	3 369 637	137 794	166 731	-1 153	3 339 547	783 995	391 250

(CZK thousand)

	Revalua- tion	Balance at 31 Dec 2007	Additions	Disposals	Revalua- tion	Balance at 31 Dec 2008
Equity investments in subsidiaries	0	3 528 457	1 109 222	0	0	4 637 679
Equity investments in associates	0	177 481	360	52 000	0	125 841
Other non-current securities and equity investments	0	100	0	50	50	100
Other non-current financial assets	-656	19 965	0	0	233	20 198
Acquired non-current financial assets	0	5 633	1 117 996	1 120 165	0	3 464
Total	-656	3 731 636	2 227 578	1 172 215	283	4 787 282

# 4.2.1. Shares and Equity Investments in Subsidiaries

31 December 2008 (CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accoun- ting pro- fit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100.00	2 303 273	77 965	0	1 625 717	0
Strojírny Třinec, a.s., Třinec-Staré Město	540 972	565 000	600	100.00	780 807	95 870	0	540 972	70 000
Slévárny Třinec, a.s., Třinec-Staré Město	550 000	550 000	514	100.00	566 894	4 310	0	550 000	0
VÁLCOVNA TRUB TŽ, a.s., Ostrava-Vítkovice **	301 823	418 166	44	100.00	622 651	-261 043	0	301 823	0
Šroubárna Kyjov, spol. s r.o., Kyjov	*	140 000	-	100.00	430 515	106 286	0	*	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 643	25 800	-	100.00	31 728	1 951	0	25 643	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	19 000	117	100.00	1 786	-85	-17 214	1 786	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100.00	68 236	16 776	0	15 755	3 000
D 5, akciová společnost, Třinec Třinec-Staré Město	*	13 600	21	100.00	105 685	44 834	0	*	0
Moravia Security, a.s.Třinec, Konská	12 000	12 000	12	100.00	7 129	-4 781	0	12 000	0
H & S PROGRESS s.r.o., Dobrá	*	3 784	-	100.00	46 443	12 521	0	*	15 000
Soukromá střední škola Třinec, s.r.o., Třinec, Staré Město	2 000	2 000	-	100.00	1 971	-29	0	2 000	0
TRIALFA, s.r.o., Třinec-Kanada	100	100	-	100.00	21 629	4 487	0	100	0
MATERIALOVY A METALURGICKÝ VÝZKUM s.r.o.,									
Ostrava-Vítkovice ****	*	45 738	-	99.00	36 156	5 429	0	49	0
TRISIA, a.s., Třinec	19 364	9 900	990	66.00	65 638	-1 645	0	19 364	0
Řetězárna a.s., Česká Ves	64 000	10 200	464	51.00	430 799	62 797	0	64 000	9 690
REFRASIL, s.r.o., Třinec-Konská	18 236	510	-	51.00	190 553	42 549	0	18 236	15 300
Total	4 637 679						-17 214	4 620 465	112 990

Note: ° confidential information
° change in the name from VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s. to VÁLCOVNA TRUB TŽ, a.s.
\*\*\* change in the name from VÍTKOVICE – Výzkum a vývoj, spol. s r.o. to MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o italics – preliminary results of operations

31 December 2007 (CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accounting pro- fit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100.00	2 225 308	203 618	О	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	562 586	13 681	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	29 926	294	0	25 643	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	19 000	117	100.00	1 871	-94	-17 129	1 871	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100.00	54 476	18 274	0	15 755	0
H & S PROGRESS s.r.o., Dobrá	*	3 784	-	100.00	32 179	17 170	0	*	0
TRIALFA, s.r.o., Třinec-Kanada	100	100	_	100.00	17 428	2 294	0	100	0
VÍTKOVICE-Výzkum a vývoj, spol. s r.o., Ostrava-Vítkovice	*	45 738	-	99.00	30 732	599	0	*	0
TRISIA, a.s., Třinec	19 364	9 900	990	66.00	67 196	-1 644	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
Total	3 528 457						-17 129	3 511 328	140 910

Note: \* confidential information

31 December 2006 (CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accoun- ting pro- fit/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-Sta- ré 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-Sta- ré 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
Total	3 139 638						-18 131	3 121 507	244 890

# 4.2.2. Shares and Equity Investments in Associates

31 December 2008 (CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accoun- ting pro- fit/loss	Provision	Net cost	Financial revenues for the year
"ZAMECZEK BŁOGOCICE" Spółka z ogra- niczoną odpowiedzialnością, Cieszyn (PL)*	148	148	-	45.00	-925	-975	0	148	0
SILESIASLAG, a.s., Třinec-Staré Město	1 760	1 760	74	44.00	3 843	-9	-7o	1 690	0
VESUVIUS ČR, a.s., Třinec	25 137	25 137	25 137	40.00	215 975	108 579	0	25 137	45 255
Hutnictví železa, a.s., Praha	25 620	16 191	26 985	38.71	45 602	-243	-15 907	9 713	0
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	750	1 125	75	34.09	11 016	905	0	750	375
Kvalifikační a pers. agentura, o.p.s., Třinec, Staré Město	34	34	-	33.33	804	-61	-34	0	0
HRAT, s.r.o., Třinec	212	100	-	23.26	2 644	1 300	0	212	0
Sochorová válcovna TŽ, a.s., Třinec-Sta- ré Město	72 180	72 180	180	18.00	1 861 954	259 487	0	72 180	0
	125 841						-16 011	109 830	45 630

Note: \* preliminary results of operations in PLN Italics – preliminary results of operations

31 December 2007 (CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accoun- ting pro- fit/loss	Provision	Net cost	Financial revenues for the year
SILESIASLAG, 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	220 532	113 136	0	25 137	54 513
Hutnictví železa, a.s., Praha	25 620	16 191	26 985	38.71	48 326	73	-14 997	10 623	0
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	750	1 125	75	34.09	11 230	1 867	0	750	375
Kvalifikační a pers. agentura, o.p.s., Třinec	34	34	-	33.33	865	364	-34	0	0
MS-UNIKOV OSTRAVA s.r.o., Ostrava Svi- nov	52 000	52 000	-	24.97	*	4):	-52 000	0	0
Sochorová válcovna TŽ, a.s., Třinec-Sta- ré Město	72 180	72 180	180	18.00	1 602 467	402 819	0	72 180	0
Total	177 481						-67 097	110 384	54 888

Note.: \* the bankruptcy trustee has not provided results

31 December 2006 (CZK thousand)

Company's name and address	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accoun- ting pro- fit/loss	Provision	Net cost	Financial revenues for the year
SILESIASLAG, 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	*	46	-52 000	0	0
Sochorová válcovna TŽ, a.s., Třinec-Sta- ré Město	72 180	72 180	180	18.00	1 199 648	291 638	0	72 180	0
Total	175 434						-65 763	109 671	96 376

Note: \* the bankruptcy trustee has not provided results

# 4.2.3. Other Non-Current Securities and Equity Investments

# 31 December 2008 (CZK thousand)

Company's name	Cost	Nominal	Number	Owner-	Equity	Accoun-	Gain or	Fair	Financial
		value	of shares	ship %		ting pro-	loss from	value	revenues
						fit/loss	revalua-		for the
							tion		year
KPM CONSULT, a.s., Brno	100	100	10	10.00	14 509	3 148	0	100	0
ACRI, Praha	20	20	_	2.08	1 095	1	-20	0	0
Total	120						-20	100	0

Note: italics – preliminary results of operations

31 December 2007 (CZK thousand)

Company's name	Cost	Nominal value	Number of shares	Owner- ship %	Equity	Accoun- ting pro- fit/loss	Gain or loss from revalua- tion	Fair value	Financial revenues for the year
HRAT, s.r.o., Třinec	50	50	-	11.63	1 182	330	-50	0	0
KPM CONSULT, a.s., Brno	100	100	10	10.00	11 361	1 451	0	100	0
ACRI, Praha	20	20	-	2.17	1 108	-223	-20	0	0
Total	170						-7 <b>0</b>	100	0

31 December 2006 (CZK thousand)

Company's name	Cost	Nominal value	Number of shares	Owner-	Equity	Accoun-	Gain or	Fair value	Financial revenues
		value	or snares	SHIP /0		fit/loss	revalua- tion	value	for the vear
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
Total	170						-70	100	0

## 4.2.4. Other Non-Current Financial Assets

31 December 2008 (CZK thousand)

Investment	Cost	Description	Provision	Financial revenue for
		of investment		the period to 31 Dec
		/collateral		2008
Term deposit	20 198	Bank guarantee	0	795
		collateral		

## 31 December 2007

(CZK thousand)

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

## 31 December 2006

(CZK thousand)

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

Major additions to non-current financial assets as of 31 December 2008 include:

- Increase in the share capital in Strojírny Třinec, a.s. of CZK 65,000 thousand;
- Acquisition of the 100 percent equity investment in Šroubárna Kyjov, spol. s r. o;
- Acquisition of the 100 percent equity in D 5, joint stock company, Třinec,
- Formation of Moravia Security, a.s., with TŽ as the sole owner;
- Formation of Soukromá střední škola Třinec, s.r.o., with  $T\check{Z}$  as the sole owner; and
- $\ Acquisition \ of the \ 45 \ percent \ equity \ investment \ in \ ``ZAMECZEK \ BŁOGOCICE'' \ Sp\'ołka \ z \ ograniczon \ a \ odpowiedzialnością.$

Major disposals of non-current financial assets as of 31 December 2008 include the write-off of the equity investment in MS-UNIKOV Ostrava, s.r.o. The entity was dissolved following the removal from the Register of Companies due to the completion of the bankruptcy proceedings following the fulfilment of the asset allocation resolution.

## 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	Provisions at 31 Dec 2006	Balance at	Provisions at	Balance at	Provisions at
Raw material	1 670 736	-1 950	1 414 457	-1 153	2 159 597	-13 050
Spare parts	668 680	-136 612	697 354	-137 004	760 284	-186 396
Technical and overhead material, goods	117 609	- 746	163 290	-3 788	161 554	-1 057
Internally produced inventory:	3 029 968	-318 333	3 213 574	-134 902	3 974 830	-854 151
– Work in progress	21 627	0	19 787	О	22 835	0
– Semi-finished products	1 894 494	-208 666	1 943 672	-80 952	2 807 070	-721 890
– Finished products	1 113 847	-109 667	1 250 115	-53 950	1 144 925	-132 261
Prepayments	168	0	25	0	5 420	0
Total	5 487 161	-457 641	5 488 700	-276 847	7 061 685	-1 054 654

# 4.4. RECEIVABLES

#### 4.4.1. Long-Term Receivables

# **Breakdown of Long-Term Receivables**

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
– Prepayments made	635	635	660
– Other receivables	3 021	1 914	6 880
Total	3 656	2 549	7 540

Other receivables include loans advanced to employees as of 31 December 2008 and 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.

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	Past due date								
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and gre- ater					
2008	Short-term	1 908 568	242 893	221	168	288	43 289	2 195 427				
	Provisions		-956	-10	-84	-288	-43 289	-44 627				
	Total	1 908 568	241 937	211	84	0	0	2 150 800				
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				
	Total	2 785 707	3 448	434	137	0	0	2 789 726				
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				
	Total	2 814 620	13 531	492	536	0	0	2 829 179				

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

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
– customers	2 194 028	2 852 469	2 904 949
– other receivables	1 399	83	10 239
– provision	-44 627	-62 826	-86 009
Total	2 150 800	2 789 726	2 829 179

## Other Short-Term Receivables

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

State – tax receivables predominantly include a receivables arising from the corporate income tax and a receivable arising from the excessive deduction from the value added tax.

Other receivables mainly relate to the outstanding dividends, loan contract and bank guarantees.

Estimated receivables principally include amounts due from insurance proceeds.

Receivables typically mature within 30 days.

Short-Term Receivables (CZK thousand)

Company's name	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at31 Dec 2006
Trade balances			
Doprava TŽ, a.s.	6 502	11 190	9 175
ENERGETIKA TŘINEC, a.s.	31 072	35 689	66 272
Šroubárna Kyjov, spol. s r.o.*	3	_	-
D5, akciová společnost*	3 592	_	_
MORAVIA STEEL a.s.	1 391 773	2 137 286	2 146 706
REFRASIL, s.r.o.	781	629	747
Řetězárna, a.s.	6	62	435
Slévárny Třinec, a.s.	79 807	73 330	84 613
TRIALFA, s.r.o.	9 854	6 081	7 752
TŘINECKÁ PROJEKCE, a.s.	77	144	75
Třinecké gastroslužby, s.r.o.	530	2 106	383
Strojírny Třinec, a.s.	60 220	15 787	4 861
Sochorová válcovna TŽ, a.s.	263 489	332 686	294 616
SILESIASLAG, a.s.	1	4	12
Steel Consortium Partners, a.s.	16	1	0
Kvalifikační a personální agentura, o.p.s.	4	4	5
TRISIA, a.s.	6	4	30
VESUVIUS ČR, a.s. Třinec	702	1 089	1 329
FERROMORAVIA, s.r.o.	10 796	70 133	81 402
Beskydská golfová, a.s.	164	399	957
VALCOVNA TRUB TŽ, a.s.*	235 178	62 354	38 253
VÚHŽ, a.s.	536	407	_
Moravia Security, a.s.*	64	_	_
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.*	33	0	_
Total	2 095 206	2 749 385	2 737 623
Other intercompany receivables			
Slévárny Třinec, a.s.	0	0	10 290
Strojírny Třinec, a.s.	0	3 278	3 386
Sochorová válcovna TŽ, a.s.	0	0	3 219
VESUVIUS ČR, a.s. Třinec	8 000	8 113	8 000
Zameczek Błogocice	40 757	_	_
Total	48 757	11 391	24 895
Total short-term intercompany receivables	2 143 963	2 760 776	2 762 518
Other than intercompany receivables	343 200	103 887	235 373
Total short-term receivables	2 487 163	2 864 663	2 997 891

°Šroubárna Kyjov, spol. s r.o. became part of the group on 8 April 2008, D5, joint stock company on 20 June 2008, Moravia Security, a.s. on 15 February 2008 and Zameczek Błogocice on 24 October 2008, the change in the name from VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s. to VÁLCOVNA TRUB TŽ, a.s. and the change in the name from VÍTKOVICE – Výzkum a vývoj, spol. s r.o. to MATE-RIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.,

# **Long-Term Receivables**

(CZK thousand)

Company's name	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Long-term receivables			
• Other			
Strojírny Třinec, a.s.	0	0	3 385
Total long-term intercompany receivables	0	0	3 385
Other than intercompany receivables	3 656	2 549	4 155
Total long-term receivables	3 656	2 549	7 540

# 4.4.4. Pledged Receivables

None of the Companys receivables were pledged.

#### 4.5. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Cash	1 016	1 483	1 216
Current accounts	36 998	921 422	1 036 365
Current deposit – special-purpose funds of the received state aid	0	35 444	246 216
Short-term securities and equity investments	2 112 472	2 240 719	673 247
Provision against current financial assets	О	0	-11 709
Total current financial assets	2 150 486	3 199 068	1 945 335

Short-term securities and equity investments as of 31 December 2008 include depository notes of Komerční banka, a.s. of CZK 774,051 thousand, ČSOB, a.s. of CZK 25,001 thousand Raiffeisenbank, a.s. of CZK 610,033 thousand, Česká spořitelna, a.s. of CZK 688,038 thousand and tradable securities of CZK 15,349 thousand.

Short-termsecurities and equity investments a sof 31 December 2007 included epository 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.

#### 4.6. Deferred Expenses and Accrued Income

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Deferred expenses	72 381	91 516	36 962
Deferred expenses – lease contracts	4 079	9 983	17 882
Other deferred expenses – studies, projects, interest, subscription payments, right of use	68 302	81 533	19 080
Complex deferred expenses	14 356	30 399	50 044
Accrued income	685	205	305
Total deferred expenses and accrued income	87 422	122 120	87 311

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

As of 31 December 2008, 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 Companys 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 23 June 2008, the shareholders approved the allocation of the profit of CZK 3,633,114 thousand generated in 2007 as follows:

(CZK thousand)

Allocation to the statutory reserve fund	181 656
Retained earnings	3 451 458

The General Meeting of Shareholders decided not to declare dividends for 2007, gross dividends for 2006 were CZK 250 per share and gross dividends for 2005 were CZK 100 per share.

On 28 September 2008, the payment of dividends for 2003 declared by the General Meeting of the Company held on 28 June 2004 which were due on 28 September 2004 became statute barred. The amount of these dividends of CZK 1,640 thousand was written off to other financial income.

# 4.7.1. Share Capital

The Companys share capital is composed of 8,109,863 ordinary registered shares, fully subscribed and paid up, with a nominal value of CZK 1 thousand 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 Companys shares was registered in the Register of Companies on 13 December 2007. The shares were deregistered from the Prague Stock Exchange in 2002.

On 16 December 2008, the Companys shares in the certificate form which were not collected by their owners after the change of the book-entry to the certificate form of shares were auctioned. The shares were not sold, and a repeated enforced auction will be held in 2009. As of 31 December 2008, the number of uncollected shares was 84,119.

4.8. RESERVES (CZK thousand)

	Reserves	Reserves under special legislation		Total reserves
	Reserve for repairs of tangible FA	Reserve for restoration		
Balance at 31 Dec 2006	234 750	1 971	242 363	479 084
Creation	11 250	257	235 368	246 875
Use	156 000	330	33 572	189 902
Balance at 31 Dec 2007	90 000	1 898	444 159	536 057
Creation	О	135	443 614	443 749
Use	45 000	376	532 066	577 442
Balance at 31 Dec 2008	45 000	1 657	355 707	402 364

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, emission allowances, additionally assessed taxes, real estate transfer tax, employee bonuses, losses incurred in connection with concluded long-term contracts.

## 4.9. PAYABLES

4.9.1. Long-Term Payables (CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Long-term payables			
– Long-term trade payables	11 570	25 015	6 096
– Long-term prepayments received	1 361	369	0
– Long-term bills of exchange to be settled	o	0	27 495
– Other payables	1 000	0	706
– Deferred tax liability	511 589	594 206	684 053
Total	525 520	619 590	718 350

Long-term trade payables include the aggregate amount of CZK 11,570 thousand relating to retentions from suppliers under concluded contracts.

As of 31 December 2006, 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 2008 and 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 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Difference between tax and accounting carrying value of fixed assets	-4 217 310	-4 019 885	-3 679 365
Revaluation of available-for-sale securities	20	0	20
Accounting reserves	355 616	444 139	242 303
Provisions	1 093 116	329 790	536 199
Expenses tax deductible in the following periods	9 123	64 583	50 621
Total	-2 759 435	-3 181 373	-2 850 222
Tax rate (in %)	20, 19	21, 19	24
Deferred tax liability	-511 589	-594 206	-684 053

As of 31 December 2008, the Company anticipates realising certain temporary differences giving rise to a deferred tax asset in 2009 and hence it used the tax rate of 20 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.

Analysis of movements	
1 January 2008	-594 206
Current changes charged against the profit and loss account	82 630
Total changes against the profit and loss account	82 630
Current changes charged against equity	-13
31 December 2008	-511 589

(CZK	+h		4)
IU.Z.K	Th	ousa	na)

	Balance at 31 Dec 2008	Balance at31 Dec 2007	Balance at 31 Dec 2006
Profit before tax	1 517 170	4 523 727	3 414 638
Tax at the domestic income tax rate of 21 % (24 %, 24 %)	318 606	1 085 694	819 513
Tax effect of expenses that are not deductible in determining taxable profit	-3 719	-206 068	-75 909
Additional taxes of prior years	-2 137	10 987	-13 114
Total income tax on ordinary and extraordinary activities	312 750	890 613	730 490

# 4.9.4. Short-Term Payables

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Short-term payables			
– suppliers	3 108 662	2 726 759	2 203 324
– bills of exchange to be settled	0	26 620	27 495
Totals	3 108 662	2 753 379	2 230 819

## Aging of short-term trade payables

(CZK thousand)

Period	Category	Before due date	Past due date	st due date						
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and gre-			
							ater			
2008	Short-term	3 063 898	44 722	40	2	0	0	3 108 662		
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		

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 2008, payables associated with social security and the state employment policy contribution amounted to CZK 52,289 thousand, health insurance payables totalled CZK 22,305 thousand, and pension insurance payables totalled CZK 2,612 thousand. The Company has no past due social security or health insurance payables.

The category State – tax payables and subsidies principally comprises payables arising from the personal income tax and received research and development subsidies under which the Company received CZK 16,452 thousand for operating activities and CZK 48 thousand for investments.

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 employee deductions.

Short-Term Payables (CZK thousand)

Company's name	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at31 Dec 2006
Trade payables			
Doprava TŽ, a.s.	4 665	5 571	6 200
ENERGETIKA TŘINEC, a.s.	209 846	196 831	207 876
Hutnictví železa, a.s.	620	594	540
Šroubárna Kyjov, spol. s r.o.*	140	_	-
MORAVIA STEEL a.s.	1 903 926	1 173 314	1 005 420
REFRASIL, s.r.o.	27 282	33 670	32 968
Řetězárna Česká Ves, a.s.	87	23	0
Slévárny Třinec, a.s.	1 119	5 033	14 222
TRIALFA, s.r.o.	15 771	17 038	16 460
TRISIA, a.s.	3 659	3 890	223
TŘINECKÁ PROJEKCE, a.s.	1 750	12 693	8 911
Třinecké gastroslužby, s.r.o.	6 048	8 270	4 132
Strojírny Třinec, a.s.	850	63 598	78 021
Sochorová válcovna TŽ, a.s.	7 120	12 556	4 706
VESUVIUS ČR, a.s. Třinec	3 118	17 168	17 946
Beskydská golfová, a.s.	16	18	16
D5, akciová společnost*	85 779	_	-
VALCOVNA TRUB TŽ, a.s.*	476	5 719	196
VÚHŽ, a.s.	1 673	649	-
Moravia Security, a.s.*	4 929	_	-
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.*	1 633	0	_
KAPA, o.p.s.	20	0	0
Total short-term intercompany payables	2 280 527	1 556 635	1 397 837
Other than intercompany payables	1 272 588	2 141 329	1 780 820
Total short-term payables	3 553 115	3 697 964	3 178 657

<sup>\*</sup> Šroubárna Kyjov, spol. s r.o. became part of the group on 8 April 2008, D5, joint stock company on 20 June 2008, Moravia Security, a.s. on 15 February 2008 and Zameczek Błogocice on 24 October 2008, change in the name from VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s. to VÁLCOVNA TRUB TŽ, a.s. and change in the name of VÍTKOVICE – Výzkum a vývoj, spol. s r.o. to MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.

Long-Term Payables (CZK thousand)

Company's name	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at31 Dec 2006
Long-term payables			
• Trade			
Strojírny Třinec, a.s.	0	850	0
D <sub>5</sub> , joint stock company	5 400	-	_
Total long-term intercompany payables	5 400	850	0
Other than intercompany payables	520 120	618 740	718 350
Total long-term payables	525 520	619 590	718 350

Long-Term Bank Loans (CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Interest rate %	Form of collateral at 31 Dec 2008
Investment	EUR	0	3 113	10 783	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	339 143	490 143	659 379	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	0	17 633	36 424	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	0	0	7 124	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	0	0	6 306	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	CZK	0	0	18 750	6M PRIBOR + 1.95	Real estate, collateral bill of exchange, LoC MS
Investment	EUR	3 995	32 960	64 008	6M EURIBOR + 0.625	SACE guarantee insurer
Investment	EUR	22 668	31 370	17 203	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	0	50 000	90 000	6M PRIBOR + 1.25	Real estate, collateral bill of exchange, LoC MS
Investment	CZK	15 773	78 867	157 734	FIX 3.76	Immovable and movable assets, blank bill of exchange
Investment	CZK	18 000	54 000	90 000	3M PRIBOR + 1.65	Movable assets, guarantee statement of MS
Investment	CZK	45 000	75 000	105 000	FIX 4.3	Movable assets, guarantee statement of MS
Investment	CZK	144 444	188 889	233 333	FIX 4.65	Immovable and movable assets, guarantee state- ment of MS, blank bill of exchange
Total		589 023	1 021 975	1 496 044		

Short-Term Bank Loans (CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Interest rate %	Form of collateral at 31 Dec 2008
Investment	EUR	3 150	7 326	7 567	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	148 220	153 565	197 301	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	17 838	17 633	18 212	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	0	6 897	14 248	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	0	0	17 787	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	0	6 266	6M EURIBOR + 0.75	EKN guarantee insurer
Investment	EUR	0	6 105	12 611	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	EUR	0	0	6 944	6M EUROLIBOR + 1.25	KUKE guarantee insurer
Investment	CZK	0	0	75 000	6M PRIBOR + 1.95	Real estate, blank bill of exchange, LoC MS
Investment	EUR	29 349	29 012	29 965	6M EURIBOR + 0.625	SACE guarantee insurer
Investment	EUR	9 067	8 963	9 820	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	50 000	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	30 000	FIX 4.3	Movable assets, guarantee statement of MS
Investment	CZK	44 444	44 444	44 445	FIX 4.65	Real estate and movable assets, guarantee statement of MS, blank bill of exchange.
Total		431 162	443 039	609 260		

Repayment Schedule (CZK thousand)

Years	2009	2010	2011	2012	2013	Following periods	Total
Loan instalments	431 162	224 306			;	10 627	1 020 185

# 4.10. Accrued Expenses and Deferred Income

(CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Accrued expenses	7 979	14 379	13 177
– Interest, fees	6 544	9 070	12 850
– Invoices, credit notes	1 435	5 309	327
Deferred income	0	31	30
Total accrued expenses and deferred income	7 979	14 410	13 207

# 4.11. Assets and Liabilities Denominated in Foreign Currencies

31 December 2008 (CZK thousand)

	CZK	USD	EUR	SKK	Other	Total
Tangible fixed assets	24 375 131	1 869	31 686	0	0	24 408 686
Non-current financial assets	4 767 084	0	20 198	0	0	4 787 282
Inventory	7 056 265	3 623	1 797	О	0	7 061 685
Short-term receivables	2 477 779	23 367	52 987	916	0	2 555 049
Current financial assets	2 146 400	157	3 929	0	0	2 150 486
Total	40 822 659	29 016	110 597	916	0	40 963 188
Short-term payables	3 451 293	30 761	70 509	433	119	3 553 115
Bank loans and borrowings	446 756	0	573 429	О	0	1 020 185
Total	3 898 049	30 761	643 938	433	119	4 573 300

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	О	240	138 472	36	0	3 199 068
Total	38 949 830	0	52 052	202 092	794	0	39 204 768
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
Total	4 265 734	1 197	8 571	887 005	192	279	5 162 978

31 December 2006 (CZK thousand)

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

# 4.12. DETAILS OF INCOME (CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Proceeds of the sale of goods	10 217	5 969	781
Proceeds of the sale of products and services, of which:	37 084 851	35 546 658	31 674 668
– Products	36 382 871	34 858 579	31 022 107
– Energy	317 793	315 315	302 373
– Services	384 187	372 764	350 188
Change in internally produced inventory	762 064	183 606	268 973
Own work capitalised	394 887	416 580	417 399
Total income	38 252 019	36 152 813	32 361 821

# 4.13. Consumed Purchases and Products Sold

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Consumed material	27 253 428	23 508 024	21 300 407
Consumed energy	2 356 461	2 199 551	2 162 756
Goods sold	9 944	5 651	744
Total consumed purchases	29 619 833	25 713 226	23 463 907

4.14. SERVICES (CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Repairs and maintenance	1 271 277	1 103 160	1 179 781
Transportation expenses	325 546	315 735	312 189
Cooperation	110 498	150 340	158 832
Leasing	20 141	35 168	56 649
Right of use	33 028	33 030	81 245
Promotion	119 598	99 202	78 836
Rental, leases	91 922	98 153	100 079
Cleaning services	60 296	57 798	56 550
Gas and oil distribution	61 176	56 879	51 663
Audit services	32 347	27 539	30 365
Other services	567 566	495 754	561 139
Total	2 693 395	2 472 758	2 667 328

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 2008	Movements in 2007	Movements in 2006
Change in the reserve under special legislation:	-45 241	-144 823	-294 128
– reserves for repairs	-45 000	-144 750	-293 083
– reserves for waste	-241	-73	-1 045
Change in other reserves:	-88 453	201 796	104 724
– reserve for contractual losses	3 221	220 955	-26 993
– reserve for fidelity bonuses	-292	-524	-436
– reserve for liquidation	57 003	-3 429	186
– reserve for removing legacy environmental burdens	-186 400	0	123 400
– reserve for real estate transfer tax	36	-557	286
– reserve for missing emission allowances	39 987	4	0
– other	- 2 008	-14 653	8 281
Change in complex deferred expenses	18 669	20 760	17 795
Change in the provisions under special legislation	-6 319	-14 776	-351 562
Change in accounting provisions:	775 469	-205 922	136 335
– change in provisions against receivables	454	-7 534	-36 019
– change in provisions against assets	−2 <i>7</i> 92	-17 594	615
– change in provisions against inventory	777 807	-180 794	171 739
Total	654 125	-142 965	-386 836

# 4.16. Other Operating Income

CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Contractual penalties and default interest	1 220	512	1 035
Recoveries of receivables written off and transferred	4	2 559	1 035
Received subsidies	11 691	68 772	107 879
Other operating income	1 569 804	124 277	1 865 086
Total other operating income	1 582 719	196 120	1 975 035

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

As of 31 December 2008, other operating income of the Company mainly involves the release of the subsidy related to the use of greenhouse emission allowances of CZK 1,556,241 thousand and other operating subsidies and contributions (refer to Note 4.17).

## 4.17. Subsidies

Other subsidies for operating purposes of CZK 4,832 thousand received for the year ended 31 December 2008 (CZK 591 thousand and CZK 2,819 thousand in 2007 and 2006, respectively) included subsidies for research purposes.

In addition, the Company received allowances of CZK 5,741 thousand and CZK 18,624 thousand from the Ministry of Industry and Trade as of 31 December 2007 and 2006, 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 2008, the Company received CZK 278,786 thousand and CZK 149,217 thousand for operating and investment purposes, respectively.

	Eligible	Allowed	Eligible	Allowed state	Eligible	Allowed state
	expenses in	state aid in	expenses in	aid in 2005	expenses in	aid in 2006
	2004	2004 (drawn)	2005	(drawn)	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
Total	19 165	7 920	304 481	136 683	332 435	148 230

(CZK thousand)

	Eligible expenses in 2007	Allowed state aid in 2007 (drawn)	Eligible expenses in 2008	Allowed state aid in 2008 (drawn)		Allowed state aid until 31 Dec 2008
					31 Dec 2008	(drawn)
Research and development	144 691	57 034	20 707	11 589	646 078	269 855
Environment	98 479	56 133	0	0	200 160	114 091
Education	29 576	10 445	0	0	103 296	44 088
Total	272 746	123 612	20 707	11 589	949 534	428 034

(CZK thousand)

	Allowed state aid (received)	Returned state aid	State aid (to be drawn)
Research and development	388 100	118 245	0
Environment	140 335	26 244	0
Education	48 241	4 184	0
Total	576 676	148 673	0

Environmental and educational projects were completed as of 31 December 2007. Research and development projects were completed as of 30 June 2008.

## 4.18. Other Operating Expenses

(CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Gifts	38 602	21 928	33 273
Penalties and default interest	1 027	886	191
Write-offs of receivables and transferred receivables	8 914	22 977	305 476
Other operating expenses	1 712 505	215 221	1 973 002
Deficits and damage relating to operating activities	26 591	41 746	39 973
Total other operating expenses	1 787 639	302 758	2 351 915

As of 31 December 2008, other operating expenses primarily reflect the use of greenhouse emission allowances of CZK 1,608,152 thousand.

Write-offs of receivables and transferred receivables as of 31 December 2008 predominantly include receivables from STA Frýdek-Místek, Košický magnezit, INTERLOCK-Strop Potor, Montimex Ostrava.

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.

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

# 4.19. Other Financial Income

(CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Foreign exchange rate gains	113 387	90 000	120 184
Other financial income	3 874	2 828	2 328
Total	117 261	92 828	122 512

#### 4.20. OTHER FINANCIAL EXPENSES

(CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Foreign exchange rate losses	118 192	77 083	76 665
Banking fees	2 403	2 817	2 482
Other financial expenses	63 800	4 671	2 437
Total	184 395	84 571	81 584

Other financial expenses reflected the write-off of an equity interest in MS-UNIKOV OSTRAVA s.r.o. in the amount of CZK 52,000 thousand due to the completion of the bankruptcy proceedings.

# 4.21. Research and Development Costs

(CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Research and development costs (net of subsidies)	53 345	89 183	145 504

# 4.22. RELATED PARTY TRANSACTIONS

# 4.22.1. Income Generated with Related Parties

2008 (CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	63	91 804	4 417	54	3 000	99 338
ENERGETIKA TŘINEC, a.s.	Controlled entity	1 405	317 834	39 362	2 542	0	361 143
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	213	0	0	213
MORAVIA STEEL a.s.	Controlling entity	208	28 657 470	168 566	1 922	0	28 828 166
REFRASIL, s.r.o.	Controlled entity	15	665	5 719	1 278	15 300	22 977
Řetězárna a.s.	Controlled entity	0	0	2 089	32	9 690	11 811
Slévárny Třinec, a.s.	Controlled entity	447	481 752	28 082	31 909	0	542 190
TRIALFA, s.r.o.	Controlled entity	33	61 982	4 984	1 358	0	68 357
TRISIA, a.s.	Controlled entity	0	0	68	70	0	138
SILESIASLAG, a.s.	Controlled entity	0	0	21	0	0	21
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	0	651	8	375	1 034
Třinecké gastroslužby, s.r.o.	Controlled entity	13	0	3 010	1 002	0	4 025
Strojírny Třinec, a.s.	Controlled entity	4 274	517 867	25 790	10 055	70 050	628 036
VESUVIUS ČR, a.s.	Controlled entity	0	0	7 708	54	45 255	53 017
Sochorová válcovna TŽ, a.s.	Controlled entity	688	4 393 405	10 320	124	0	4 404 537
FERROMORAVIA, s.r.o.	Controlled entity	0	1 133 884	2 223	0	0	1 136 107
Beskydská golfová, a.s.	Controlled entity	0	0	169	2	0	171
Steel Consortium Partners, a.s.	Controlled entity	0	0	57	0	0	57
VÁLCOVNA TRUB TŽ, a.s.	Controlled entity	601	653 483	6 562	117	0	660 763
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	0	139	714	0	853
Moravia Security, a.s.	Controlled entity	490	0	589	47	0	1 126
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	154	238	409	0	801
D5, akciová společnost, Třinec	Controlled entity	412	453	8 575	7 007	0	16 447
VÚHŽ a.s.	Controlled entity	1 103	46	86	3 788	0	5 023
ZAMECZEK BŁOGOCICE	Controlled entity	0	0	0	0	614	614
H & S PROGRESS s.r.o.	Controlled entity	0	0	0	0	15 000	15 000
Total		9 752	36 310 799	319 638	62 492	159 284	36 861 965

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.		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
Total		1 838	34 778 591	311 801	85 597	80 250	35 258 077

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
SILESIASLAG, 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
Total		675	30 856 260	293 399	53 795	789	31 204 918

# 4.22.2. Purchases

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	705	65 166	0	65 871
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	2 919	1 865 615	0	1 868 534
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	200	0	200
MORAVIA STEEL a.s.	Controlling entity	7	21 945 468	307 961	39 330	22 292 766
REFRASIL, s.r.o.	Controlled entity	0	100 769	151 418	0	252 187
Řetězárna a.s.	Controlled entity	0	1 558	4	0	1 562
Slévárny Třinec, a.s.	Controlled entity	479	129 135	690	0	130 304
TRIALFA, s.r.o.	Controlled entity	0	12 611	20 870	69 236	102 717
TRISIA, a.s.	Controlled entity	0	0	20 670	150	20 820
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	9 275	11	6 173	0	15 459
Třinecké gastroslužby, s.r.o.	Controlled entity	0	12 414	2 252	45 344	60 010
Strojírny Třinec, a.s.	Controlled entity	93 784	341 744	177 084	54	612 666
VESUVIUS ČR, a.s.	Controlled entity	0	0	57 955	0	57 955
Sochorová válcovna TŽ, a.s.	Controlled entity	0	69 288	42 526	4 023	115 837
Beskydská golfová, a.s.	Controlled entity	0	0	1 630	0	1 630
VÁLCOVNA TRUB TŽ, a.s.	Controlled entity	0	83 380	0	0	83 380
Hutnictví železa, a.s.	Controlled entity	0	0	6 021	0	6 021
Šroubárna Kyjov, spol. s. r.o.	Controlled entity	0	830	0	0	830
Moravia Security, a.s.	Controlled entity	0	0	25 406	39	25 445
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	1	8 552	0	8 553
D5, akciová společnost, Třinec	Controlled entity	63 760	17 251	208 143	0	289 154
VÚHŽ a.s.	Controlled entity	205	224	9 951	0	10 380
Total		167 510	22 718 308	2 978 287	158 176	26 022 281

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
Řětězárna 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
Total		71 108	21 993 026	698 003	155 975	22 918 112

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	О	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
Řětězárna 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
Total		113 136	22 211 147	860 430	84 445	23 269 158

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

Entity	Relation	Tangible fixed assets		
	to the Company	NBV	Selling price	
Šroubárna Kyjov, spol. s r.o.	Controlled entity	624	610	
Total		624	610	

Entity	Relation	Non-curi	ent financial assets	Tangible fixed assets		
	to the Company	NBV	Selling price	NBV	Selling price	
MORAVIA STEEL a.s.	Controlled 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	
Total		93 048	79 985	10 535	11 129	

2006 (CZK thousand)

Entity	Relation	Intangible fixed		Tangible fixed	assets
	to the Company	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.	Controlled entity	0	0	0	2
Total		0	0	7 915	8 958

# 5. Employees, Management and Statutory Bodies

# 5.1. Staff Costs and Number of Employees

The average number of the Companys employees and managers and staff costs for the years ended 31 December 2008, 2007 and 2006 are as follows:

31 December 2008 (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	5 533	1 809 348	640 012	663	79 230	2 529 253
Foreign employees		243	1 635	15 537	125 782	143 197
Management	6	60 227	6 239	2 328	99	68 893
– Management remuneration for 2008		59 227	6 135	2 328	99	67 789
– bonuses for 2007		1 000	104	0	0	1 104
Estimated amounts for outstanding vacation days and bonuses		-41 081	-14 379	0	0	-55 460
Total	5 539	1 828 737	633 507	18 528	205 111	2 685 883

<sup>\*</sup> social costs predominantly include staff costs of employees hired through the employment agency (change in the reporting treatment since 2007, previously reported under Services)

31 December 2007 (CZK thousand)

	Number	Wages	•	Bonuses to the	Social costs	Total staff
		and salaries	and health insurance,	members of stat. bodies		costs
			incl. pension	stat. Doules		
			insurance			
			contribution			
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
Total	5 428	1 771 934	649 159	18 864	198 161	2 638 118

<sup>\*</sup> social costs predominantly include staff costs of employees hired through the employment agency (change in the reporting treatment since 2007, previously reported under Services)

31 December 2006 (CZK thousand)

	Number	Wages and salaries	Social security and health insurance, incl. pension insurance contribution	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
Total	5 417	1 634 871	595 798	18 672	81 015	2 330 356

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 2008	3 480	15 048
Remuneration for 2007	3 576	15 288
Remuneration for 2006	3 384	15 288

# 5.2. Loans, Borrowings, and Other Benefits Provided

31 December 2008 (CZK thousand)

	<b>Board of Directors</b>	Supervisory Board	Management
Company cars used for both business and private purposes (the figure increases the	804		
tax base of employees)		12	232
Liability insurance	438	658	146

31 December 2007 (CZK thousand)

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

31 December 2006 (CZK thousand)

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

## 6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS

The Company retains the following commitments off balance sheet:

# 31 December 2008

Type of commitment		Total amount	Balanc	ce at 31 Dec 2008
Guarantee statements				
– to Group companies	EUR	77 thousand	CZK	2,074 thousand
Guarantees				
to other entities	USD	705 thousand	CZK	13,641 thousand
	EUR	750 thousand	CZK	20,198 thousand
	CZK	5,000 thousand	CZK	5,000 thousand

## 31 December 2007

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

#### 31 December 2006

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

#### **Environmental Liabilities**

The Company was subject to an environmental audit which highlighted the Companys 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 2008, 2007 and 2006, the Company drew CZK 335,735 thousand, CZK 299,316 thousand and CZK 259,744 thousand, respectively.

Given the amendment to this contract concluded on 3 November 2008 with the Czech Republic – Ministry of Finance, the guarantee of the Ministry is capped at CZK 843.6 million. This guarantee covers environmental liabilities of the Company. For this reason, the Company released the reserve for environmental burdens (refer to Note 4.15).

# 7. Post Balance Sheet Events

On 21 January 2009, the Company increased its equity investment in ZAMECZEK BŁOGOCICE, Spółka z ograniczoną odpowiedzialnością, Poland, by 43 percent, i.e. to a total of 88 percent.

On 4 February 2009, the Company entered into a contract for the sale of the 100 percent equity investment in FERROMORAVIA, s.r.o.

# FINANCIAL PART II. – CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

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 Consolidated Financial Statements:

- Consolidated Balance Sheet
- Consolidated Profit and Loss Account
- Consolidated Statement of Changes in Equity
- Consolidated Cash Flow Statement
- Consolidated Notes to the Financial Statements

# These consolidated financial statements were prepared on 7 April 2009.

Statutory body of the reporting entity:	Signature
Ing. Jiří Cieńciała, CSc. Chairman of the Board of Directors	Finant &
<b>Ing. Jaroslava Ciahotná</b> First Vice Chairwoman of the Board of Directors	Ji whohin'

			31.12.2008		21.12.2007	21.12.2006
		Gross	Adjustment	Net	Net	Net
	TOTAL ASSETS	50 449 577	-21 252 936	29 196 641	27 524 726	25 387 428
В.	Fixed assets	35 591 549	-19 952 296	15 639 253	13 686 129	13 239 790
I.	Intangible fixed assets	315 760	-233 371	82 389	79 432	169 178
2.	Research and development	4 553	-228	4 325	0	0
3.	Software	221 002	-190 475	30 527	38 616	54 890
4.	Valuable rights	75 443	-38 981	36 462	39 951	1 155
6.	Other intangible fixed assets	13 347	-3 687	9 660	0	112 946
7.	Intangible fixed assets under construction	1 280	0	1 280	865	187
8.	Prepayments for intangible fixed assets	135	0	135	0	0
II.	Tangible fixed assets	34 459 697	-19 656 475	14 803 222	13 326 420	12 933 191
1.	Land	462 337	0	462 337	389 046	359 499
2.	Structures	8 573 947	-4 211 933	4 362 014	3 980 729	3 822 654
3.	Individual movable assets and sets of movable assets	24 326 737	-15 404 155	8 922 582	7 726 207	7 640 781
6.	Other tangible fixed assets	3 373	-272	3 101	3 032	1 918
7.	Tangible fixed assets under construction	998 333	-40 115	958 218	1 010 297	917 208
8.	Prepayments for tangible fixed assets	94 970	0	94 970	217 289	191 490
9.	Valuation difference on acquired assets	0	0	0	-180	-359
III.	Non-current financial assets	179 098	-36 816	142 282	121 522	100 959
1.		126 326	-17 292	109 034	85 884	67 762
2.		28 868	-16 148	12 720	13 273	12 354
3.	10.1	241	0	241	241	221
5.		20 199	-1	20 198	19 965	20 622
	Acquisition of non-current financial assets	3 464	-3 375	89	2 159	0
IV.	Consolidation differences (goodwill)	215 675	-25 634	190 041	-217 905	-276 948
	Positive consolidation difference (goodwill)	215 675	-25 634	190 041	44 540	2/0 940
	Negative consolidation difference (negative goodwill)	0	0	0	-262 445	-276 948
V.	Securities and equity interests under equity accounting	421 319	0	421 319	376 660	313 410
C.	Current assets	14 742 341	-1 300 640	13 441 701	13 703 092	12 049 118
I.	Inventories	8 855 841	-1 173 338	7 682 503	6 656 791	6 122 201
	Material	3 984 395	-281 142		2 874 382	2 889 999
				3 703 253		
2.	D 1	3 266 024 1 586 954	-732 908	2 533 116	2 310 258 1 458 582	2 009 522 1 212 338
3.	G 1		-159 054	1 427 900		
5. 6.		12 736	-234	12 502	13 044	9 811
II.	Long-term receivables	5 732	0	5 732	525	531
	- 1 . 11	74 154	0	74 154	11 021	25 815
1.	· 1	17 578	0	17 578	4 838	9 475
5.		1 056	0	1 056	765	789
7.		7 030	0	7 030	5 418	7 819
	Deferred tax asset  Short-term receivables	48 490	0	48 490	0	7 732
III.	Trade receivables	3 304 740	-127 302	3 177 438	3 550 589	3 580 590
		2 735 354	-99 607	2 635 747	3 356 711	3 337 811
2.	0 11 11 11 11 11	4 412	-4 412	0	0	0
5.		0	0	0	20	0
6.		311 194	0	311 194	70 165	117 729
7.		111 397	0	111 397	101 224	26 719
	Estimated receivables	57 690	0	57 690	4 989	12 463
9.	Other receivables	84 693	-23 283	61 410	17 480	85 868
IV.	Current financial assets	2 507 606	0	2 507 606	3 484 691	2 320 512
	Cash on hand	3 966	0	3 966	3 428	2 698
2.		358 168	0	358 168	1 226 157	1 626 276
3.	Short-term securities and investments	2 145 472	0	2 145 472	2 255 106	691 538
D.	Other assets	115 687	0	115 687	135 505	98 520
1.	Deferred expenses	93 967	0	93 967	104 251	48 139
2.	Complex deferred expenses	18 820	0	18 820	30 550	50 153
3.	Accrued income	2 900	0	2 900	704	228
	Control number	201 261 302	-85 011 744	116 249 558	109 586 739	101 137 782

LIABILITIES AND EQUITY (CZK thousand)

	LITIES AND EQUIT	31.12.2008	31.12.2007	31.12.2006
	TOTAL LIABILITIES & EQUITY	29 196 641	27 524 726	25 387 428
Α.	Equity	20 880 911	19 473 596	17 353 618
I.	Share capital	8 109 863	8 109 863	8 109 863
1.	Share capital	8 109 863	8 109 863	8 109 863
II.	Capital funds	85 994	86 285	89 004
2.	Other capital funds	86 338	86 338	86 316
3.	Gains or losses from the revaluation of assets and liabilities	-344	-53	2 688
III.	Statutory funds	3 245 427	2 841 868	2 686 447
1.	Statutory reserve fund / Indivisible fund	847 625	636 265	479 927
2.	Statutory and other funds	2 397 802	2 205 603	2 206 520
IV.	Profit or loss of previous periods	7 470 813	3 842 050	3 342 501
	Retained earnings	7 470 813	3 846 913	3 359 353
	Accumulated losses brought forward	7 470 013	-4 863	-16 852
V.	Profit or loss for the current period (+ -)	1 408 483	4 151 080	2 795 024
1.	Profit or loss for the period	1 319 615	4 033 317	2 674 164
2.	Share of income from associates	88 868	117 763	120 860
VI.	Consolidation reserve fund	560 331	442 450	330 779
В.	Liabilities	7 957 687	7 721 939	7 738 934
I.	Reserves	506 854	649 851	576 255
	Reserves under special legislation		154 866	304 006
1.	Other reserves	105 447	494 985	272 249
4. II.	Long-term liabilities	401 407 <b>831 303</b>	840 169	
	Trade payables	6 888		917 322
1.	Long-term prepayments received		24 189	6 096
5.	Long-term prepayments received  Long-term bills of exchange to be paid	1 360	369 0	
7.	Other payables	1 000	0	27 495
9.	Deferred tax liability			706
10. <i>III</i> .	Short-term liabilities	822 055	815 611	883 025
	Trade payables	4 244 367	4 343 800	3 695 673
1.	Payables to partners and association members	3 471 165	3 146 215	2 490 219
4.	Payables to employees	13 511	16 346	8 295 262 686
5.	Social security and health insurance payables	390 150	322 910	
6.	State - tax payables and subsidies	132 553	144 618	126 142
7. 8.	Short-term prepayments received	97 813	501 278	661 143
	Estimated payables	16 711	4 162	15 143
10.	Other payables	86 939	186 046	109 338
11. IV.	Bank loans and borrowings	35 525	22 225	22 707
		2 375 163	1 888 119	2 549 684
1.	Long-term bank loans Short-term bank loans	1 166 034	1 314 456	1 687 609
2.		1 209 129	573 663	862 075
C.	Other liabilities	53 581	56 267	55 670
1.	Accrued expenses	52 936	55 222	46 057
2. D	Deferred income	645	1 045	9 613
D	Minority equity	304 462	272 924	239 206
	Minority share capital	10 290	10 290	10 290
	Minority capital funds	4 463	2	1
	Minority profit funds incl. retained earnings and accumulated losses	238 089	208 823	185 037
	Minority profit or loss for the period	51 620	53 809	43 878
	Control number	115 868 190	109 327 263	100 924 057

		Year ended 31.12.2008	Year ended 31.12.2007	Year ended 31.12.2006
I.	Sales of goods	4 028	8 530	11 525
A.	Costs of goods sold	1 631	5 488	7 304
+	Gross margin	2 397	3 042	4 221
II.	Production	43 430 787	40 259 987	36 111 346
1.	Sales of own products and services	41 748 530	39 389 101	35 081 821
2.	Change in internally produced inventory	864 422	324 460	227 764
3.	Own work capitalised	817 835	546 426	801 761
В.	Purchased consumables and services	34 887 925	29 560 609	27 592 255
1.	Consumed material and energy	31 518 350	26 656 942	24 466 469
2.	Services	3 369 575	2 903 667	3 125 786
+	Added value	8 545 259	10 702 420	8 523 312
C.	Staff costs	4 588 572	4 204 916	3 618 155
1.	Payroll costs	3 153 847	2 833 313	2 546 123
2.	Remuneration to members of statutory bodies	29 848	30 917	29 224
3.	Social security and health insurance costs	1 098 322	1 032 430	925 039
4.	Social costs	306 555	308 256	117 769
D.	Taxes and charges	20 069	20 045	19 242
E.	Depreciation of intangible and tangible fixed assets	1 481 143	1 371 771	1 270 222
KR A.	Amortisation of consolidation difference (goodwill)	79 698	1 031	
KR 1.	Release of negative consolidation difference (negative goodwill)	262 445	15 822	15 822
III.	Sales of fixed assets and material	204 656	289 804	302 667
1.	Sales of fixed assets	38 548	43 268	39 879
2.	Sales of material	166 108	246 536	262 788
F.	Net book value of fixed assets and material sold	106 159	215 971	263 138
1.	Net book value of sold fixed assets	21 980	22 004	19 149
2.	Book value of sold material	84 179	193 967	243 989
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	727 749	-140 164	-393 998
IV.	Other operating income	2 779 793	333 910	3 316 541
Н.	Other operating expenses	2 969 990	469 289	3 714 005
*	Operating profit or loss	1 818 773	5 199 097	3 667 578
VI.	Proceeds from the sale of securities and investments	1 438	79 985	105 180
J.	Cost of securities and investments sold	1 371	93 048	112 492
VII.	Income from non-current financial assets		1 145	895
	Income from subsidiaries and associates	5 417 4 622		
1.	Income from other non-current financial assets		375	375
3. IX.	Income from the revaluation of securities and derivates	795	770	520
L.	Costs of the revaluation of securities and derivates	2 126	8 131	61
		25 811		0 - 0 -
M.	Change in reserves and provisions relating to financial activities	-51 020	-10 562	-8 187
X.	Interest income	71 514	46 977	42 079
N.	Interest expenses	119 128	115 640	133 896
XI.	Other financial income	236 124	125 198	142 056
O.	Other financial expenses	286 228	137 472	126 380
	Financial profit or loss	-64 899	-74 162	-74 310
Q.	Income tax on ordinary activities	382 536	1 037 892	875 639
1.	– due	494 844	1 118 677	795 993
2.	– deferred	-112 308	-8o 785	79 646
**	Profit or loss from ordinary activities	1 371 338	4 087 043	2 717 629
XIII.	Extraordinary income	11	111	413
R.	Extraordinary expenses	114		0
S.	Income tax on extraordinary activities	0	28	C
1.	– due		28	
杂	Extraordinary profit or loss	-103	83	413
**	Consolidated profit or loss net of share of income of associates	1 371 235	4 087 126	2 718 042
	Consolidated profit or loss net of minority interests	1 319 615	4 033 317	2 674 164
	Minority profit or loss	51 620	53 809	43 878
*	Share of income from associates	88 868	117 763	120 860
	Profit or loss for the current period (+/-)	1 460 103	4 204 889	2 838 902
安安安	Profit or loss for the current period (+/-)	1 408 483	4 151 080	2 795 024

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(CZK thousand)

	Share capital	Capital funds	Statutory reserve fund	Statutory funds	Accu- mulated profits brought forward	Profit or loss for the current period	Conso- lidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2005	8 109 863	86 278	358 570	2 212 963	2 248 643	1 916 585	317 214	110 880	15 360 996
Increase in share capital						2 674 164		120 860	2 795 024
Distribution of retained earnings			121 357		984 242	-1 105 599	110 880	-110 880	0
Dividends						-810 986			-810 986
Payments from the social fund				-6 443			0		-6 443
Impact of changes in the consolidated group		2 726			0				2 726
Other		0			109 616		-97 315		12 301
Balance at 31 December 2006	8 109 863	89 004	479 927	2 206 520	3 342 501	2 674 164	330 779	120 860	17 353 618
Increase in share capital						4 033 317		117 763	4 151 080
Distribution of retained earnings			154 241		492 457	-646 698	120 860	-120 860	0
Dividends						-2 027 466			-2 027 466
Revaluation of assets		-2 741							-2 741
Payments from capital funds				-920					-920
Impact of changes in the consolidated group			2 097		7 092		-9 189		0
Other		22	0	3					25
Balance at 31 December 2007	8 109 863	86 285	636 265	2 205 603	3 842 050	4 033 317	442 450	117 763	19 473 596
Profit for the period						1 319 615		88 868	1 408 483
Distribution of retained earnings			211 360	194 281	3 627 676	-4 033 317	117 763	-117 763	0
Revaluation of assets		-291							-291
Payments from the social fund				-2 082					-2 082
Impact of changes in the consolidated group					1 087		118		1 205
Balance at 31 December 2008	8 109 863	85 994	847 625	2 397 802	7 470 813	1 319 615	560 331	88 868	20 880 911

		Year ended 31.12.2008	Year ended 31.12.2007	Year ended 31.12.2006
P.	Cash and cash equivalents at the beginning of the accounting period	3 449 247	2 044 296	1 233 834
	Cash flows from ordinary activities			
Z.	Profit/(loss) from ordinary activities before tax	1 753 874	5 124 935	3 593 271
A.1.	Adjustments for non-cash transactions	2 032 007	1 327 042	918 024
A.1.1.	Depreciation of fixed assets (+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 298 092	1 356 884	1 254 707
A.1.2.	Change in provisions and reserves	674 253	-151 038	-401 220
A.1.3.	Profit/(loss) on the sale of fixed assets (-/+)	-29 239	-7 758	-11 503
A.1.4.	Revenues from dividends and profit shares (-), with the exception of dividends paid by Group entities	-5 417	12 118	-894
A.1.5.	Interest expense (+) excluding capitalized interest and interest income (-)	45 116	66 427	90 462
A.1.6.	FX differences and other non-cash transactions	49 202	50 409	-13 528
A.*	Net cash flow from operating activities before tax, movements	3 785 881	6 451 977	4 511 295
	in working capital and extraordinary items			
A.2.	Change in non-cash component of working capital	-699 954	725 017	-421 463
A.2.1.	Change in receivables from operating activities(+/-), deferred expenses, acrued income and estimated assets	658 211	189 860	180 865
A.2.2.	Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	293 772	542 585	22 105
A.2.3.	Change in inventory	-1 688 769	-259 909	-790 965
A.2.4.	Change in current financial assets not included in cash and cash equivalents	36 832	252 481	166 532
A.**	Net cash flow from operating activities before tax and extraordinary items	3 085 927	7 176 994	4 089 832
А.з.	Interest paid (-), except interest capitalized	-118 300	-114 135	-126 192
A.4.	Interest received (+)	70 973	46 998	42 077
A.5.	Income tax paid from operating activities, additional tax paid for previous periods (-)	-988 388	-954 943	-649 004
A.6.	Receipts and expenditures relating to extraordinary activities, which form extraordinary profit or loss, including income tax paid from extraordinary activities (+/-)	-104	84	413
A.7.	Received dividends and profit shares (+)	50 785	42 281	88 895
A.***	Net cash flow from operating activities	2 100 893	6 197 279	3 446 021
	Cash flows from investing activities	0		
В.1.	Fixed assets expenditures	-2 339 629	-1 784 181	-1 656 487
B.2.	Receipts from fixed assets sold	41 904	132 755	328 059
B.4.	Cash flows from the acquisition of business or its part	-1 039 408	-344 634	
B.***	Net cash flow from investing activities	-3 337 133	-1 996 060	-1 328 428
	Cash flow from financial activities			
C.1.	Change in long-term or short-term payables which fall into cash and cash equivalent in financing activities	314 549	-771 <b>162</b>	-477 984
C.2.	Impact on cash and cash equivalents due to change in equity	-19 950	-2 025 106	-829 147
C.2.1.	Increase in cash and cash equivavalents due to a change in share capital, share premium, reserve fund, including prepayments made for this increase (+)			
C.2.5.	Payments made from funds (-)	627	-280	-3 219
C.2.6.	Dividends and profit shares paid, including withholding tax related to these claims and including financial settlement with partners (-), except	-20 577	-2 024 826	-825 928
C 222	for dividends and profit shares paid between Group entities			
C.***	Net cash flow from financial activities	294 599	-2 796 268	-1 307 131
F.	Net increase or decrease of cash and cash equivalents	-941 641	1 404 951	810 462
R.	Cash and cash equivalents at the end of the accounting period	2 507 606	3 449 247	2 044 296

### 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 Companys registered office is located in Třinec-Staré Město, Průmyslová 1000, 739 70.

The Companys 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.	69.05 %
Other legal entities and individuals	30.95 %
Total	100.00 %

### 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 2006

	Position	Name
Board of Directors	Chairman	Jiří Cienciala
	1st Vice Chairwoman	Jaroslava Ciahotná
	2nd Vice Chairman	Jan Czudek
	Member	Jan Lasota
	Member	Česlav Marek
	Member	Petr Matuszek
Supervisory Board	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Hanns K. Zöllner
	Member	František Ligocki
	Member	Evžen Balko
	Member	Roman Mitręga
	Member	Vladislav Heczko
	Member	Jozef Blaško
	Member	Pablo Alarcón Espinosa

During the year ended 31 December 2008, the following changes were made to the composition of the Companys Supervisory Board:

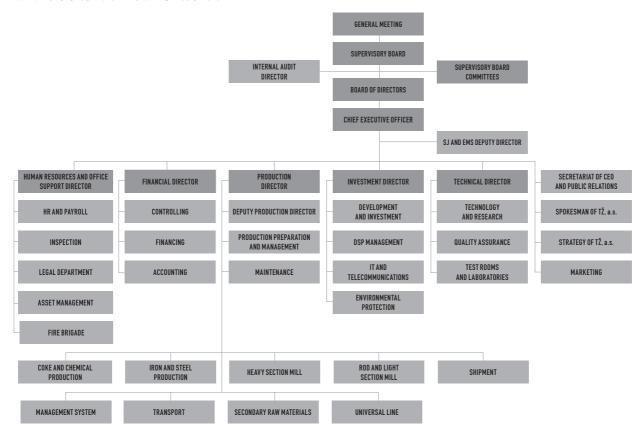
### **Supervisory Board:**

Position	Original member	New member	Date of the change
Member	Oldřich Cieslar	Roman Mitręga	14 Nov 2008
Member	Jiří Stašák	Vladislav Heczko	14 Nov 2008

On 21 January 2009, the change in the name of the Chairman of the Board of Directors from Jiří Cienciala to Jiří Cienciala was recorded in the Register of Companies.

## 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 2008:

## Subsidiaries

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2008
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 %
VÁLCOVNA TRUB TŹ, 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 %
H&S PROGRESS s.r.o.	Dobrá 240, 739 51	Wholesale mediation	100.00 %
Šroubárna Kyjov spol. s r.o.	Jiráskova 987, 697 32, Kyjov	Metalworking, locksmithing, production of machinery and equipment	100.00 %
D 5, akciová společnost Třinec	Průmyslová 1026, 739 65 Třinec-Staré Město	Repairs of metallurgy technological units, and machine, electrical and construction works	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 %

 $<sup>^{\</sup>circ}\,\text{VVT-V\'ITKOVICE}\,\,\text{V\'ALCOVNA}\,\,\text{TRUB, a.s.}\,\,\text{changed its name to}\,\,\text{V\'ALCOVNA}\,\,\text{TRUB}\,\,\text{T\'Z, a.s.}\,\,\text{in the reporting period}$ 

### Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2008
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec-Staré Město,	Production of isostatically pressed	40.00 %
	Průmyslová 715, 739 65	heat-resisting products	
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město,	Production and metallurgic processing	18.00 %
	Průmyslová 1000, 739 70	of iron and steel	

Given the acquisition of the 100 percent equity investments in Šroubárna Kyjov, spol. s r.o. and D 5, akciová společnost Třinec, the consolidation group is expanded to include these two companies for the year ended 31 December 2008. Šroubárna Kyjov, spol. s r.o. was included on 1 April 2008 and D 5, akciová společnost Třinec was included on 1 July 2008. V U H Z - NEMO, a.s. and ROLLSERVIS, a.s. were removed from the consolidation group due to their dissolution without liquidation upon merger with the parent company H&S PROGRESS s.r.o.

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

## Subsidiaries

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

## Associates

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

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,	Production and distribution of heat and	100.00 %
	Průmyslová 1024, 739 65	electricity	
Strojírny Třinec, a.s.	Třinec-Staré Město,	Locksmithing, smithcraft, tool	100.00 %
	Průmyslová 1038, 739 65	engineering	
Slévárny Třinec, a.s.	Třinec-Staré Město,	Foundry industry	100.00 %
	Průmyslová 1001, 739 65		
FERROMORAVIA, s.r.o.	Staré Město,	Production and metallurgic processing	100.00 %
	Průmyslová 1688, 686 02	of iron and steel	
VVT-VÍTKOVICE	Ostrava-Vítkovice,	Production of steel tubes	100.00 %
VÁLCOVNA TRUB, a.s.	Výstavní 1132, 706 02		
Řetězárna, a.s.	Česká Ves, Polská 57, 790 81	Production of chains and chain	51.00 %
		products	
REFRASIL, s.r.o.	Třinec-Konská,	Production of fireproof products	51.00 %
	Průmyslová 720, 739 65		

#### Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2006
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec-Staré Město,	Production of isostatically pressed	40.00 %
	Průmyslová 715, 739 65	heat-resisting products	
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město,	Production and metallurgic processing	18.00 %
!	Průmyslová 1000, 739 70	of iron and steel	
MORAVIA ENERGO, a.s.	Třinec-Staré Město,	Distribution of electricity, energy	41.00 %
!	Průmyslová 1018, 739 65	advisory services	

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  $T\tilde{Z}$ , 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 2008, 2007 and 2006. The companies included in the consolidated group in the period 2006 – 2008 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 companys 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 Groups accounting records are maintained and the consolidated 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.

For the purpose of preparing the consolidated financial statements of the TŘINECKÉ železárny, 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 2008 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2007 and 31 December 2006;
- The profit and loss account comprises comparative amounts for the years ended 31 December 2007 and 31 December 2006;
- The statement of changes in equity contains comparative amounts as of 31 December 2007 and 31 December 2006; and
- The cash flow statement comprises comparative amounts for the years ended 31 December 2007 and 31 December 2006.

### 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 Groups 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 Groups 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 decrease in the valuation of emission allowances acquired on a free-of-charge basis as of the balance sheet date is recognised in balance sheet lines Other intangible fixed assets and State – tax payables and subsidies. The Company does not recognise an upward revaluation of the emission allowances. 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 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 or anticipated income for the intended sale.

### **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 on the basis of the weighted average of the 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 entitys 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 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.

### 3.2.8. Reserves

The Group creates other reserves to provide for future risks known at the balance sheet date. In addition, the Group records tax allowable reserves for repairs of tangible fixed assets in accordance with the Provisioning Act, and a reserve for restoration and maintenance of a dump site and clean-up after termination of the operation of the site in accordance with Regulation of the Environmental Ministry No. 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.

 $At the \ balance \ sheet \ date, the \ relevant \ assets \ and \ liabilities \ are \ translated \ at \ the \ Czech \ National \ Banks \ exchange \ rate \ prevailing \ as \ of \ that \ date.$ 

## 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 Univerzalní 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 Groups 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. Costs Relating to Employees Hired through an Employment Agency

Since 2007, the Group has reported staff costs of employees hired through an employment agency as part of social costs which include the actually paid salaries including social security costs and health insurance and other aids and protective drinks for agency employees. These costs are reported under Consumed material and energy. Other services of the agency such as mediation fees and agency overheads are reported under Services.

In the past, all costs relating to employees hired through an employment agency were reported under Services.

## 3.8. 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.

### 3.9. Use of Estimates

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Group 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.

### 3.10. 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.

### 3.11. 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.

### 3.12. 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.

### 3.13. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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 2008	31 Dec 2007	31 Dec 2006
Cash	3 966	3 428	2 698
Current accounts	352 382	1 069 518	1 366 362
Term deposit	5 786	121 195	13 698
Debt securities and investments	2 145 472	2 255 106	673 247
Provision	О	0	-11 709
Total cash and cash equivalents	2 507 606	3 449 247	2 044 296
Total cash and cash equivalents not included in cash flow	0	35 444	276 216
Total current financial assets	2 507 606	3 484 691	2 320 512

### Comments on the Cash Flow Statement for the Years Ended 31 December 2006 - 2008:

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

### 3.14. 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 companys share in the current periods results, and the Consolidation reserve fund comprising an associates 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 Companys 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.

Before 2007, goodwill arising on consolidation was amortised on a straight line basis over 20 years if there were no reasons for a shorter amortisation period. Goodwill arising on consolidation was charged to positive consolidation goodwill in expenses from ordinary activities or credited to negative consolidation goodwill in income from ordinary activities, as appropriate.

In the year ended 31 December 2008, the Company changed the policy of valuing, depreciating and accounting for goodwill arising on consolidation, refer to Note 3.15.

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 2006 – 2008 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 2006 - 2008 (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.

## 3.15. YEAR-ON-YEAR CHANGES IN VALUATION, DEPRECIATION OR ACCOUNTING POLICIES

In order to give a true and fair view of the Groups financial position and performance in the consolidated financial statements, the Group decided not to amortise the positive (negative) goodwill arising on consolidation starting from 1 January 2008, but rather carry it at cost which is adjusted by cumulative losses (cumulative gains) arising from the change in the value, and is tested annually for changes in this value.

## 4. Analysis of Impacts on Profit/Loss

### 4.1. Consolidated Profit/Loss for 2008

.1.1. Structure of the Consolidated Profit/Loss for 2008	(CZK thousand
Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a.s.	1 204 420
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	70 677
Profit/(loss) of the current period – Strojírny Třinec, a.s.	95 870
Profit/(loss) of the current period – Slévárny Třinec, a.s.	4 312
Profit/(loss) of the current period – FERROMORAVIA, s.r.o.	44 781
Profit/(loss) of the current period – VÁLCOVNA TRUB TŽ, a.s.	-207 511
Profit/(loss) of the current period – H&S PROGRESS s.r.o	832
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	23 060
Profit/(loss) of the current period – D 5, akciová společnost	11 401
Profit/(loss) of the current period – VÚHŽ a.s.	34 803
Share in profit of the current period – REFRASIL, s.r.o.	21 700
Share in profit of the current period – Řetězárna a.s.	32 026
Share in profit/(loss) of equity accounted investments	88 868
Adjustments within full consolidation (see below)	27 660
Adjustments within the equity method of consolidation (see below)	-44 416
Consolidated profit	1 408 483
.1.2. Adjustments within Full Consolidation for 2008	(CZK thousand)
Elimination of profit from intercompany sales of fixed assets, including the deferred tax impact	r 456
Elimination of profit from intercompany sales of fixed assets, including the deferred tax impact	
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact	30 377
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact Revaluation of assets to fair value	30 377 -45 950
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact Revaluation of assets to fair value Amortisation of positive goodwill on consolidation	30 377 -45 950 262 445
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact Revaluation of assets to fair value Amortisation of positive goodwill on consolidation Decrease in the value of the positive goodwill on consolidation	30 377 -45 950 262 445 -79 698
Elimination of unrealised profit from intercompany sales of inventory, including the deferred tax impact Revaluation of assets to fair value Amortisation of positive goodwill on consolidation	-45 950 262 445

## 4.2. CONSOLIDATED PROFIT/LOSS FOR 2007

Total adjustments

Elimination of profit and loss from unrealised inventory

Elimination of dividends paid by VESUVIUS ČESKÁ REPUBLIKA, a.s.

1.2.1. 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
Consolidated profit	4 151 080

-45 255

-44 416

839

1.2.2. 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	-29 033
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
Total adjustments	-210 891
4.2.3. Adjustments within the Equity Method for 2007	(CZK thousand
Elimination of dividends paid by VESUVIUS ČESKÁ REPUBLIKA, a.s.	-54 513
Total adjustments	-54 513
4.3. Consolidated Profit/Loss for 2006	
1.3.1. 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.	18 570
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
Consolidated profit	2 795 024
1.3.2. 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
Total adjustments	-258 488
4.3.3. Adjustments within the Equity Method for 2006	(CZK thousand
Elimination of dividends received from VESUVIUS ČESKÁ REPUBLIKA, a.s.	-96 001

82 FINANCIAL PART

Deconsolidation of MORAVIA ENERGO s.r.o.

Elimination of profit from unrealised inventory

Total adjustments

-100 552

-193 010

3 543

# 5. Additional Consolidated Balance Sheet Information

## 5.1. Intangible Fixed Assets

Cost (CZK thousand)

	Balance at 1 Jan 2006	Additions	Disposals	Balance at 31 Dec 2006	New acquisition	Additions	Disposals
Start-up costs	624	0	624	0	50 O	0	0
Software	157 591	30 506	3 065	185 032	8 375	5 387	1 779
Valuable rights	35 985	1 410	176	37 219	42 677	1 597	6 095
Other intangible FA	137 342		0 / 1 . 0	112 946	0	10 159	215 105
Intangible FA under construction	203 234	8 723	211 770	187	0	6 124	5 446
Prepayments made for intangible FA	0	0	0	0	0	0	0
Total	534 776	3 310 728	3 510 120	335 384	51 052	115 267	228 425

(CZK thousand)

	Balance at	New	Additions	Disposals	Balance at
	31 Dec 2007	acquisition			31 Dec 2008
Research and development	О	0	4 553	0	4 553
Start-up costs	О	0	0	0	0
Software	197 015	14 751	11 953	2 717	221 002
Valuable rights	75 398	2 763	0	2 718	75 443
Other intangible FA	0	0	2 748 610	2 735 263	13 347
Intangible FA under construction	865		126 259	125 844	1 280
Prepayments made for intangible FA	О	0	135	0	135
Total	273 278	17 514	2 891 510	2 866 542	315 760

## **Accumulated Amortisation and Provisions**

(CZK thousand)

	Balance at	Additions	Disposals	Balance at	New	Additions	Disposals
	1 Jan 2006			1 Jan 2005	acquisition		
Start-up costs	624	0	624	0	0	0	0
Software	113 367	19 901	3 126	130 142	5 006	25 076	1 825
Valuable rights	35 468	772	176	36 064	2 823	2 655	6 095
Other intangible FA	0	0	0	0	0	0	0
Intangible FA under construction	0	0	0	0	0	0	0
Prepayments made for intangible FA	0	0	0	0	0	0	0
Total	149 459	20 673	3 926	166 206	7 829	27 731	7 920

(CZK thousand)

(CZK thousand)

	Balance at 31 Dec 2007	New acquisition	Additions	Disposals	Balance at 31 Dec 2008
Research and development	О	0	228	0	228
Start-up costs	o	0	0	0	0
Software	158 399	13 199	21 593	2 716	190 475
Valuable rights	35 447	2 303	1 395	164	38 981
Other intangible FA	О	0	3 687	0	3 687
Intangible FA under construction	О	0	0	0	0
Prepayments made for intangible FA	О	0	0	0	0
Total	193 846	15 502	26 903	2 880	233 371

## Net Book Value

Balance at 31 Dec 2006 Balance at 31 Dec 2007 Balance at 31 Dec 2008 Research and development 4 325 Software 38 616 54 890 30 527 Valuable rights 39 951 36 462 1 155 Other intangible FA 112 946 9 660 Intangible FA under construction 187 865 1 280 Prepayments made for intangible FA 135 Total 82 389 169 178 79 432

The tables of movements within intangible fixed assets include the column new acquisition relating to the expansion of the consolidated group to include Šroubárna Kyjov, spol. s r.o. and D5, akciová společnost, in 2008 and H&S PROGRESS s.r.o.,  $V \dot{U} H \ddot{Z}$  a.s.,  $V \dot{U} H \ddot{Z}$  NEMO a.s. and ROLLSERVIS a.s. in 2007. Additions to and disposals of intangible fixed assets predominantly include the allocation and consumption of greenhouse emission allowances.

## Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 20,542 thousand, CZK 26,203 thousand and CZK 21,333 thousand as of 31 December 2008, 2007 and 2006, 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 32,577 thousand, CZK 28,542 thousand and CZK 21,050 thousand as of 31 December 2008, 2007 and 2006, 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 2006	Additions	Disposals	Balance at 31 Dec 2006	New acquisition	Additions	Disposals
Land	360 307	238	1 046	359 499	30 106	23	582
Structures	7 272 828	326 040	35 403	7 563 465	147 132	244 670	40 096
Individual movable assets	20 248 144	865 525	318 986	20 794 683	162 760	1 222 596	303 736
Other tangible FA	2 214		110	2 104	1 155	16	0
Tangible FA under construction	489 808	1 637 045	1 207 836	919 017	5 687	1 525 694	1 435 575
Prepayments	63 253	397 506	269 269	191 490	8 652	412 205	395 058
Valuation difference on acquired assets	-2 693	0	0	-2 693	0	0	0
Total	28 433 861	3 226 354	1 832 650	29 827 565	355 492	3 405 204	2 175 047

(CZK thousand)

	Balance at 31 Dec	New acquisition	Additions	Disposals	Balance at 31 Dec
	2007				2008
Land	389 046	75 810		5 166	462 337
Structures	7 915 171		455 968	170 997	8 573 947
Individual movable assets	21 876 303	635 501	2 126 119	311 188	24 326 737
Other tangible FA	3 275	307	66	275	3 373
Tangible FA under construction	1 014 823	9 267	2 722 402	2 748 159	998 333
Prepayments	217 289	3 649	561 538	687 505	94 970
Valuation difference on acquired assets	-2 693	-11	2693	-11	0
Total	31 413 214	1 098 328	5 871 433	3 923 279	34 459 697

## **Accumulated Depreciation and Provisions**

(CZK thousand)

	1 Jan 2005	Additions	Disposals	2006	New acquisition	Additions	Disposals
Land	0	0	О	0	0	0	0
Structures	3 572 965	209 850	42 004	3 740 811	40 568	214 704	61 641
Individual movable assets	12 385 810	1 090 962	322 870	13 153 902	105 364	1 201 538	310 708
Other tangible FA	199	75	88	186	3	54	0
Tangible FA under construction	3 213	613	2 017	1 809	485	2 277	45
Valuation difference on acquired assets	-2 154	-180	0	-2 334	0	-179	0
Total	15 960 033	1 301 320	366 979	16 894 374	146 420	1 418 394	372 394

(CZK thousand)

	Balance at 31 Dec 2007	New acquisition	Additions	Disposals	Balance at 31 Dec 2008
Land	0	0	0	0	0
Structures	3 934 442		267 066	185 543	4 211 933
Individual movable assets	14 150 096		1 297 874	339 415	15 404 155
Other tangible FA	243	184	33	188	272
Tangible FA under construction	4 526	0	36 213	624	40 115
Valuation difference on acquired assets	-2 513	0	3 641	1 128	0
Total	18 086 794	491 752	1 604 827	526 898	19 656 475

Net Book Value (CZK thousand)

Net book value	Balance at 31 Dec 2006		
Land	359 499	389 046	462 337
Structures	3 822 654 3 980 72		4 362 014
Individual movable assets	7 640 781	7 726 207	8 922 582
Other tangible FA	1 918	3 032	3 101
Tangible FA under construction	917 208	1 010 297	958 218
Prepayments for tangible FA	191 490	217 289	94 970
Valuation difference on acquired assets	-359	-180	0
Total	12 933 191	13 326 420	14 803 222

The tables of movements within tangible fixed assets include the column new acquisition in 2008 relating to the expansion of the consolidated group to include Šroubárny Kyjov, spol. s r. o., D 5, akciová společnost, in 2007 relating to the expansion of the consolidated group to include H&S PROGRESS s.r.o.,  $V\acute{U}H \Breve{Z}$  a.s.,  $V\acute{U}H\Breve{Z}$  NEMO a.s. and ROLLSERVIS a.s.

Principal additions to tangible fixed assets for the year ended 31 December 2008 are as follows:

(CZK thousand)

Garett winding line	273 693
Equipment for pig iron desulphurisation	208 421
Filtration equipment for the agglomeration	152 390
Sakamura press	86 315
SHUMAG III B/25 combined drawing machine	94 633
Renovation and modernisation of Big Mannesman	735 000

### Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,460,601 thousand, CZK 1,345,568 thousand and CZK 1,248,889 thousand as of 31 December 2008, 2007 and 2006, 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 498,297 thousand, CZK 422,394 thousand and CZK 392,336 thousand as of 31 December 2008, 2007 and 2006, respectively.

### Fair Value

As of the acquisition date in 2008, the Group revalued the assets of D5, akciová společnost and Šroubárna Kyjov, spol. s r.o.

In the year ended 31 December 2008, the revaluation of assets to fair value increased the balance of tangible fixed assets by CZK 377,131 thousand and resulted in the recognition of a deferred tax liability of CZK 71,655 thousand using the 19 percent tax rate.

As of the acquisition date in 2007, 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 in 2006, the Company revalued the assets of VVT-VÍTKOVICE VÁLCOVNA 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.

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

### **Finance Leases**

31 December 2008 (CZK thousand)

	Cars	Machinery	Balance at
		and equipment	31 Dec 2008
Total anticipated lease payments	39 591	224 465	264 056
Actual lease payments made through 31 Dec 2008	32 237	176 976	209 213
Future payments due by 31 Dec 2009	4 742	21 821	26 563
Future payments due in the following periods	2 611	25 668	28 279

31 December 2007 (CZK thousand)

	Cars	Machinery	Balance at
		and equipment	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	Balance at
		and equipment	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

The Group made lease payments of CZK 29,230 thousand, CZK 26,981 thousand and CZK 33,328 thousand in the years ended 31 December 2008, 2007 and 2006, respectively.

# 5.4. PLEDGED FIXED ASSETS

31 December 2008 (CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	419 290	Loan from Komerční banka, a.s.
Land	15 410	Loan from Komerční banka, a.s.
Tangible fixed assets	436 336	Loan from Česká spořitelna, a.s.
Land	2 811	Loan from Česká spořitelna, a.s.
Tangible fixed assets	263 135	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	387 108	Loan from Citibank, a.s.
Technology	207 983	Raifeisen Bank, a.s.
Tangible fixed assets	2 618	Loan from CITIBANK
Tangible fixed assets	1 065	Loan from CITIBANK
Tangible fixed assets	1 025	Loan from CITIBANK
Tangible fixed assets	444	Loan from CITIBANK
Tangible fixed assets	2 894	Loan from CITIBANK
Tangible fixed assets	8 673	Loan from CITIBANK
Tangible fixed assets	1 665	Investment loan from ČSOB
Tangible fixed assets	21 107	Long-term loan from Komerční banka, a.s.
Tangible fixed assets	36 691	Long-term loan from UniCredit Bank Czech Republic, a.s.
Tangible fixed assets	125 877	Collateral for loan – renovation and modernisation of the foundry plant
Tangible fixed assets	99 331	Collateral for loan – renovation and modernisation of the foundry plant
Total	2 033 463	

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 banka, a.s.
Land	12 341	Loan from Komerční banka, 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.
Total	1 921 476	

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		Loan from Komerční banka, a.s.
Tangible fixed assets		Loan from HVB, a.s.
Technology	234 161	Loan from Raiffeisen Bank, a.s.
Tangible fixed assets		Loan from Citibank, a.s.
Tangible fixed assets		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.
Total	1 955 398	

# 5.5. Summary of Unconsolidated Investments

# 5.5.1. Summary of Unconsolidated Investments for 2008

(CZK thousand)

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	31 728	1 951	0	25 643	0
Doprava TŽ, a.s.	15 755	16 000	115	100	68 236	16 776	0	15 755	3 000
TRIALFA, s.r.o.	100	100	<del>-</del>	100	21 629	4 487	o	100	0
Steel Consortium Partners, a.s.	19 000	19 000	117	100	1 786	-85	-17 213	1 787	0
Reťaze Slovakia s.r.o.	14 041	4 936	0	80	17 551	2 443	0	14 041	1 247
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	*	45 738	_	99	36 156	5 429	0	*	0
TRISIA, a.s.	19 364	9 900	990	66	65 638	-1 645	0	19 364	0
Regionální inovační centrum F-M, s.r.o.	240	240	_	100	2 357	36	0	240	0
Moravia Security, a.s.	12 000	12 000	12	100	7 129	-4 781	0	12 000	0
Soukromá střední škola Třinec, s.r.o.	2 000	2 000	_	100	1 971	-29	0	2 000	0
Sroubarna Kyjov TK Vida ve Metal Sanay ve Ticarel Limited Sirketi	148	-	_	-	-	-	-79	69	0
Total	126 326						-17 292	109 034	4 247

Note: \* confidential

(CZK thousand)

Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
ZAMECZEK BŁOGOCICE	148	148	_	45	-925	-927	0	148	0
SILESIASLAG, a.s.	1 761	1 760	74	44	3 843	-9	-69	1 692	0
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34	11 016	905	0	750	375
Hutnictví železa, a.s.	25 961	16 191	26 985	39	45 602	-243	-16 044	9 917	0
Kvalif. a personální agentura, o.p.s.	35	34	_	33	804	-61	-35	0	0
HRAT, s.r.o.	213	100	_	23	2 644	1 300	0	213	0
Total	28 868						-16 148	12 720	375

(CZK thousand)

Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Valuation difference	Fair value	Financial income for the year
KPM CONSULT, a.s.	100	100	10	10	14 509	3 148	0	100	0
SAVER Česká Ves, s.r.o.	121	121	О	10	10 063	2 477	0	121	0
Informatel zájmové sdružení	20	20	_	5	0	О	0	20	0
ACRI, Praha	20	20	_	2.08	1 095	1	-20	0	0
Total	261						-20	241	0

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## Other Non-Current Financial Assets

(CZK thousand)

Investment	Acquisition cost	Description of	Provision	Financial income for
		investment/collateral		2008
Term deposit	20 199	Bank guarantee col-	-1	795
		lateral		

(CZK thousand)

	Value of investment	Financial income
Total financial assets	142 282	5 417

# 5.5.2. Summary of Unconsolidated Investments for 2007

(CZK thousand)

Company	Cost		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
Reťaze 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
Total	103 013		7 1 1 1 1				-17 129	85 884	0

Note: \* confidential

(CZK thousand)

Company	Cost		Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
SILESIASLAG, 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	52000	-	24.97	10	*	-52 000	0	0
Total	80 507						-67 234	13 273	375

Note: \* - bankruptcy trustee provided no results

(CZK thousand)

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
Total	311						-70	241	0

Other Non-Current Financial Assets

(CZK thousand)

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

(CZK thousand)

	Value of investment	Financial income
Total financial assets	121 522	1 145

## 5.5.3. Summary of Unconsolidated Investments for 2006

(CZK thousand)

Company	Cost		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
Total	84 797						-17 035	67 762	

(CZK thousand)

Company	Cost		Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
SILESIASLAG, 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	10 478	1 843	0	750	375
Hutnictví železa, a.s.	23 573	14 144	23 573	33.82	47 856	363	-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	40	*	-52 000	0	0
Total	78 117						-65 763	12 354	375

Note: \* – bankruptcy trustee provided no results

(CZK thousand)

Company	Company	Company	Company	Company	Company	Company	Company	Company	Company
HRAT, s.r.o.	50	50	_	11.63	1 013	326	-50	0	0
KPM CONSULT, a.s.	100	100	10	10.00	9 910	1 730	0	100	0
SAVAREN Česká	121	121		10.00	4 764	1 823	0	121	0
Ves, s.r.o.									
ACRI, Praha	20	20	_	2.33	1 271	488	-20	О	0
Total	291						-70	221	C

## **Other Non-Current Financial Assets**

(CZK thousand)

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

(CZK thousand)

	Value of investment	Financial income
Total non-current financial assets	100 959	895

The principal additions to non-current financial assets as of 31 December 2008 include:

- Formation of Moravia Security, a.s. wholly owned by TŽ,
- Formation of Soukromá střední škola Třinec, s.r.o. wholly owned by TŽ,
- $\ Acquisition \ of \ 45 \ percent \ equity \ investment \ in \ "ZAMECZEK \ BŁOGOCICE" \ Sp\'ołka \ z \ ograniczoną \ odpowiedzialnością.$

## 5.6. Accounting for Goodwill Arising on Consolidation

In the year ended 31 December 2008, the Company changed the policy of valuing, depreciating and accounting for goodwill arising on consolidation, as described in Note 3.15. For this reason, the Company recognised the aggregate balance of the negative goodwill on consolidation of CZK 262,445 thousand in income and the balance of the positive goodwill arising on consolidation of CZK 79,698 thousand in expenses.

2008 (CZK thousand)

	Gross	Correction	Net	Recognition in expenses	Recognition in income
Positive goodwill arising on consolidation					
H&S PROGRESS s.r.o	45 172	-25 634	19 538	24 603	_
D 5, akciová společnost	-	-	-	55 095	_
Šroubárna Kyjov, spol. s r.o.	170 503	-	170 503	_	-
Total	215 675	-25 634	190 041	79 698	-
Negative goodwill arising on consolidation					
FERROMORAVIA, s.r.o.	-	-	-	_	16 435
VÁLCOVNA TRUB TŽ, a.s.	-	-	-	_	232 394
Řetězárna a.s.	-	-	-	_	13 616
Total	-	-	-	_	262 445

2007 (CZK thousand)

	Gross	Correction	Net	Recognition in expenses	Recognition in income
Positive goodwill arising on consolidation					
H&S PROGRESS s.r.o.	45 571	-1 031	44 540	1 031	-
Total	45 571	-1 031	44 540	1 031	_
Negative goodwill arising on consolidation					
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
Total	-308 676	46 231	-262 445	_	15 822

2006 (CZK thousand)

	Gross	Correction	Net	Recognition in expenses	Recognition in income
Negative goodwill arising on consolidation					
FERROMORAVIA, s.r.o.	-21 581	4 066	-17 515	<del>-</del>	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	<del>-</del>	1 650
Total	-307 357	30 409	-276 948	_	15 822

## 5.7. Securities and Equity Investments under Equity Accounting

(CZK thousand)

·			
Securities and equity investments under equity accounting	2008	2007	2006
VESUVIUS ČESKÁ REPUBLIKA, a.s.	86 390	88 213	97 471
Sochorová válcovna TŽ, a.s.	334 929	288 447	215 939
Total	421 319	376 660	313 410

 ${\it 5.7.1. Pledged Securities \ and \ Equity \ Investments \ under \ Equity \ Accounting}$ 

As of 31 December 2008, 2007 and 2006, the Group carries no pledged non-current financial assets.

5.8. Inventory (CZK thousand)

Structure of inventory	Balance at 31	_	Net balance at	Balance at 31	_	Net balance at
	2008	31 Dec 2008	31 Dec 2008	2007	31 Dec 2007	31 Dec 2007
Material	3 984 395	-281 142	3 703 253	3 038 925	-164 543	2 874 382
Internally produced inventory:	4 852 978	-891 962	3 961 016	3 917 510	-148 670	3 768 840
Work in progress and semi-finished products	3 266 024	-732 908	2 533 116	2 400 450	-90 192	2 310 258
Finished products	1 586 954	-159 054	1 427 900	1 517 060	-58 <i>4</i> 78	1 458 582
Goods	12 736	-234	12 502	15 876	-2 832	13 044
Prepayments	5 732	0	5 732	525		525
Total	8 855 841	-1 173 338	7 682 503	6 972 836	-316 045	6 656 791

(CZK thousand)

Structure of inventory	Balance at 31 Dec 2006	Provisions at	Net balance at 31 Dec
Material	3 066 567	-176 568	2 889 999
Internally produced inventory:	3 544 825	-322 965	3 221 860
Work in progress and semi-finished products	2 220 960	-211 438	2 009 522
Finished products	1 323 865	-111 527	1 212 338
Goods	9 811	0	9 811
Prepayments	531	0	531
Total	6 621 734	-499 533	6 122 201

## 5.9. RECEIVABLES

## 5.9.1. Long-Term Receivables

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
– Trade receivables	17 578	4 838	9 475
– Prepayments made	1 056	765	789
– Other receivables	7 030	5 418	7 819
– Deferred tax asset	48 490	0	7 732
Total	74 154	11 021	25 815

Other receivables predominantly include loans provided to employees. \\

# Aggregate Maturities of Long-Term Trade Receivables as of 31 December 2008

(CZK thousand)

Year	Trade receivables and	Other receivables	Deferred tax asset	Total
	prepayments made	<u></u>		
2010	720	3 640	22 422	26 782
2011	2 940	1 224	26 068	30 232
2012	2 896	605	О	3 501
2013	6 933	563	0	7 496
2014	4 865	620	0	5 486
After 2014	280	378	О	657
Total	18 634	7 030	48 490	74 154

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		
2008	Short-term	2 422 765	223 055	16 247	10 842	2 667	59 778	2 735 354
	Provisions	-10 220	-14 186	-4 885	-8 516	-2 356	-59 444	-99 607
	Total	2 412 545	208 869	11 362	2 326	311	334	2 635 747
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 <b>86</b> 0
	Total	3 202 503	145 063	7 497	1 319	13	316	3 356 711
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
	Total	3 185 853	139 507	8 899	3 072	0	480	3 337 811

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

(CZK thousand)

			Balance at 31 Dec 2006
– Customers	2 732 576	3 443 968	3 438 204
- Bills of exchange for collection	0	0	1 902
– Other receivables	2 778	603	10 892
– Provision	-99 607	-87 860	-113 187
Total	2 635 747	3 356 711	3 337 811

### Other Short-Term Receivables

Other short-term prepayments made principally involve prepayments for supplied services and prepayments for fees according to the Air Protection Act.

State – tax receivables principally include receivables arising from the corporate income tax and receivables arising from excessive deduction of the value added tax.

Other receivables mainly relate to the receivable arising from unpaid dividends, loan contract and bank guarantees.

Estimated receivables principally include insurance benefits.

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 2008	Receivable balance 31 Dec 2007	Receivable balance 31 Dec 2006
Komerční banka, a.s.	Siemens VAI MetalsTechnologies.	О	10 445	0
	Vesuvius Group S.A.	0	4 555	0
	VÚHŹ, a.s.	10 435	0	0
CSOB, a.s.	Edscha Bohemia	0	5 000	0
	Šroubárna Kyjov, spol. s r.o.	110 885	0	0
	VÚHŽ	4 360	0	0
Citibank, a.s	Cebes a.s.	0	2 992	0
	Edscha Bohemia s.r.o.	0	3 898	0
	ED Scharvachter	0	677	0
	Hayes Lemmers Alukola s.r.o.	0	345	0
	Hoesch Schwerter Profile	0	1 387	0
	Ocrim Societa Per 1 Industria	0	878	0
	Romil s.r.o.	0	361	0
	V.I.P. Trading Company s.r.o.	0	362	0
	Železiarne Podbrezová, a.s.	0	353	0
	Prokop Invest, a.s.	0	170	0
	VÚHŽ, a.s.	5 576	0	0
Total		131 256	31 423	0

Short-Term Receivables (CZK thousand)

Company's name	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Trade payables			
Doprava TŽ, a.s.	6 714	11 424	9 332
Moravia Security, a.s. *	97	0	0
MORAVIA STEEL a.s.	1 542 723	2 232 359	2 419 711
Řeťaze Slovakia, s.r.o.	0	1 631	883
TRIALFA, s.r.o.	10 069	6 349	7 886
TŘINECKÁ PROJEKCE, a.s.	118	144	163
Třinecké gastroslužby, s.r.o.	1 632	2 219	907
Sochorová válcovna TŽ, a.s.	279 372	346 225	306 266
Kvalifikační a personální agentura, o.p.s.	78	4	5
TRISIA, a.s.	6	4	30
VESUVIUS ČESKÁ REPUBLIKA, a.s.	11 524	4 056	6 134
CMC Třinec Stahlhandel GmbH	17 968	8 963	7 809
Beskydská golfová, a.s.	12 105	399	957
ZAMECZEK BŁOGOCICE *	40 757	0	0
Regionální informační centrum Frýdek-Místek, s.r.o.	157	0	0
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM, s.r.o. *	33	0	0
HŽP, a.s.	181	0	0
SILESIASLAG, a.s.	1	4	12
Steel Consortium Partners, a.s.	16	1	0
Total	1 923 551	2 613 782	2 760 095
Other intercompany receivables			
Sochorová válcovna TŽ, a.s.	0	0	3 219
VESUVIUS ČESKÁ REPUBLIKA, a.s.	8 000	8 113	8 000
Total	8 000	8 113	11 219
Total short-term intercompany receivables	1 931 551	2 621 895	2 771 314
Other than intercompany receivables	1 245 887	928 694	809 276
Total short-term receivables	3 177 438	3 550 589	3 580 590

 $<sup>^{\</sup>circ}$  Moravia Security, a.s. became part of the group on 15 February 2008 and Zameczek Błogocice on 24 October 2008, VÍTKOVICE – Výzkum a vývoj, spol. s r.o. changed its name to MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.,

# **Long-Term Receivables**

(CZK thousand)

Company's name		Balance at 31 Dec 2007	
• Other			
Sochorová válcovna TŽ, a.s.	3 378	0	0
Total	3 378	0	0
Total long-term intercompany receivables	3 378	0	0
Other than intercompany receivables	70 776	11 021	25 815
Total long-term receivables	74 154	11 021	25 815

# 5.10. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Cash	3 966	3 428	2 698
Current accounts	351 919	1 069 518	1 366 362
Current accounts with limited dealing with the balance	463	0	0
Current deposit – special-purpose funds of the received state aid	o	35 444	246 216
Term deposit	5 786	121 195	13 698
Current securities and investments	2 145 472	2 255 106	703 247
Provision against securities	o	0	-11 709
Total current financial assets	2 507 606	3 484 691	2 320 512

Short-term securities and equity investments as of 31 December 2008 include depository notes of Komerční banka, a.s. of CZK 807,051 thousand, ČSOB, a.s. of CZK 25,001 thousand, Raiffeisenbank, a.s. of CZK 610,033 thousand, Česká spořitelna, a.s. of CZK 688,038 thousand and tradable securities of CZK 15,349 thousand.

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, Raif-feisenbank, 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.

5.11. TEMPORARY ASSETS (CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Deferred expenses	93 967	104 251	48 139
Deferred expenses – lease contracts	80 602	14 914	21 872
Other deferred expenses – studies, projects, interest, subscription payments	13 365	89 337	26 267
Complex deferred expenses	18 820	30 550	50 153
Accrued income	2 900	704	228
Total deferred expenses and accrued income	115 687	135 505	98 520

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

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 Companys 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 not to declare dividends for 2007, gross dividends for 2006 were CZK 250 per share and gross dividends for 2005 were CZK 100 per share.

On 28 September 2008, the payment of dividends for 2003 declared by the General Meeting of the Company held on 28 June 2004 which were due on 28 September 2004 became statute barred. The amount of these dividends of CZK 1,640 thousand was written off to other financial income.

## 5.12.1. Share Capital

The Companys share capital is composed of 8,109,863 ordinary registered shares, fully subscribed and paid up, with a nominal value of CZK 1 thousand 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 Companys shares was registered in the Register of Companies on 13 December 2007. The shares were deregistered from the Prague Stock Exchange in 2002.

On 16 December 2008, the Companys shares in the certificate form which were not collected by their owners after the change of the book-entry to the certificate form of shares were auctioned. The shares were not sold, and a repeated enforced auction will be held in 2009. As of 31 December 2008, the number of uncollected shares was 84,119.

5.13. RESERVES (CZK thousand)

	Reserves	under special legislation	Other reserves	Total reserves
		Reserve for restoration		
Balance at 1 Jan 2006	597 904	3 398	187 108	788 410
Creation	64 657	305	148 439	213 401
Use	360 908	1 350	63 298	425 556
Balance at 31 Dec 2006	301 653	2 353	272 249	576 255
New acquisition	644	0	0	644
Creation	20 571	257	270 290	291 118
Use	170 281	331	47 554	218 166
Balance at 31 Dec 2007	152 587	2 279	494 985	649 851
New acquisition	29 908	0	100	30 008
Creation	21 908	136	478 071	500 115
Use	100 995	376	571 749	673 120
Balance at 31 Dec 2008	103 408	2 039	401 407	506 854

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, emission allowances, additionally assessed taxes, real estate transfer tax, employee bonuses and losses incurred in connection with a concluded long-term contract.

### 5.14. PAYABLES

5.14.1. Long-Term Payables

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Long-term payables			
– Trade payables	6 888	24 189	6 096
– Long-term bills of exchange to be settled	0	0	27 495
– Long-term prepayments received	1 360	369	0
– Other payables	1 000	0	706
– Deferred tax liability	822 055	815 611	883 025
– Tax liabilities and grants	О	0	0
Total	831 303	840 169	917 322

Long-term bills of exchange to be settled reported as of 31 December 2006 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 2008 and 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	
Short-term trade payables			
– Customers	3 470 877	3 119 305	2 460 840
– Bills of exchange to be settled	0	26 620	27 495
– Other payables	288	290	1 884
Total	3 471 165	3 146 215	2 490 219

## **Aging of Short-Term Trade Payables**

(CZK thousand)

Year	Category	ategory Before due date Past due date						
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and greater	
2008	Short-term	3 346 560	102 126	9 867	12 716	-88	-16	3 471 165
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

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 2008, payables associated with social security and the state employment policy contribution amounted to CZK 89,379 thousand, health insurance payables totalled CZK 39,143 thousand. The Company has no outstanding social security or health insurance payables. Payables arising from additional pension scheme amounted to CZK 4,031 thousand as of 31 December 2008.

The category State – tax payables and subsidies principally comprises valued added tax payables, income tax payable and received subsidies.

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 deductions from employee salaries.

Name of the entity	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Trade payables			
Doprava TŽ, a.s.	6 750	6 984	7 569
Kvalifikační a personální agentura, v.o.s.	57	37	0
Hutnictví železa, a.s.	694	678	540
MORAVIA STEEL, a.s.	2 073 703	1 408 890	1 242 285
Moravia Security, a.s. *	5 691	0	0
Reťaze Slovakia s.r.o.	0	0	0
TRIALFA, s.r.o.	15 951	17 074	16 585
TRISIA, a.s.	3 665	3 906	236
TŘINECKÁ PROJEKCE, a.s.	2 197	14 053	9 326
Třinecké gastroslužby, s.r.o.	8 651	10 541	6 238
Sochorová válcovna TŽ, a.s.	10 833	12 556	4 706
VESUVIUS ČESKA REPUBLIKA, a.s.	3 118	17 170	17 950
Beskydská golfová, a.s.	16	18	16
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o. *	1 868	0	0
Regionální inovační centrum Frýdek-Místek, s.r.o.	43	0	0
CMC-Třinec Stahlhandel GmbH	170	0	23
Total short-term intercompany payables	2 133 407	1 491 907	1 305 474
Other than intercompany payables	2 110 960	2 851 893	2 390 199
Total short-term payables	4 244 367	4 343 800	3 695 673

 $<sup>^*</sup>Moravia~Security,~a.s.~became~part~of~the~group~on~15~February~2008~and~V\'1TKOVICE-V\'yzkum~a~v\'yvoj,~spol.~s~r.o.~changed~its~name~to~MATERI\'ALOV\'Y~A~METALURGICK\'Y~V\'YZKUM~s.r.o..$ 

# 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	Balance at 31	Balance at 31
			Dec 2007	Dec 2006
Difference between tax and accounting net book value of fixed assets	24	-	-	-5 174 964
Difference between tax and accounting net book value of fixed assets	19	-6 048 205	-5 534 325	_
Difference between tax and accounting net book value of fixed assets	21	-	-146 817	_
Difference between tax and accounting net book value of fixed assets	20	-129 433	-	_
Re-measurement of securities available for sale	24	-	-	20
Re-measurement of securities available for sale	19	20	-	<del>-</del>
Re-measurement of fixed assets to fair value	19	-	-100 372	_
Re-measurement of assets to fair value charged against equity	24	-	-	-5 496
Re-measurement of assets to fair value charged against equity	19	-377 131	-	_
Accounting reserves	24	-	-	242 732
Accounting reserves	21	-	272 940	_
Accounting reserves	20	372 304	-	_
Accounting reserves	19	11 563	186 400	_
Provisions	24	-	-	597 744
Provisions	21	-	232 421	_
Provisions	20	1 051 599	-	_
Provisions	19	191 364	150 550	_
Outstanding default interest	24	-	-	_
Expenses to be utilised in subsequent periods	21	-	84 433	_
Expenses to be utilised in subsequent periods	24	-	-	64 893
Expenses to be utilised in subsequent periods	20	26 489	-	_
Expenses to be utilised in subsequent periods	19	7 310	-	_
Utilisable tax losses	24	-	-	102 567
Utilisable tax losses	19	39 336	-	_
Unrealised gains on the intra	21	-	110 303	
Unrealised gains on the intra	20	69 905	-	_
Unrealised gains on inventory	24	-	-	76 458
Unrealised gains on intragroup sales of tangible fixed assets	24	-	-	416 773
Unrealised gains on intragroup sales of tangible fixed assets	21	-	25 978	_
Unrealised gains on intragroup sales of tangible fixed assets	20	25 806	-	
Unrealised gains on intragroup sales of tangible fixed assets	19	357 908	364 816	_
Total tax base		-4 401 165	-4 353 673	-3 679 273
Deferred tax liability		-822 055	-815 611	-883 025

(CZK thousand)

Analysis of movements	
1 Jan 2007	-883 025
Current changes charged to the profit and loss account	88 517
Current changes recognised in the balance sheet	-21 103
31 Dec 2007	-815 611
New acquisition	-17 664
Current changes charged to the profit and loss account	63 818
Current changes recognised in the balance sheet	-52 598
31 Dec 2008	-822 055

5.15.2. Deferred Tax Asset (CZK thousand)

	Tax rate in %	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Difference between tax and accounting net book value of fixed assets	24	0	0	8 421
Difference between tax and accounting net book value of fixed assets	20	-12 492	0	0
Difference between tax and accounting net book value of fixed assets	19	-40 481	0	0
Accounting reserves	24		0	12 500
Expenses to be utilised in subsequent periods	20	490	0	0
Provisions	24	0	0	5 350
Provisions	20	27 660	0	0
Utilisable tax losses	24	0	0	5 946
Utilisable tax losses	19	177 685	0	0
Utilisable tax losses	20	96 450	0	0
Total tax base		249 312	0	32 217
Deferred tax asset		48 490	0	7 732

(CZK thousand)

Analysis of movements	
1 January 2007	7 732
Current changes charged to the profit and loss account	-7 732
31 December 2007	0
Current changes charged to the profit and loss account	48 490
31 December 2008	48 490

# 5.16. Income Tax on Ordinary and Extraordinary Activity

(CZK thousand)

	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Profit before tax	1 750 073	5 125 019	3 593 681
Tax at the domestic income tax rate 21 % (24 %, 26 %)	421 750	1 230 005	862 483
Tax effect of expenses that are not allowable in determining taxable profit	-29 886	-196 748	29 958
Tax reliefs	-6 808	-6 583	-656
Additional taxes of prior years	-2 518	11 050	-13 808
Corrections of estimates	0	196	-2 338
Total income tax on ordinary and extraordinary activities	382 536	1 037 920	875 639

# 5.17. BANK LOANS AND BORROWINGS

5.17.1. Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Interest rate in %	Form of collateral at 31 Dec 2008
Investment	EUR	22 668	31 370	17 203	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	45 000	75 000	105 000	Fixed 4.3	Movable assets, MS guarantee statement
Investment	EUR	0	3 113	10 783	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	339 143	490 143	659 379	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	0	17 633	36 424	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	3 995	32 960	64 008	6M EURIBOR + 0.625	SACE guarantee insurer
Investment	CZK	0	50 000	90 000	6M PRIBOR + 1.25	Real estate, blank bill of exchange
Investment	EUR	0	11 508	23 773	EURIBOR + 0.6	Hermes guarantee insurer
Investment	CZK	35 000	9 801	0	3M PRIBOR + 0.79	Letter of Comfort – Strojírny Třinec, a.s
Operating	EUR	0	0	8 249	1M EURORIBOR + 1.1	TŽ guarantee statements
Investment	CZK	15 773	78 867	157 734	Fixed 3.76 %	Real estate, blank bill of exchange
Investment	CZK	18 000	54 000	90 000	3M PRIBOR + 1.65	Movable assets, MS guarantee statement
Investment	CZK	53 800	88 200	122 600	3M PRIBOR + 1.59	Immovable assets and movable assets, blank bill of exchange
Investment	CZK	144 444	188 889	233 333	Fixed 4.65	Immovable assets and movable assets, blank bill of exchange
Investment	EUR	5 386	15 972	24 745	3M EURIBOR + 0.5	Movable assets, blank bill of exchange
Investment	CZK	8 079	11 979	0	1M EURIBOR + 0.65	
Investment	EUR	0	126 421	12 198	3M EURIBOR + 0.9	Real estate, blank bill of exchange
Investment	CZK	363 214	7 198	0	PRIBOR + 0.75	Unprotested blank bill of exchange
Investment	EUR	7 830	11 180	0	1M PRIBOR +0.9	Blank bill of exchange, pledged movable assets
Investment	CZK	4 887	8 552	0	6M PRIBOR + 2.5	Blank bill of exchange, pledged movable assets
Investment	CZK	350	1 670	0	1M PRIBOR + 2	Blank bill of exchange, pledged movable assets
Investment	EUR	0	0	7 124	6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	14 542	0	0	3M EURIBOR + 0.7	UCB Czech Republic, a.s.
Investment	EUR	7 810	0	0	1M EURIBOR + 0.7	Komerční banka a.s. for investment
Investment	EUR	0	0	6 306	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	CZK	0	0	18 750	6M PRIBOR + 1.95	Real estate, blank bill of exchange
Investment	CZK	40 113	0	0	6M EURIBOR + 1.3	Pledged receivables
Investment	CZK	36 000	0	0	3M PRIBOR + 2	Real estate, receivables
Total		1 166 034	1 314 456	1 687 609		

5.17.2. Short-Term Bank Loans (CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006	Interest rate in %	Form of collateral at 31 Dec 2008
Investment	CZK	30 000	30 000	30 000	Fixed 4.3	Movable assets, guarantee statement of MS, a.s.
Investment	CZK	44 444	44 444	44 445	Fixed 4.65	Immovable and movable assets, blank bill of exchange
Investment	EUR	3 150	7 326	7 567	6M EURIBOR + 0.6	ÖKB guarantee insurer
Investment	EUR	148 220	153 565	197 301	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	17 838	17 633	18 212	6M EURIBOR + 0.75	Hermes guarantee insurer
Investment	EUR	0	6 897		6M EURIBOR + 0.7	CESCE guarantee insurer
Investment	EUR	0	6 105	12 611	6M EURIBOR + 0.5	SACE guarantee insurer
Investment	EUR	29 349	29 012	29 965	6M EURIBOR + 0.625	SACE guarantee insurer
Operating	CZK	92 417	7 500		3M PRIBOR + 0.79	
Operating	CZK	0	7 986		1M EURIBOR + 1.1	Guarantee statements of TŽ, a.s.
Investment	CZK	2 639	1 413	0	6M PRIBOR + 1.4	· · · · · · · · · · · · · · · · · · ·
Investment	CZK	1 000	4 000		1M EURIBOR + 1.4	
Investment	CZK	4 422	4 712	0		
Investment	CZK	10 772	7 986		3 M EURIBOR+ 0.5	Movable assets
Investment	CZK	4 039	1 331		1 M EURIBOR+ 0.65	
Investment	EUR	11 642	11 509		EURIBOR + 0.6	
Investment	EUR		10 000	0	3 M EURIBOR + 0.9	Real estate, blank bill of exchange
Investment	CZK	50 000	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	9 067	8 963	9 821	6M EURIBOR + 0.6	SACE guarantee insurer
Operating	CZK	29	64		PRIBOR + 1.2	
Operating	CZK	4 000	4 000		1M PRIBOR + 1.7	Blank bill of exchange, receivables
Operating	CZK	960	11 423		1M PRIBOR + 1.7	Blank bill of exchange, receivables
Operating	CZK	2 000	15 000		1M PRIBOR + 1.4	Blank bill of exchange, receivables
Operating	CZK	8 000	9 300		1M PRIBOR + 1.7	Blank bill of exchange, pledged real estate
Investment	EUR	0	0	6 944	6M EUROLIBOR + 1.25	KUKE guarantee insurer
Investment	CZK	10 000	0		3M PRIBOR +0.79	Letter of Comfort Strojírny Třinec, a.s.
Investment	CZK	1 616	0	0	3M EURIBOR +0.7	Letter of Commore Strojini, Timec, a.s.
Investment	EUR	135 578	0		3M EURIBOR +0.9	Pledged movables, blank bills of exchange
Investment	EUR	14 930	0		O/N PRIBOR +0.7	Pledged movables, blank bills of exchange
Investment	CZK	10 772	0		6M EURIBOR +1.3	Receivables
Investment	CZK	24 000	0		6M PRIBOR +1.3	Real estate, receivables
Operating	CZK	35 000	0	0	PRINOR +1.25	icui estate, receivastes
Investment	CZK	64 751	0		3M EURIBOR +0.75	Blank bill of exchange, receivables
Operating	CZK	305 000	0		PRIBOR +1.25	Blank bill of exchange, receivables
Operating	CZK	0	0	4 847	PRIBOR + 1.9	Guarantee statements of TŽ,a.s. blank bill of exchange
Investment	EUR	0	0	2 750	3M EURIBOR + 0.5	Movable assets, blank bill of exchange
Operating	CZK	0	0	29 995	PRIBOR + 0.55	
Operating	CZK	0	0	155 000	PRIBOR + 1.75	Receivables, current account
Operating	CZK	0	0	1 000	1M PRIBOR + 1.6	
Operating	CZK	0	0	1 902	6M PRIBOR + 1.4	
Operating	EUR	0	0	10 998	1M EURORIBOR + 1.1	Guarantee statements of TŽ
Investment	CZK				6M PRIBOR + 1.95	Real estate, blank bill of exchange
	EUR	0	0	75 000		
Investment Investment		0	0	17 787	6M EURIBOR + 0.75	EKN guarantee insurer EKN guarantee insurer
Total	EUR CZK	0	o 573 663	6 266	6M EURIBOR + 0.75	LIVIA BRITAINICE HISRIEL

# Repayment Schedule

(CZK thousand)

Years	2009	2010	2011	20 12	2 013	In	Total
						subsequent	
						periods	
Loan instalments	1 209 129	400 171	296 169	233 274	161 773	74 647	2 375 163

5.18. Temporary Liabilities

(CZK thousand)

	31 Dec 2008	31 Dec 2007	31 Dec 2006
Accrued expenses	52 936	55 222	46 057
– Interest	7 522	9 322	13 481
– Invoices, credit notes	45 414	45 900	32 576
Deferred income	645	1 045	9 613
Total accrued expenses and deferred income	53 581	56 267	55 670

### 5.19. Other off Balance Sheet Liabilities

### TŘINECKÉ ŽELEZÁRNY, a. s.

Type of liability	Aggregate amount at 31 Dec 2008	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Parent company debt acceptance	О	0	CZK 99,825 thousand	CZK 515,531 thousand
Guarantee statements				
– to Group companies	EUR 77 thousand	CZK 2,074 thousand	CZK 2,050 thousand	_
Guarantees				
– to other entities	USD 705 thousand	CZK 13,641 thousand	CZK 23,119 thousand	CZK 15,216 thousand
	EUR 750 thousand	CZK 20,198 thousand	CZK 19,965 thousand	CZK 20,621 thousand
	CZK 5,000 thousand	CZK 5,000 thousand	CZK 5,000 thousand	CZK 5,000 thousand
Collateralising blank bills of exchange				
– to other entities	0	0	0	CZK 399,290 thousand

The Company was subject to an environmental audit which indicates the Companys 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 2008, 2007 and 2006, the Company drew the funds in the amounts of CZK 335,735 thousand, CZK 299,316 thousand and CZK 259,744 thousand, respectively.

Given that the Company concluded an amendment to this contract with the Czech Republic – Ministry of Finance on 3 November 2008, the guarantee of the Ministry amounts up to CZK 843.6 million. This guarantee covers environmental liabilities of the Company, therefore the reserve for environmental burdens was released.

### ENERGETIKA TŘINEC, a.s.

(CZK thousand)

Type of liability	Aggregate amount	Balance at 31 Dec 2008	Balance at 31 Dec 2007	Balance at 31 Dec 2006
Blank bills of exchange –	200 000	200 000	200 000	200 000
collateral for long-term bank loans				
Blank bills of exchange –	100 000	100 000	100 000	100 000
collateral for overdraft loans				
Total	300 000	300 000	300 000	300 000

The company provides no guarantees for liabilities to third parties.

The company holds the ČSN EN ISO 14001 certificate and successfully passed an EMS compliance audit in 2008 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 2008, the company was involved in no significant legal dispute, the outcome of which would significantly impact the company.

The company is not aware of any material contingent losses.

### VÁLCOVNA TRUB TŽ, a.s.

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

As of 31 December 2008, the company was involved in no significant legal dispute, the outcome of which would significantly impact the company.

As of 31 December 2008, there was no environmental audit of the company. As a result, the companys 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 2008, 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 19,433 thousand.

As of 31 December 2008, there was no environmental audit of the company. As a result, the companys 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 2008, 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. During the hearing held on that date, the court decided that a new expert opinion should be prepared. Such opinion has not been presented to the court to date. 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 indicated by the contract.

As of 31 December 2008, there was no environmental audit of the company. As a result, the companys management cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

### D 5, akciová společnost, Třinec

The company records the following off balance sheet liabilities: loans collateralised by the blank bill of exchange and aggregate future receivables up to CZK 100 million. As of 31 December 2008, the company was involved in no legal dispute. The company records no environmental liabilities.

As of the balance sheet date, the company records no material future payables arising from expenditure for tangible fixed assets arising from concluded contracts.

### VUHŽ, a.s.

As of 31 December 2008, the company records no off balance sheet liabilities, except for leases.

As of 31 December 2008, the company was involved in a legal dispute for the amount of CZK 225 thousand regarding defects in the work on the renovation of bathrooms. The dispute has not been completed as of the balance sheet date, it is in progress with the Arbitration Court attached to the Economic Chamber of the Czech Republic and the Agricultural Chamber of the Czech Republic in Prague.

Receivables of CZK 1,565 thousand are registered for recovery under bankruptcy proceedings. These receivables are provided for in full.

As of the balance sheet date, the Company records no material future payables arising from expenditure for fixed assets arising from concluded contracts.

### Řetězárna, a.s.

In the year ended 31 December 2008, the company concluded forward contracts for the hedging of the exchange rate in 2009 and 2010 in the aggregate amount of EUR 2,300 thousand. The fair value measurement of these transactions was recognised in the profit and loss account.

## Slévárny Třinec, a.s., REFRASIL, s.r.o., Šroubárna Kyjov, spol. s r.o. a H&S PROGRESS s.r.o.

The companies are unaware of any off balance sheet liabilities as of 31 December 2008.

### 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 2008

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	37 060 455	337 569	37 398 024
Power generation	320 073	0	320 073
Production of refractory material	65 466	89 600	155 066
Foundry production	1 127 460	21 460	1 148 920
Engineering production	647 503	1 516 819	2 164 322
Sale of goods	4 028	0	4 028
Services	524 306	37 819	562 125
Change in inventory	864 422	0	864 422
Capitalisation	817 835	0	817 835
Total	41 431 548	2 003 267	43 434 815

### 6.1.2. 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
Total	38 752 418	1 516 099	40 268 517

# ${\it 6.1.3. The Group's Income from Ordinary Activities and Sale of Goods for 2006}$

(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
Total	34 493 732	1 629 139	36 122 871

## 6.2. Consumed Purchases and Good Sold

(CZK thousand)

	2008	2007	2006
Consumed material	29 984 870	25 333 201	23 146 623
Consumed energy	1 533 480	1 323 741	1 319 846
Goods sold	1 631	5 488	7 304
Total consumed purchases	31 519 981	26 662 430	24 473 773

### 6.3. SERVICES

(CZK thousand)

, , , , , , , , , , , , , , , , , , ,	(CEA mountain)				
	2008	2007	2006		
Repairs and maintenance	1 140 583	1 161 953	1 265 413		
Transportation expenses	425 531	397 382	392 544		
Cooperation	568 706	295 514	281 535		
Leasing	30 782	44 045	66 062		
Right of use	33 284	35 860	82 395		
Promotion costs	147 947	117 670	86 116		
Rental	111 489	108 843	106 216		
Cleaning services	72 166	72 373	71 825		
Statutory audit	10 575	10 348	10 362		
Other services	828 512	659 679	763 318		
Total	3 369 575	2 903 667	3 125 786		

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)

	2008	2007	2006
Contractual penalties and default interest	3707	2 231	1 367
Recoveries of receivables written off and transferred	1 746	3 676	1 837
Received subsidies	20 181	72 439	107 879
Settlement of CO2 emission allowances in income under the National Allocation Plan	2 687 241	187 920	3 172 948
Sundry operating income	66 917	67 644	32 510
Total other operating income	2 779 793	333 910	3 316 541

## 6.5. Other Operating Expenses

(CZK thousand)

	2008	2007	2006
Gifts	45 838	29 001	40 033
Contractual penalties and default interest	1 608	1 003	628
Other penalties and fines	2 667	2 091	70
Write-offs of receivables and transferred receivables	16 199	28 178	310 261
Sundry operating expenses	135 242	179 498	144 872
Settlement of CO2 emission allowances in expenses under the National Allocation Plan	2 740 908	187 920	3 173 460
Deficits and damage relating to operating activities	27 528	41 598	44 681
Total other operating expenses	2 969 990	469 289	3 714 005

## 6.6. GRANTS

Grants for operating purposes of CZK 6,026 thousand received in 2008 (CZK 7,860 thousand and CZK 3,025 thousand in 2007 and 2006, 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 and CZK 25,423 thousand from the Ministry of Industry and Trade as of 31 December 2007 and 2006, 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 2008, the Company received CZK 278,786 thousand and CZK 149,217 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
Total	19 165	7 920	304 481	136 683	332 435	148 230

(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
Total	272 746	123 612	928 827	416 445	576 676	125 301	34 930

(CZK thousand)

	Eligible expenses in 2008	Allowed state aid in 2008 (drawn)	Total eligible expenses until 31 Dec 2008	Total allowed state aid until 31 Dec 2008 (drawn)	Allowed state aid (received)	Returned allowed state aid	Allowed state aid (to be drawn)
Research and development	20 707	11 589	646 078	269 855	388 100	118 245	0
Environment	0	0	200 160	114 091	140 335	26 244	0
Education	0	0	103 296	44 088	48 241	4 184	0
Total	20 707	11 589	949 534	428 034	576 676	148 673	0

Environmental and educational projects were completed as of 31 December 2007. Research and development projects were completed as of 30 June 2008.

## 6.7. Extraordinary Income

(CZK thousand)

	2008	2007	2006
Other	11	111	413
Total extraordinary income	11	111	413

## 6.8. Extraordinary Expenses

(CZK thousand)

	2008	2007	2006
Other	114	0	0
Total extraordinary expenses	114	0	0

# 6.9. Related Party Transactions

6.9.1. Income Generated with Related Parties

 $The \ column \ Relation \ to \ the \ company \ is \ disclosed \ from \ the \ perspective \ of \ the \ parent \ company, \ T\r{R}INECK\'E\ \ \ \ \r{Z}ELEZ\'ARNY, a.s.$ 

2008 (CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	63	92 418	4421	54	3 000	99 956
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	213	0	0	213
MORAVIA STEEL a.s.	Controlling entity	339	32 047 534	169 696	955	0	32 218 524
Reťaze Slovakia s.r.o.	Controlled entity	0	26 034	130	0	0	26 164
TRIALFA, a.s.	Controlled entity	33	62 885	5 228	1 358	0	69 504
TRISIA, a.s.	Controlled entity	0	1	74	70	0	145
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	529	727	8	375	1 639
Třinecké gastroslužby, s.r.o.	Controlled entity	13	2194	4224	1 002	0	7 433
VESUVIUS ČR, a.s.	Controlled entity	0	5 652	20 066	56	45 255	71 029
Sochorová válcovna TŽ, a.s.	Controlled entity	688	4 433 709	59 437	395	0	4 494 229
CMC Třinec Stahlhandel GmbH	Controlled entity	0	160 541	0	0	0	160 541
Beskydská golfová, a.s.	Controlled entity	0	0	14 963	21	0	14 984
SILESIASLAG, a.s.	Controlled entity	0	0	21	0	0	21
Steel Consortium Partners, a.s.	Controlled entity	0	0	57	0	0	57
Moravia Security, a.s.	Controlled entity	490	78	621	47		1236
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity		154	256	628	0	1 038
ZAMECZEK BŁOGOCICE	Controlled entity	0	0	О	0	614	614
Regionální informační centrum Frýdek-Místek s.r.o.	Controlled entity	0	0	107	0	0	107
Total		1 626	36 831 729	280 241	4 594	49 244	37 167 434

2007 (CZK thousand)

Entity	Relation	Goods	Products	Services	Other	Financial	Total
	to the company				income	income	
Doprava TŽ, a.s.	Controlled entity	12	104 787	4 012	84	О	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
Reťaze 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
SILESIASLAG, a.s.	Controlled entity	0	0	46	0	0	46
Steel Consortium Partners, a.s.	Controlled entity	0	0	51	0	0	51
Total		695	35 682 305	215 867	75 600	79 909	36 054 376

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	О	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
SILESIASLAG, a.s.	Controlled entity	0	0	64	0	0	64
Steel Consortium Partners, a.s.	Controlled entity	0	0	39	0	94	133
Total		330	31 780 447	210 282	81 942	479	32 073 480

# 6.9.2. Purchases from Related Parties

 $Relation \ to \ the \ company, \ T\check{R}INECK\acute{E}\ \check{Z}ELEZ\acute{A}RNY, a.s.$ 

2008 (CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Extraor- dinary expenses	Total
Doprava TŽ, a.s.	Controlled entity	48	3 343	69 425	78	0	72 894
Hutnictví železa, a.s.	Controlled entity	0	0	6 364	0	0	6 364
Kval. a pers. agentura, o.p.s.	Controlled entity	3	0	225	295	0	523
MORAVIA STEEL a.s.	Controlling entity	492 299	23 394 100	354 373	43 980	3 308	24 288 060
Reťaze Slovakia, s.r.o.	Controlled entity	0	413	1 484	0	0	1 897
TRIALFA, s.r.o.	Controlled entity	0	12 625	20 936	69 545	24	103 130
TRISIA, a.s.	Controlled entity	0	0	161	0	0	161
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	9 645	529	8 172	497	0	18 843
Třinecké gastroslužby, s.r.o.	Controlled entity	469	15 064	4 305	61 205	3 221	84 264
VESUVIUS ČR, a.s.	Controlled entity	0	38	57 955	0	0	57 993
Sochorová válcovna TŽ, a.s.	Controlled entity	0	74 535	43 190	4 023	0	121 748
Beskydská golfová, a.s.	Controlled entity	0	0	1 630	417	0	2 047
Moravia Security, a.s.	Controlled entity	0	0	31 437	39	0	31 476
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	Controlled entity	0	29	11 222	0	0	11 251
CMC-Třinec Stahlhandel GmbH	Controlled entity	0	0	216	0	0	216
Total		502 464	23 500 676	611 095	180 079	6 553	24 800 867

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
Reťaze 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
Total		25 590	21 081 578	556 324	167 892	21 831 384

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
Reťaze 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
Total		34 250	21 225 861	518 884	91 155	21 870 150

# 7. Employees, Management and Statutory Bodies

## 7.1. STAFF COSTS AND NUMBER OF EMPLOYEES

# 7.1.1. Staff Costs and Number of Employees for 2008

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽELEZÁRNY, a.s.	5 539	6	2 685 883	68 893
ENERGETIKA TŘINEC, a.s.	381	5	178 413	10 921
Strojírny Třinec, a.s	1029	8	390 043	17 309
Slévárny Třinec, a.s.	722	5	283 169	8 852
REFRASIL, s.r.o.	205	2	90 125	14 792
Řetězárna a.s.	311	6	115 659	12 544
VÁLCOVNA TRUB TŽ, a.s.	801	4	329 649	7 172
FERROMORAVIA, s.r.o.	247	5	91 870	8 174
H&S PROGRESS, s.r.o.	0	0	102	0
Šroubárna Kyjov, spol. s r.o.	301	9	87 050	6 883
D5, a.s.	759	8	154 795	7 778
VUHŽ, a.s.	348	14	181 814	31 856
Total under full consolidation	10 643	72	4 588 572	195 174

## 7.1.2. 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
Total under full consolidation	9 441	57	4 204 916	148 881

## 7.1.3. 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.	5417	6	2 330 356	68 162
ENERGETIKA TŘINEC, a.s.	391	6	168 755	18 307
Strojírny Třinec, a.s	1 002	7	326 126	15 166
Slévárny Třinec, a.s.	660	5	218 776	8 907
REFRASIL, s.r.o.	215	2	85 302	13 995
Řetězárna, a.s.	328	7	113 759	20 402
VVT VÍTKOVICE VÁLCOVNA TRUB, a.s.	826	3	293 543	6 543
FERROMORAVIA, s.r.o.	243	5	81 538	9 744
Total under full consolidation	9 082	41	3 618 155	161 226

## 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)

Liability insurance	438	1 260	863
Bonuses	18 528	18 864	18 672
ENERGETIKA TŘINEC, a.s.	1 468	1 558	1 775
Use of management cars	462	488	744
Life insurance contribution	185	207	228
Liability insurance	173	197	155
Bonuses	648	666	648
Strojírny Třinec, a.s.	1 175	1 076	1 106
Use of management cars	439	443	389
Life insurance contribution	38	0	38
Liability insurance	50	0	31
Bonuses	648	633	648
Slévárny Třinec, a.s.	714	705	700
Use of management cars	4	5	5
Life insurance contribution	29	29	24
Liability insurance	33	23	23
Bonuses	648	648	648
REFRASIL, s.r.o.	625	1 480	1 746
Use of management cars	237	237	0
Life insurance contribution	4	856	1 284
Liability insurance	0	3	2
Bonuses	384	384	460
FERROMORAVIA, s.r.o.	847	125	1 923
Use of management cars	523	0	577
Liability insurance	0	125	118
Bonuses	324	0	1 228
Řetězárna a.s.	7 667	8 366	8 243
Bonuses	6 774	7 470	7 176
Life insurance contribution	0	0	168
Use of management cars	872	872	899
Liability insurance	21	24	0
VÁLCOVNA TRUB TŽ, a.s.	1 507	972	1 105
Use of management cars	481	305	457
Life insurance contribution	378	19	0
Bonuses	648	648	648
H&S PROGRESS s.r.o.	78	190	0
Liability insurance	0	1	0
Bonuses	78	189	0
ROLLSERVIS, a.s.	0	439	0
Use of management cars	0	14	0
Liability insurance	0	2	0
Bonuses	0	423	0
VÚHŽ NEMO, a.s.	0	46	0
Bonuses	0	46	0
D5, a.s.	862	0	0
Use of management cars	291	0	0
Life insurance contribution	37	0	0
Bonuses	534	0	0
VÚHŽ a.s.	1 512	9 904	0
Use of management cars	931	510	0
Life insurance contribution	38	13	0
Liability insurance	75	25	0
Bonuses	468	9 356	0
Šroubárna Kyjov, s.r.o.	536	0	0
Use of management cars	367	0	0
Life insurance contribution	3	0	0
Bonuses	166	0	0

#### 8. Post Balance Sheet Events

On 21 January 2009, the Company increased its equity investment in ZAMECZEK BŁOGOCICE Spółka z ograniczoną odpowiedzialnością, Poland, by 43 percent i.e. to a total of 88 percent.

The Company entered into a contract leading to the control of METALURGIA S.A. based in Radomsk, Poland. The transaction will be completed following the fulfilment of the suspensive conditions involving, among others, the receipt of approvals from the relevant anti-monopoly offices.

# 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 thousand Share in registered capital: 100 percent

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 železárny 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	2008*	2007	2006
Equity	2 303 273	2 225 308	2 091 668
Balance sum	2 919 173	2 859 795	2 870 758
Revenues	2 358 805	2 194 677	2 167 448
Profit/Loss after tax	77 965	203 618	136 075
Employees	381	386	391

<sup>\*</sup> unaudited results

#### Strojírny Třinec, a.s.

Registered office: Třinec-Staré Město, Průmyslová 1038

ID: 25 36 36 54

Subscribed capital: CZK 565,000 thousand Share in registered capital: 100 percent

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 percent share in FERROMORAVIA, s.r.o., which produces drawn steel.

CZK' 000	2008*	2007	2006
Equity	780 807	689 837	658 673
Balance sum	1 032 313	955 477	913 805
Revenues	1 647 257	1 375 518	1 527 890
Profit/Loss after tax	95 870	81 800	57 160
Employees	1 029	1 025	1 002

<sup>\*</sup> unaudited results

#### Slévárny Třinec, a.s.

Registered office: Třinec-Staré Město, Průmyslová 1001

ID: 25 83 07 16

Subscribed capital: CZK 550,000 thousand Share in registered capital: 100 percent

The company draws on a nearly 160-year tradition in the foundry industry in Třinecké železárny. 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  $T\check{Z}-MS$  Group. The foundry has introduced a quality control system according to ISO 9001 and an environmental control system according to ISO 14001.

CZK' 000	2008*	2007	2006
Equity	566 894	562 586	551 646
Balance sum	961 049	934 042	776 708
Revenues	1 294 507	1 221 898	1 147 445
Profit/Loss after tax	4 310	13 681	12 625
Employees	722	673	660

<sup>\*</sup> unaudited results

#### VÁLCOVNA TRUB TŽ, a.s.

Registered office: Ostrava-Vítkovice, Výstavní 1132

ID: 25 82 52 91

Subscribed capital: CZK 418,166 thousand Share in registered capital: 100 percent

The company hot rolls seamless steel tubes using the Mannesmann technology. The production is characterised by the sophisticated technology of a 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.

CZK' 000	2008*	2007	2006
Equity	622 651	884 550	695 420
Balance sum	1 736 400	1 242 764	1 121 388
Revenues	1 976 359	2 648 529	2 338 700
Profit/Loss after tax	-261 043	189 144	119 388
Employees	801	801	826

<sup>\*</sup>unaudited results

#### D 5, akciová společnost, Třinec

Registered office: Třinec-Staré Město, Průmyslová 1026

ID: 47 67 45 39

Subscribed capital: CZK 13,600 thousand Share in registered capital: 100 percent

The essential mission of the company is the complex delivery of repairs of the steel making facilities regarding the engineering electrical and construction activities. Thanks to its highly skilled workers and technical equipment, the company is able to respond flexibly to the needs of its customers not directly relating to maintenance and repair in Třinecké železárny. The company has implemented a quality control system pursuant to ČSN EN ISO 9001:2001 as well as an environmental system pursuant to ČSN EN ISO 14001.

CZK' 000	2008*	
Equity	105 685	
Balance sum	284 061	
Revenues	1 176 647	
Profit/Loss after tax	44 834	
Employees	759	

<sup>\*</sup>unaudited results

#### Šroubárna Kyjov, spol. s o.

Registered office: Kyjov, Jiráskova 987

ID: 42 29 35 88

Subscribed capital: CZK 140,000 thousand Share in registered capital: 100 percent

The company is a traditional producer of fastening material using the technology of hot forging processes. The product range includes products for railways, mines, construction, engineering as well as the automotive industry. The main production portfolio consists of screw spikes, construction screws, hook screws, railway fasteners, nuts, mine stirrups, and screws for special use such as rivets, tensors, anchor screws, insulator hooks etc. The company has been certified pursuant to ISO 9001.

CZK' ooo	2008*	
Equity	430 515	
Balance sum	713 578	
Revenues	853 247	
Profit/Loss after tax	106 286	
Employees	301	

<sup>\*</sup>unaudited results

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

Registered office: Dobrá 240

ID: 61 94 64 60

Subscribed capital: CZK 3,784 thousand Share in registered capital: 100 percent

The company is the only shareholder of the joint stock company  $V\acute{U}H\check{Z}$ , which is an established supplier for the automotive, steel, and machinery industries, and produces the automation technology, as well as facilities for secondary metallurgy.

CZK' 000	2008*	2007	
Equity	46 443	31 893	
Balance sum	49 390	32 840	
Revenues	6 408	15 366	
Profit/Loss after tax	832	16 884	
Employees		8	

<sup>\*</sup> company not audited (preliminary results)

#### Řetězárna a.s.

Registered office: Česká Ves, Polská 48

ID: 47 67 20 81

Subscribed capital: CZK 10,200 thousand Share in registered capital: 51 percent

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 železárny. 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 items. The company is certified according to ISO 9001 and ISO 14001.

CZK' 000	2008*	2007	2006
Equity	430 799	377 897	330 223
Balance sum	575 165	576 523	523 224
Revenues	554 790	550 783	502 834
Profit/Loss after tax	62 797	62 678	36 424
Employees	311	325	328

<sup>\*</sup> audited results

#### REFRASIL, s.r.o.

Registered office: Třinec-Konská, Průmyslová 720

ID: 48 39 58 62

Subscribed capital: CZK 510 thousand Share in registered capital: 51 percent

The company belongs among the most significant producers of refractory materials in the Czech Republic. Besides the production of refractory, it provides technical services concerning the application of refractory and renders complex technical services during installation of its materials at customers premises. The production range involves fireclay and high alumina bricks, mixes, mortars, mastics, refractory castables and monolithic refractory castables. The company is a member of the European Association of Refractory Material Manufacturers and has implemented a quality control system according to ISO 9001.

CZK' 000	2008*	2007	2006
Equity	190 553	178 004	156 950
Balance sum	242 229	236 513	220 757
Revenues	416 498	415 351	424 849
Profit/Loss after tax	42 549	47 054	52 922
Employees	208	217	215

<sup>\*</sup> unaudited results

#### VESUVIUS ČESKÁ REPUBLIKA, a.s.

Registered office: Třinec, Průmyslová 715

ID: 45 19 28 47

Subscribed capital: CZK 25,137 thousand Share in registered capital: 40 percent

The companys 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.

CZK' 000	2008*	2007	2006
Equity	215 975	220 532	243 678
Balance sum	323 658	352 184	364 737
Revenues	706 094	800 562	803 281
Profit/Loss after tax	108 579	113 136	136 282
Employees	???	160	154

<sup>\*</sup> audited results

#### Sochorová válcovna TŽ, a.s.

Registered office: Třinec-Staré Město, Průmyslová 1000

ID: 25 87 29 40

Subscribed capital: CZK 72,180 thousand Share in registered capital: 18 percent

The goal of the company is to fulfil the long-term goal of the  $T\check{Z}$  – MS Group through the building of product chains and achieving a higher grade of finalising the  $T\check{Z}$  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 on the production of high carbon and alloyed construction steel grades; stainless and tool steel grades are produced to a lesser extent.

CZK' 000	2008*	2007	2006
Equity	1 861 954	1 602 467	1 199 648
Balance sum	3 027 344	2 601 200	2 247 336
Revenues	5 503 926	5 630 944	4 972 631
Profit/Loss after tax	259 487	402 819	291 638
Employees	722	717	714

<sup>\*</sup> unaudited results

## REPORT ON RELATED PARTY TRANSACTIONS

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 2008 (the "accounting period").

#### I. DEFINITION OF RELATED PARTIES

#### A. Controlling Entities

MORAVIA STEEL a.s., Registered office: Průmyslová 1000, 73970 Třinec-Staré Město

Corporate ID: 63474808

Relation: The company is the Companys 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, 73961 Třinec

Corporate ID: 61974692

Relation: The company is the Companys 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

Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Studio a.s. registered at Kříženeckého nám. 322/5, 15200 Prague 5-Hlupočepy, Corporate ID: 28172469 Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Lands a.s. registered at Kříženeckého nám. 322/5, 15200 Prague 5, 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 Efal 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.

Hanácké železárny a pérovny, a.s., registered at Dolní 100, 797 11 Prostějov, Corporate ID 26955342 Relation: company controlled by MORAVIA STEEL a.s.

Moravia Steel Poland sp. z o.o., registered at Bobrecka 27, Cieszyn 43-400, Poland Relation: company controlled by MORAVIA STEEL a.s.

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

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

 $Doprava\ T\Z{Z},\ a.s.\ registered\ at\ Pr\@inner{l}myslov\@inner{l}a 1008,73965\ T\@inner{l}rinec-Star\'e\ M\@iso\@inner{l}s 1008,73965\ T\@inner{l}a 1008,73965\ T\@inne$ 

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

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

VÁLCOVNA TRUB, a.s. registered at Výstavní 1132, Ostrava-Vítkovice, Corporate ID: 25825291

– On 1 April 2008 the company changed its name from VVT-VÍTKOVICE VÁLCOVNA TRUB, a.s. to VÁLCOVNA TRUB TŽ, a.s. 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

MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o. registered at Pohraniční 693/31, 70602 Ostrava-Vítkovice, Corporate ID: 25870807

On 27 February 2008 the Companys name was changed from VÍTKOVICE – Výzkum a vývoj, spol. s r.o. to MATERIÁLOVÝ A METALURGICKÝ
 VÝZKUM s.r.o.

Relation: company controlled by the Company

Šroubárna Kyjov, spol. s r.o., registered at Jiráskova 987, 69732 Kyjov, Corporate ID: 42293588

Relation: company controlled by the Company since 8 April 2008

Moravia Security, a.s., registered at Průmyslová 725, 73965 Třinec-Konská, Corporate ID: 27835481

Relation: company controlled by the Company since 15 February 2008

D5, akciová společnost, Třinec, registered at Průmyslová 1026, 73965 Třinec-Staré Město,, Corporate ID: 47674539

Relation: company controlled by the Company since 20 June 2008  $\,$ 

Soukromá střední škola Třinec, s.r.o., registered at Průmyslová 1000, 73970 Třinec-Staré Město, Corporate ID: 27856216

Relation: company controlled by the Company since 27 August 2008

 $Sochorov\'{a} \ v\'{a}lcovna\ T\ \ \ \'{Z},\ a.s.\ registered\ at\ Pr\'{u}myslov\'{a}\ 1000,\ 73970\ T\"{r}inec-Star\'{e}\ M\ \ \ \ \ Corporate\ ID:\ 25872940$ 

Relation: company 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  $T\check{Z}$ , 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 Companys 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 Companys share capital within the day-to-day course of business relations, and 0.5 percent of the Companys 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 arms length prices derived from market prices.

During the accounting period ended 31 December 2008, 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 28,657,459 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. Under the contract, as worded in the subsequent amendments and appendices, the Company provided a non-exclusive right to the controlling entity to use the Companys trademark as part of the logo of MO-RAVIA 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 30,681 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 entitys registered office and business activities.

The rent and other payments arising from the above contract during the accounting period amounted to CZK 7,024 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 4,514 thousand.

#### B.1.6. Other Performances Provided

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 5,922 thousand.

### 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 21,650,283 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 194,946 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 215,566 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 191,845 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, property insurance, insurance for the corporate body members, purchase of goods, lease rights and provision of other services totalling CZK 38,177 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. CZK 150,000 thousand. The contract was effected on 31 March 2004. 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 Companys 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

During the relevant accounting period, the Company provided performance in favour of the controlling entity, which involved the provision of other services in the amount of CZK 397.

#### 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 Companys 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 companys manufacturing programme. Partial sale contracts are executed for individual performances. The prices for goods are arms 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 4,386,643 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 Companys 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 99 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 8,040 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  $T\check{Z}$ , a.s. to this company.

During the accounting period, the consideration for the rental and other payments under the above contract amounted to CZK 1,467 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 34 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 4,236 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 42,068 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 Companys 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 111 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, material, and services in the aggregate amount of CZK 69,634 thousand. **D.3. Other Contractual Relations** 

During the accounting period, the Company and Sochorová válcovna  $T\check{Z}$ , a.s. established no other contractual relationships under Section 66a (9) of the Commercial Code.

#### 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 Companys 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 telecommunications and other services for an aggregate consideration of CZK 171 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 the purchase of other services in the aggregate amount of CZK 1,630 thousand.

#### E.3. OTHER CONTRACTUAL RELATIONS

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

#### **E.4. Other Legal Acts**

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

#### E.5. OTHER MEASURES

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

#### 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 2009

Jiří Cieńciała

Chairman of the Board of Directors

Jaroslava Ciahotná

First Vice-Chairwoman of the Board of Directors

A wholen