ANNUAL REPORT 2004

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VÍTKOVICE STEEL

ANNUAL REPORT 2004

VÍTKOVICE STEEL, A. S.

Vladimír Bail, Ph.D.

Chairman of the Board of Directors of VÍTKOVICE STEEL, a. s.

Zbyněk Kvapík

Member of the Board of Directors of VÍTKOVICE STEEL, a. s.

I. A BASIC CONDITION FOR FUNCTIONING OF THE COMPANY 4

II. FOUNDATION OF VÍTKOVICE STEEL, A. S., STATUTORY BODIES OF THE COMPANY 5

III. REPORT FROM THE SUPERVISORY BODY 8

IV. FOREWORD FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS 10

V. FRAMEWORK ORGANIZATION STRUCTURE 12

VI. SELECTED PRODUCTION AND DELIVERY FIGURES
– IN AGGREGATION WITH OSINEK, A. S. 13

VII. REPORT ON THE BUSINESS ACTIVITIES OF THE COMPANY
AND ON THE STATE OF THE COMPANY'S ASSETS 15

VIII. FINANCIAL STATEMENTS 20

BALANCE SHEET 20

INCOME STATEMENT 24

IX. FOOTNOTES TO THE FINANCIAL STATEMENTS 28

1. DESCRIPTION OF THE COMPANY 30

2. BASIC OF PRESENTATION OF THE FINANCIAL STATEMENTS. 32

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 32

4. FIXED ASSETS 37

5. INVENTORY 42

6. RECEIVABLES 43

7. PROVISIONS 43

8. SHORT-TERM FINANCIAL ASSETS 44

9. OTHER ASSETS 44
10. EQUITY 44
11. RESERVES 45
12. LONG-TERM LIABILITIES 46
13. CURRENT LIABILITIES 46
14. INCOME TAX 46
15. LEASES 48
16. COMMITMENTS AND CONTINGENCIES 49
17. REVENUES 52
18. PERSONNEL AND RELATED EXPENSES 52
19. RELATED PARTY INFORMATION 53
20. RESEARCH AND DEVELOPMENT COSTS 58
21. SIGNIFICANT ITEMS OF INCOME STATEMENT 58
22. SUBSEQUENT EVENTS 58
23. STATEMENT OF CASH FLOWS (SEE SCHEDULE X) 60
24. STATEMENT OF CHANGES IN EQUITY (SEE SCHEDULE 10) 60
X. CASH FLOW STATEMENT (CASH FLOW) 64
XI. REPORT ON RELATIONSHIPS BETWEEN THE CONTROLLING AND CONTROLLED PERSON 66
XII. AUDITOR'S REPORT FOR THE SHAREHOLDERS OF THE COMPANY 72

...THE ENTIRE PRODUCTION AND COMMERCIAL PROCESS IN VÍTKOVICE STEEL, A. S., IS CARRIED OUT ON A TOLLING BASIS.

THE PARENT COMPANY, I.E., OSINEK, A. S., BUYS RAW MATERIALS, FUELS AND ENERGY ON ITS OWN ACCOUNT AND ALSO SELLS THE FINISHED PRODUCT JOINTLY PRODUCED AND RECEIVES THE PROCEEDS AGAIN ON ITS OWN ACCOUNT.

VÍTKOVICE STEEL, A. S., PROVIDES LABOUR, ORDERS AND FINANCES REPAIRS AND MAINTENANCE, USES ITS TANGIBLE AND INTANGIBLE FIXED ASSETS, ENSURES AND FINANCES SOME ADDITIONAL OVERHEAD ACTIVITIES AND PRACTICALLY IN THE ENTIRE EXTENT MEDIATES PURCHASING OF INPUTS AND SALE OF FINISHED PRODUCTS FOR OSINEK, A. S.

TRANSOCEANIC SHIP GRANDE ROMA

VÍTKOVICE STEEL, a. s., registered at Ostrava – Hulváky, Štramberská 2871/47, Post Code 709 00 was established by the founders deed of a sole founder, i.e., VÍTKOVICE, a. s. VÍTKOVICE STEEL, a joint stock company with the basic capital of 2 million CZK was formed by registration in the Companies Register kept with the District Court in Ostrava dated March 7, 2001, in section B, insertion 2475.

With the effective date August 1, 2001, Division 200 – VÍTKOVICE Flat Products, which included Steel Plant I, Sections Rolling Mill, 4.5 Two-High Rolling Mill, 3.5 Four-High Rolling Mill was invested to VÍTKOVICE STEEL, a. s. By investing this part of VÍTKOVICE, a. s. to VÍTKOVICE STEEL, a. s., the basic capital of VÍTKOVICE STEEL, a. s. increased to 2.602 billion CZK.

On the basis of a tender and by concluding a contract on a sale of 98.96 % shares on March 29, 2002, OSINEK, a. s. became the majority shareholder of VÍTKOVICE STEEL, a. s. The remaining 1.04 % shares are owned by VÍTKOVICE, a. s.

In accordance with the generally binding legal regulations and effective articles, the activities of VÍTKOVICE STEEL in 2004 were controlled by the Board of Directors consisting of: Vladimír Bail, Ph.D. (BOD Chairman), Vratislav Vícha (BOD Vice-Chairman), Zbyněk Kvapík, Jiří Poštulka, Radim Valas (BOD members).

The supervisory body of VÍTKOVICE STEEL, a. s., is the Supervisory Board which worked in the following composition: Jiří Staněk (Chairman of the Supervisory Board), Rostislav Fromelius, Jiří Chuchro, Pavel Makový, Libor Novák, Ivo Štěpán (members of the Supervisory Board).

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PRODUCTION CAPACITIES...
2004 WAS A GOOD YEAR
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OR ROLLED STEEL PRODU

... the 2004 was a good year for steel producers. The demand for rolled steel products from VÍTKOVICE STEEL was higher than our production capacities...

DEAR SHAREHOLDERS,

in the period between January 1, 2004 until December 31, 2004, the Supervisory Board of VÍTKOVICE STEEL, a. s., worked in the following composition:

Chairman:	Jiří Staněk
Members:	Rostislav Fromelius
	Jiří Chuchro
	Pavel Makový
	Libor Novák
	Ivo Štěpán

In 2004, the Supervisory Board met during five regular meetings and during all five meetings the board was able to pass resolutions. Within its agenda the Supervisory Board was discussing the documents relating to the activities of the company especially in the following areas:

- Economic results of VÍTKOVICE STEEL, a. s.
- Current state of receivables, incl. analysis of overdue receivables
- Overall results of introduction of a new commercial system into practice
- The company price policy in 2004
- Current situation with supplies of liquid pig iron from VPO, a. s., and the development of price negotiations
- Readiness of VÍTKOVICE STEEL, a. s., for accession to the EU
- Government on resolution to the privatization of VÍTKOVICE STEEL, a. s.
- Implementation of measures proposed by McKinsey
- Situation in collective bargaining for 2005
- Preparation of the annual business plan of the company.

The Supervisory Board also discussed the situation in the company and the current problems related to the company's activities.

At the 20th regular meeting the Supervisory Board discussed the economic results of the company in 2003. By resolution marked 1/20/04 the Supervisory Board approved the financial statements for 2003 incl. the auditor's statement to the audit of the regular financial statements.

During this meeting the Supervisory Board discussed also the Proposal of the Board of Directors for Distribution of Profit for 2003, the Report on the Business Activities of the Company and on the State of the Company's Assets, and the Report on Relationships between the Controlling and Controlled Person.

The cooperation between the Supervisory Board and the Board of Directors was always on a very good level, the Board of Directors submitted the documents discussed according to the requirements and within the deadlines as requested by the Supervisory Board and the Chairman of the Board of Directors or the members of the Board of Directors personally presented the documents during the meetings of the Supervisory Board.

Jiří Staněk

CHAIRMAN OF THE SUPERVISORY BOARD
OF VÍTKOVICE STEEL, A. S.

TWEEN THE SUPERVISORY
OF DIRECTORS WAS ALW
EL, THE BOARD OF DIREC
HE DOCUMENTS DISCUSS

DEAR SHAREHOLDERS, BUSINESS PARTNERS, CO-WORKERS,

THE GOOD RESULTS OF OUR COMPANY LAST YEAR ARE WITHOUT ANY DOUBT A PROOF THAT THE RESTRUCTURING OF VÍTKOVICE STEEL, A. S., TOGETHER WITH THE GLOBAL BOOM ON THE STEEL MARKET YIELDED ITS FRUITS. SO, TODAY WE MAY BOAST BY HISTORICALLY THE BEST PROFIT SINCE THE FOUNDATION OF THE COMPANY IN 2001 – IN AGGREGATION WITH OSINEK, A. S., THE COMPANY REACHED A PROFIT OF 1.6 BILLION CZK WITH SALES AMOUNTING TO 13.5 BILLION CZK. THANKS TO THE YEAR-ON-YEAR GROWTH OF THE ECONOMY THE VALUE OF OWN CAPITAL OF VÍTKOVICE STEEL, A. S., WAS FOR THE FIRST TIME HIGHER THAN THE BASIC CAPITAL.

BUT ALL OF THIS IS POSSIBLE MAINLY THANKS TO OUR RESULTS ARE BACKED UP BY EXPERIENCED, WELL-QUALI

This trend can be seen in all related parameters and the demand for our rolled products in 2004 at certain time periods was higher than the production capacity of the company. The extraordinary situation on the market was virtually forming the economic results of the company with the value of sales from own products increasing by 49 % from year to year. One of the important factors facilitating these positive results is the restructuring of the company commenced two years ago and the associated cost reduction projects. Last year VÍTKOVICE STEEL, a. s., managed to reduce production overhead costs, we improved time utilization of the plants and the flexibility of the commercial department also reached a very good level. The success and development of the company is evidenced also by a growth of value added. Last year, value added was more than double times higher than in the previous year, i.e. value added increased from 0.99 billion CZK to 2.42 billion CZK.

But all of this is possible mainly thanks to our employees. And even these very good results are backed up by experienced, well-qualified, reliable individuals with invention and also work teams with creative approach to work, teams that are able to solve problems and do good work every day. Thanks to them the company is achieving good results today.

I am glad that thanks to the economic results achieved, VÍTKOVICE STEEL, a. s., increased its value during the ongoing privatization. And I believe that this fact will contribute to attracting a good strategic partner who will not only ensure the required employment but who will continue with development and modernization of the company.

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Vladimír Bail, Ph.D.

CHAIRMAN OF THE BOARD OF DIRECTORS
OF VÍTKOVICE STEEL, A. S.

SUBSIDIARIES

WITH MAJORITY SHAREHOLDING

STEELWORKS AND ROLLING MILLS PRODUCTION

in tons

Production unit	Product	Year 2004	Year 2003	Year 2002
Steelworks	- steel total	965 000	986 200	908 300
	of which: slabs	924 700	929 200	858 900
	ingots	40 300	57 000	49 400
	- refractory materials	0	200	197
Sections Rolling Mill	- steel sections	103 253	115 284	107 094
Two-High Rolling Mill	- plates	67 763	85 894	76 690
Four-High Rolling Mill	- plates	710 815	662 981	590 188
Cut Shapes center	- cut shapes	20 969	15 463	8 843

DELIVERIES FROM ROLLING MILLS

in tons

Production unit	Product	Year 2004	Year 2003	Year 2002
Sections Rolling Mill	- steel sections	97 650	113 206	105 647
Two-High Rolling Mill	- plates	61 777	77 283	70 707
	- cut shapes	X	X	1 722
Four-High Rolling Mill	- plates	685 949	638 046	542 154
	- slabs	10	9 126	43 335
Cut Shapes center	- cut shapes	20 799	14 999	8 583
Finished products warehouse	- sections	2 667	1 214	1 641
	- plates from Two-High Rolling Mill	103	1 362	1 955
	- plates from Four-High Rolling Mill	380	5 309	32 538

FINISHED PRODUCTS

in tCZK

Production unit – customer		Year 2004	Year 2003	Year 2002
Steelworks total		8 207 974	6 187 606	5 929 740
of which:	transfers to the rolling mills	8 207 974	6 187 606	5 929 740
	sale to VÍTKOVICE, a. s.	x	x	0
	domestic and export sales	0	0	0
Sections Rolling Mill total		1 508 345	1 278 082	1 214 520
of which:	transfers to another cost center	41 381	15 763	18 527
	sale to VÍTKOVICE, a. s.	x	x	19 353
	domestic and export sales	1 466 964	1 262 319	1 176 640
Two-High Rolling Mill total		1 188 551	1 028 130	940 328
of which:	transfers to another cost center	84 053	104 184	72 166
	sale to VÍTKOVICE, a. s.	x	x	80 948
	domestic and export sales	1 104 498	923 946	787 214
Four-High Rolling Mill total		10 802 745	6 774 767	6 145 344
of which:	transfers to another cost center	252 771	215 220	445 106
	sale to VÍTKOVICE, a. s.	x	x	182 824
	domestic and export sales	10 549 974	6 559 547	5 517 414
Cut Shapes center total		465 465	258 963	151 811
of which:	transfers to another cost center	0	0	0
	sale to VÍTKOVICE, a. s.	x	x	722
	domestic and export sales	465 465	258 963	151 089
Finished Products Warehouse total		48 039	82 519	350 922
of which:	transfers to another cost center	0	0	0
	sale to VÍTKOVICE, a. s.	x	x	18 826
	domestic and export sales	48 039	82 519	332 096

Note: The information on "sale to VÍTKOVICE, a. s." is not evaluated separately since 2003 and it is included in "domestic and export sales".

THE GROWTH OF TOTAL SALES IN 2004 WAS SIGNIFICANTLY SUPPORTED MAINLY BY THE GROWING SHARE ON THE DOMESTIC MARKET.

VÍTKOVICE STEEL, a. s. produces steel and steel products – heavy plates, heavy and medium sections and cut shapes from heavy plates. In the heavy plate area the company is one of the leading European producers and in the Czech Republic the company is the dominant producer of these plates. The company produces also sheet piles which are sold on the domestic as well as on the export markets. In the Czech Republic the company is the only producer of sheet piles.

The production base of VÍTKOVICE STEEL, a. s. is internally divided to 6 cost centers, 4 of which are of a production nature and 2 of them are of a non-production nature. The production part of the company consists of Steelworks (2 OXYVIT converters, secondary metallurgy, ladle furnace, the caster, ingot casting), Sections Rolling Mill, Four-High Rolling Mill (this cost center includes also Two-High Rolling Mill) and Cut Shapes. The remaining cost centers support the production process by specific activities and these centers consist of the Finished Products Warehouse and Servicing.

VÍTKOVICE STEEL, a. s. carries out its production and business activities in a special mode – tolling – with its partner, i.e., OSINEK, a. s. The tolling cooperation was established on April 1, 2000. At that time the present VÍTKOVICE STEEL, a. s. was an internal unit (the Flat Products Division) of VÍTKOVICE, a. s. The formation of an independent company is dated by the entry in the Companies Register on March 7, 2001 and the actual business activities started on August 1, 2001. Therefore, the year 2004 was the third full calendar year of business life of VÍTKOVICE STEEL, a. s.

The 2004 was a good year for steel producers. The demand for rolled steel products from VÍTKOVICE STEEL was higher than our production capacities and so we were struggling with an untypical task to satisfy the demands of our customers mainly on the domestic market.

Objective external impacts were pressing us to increase production in all cost centers of VÍTKOVICE STEEL, a. s., which means that we had to reduce inventory of our own products (semi-finished products, work-in-progress and finished products). The situation on the market was virtually forming the external as well as internal economic results of the company. Our company generated a very good pre-tax profit of 1 566 360 thousand CZK.

In the sales area, the demand for rolled products from VÍTKOVICE STEEL, a. s. throughout the year was higher than the dispatching capacities of the company. This was further enhanced by the global increasing demand for steel. Proactive commercial policy with the objective to satisfy the requirements of the customer fast and in good quality with high level of mutual communication are an important part of marketing strategy and consequently they played a positive role with respect to the economic results of the company.

The growth of total sales in 2004 was significantly supported mainly by the growing share on the domestic market. VÍTKOVICE STEEL, a. s. achieved a year-on-year increase in the volumes of supplies on this territory in all product groups of more than 30%. On the other hand, export dropped by 13 %. Currently, domestic sales make 44 % of the total sales of the company. With a share of approx. 50% on the heavy plates market in the Czech Republic we have become a key player on this territory.

The accession of the Czech Republic to the EU helped us to simplify and accelerate formalities connected with moving our products across the borders, but mainly it helped us to use the protective umbrella of the EU against dumping imports of steel products from the third world countries. The accession of the Czech Republic to the EU has

IN THE SALES AREA, THE DEMAND FOR
LED PRODUCTS FROM VÍTKOVICE STEEL
THROUGHOUT THE YEAR WAS HIGHER
THE DISPATCHING CAPACITIES OF THE C

become also a challenge for deeper cooperation with international steel federations like Eurofer and other European steel-making structures.

The main groups of clients buying our steel products were represented by wholesalers with their own distribution networks and end users industrial branches – construction engineering, mechanical engineering, shipbuilding, transport vehicles, pressure vessels, construction machines. The share of supplies for end users in 2004 reached 36 % from the total volume of supplies.

Our objective is to keep the sales of higher value added products increasing. This includes for example supplies of cut shapes or plates for production of line pipes. And also in these segments the company was successful last year which had a positive impact mainly on the company's sales. The production of cut shapes for example increased by 38 % against 2003.

The most important supplies in the long products area were sheet piles which traditionally make on average 50% share of supplies from the sections rolling mill. This type of products made in VÍTKOVICE STEEL, a. s., has found its use for example even on the most important construction activity in the Moravian and Silesian Region, i.e., the construction of D47 motorway. We expanded the product mix by a new type of sheet pile VL 606 and beam HE 260.

The company's website with the new company's graphics, product catalogues and the ever expanding sphere of customers with on-line access to the system showing the current state of the job order significantly supported our effort to provide the top sales service to our customers. In the framework of promotion of the company and the offered product mix we participated at two important fairs and exhibitions – International Engineering Fair in Brno and the shipping fair Baltexpo in Poland.

VÍTKOVICE STEEL, a. s. is also active in supporting important social, sports and charity events in the Moravian and Silesian Region. To mention some of the most significant ones we would like to note mainly the ice hockey club – HC Vítkovice, Christmas concert organized by the Tereza Maxová Foundation and the Students Program.

The information system applied by the company nowadays directly determines success of production and business. An integrated information system used by VÍTKOVICE STEEL, a. s., is based on a communication link between the System for Control of Steel Production, local control information systems of the individual sets of machines and E-Business Suite. This means that the information system provides complex functionality in the area of logistic, production and economic processes starting with order booking, then production planning, control of production processes, quality control, warehousing, dispatching and invoicing. The information system is also customer-focused by provision of information on the contract in an on-line mode over the Internet. The company also operates an Internet domain www.vitkovicesteel.com which is used for presentation of VÍTKOVICE STEEL, a. s., and its products for customers.

The main task of the integrated information system is to support business strategy of the company by providing IT services and information to the clients as soon as possible, by providing tools for dynamic control of the company and for fulfilling its strategic objectives. To ensure the operation of the integrated information system, the company has created a reliable, redundant, well audited, administered and monitored network server environment which ensures continuous operation of the information system. This provides high accessibility (24x7), performance and reliability of the integrated information system.

One of the basic conditions, which the company must fulfill on the way towards higher prosperity is continuous improvement of the management systems and maintaining of their certification as per international standards of ISO series 9000, 14000 and API spec. Q1. An ongoing task in the area of quality assurance is also

THE MAIN TASK OF THE INTEGRATED BUSINESS STRATEGY OF THE COMPANY IS TO PROVIDE THE CLIENTS AS SOON AS POSSIBLE WITH THE SERVICES OF THE COMPANY AND FOR FULFILLING

TRANSOCEANIC SHIP MORNING CALM

prolonging product certificates and approbation of the company's products by RW TÜV, API (American Petroleum Institute), Deutsche Bahn, ABS, DV, DNV, GL, RINA, LRS, ČLPR, RMLR and others. The priority of our company is achieving good environmental profile and minimization of the impact of activities and products on the environment, all of this in the context of the current environment legislation and permanently sustainable development.

Good financial situation of the company allowed for more investments into improvement of technological processes and inspection activities, controlling and information systems and cost reduction measures. At the same time the company intensified preparation of the planned investment projects of larger extent, such as modernization of secondary metallurgy of steel production, technology of rolling processes, ultrasound testing of plates and testing facilities at the 3.5 Four-High Rolling Mill. In the area of technology development, 16 R&D tasks were implemented in cooperation with VÍTKOVICE – Výzkum a vývoj, Technical University Ostrava, and Technical University Brno. The company approved 26 innovations and massive production of plates for line pipes and special ship building programs began.

VÍTKOVICE STEEL, a. s., is obliged to present complete financial results at the shareholders meeting in a form of financial statements which are discussed in the detail on the following pages.

FOR THE READER OF THE ANNUAL REPORT WE ARE PROVIDING HERE THE FINANCIAL HIGHLIGHTS THAT REPRESENT A BRIEF CHARACTERISTICS OF THE BUSINESS ACTIVITIES OF VÍTKOVICE STEEL, A. S. (WITHOUT OSINEK, A. S.) AS OF DECEMBER 31, 2004:

Production	4 052 983 in tCZK
Revenue from sale of finished products and services	3 984 426 in tCZK
Production related consumption	1 623 845 in tCZK
Value added	2 429 237 in tCZK
Profit or loss on operating activities	1 577 156 in tCZK
Profit or loss before taxation	1 566 360 in tCZK

Intangible assets	10 607 in tCZK
Tangible assets	1 947 163 in tCZK
Financial investments	29 051 in tCZK
Inventory (net, the provision is -210 354 thousand CZK)	407 952 in tCZK
Long-term receivables	0 in tCZK
Short-term receivables	1 391 945 in tCZK
Short-term financial assets	635 672 in tCZK
Other assets – temporary accounts of assets	247 116 in tCZK
Basic capital	2 602 000 in tCZK
Trade payables	217 124 in tCZK
Liabilities to subsidiaries	131 383 in tCZK

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... ORIENTATION ON HIGHER VALUE ADDED PRODUCTS IS VITAL FOR OUR COMPANY. THIS IS THE ONLY WAY HOW TO GENERATE FUNDS FOR FURTHER INVESTMENTS AND MODERNIZATIONS AND MEET THE OBJECTIVES OF THE MEDIUM-TERM INVESTMENT PLAN FOR THE YEARS 2003 THROUGH 2006...

BALANCE SHEET
LONG FORM

FOR THE YEAR ENDED 31ST DECEMBER 2004
(IN THOUSAND OF CZECH CROWNS)

Company's name and address:
VÍTKOVICE STEEL, a. s.
ŠTRAMBERSKÁ 2871/47
OSTRAVA-HULVÁKY
709 00

YEAR	MONTH	ID
2004	12	25874942

			Current year			Prior years	
Marking	ASSETS	Line	Gross	Provisions	Net	Net 2003	Net 2002
a	b	c	1	2	3	4	5
	TOTAL ASSETS	001	14 312 888	-9 643 382	4 669 506	3 153 047	3 190 670
A.	Stock subscription receivable	002					
B.	FIXED ASSETS	003	11 252 288	-9 265 467	1 986 821	2 056 018	2 097 300
I.	Intangible assets	004	84 453	-73 846	10 607	14 400	831
1.	Foundation and organization expenses	005					
2.	Research and development	006					
3.	Software	007	84 193	-73 846	10 347	14 209	
4.	Patents, royalties and similar rights	008					
5.	Goodwill	009					
6.	Other intangible assets	010					
7.	Intangible assets in progress	011	260		260	191	831
8.	Advances granted for intangible assets	012					
II.	Tangible assets	013	11 032 361	-9 085 198	1 947 163	2 012 486	2 078 636
1.	Land	014	386 509	-37 147	349 362	349 362	66 965
2.	Constructions	015	2 894 697	-2 118 816	775 881	762 246	1 578 019
2.1.	Depreciation of constructions			-1 340 352			
2.2.	Provision for constructions			-778 464			
3.	Separate movable items and groups of movable items	016	7 676 886	-6 894 661	782 225	844 172	2 845 341
3.1.	Depreciation of separate movable items and groups of movables			-5 473 924			
3.2.	Provision for separate movable items and groups of movable items			-1 420 737			
4.	Perennial crops	017					
5.	Livestock	018					
6.	Other tangible assets	019	35 664	-34 574	1 090	959	920
7.	Tangible assets in progress	020	35 707		35 707	55 747	65 383
8.	Advances granted for tangible assets	021	2 898		2 898		7 500
9.	Gain or loss on revaluation of acquired property	022					-2 485 492
III.	Financial investments	023	135 474	-106 423	29 051	29 132	17 833
1.	Subsidiaries	024	132 768	-106 423	26 345	29 132	14 144
2.	Associates	025					3 689
3.	Other long-term securities and interests	026					
4.	Loans to subsidiaries and associates	027					
5.	Other long-term investments	028					
6.	Long-term investments in progress	029	2 706		2 706		
7.	Advances granted for long-term investments	030					

Marking	ASSETS	Line	Current year			Prior years	
			Gross	Provisions	Net	Net 2003	Net 2002
a	b	c	1	2	3	4	5
C.	CURRENT ASSETS	031	2 813 484	-377 915	2 435 569	781 154	803 622
I.	Inventory	032	618 306	-210 354	407 952	400 992	399 243
1.	Materials	033	478 472	-210 354	268 118	311 294	312 090
2.	Work in progress and semi-finished production	034	124 464		124 464	79 384	75 551
3.	Finished products	035	15 300		15 300	8 278	7 558
4.	Livestock	036					
5.	Goods	037				347	1 131
6.	Advances granted for inventory	038	70		70	1 689	2 913
II.	Long-term receivables	039					3 921
1.	Trade receivables	040					3 921
2.	Receivables from subsidiaries	041					
3.	Receivables from associates	042					
4.	Receivables from partners, co-operative members and participants in association	043					
5.	Other advances granted	044					
6.	Unbilled revenue	045					
7.	Other receivables	046					
8.	Deferred tax asset	047					
III.	Short-term receivables	048	1 559 506	-167 561	1 391 945	293 607	364 657
1.	Trade receivables	049	1 557 904	-167 561	1 390 343	261 880	329 906
2.	Receivables from subsidiaries	050				3 240	98
3.	Receivables from associates	051					
4.	Receivables from partners, co-operative members and participants in association	052					
5.	Social security and health insurance	053					
6.	Due from government - tax receivables	054	7		7	24 152	11 414
7.	Other advances granted	055	1 351		1 351	4 313	6 348
8.	Unbilled revenue	056					16 775
9.	Other receivables	057	244		244	22	116
IV.	Short-term financial assets	058	635 672		635 672	86 555	35 801
1.	Cash	059	537		537	212	167
2.	Bank accounts	060	484 815		484 815	4 811	30 704
3.	Short-term securities and interests	061	150 320		150 320	81 532	4 930
4.	Short-term financial assets in progress	062					
D.I.	OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS	063	247 116		247 116	315 875	289 748
1.	Prepaid expenses	064	228 983		228 983	315 875	289 554
2.	Prepaid expenses (specific-purpose expenses)	065					
3.	Unbilled revenue	066	18 133		18 133		194
	Control number	999	57 004 436	-47 587 005	18 430 908	12 296 313	12 472 932

Marking	LIABILITIES	Line	Current year	Prior year	
				2003	2002
a	b	c	5	6	7
	TOTAL EQUITY & LIABILITIES	067	4 669 506	3 153 047	3 190 670
A.	EQUITY	068	4 001 903	2 534 697	2 391 298
I.	Basic capital	069	2 602 000	2 602 000	2 602 000
1.	Registered capital	070	2 602 000	2 602 000	2 602 000
2.	Own shares and own ownership interests	071			
3.	Changes in basic capital	072			
II.	Capital funds	073	346		
1.	Share premium (agio)	074			
2.	Other capital funds	075	346		
3.	Gain or loss on revaluation of assets and liabilities	076			
4.	Gain or loss on revaluation of company transformations	077			
III.	Reserve funds, (indivisible fund) and other funds created from profit	078	16 434	9 264	
1.	Legal reserve fund/Indivisible fund	079	16 434	9 264	
2.	Statutory and other funds	080			
IV.	Profit (loss) for the previous years	081	-83 737	-219 966	-257 022
1.	Retained earnings for the previous years	082			
2.	Accumulated loss of previous years	083	-83 737	-219 966	-257 022
*	Výsledek hospodaření ve shvalovacím řízení	*			
V.	Profit (loss) for the year (+ / -)	084	1 466 860	143 399	46 320
B.	LIABILITIES	085	666 556	618 350	799 372
I.	Reserves	086	130 800	33 400	78 583
1.	Reserves created under special legislation	087			
2.	Reserve for pensions and similar obligations	088			
3.	Reserve for corporate income tax	089	99 500		
4.	Other reserves	090	31 300	33 400	78 583
II.	Long-term liabilities	091			164 229
1.	Trade payables	092			
2.	Liabilities to subsidiaries	093			
3.	Liabilities to associates	094			
4.	Liabilities to partners, co-operative members and participants in association	095			164 229
5.	Advances received	096			
6.	Bonds payable	097			
7.	Notes payable	098			
8.	Unbilled deliveries	099			
9.	Other liabilities	100			
10.	Deferred tax liability	101			

Marking	LIABILITIES	Line	Current year	Prior year	
				2003	2002
a	b	c	5	6	7
III.	Current liabilities	102	535 756	584 950	556 560
1.	Trade payables	103	217 124	288 907	151 077
2.	Liabilities to subsidiaries	104	131 383	164 229	320 615
3.	Liabilities to associates	105			
4.	Liabilities to partners, co-operative members and participants in association	106			
5.	Liabilities to employees	107	32 520	26 980	26 412
6.	Liabilities arising from social security and health insurance	108	19 855	16 662	15 641
7.	Due to government – taxes and subsidies	109	99 147	4 797	5 639
8.	Advances received	110			317
9.	Bonds payable	111			
10.	Unbilled deliveries	112	33 109	81 869	34 979
11.	Other liabilities	113	2 618	1 506	1 880
IV.	Bank loans and borrowings	114			
1.	Long-term bank loans	115			
2.	Short-term bank loans	116			
3.	Borrowings	117			
C.I.	OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES	118	1 047		
1.	Accruals	119	1 047		
2.	Deferred income	120			
	Control number	999	17 210 117	12 468 789	12 716 360

Prepared on:	Signature of accounting entity's statutory body:	Person responsible for accounting (name, signature):	Person responsible for financial statement (name, signature):
April 8, 2005	Vladimír Bail, Ph.D.	Jiří Chuchro	Jana Struminská

INCOME STATEMENT
LONG FORM

FOR THE YEAR ENDED 31ST DECEMBER 2004
(IN THOUSAND OF CZECH CROWNS)

YEAR	MONTH	ID
2004	12	25874942

Company's name and address:
VÍTKOVICE STEEL, a. s.
ŠTRAMBERSKÁ 2871/47
OSTRAVA-HULVÁKY
709 00

			Accounting period		
			Current year	Prior years	
Marking	TEXT	Line		2003	2002
a	b	c	1	2	3
I.	Revenue from sale of goods	1	446	544	52 209
A.	Cost of goods sold	2	347	809	62 750
+	Gross margin	3	99	-265	-10 541
II.	Production	4	4 052 983	2 607 623	2 037 266
1.	Revenue from sale of finished products and services	5	3 984 426	2 586 884	2 037 643
2.	Change in inventory produced internally	6	52 102	4 553	-17 187
3.	Own work capitalised	7	16 455	16 186	16 810
B.	Production related consumption	8	1 623 845	1 611 647	1 415 678
1.	Consumption of material and energy	9	599 447	590 835	596 941
2.	Services	10	1 024 398	1 020 812	818 737
+	Value added	11	2 429 237	995 711	611 047
C.	Personnel expenses	12	704 709	628 080	580 019
1.	Wages and salaries	13	507 550	456 380	425 577
2.	Bonuses to members of company or cooperation bodies	14	1 818	1 835	1 975
3.	Social security and health insurance	15	173 735	159 308	147 349
4.	Other social costs	16	21 606	10 557	5 118
D.	Taxes and charges	17	2 541	2 639	3 385
E.	Amortization and depreciation of intangible and tangible fixed assets	18	431 978	480 919	520 003
III.	Revenue from sale of intangible and tangible fixed assets and materials	19	36 514	52 226	44 520
1.	Revenues from sale of intangible and tangible fixed assets		3 048	7 046	14 753
2.	Revenue from sale of materials		33 466	45 180	29 767
F.	Net book value of intangible and tangible fixed assets and materials sold	20	28 623	22 857	26 126
1.	Net book value of intangible and tangible fixed assets sold		336	987	3 923
2.	Materials sold		28 287	21 870	22 203
G.	Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	21	-279 554	-258 745	-498 755
G.1.	Creation of provision - legal		72 139	42 260	78 216
G.2.	Creation of provision - other		40 453	56 761	1 810
G.3.	Clearing of provisions - legal		-40 314	-666	0
G.4.	Clearing of provisions - other		-349 732	-351 024	-554 295
G.5.	Creation of reserves - legal		0	0	0
G.6.	Creation of reserves - other		0	14 500	0
G.7.	Clearing of reserves - legal		0	0	0
G.8.	Clearing of reserves - other		-2 100	-20 576	-24 486
G.9.	Clearing of complex expenses of future periods		0	0	0
IV.	Other operating revenues	25	59 927	9 435	19 241
H.	Other operating expenses	26	60 225	43 430	15 625
V.	Transfer of operating revenues	27	0	0	0
I.	Transfer of operating expenses	28	0	0	0
*	Profit or loss on operating activities	29	1 577 156	138 192	28 405

Marking	TEXT	Line	Accounting period		
			Current year	Prior years	
				2003	2002
a	b	c	1	2	3
VI.	Revenue from sale of securities and interests	30	0	0	0
J.	Securities and interests sold	31	0	0	0
VII.	Income from financial investments	32	0	0	0
1.	Income from subsidiaries and associates	33	0	0	0
2.	Income from other long-term securities and interests	34	0	0	0
3.	Income from other financial investments	35	0	0	0
VIII.	Income from short-term financial assets	36	114	63	58
K.	Expenses related to financial assets	37	0	0	0
IX.	Gain on revaluation of securities and derivatives	38	0	0	0
L.	Loss on revaluation of securities and derivatives	39	0	0	0
M.	Change in reserves and provisions relating to financial activities	40	2 789	-40 807	-15 697
X	Interest income	44	3 211	1 740	1 416
N.	Interest expense	45	2 507	9 372	10 277
XI.	Other finance income	46	29 222	22 282	16 788
O.	Other finance cost	47	38 047	50 313	5 767
XII.	Transfer of finance income	48	0	0	0
P.	Transfer of finance cost	49	0	0	0
*	Profit or loss on financial activities	50	-10 796	5 207	17 915
Q.	Tax on profit or loss on ordinary activities	51	99 500	0	0
1.	- due	52	99 500	0	0
2.	- deferred	53	0	0	0
			0	0	0
**	Profit or loss on ordinary activities after taxation	54	1 466 860	143 399	46 320
XIII.	Extraordinary gains	55	0	0	0
R.	Extraordinary losses	56	0	0	0
S.	Tax on extraordinary profit or loss	57	0	0	0
1.	- due	58	0	0	0
2.	- deferred	59	0	0	0
*	Extraordinary profit or loss	60	0	0	0
T.	Transfer of share of profit or loss to partners (+/-)	61	0	0	0
***	Profit or loss for the year (+/-)	62	1 466 860	143 399	46 320
****	Profit or loss before taxation	63	1 566 360	143 399	46 320
	Control number	99	21 660 369	11 477 157	8 687 316

Prepared on:	Signature of accounting entity's statutory body:	Person responsible for accounting (name, signature):	Person responsible for financial statement (name, signature):
April 8, 2005	Vladimír Bail, Ph.D.	Jiří Chuchro	Jana Struminská

I AM NOT AFRAID OF THE
ELOPMENT OF OUR COMP
ECAUSE THE DECISIVE MA
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ON WHO ARE WELL EXP
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WELL QUALIFIED EMPLOY

... I AM NOT AFRAID OF THE DEVELOPMENT OF OUR COMPANY BECAUSE THE DECISIVE MANAGEMENT LEVELS ARE STAFFED WITH MANAGERS WITH INVENTION WHO ARE WELL EXPERIENCED AND COMPETENT. THE WORKSITES ARE STAFFED WITH WELL QUALIFIED EMPLOYEES WITH CREATIVE APPROACH TO WORK...

CONTENTS

1. DESCRIPTION OF THE COMPANY 30
2. BASIC OF PRESENTATION OF THE FINANCIAL STATEMENTS 32
   A) IMPACT OF THE ACT ON ACCOUNTING AMENDMENTS 32
   B) INFORMATION COMPARABILITY 32
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES 32
   A) INTANGIBLE FIXED ASSETS 32
   B) TANGIBLE FIXED ASSETS 32
   C) FINANCIAL ASSETS 34
   D) INVENTORY 34
   E) RECEIVABLES 35
   F) DERIVATIVES 35
   G) EQUITY 35
   H) RESERVES AND LIABILITIES 35
   I) FINANCIAL LEASES 35
   J) FOREIGN CURRENCY TRANSACTIONS 35
   K) RECOGNITION OF REVENUES AND EXPENSES 36
   L) INCOME TAX 36
   M) PROVISIONS 36
4. FIXED ASSETS 37
   A) INTANGIBLE FIXED ASSETS (IN CZK THOUSANDS) 37
   B) TANGIBLE FIXED ASSETS (IN CZK THOUSANDS) 38
   C) LONG-TERM FINANCIAL INVESTMENTS (IN CZK THOUSANDS) 41

5. INVENTORY 42
6. RECEIVABLES 43
7. PROVISIONS 43
8. SHORT-TERM FINANCIAL ASSETS 44
9. OTHER ASSETS 44
10. EQUITY 44
11. RESERVES 45
12. LONG-TERM LIABILITIES 46
13. CURRENT LIABILITIES 46
14. INCOME TAX 46
15. LEASES 48
16. COMMITMENTS AND CONTINGENCIES 49
17. REVENUES 52
18. PERSONNEL AND RELATED EXPENSES 52
19. RELATED PARTY INFORMATION 53
20. RESEARCH AND DEVELOPMENT COSTS 58
21. SIGNIFICANT ITEMS OF INCOME STATEMENT 58
22. SUBSEQUENT EVENTS 58
A) TERMINATION OF FINANCING OF PROCESSING COSTS (TOLLING) 58
B) DISPUTE CONCERNING LIQUID PIG IRON 59
C) CHANGES IN THE STATUTORY BODY MEMBERSHIP AFTER 31ST DECEMBER 2004 60
23. STATEMENT OF CASH FLOWS (SEE SCHEDULE X) 60
24. STATEMENT OF CHANGES IN EQUITY (SEE SCHEDULE 10) 60

1. DESCRIPTION OF THE COMPANY

VÍTKOVICE STEEL, a. s. ("the Company") is a joint stock company incorporated on 7th March 2001 in the Czech Republic. The Company's registered office is located in Ostrava, Štramberská No. 2871/47, 709 00, Czech Republic and the business registration number (IČ) is 25874942. The Company is involved in the production and metallurgical processing of iron and steel.

The majority shareholder of the Company is OSINEK, a. s., which holds a 98.96 % share in the basic capital and is the parent company.

The parent company OSINEK, a. s. is fully owned by the National Property Fund of the Czech Republic.

The Company is included in a consolidated group of the parent company.

MEMBERS OF STATUTORY BODIES AS AT 31ST DECEMBER 2004 WERE AS FOLLOWS:

BOARD OF DIRECTORS

Chairman:	Vladimír Bail, Ph.D.
Vice-chairman:	Vratislav Vícha
Member:	Zbyněk Kvapík
Member:	Jiří Poštulka
Member:	Radim Valas

SUPERVISORY BOARD

Chairman:	Jiří Staněk
Member:	Rostislav Fromelius
Member:	Jiří Chuchro
Member:	Pavel Makový
Member:	Libor Novák
Member:	Ivo Štěpán

THE COMPANY'S ORGANIZATIONAL STRUCTURE IS AS FOLLOWS:

SUPERVISORY BOARD

- **JIŘÍ STANĚK** CHAIRMAN
- **ROSTISLAV FROMELIUS** MEMBER
- **JIŘÍ CHUCHRO** MEMBER
- **PAVEL MAKOVÝ** MEMBER
- **LIBOR NOVÁK** MEMBER
- **IVO ŠTĚPÁN** MEMBER

BOARD OF DIRECTORS

- **VLADIMÍR BAIL** CHAIRMAN
- **VRATISLAV VÍCHA** VICE-CHAIRMAN
- **ZBYNĚK KVAPÍK** MEMBER
- **JIŘÍ POŠTULKA** MEMBER
- **RADIM VALAS** MEMBER

MANAGEMENT

- 100 GENERAL MANAGER
  - 200 MANAGING DIRECTOR
  - 200.1 IT DIRECTOR
  - 200.2 QUALITY DIRECTOR
  - 200.3 HUMAN RESOURCES DIRECTOR
  - 200.4 TECHNICAL DIRECTOR
  - 200.5 FINANCIAL DIRECTOR
  - 200.6 COMMERCIAL DIRECTOR
  - 200.7 PRODUCTION AND LOCISTICS DIRECTOR
  - 200.8 PURCHASING DIRECTOR
    - 210 CUT SHAPES
    - 220 STEELWORKS
    - 230 SECTION ROLLING MILL
    - 240 FINISHED PRODUCTS WAREHOUSE
    - 260 FOUR-HIGH ROLLING MILL
    - 270 SERVICE

SUBSIDIARIES

- VÍTKOVICE INTERNATIONAL GMBH
- VÍTKOVICE STEEL POLSKA, SP. Z O. O.
- VÍTKOVICE – SERVIS CENTRUM, A. S.

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the relevant accounting procedures for entrepreneurs as applicable for 2003 and 2002, Decree No. 500/2002 Coll., and the Czech accounting standards for entrepreneurs as applicable for 2004.

A) IMPACT OF THE ACT ON ACCOUNTING AMENDMENTS

The impact of amendments to the Act on Accounting and to the accounting procedures for entrepreneurs as of 1st January 2003 and 1st January 2002 was reflected in net profit or loss for 2003 and 2002, respectively, or in equity as of 31st December 2003 and 2002, respectively. For this reason, certain information in the 2003 financial statements is not fully comparable content wise with this in the 2002 financials.

B) INFORMATION COMPARABILITY

In connection with the amendments to the Act on Accounting and to the accounting procedures, the form of reporting of some items in the balance sheet, income statement and cash flow statement has changed in 2004 and 2003. For this reason, certain balances of previous accounting periods have been reclassified to conform to the current year presentation.

The balance sheet caption "Gain or loss on revaluation of acquired property" that included an adjustment to acquired property in 2001 is reflected as an impairment of assets to which it is supposed to relate. The balance of adjustment to acquired property in 2002 represented a valuation difference, which was not attributable to individual asset categories. In 2003, the Company decided to enhance an informative value of financial reporting by correction of all adjustments and provisions in accordance with the earlier recommendations given by the audit firm Deloitte & Touche spol. s r. o. It means that a portion of the adjustment is allocated to fixed assets – buildings and separate movable items, and depreciation of adjustments and provisions is adjusted according to depreciation schemes of individual asset items and Gain or loss on revaluation of acquired property is not reported.

The balance sheet caption Corrections of land included the adjustment to acquired property as per management estimate in 2002 (see Note 4b). In 2003, the amount was determined based on an updated expert's opinion.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2004, 2003 and 2002 financial statements are as follows:

A) INTANGIBLE FIXED ASSETS

Intangible fixed assets are valued at their acquisition cost and related expenses.

Intangible fixed assets with a cost exceeding CZK 60 thousand are amortized over their estimated useful lives. Small intangible items with a cost of less than CZK 60 thousand were expensed and carried only in a subsidiary ledger.

B) TANGIBLE FIXED ASSETS

Purchased tangible fixed assets with cost exceeding CZK 40 thousand are recorded at their acquisition cost that consists of purchase price, freight, customs duties and other related costs. Internally developed tangible fixed assets are recorded at their accumulated cost that

consists of direct material and labour costs and production overhead.

The costs of technical improvements are capitalized. Repairs and maintenance expenses are expensed as incurred.

Small tangible items with a cost of less than CZK 40 thousand were expensed and carried only in a subsidiary ledger.

DEPRECIATION

Depreciation is calculated based on the acquisition cost and the estimated useful life of related asset.
The estimated useful lives are as follows:

	Years (Number of)
Constructions	20 - 77
Of that: buildings and halls for power engineering production	25
Of that: underground weak current cables	20
Machinery and equipment	4 - 20
Of that: tools and instruments	4
Vehicles	5 - 17
Furniture and fixtures	4 - 25

FIXED ASSETS ACQUIRED BY CONTRIBUTION

The Company acquired the major part of its assets through a contribution from VÍTKOVICE, a. s. and records these assets in amounts corresponding to those reflected in the contributor's books of accounts. The contributed tangible fixed assets were valued at net book values taken from the contributor's books reduced by a correction to their recoverable value determined in an expert opinion. The expert opinion was prepared by two independent experts on the basis of the weighted average of two valuation methods – adjusted net asset value and discounted projected earnings.

Until 2002, the difference between the legal appraisal and the net book value of assets recognized in the books of the contributor was reflected in fixed assets as an adjustment to acquired property ("Gain or loss on revaluation of acquired property" according to the Czech Accounting Standard No. 013).

This adjustment to acquired property represented an adjustment of asset value recorded in the contributor's books to the recoverable value. Based on expert opinion, it related to individual asset items as follows:

	CZK (in mill.)
Provision against land	354
Provision against depreciable assets	2 879
Provision against materials	228
Total	3 461

In 2001 and 2002, the adjustment to acquired property adjusted the value of contributed inventories and fixed assets and was released to revenues. The amount was determined to be released on a straight-line basis over 15 years. In 2002, in order to give a more accurate presentation of the financial statements, a certain portion of the adjustment was matched with those asset items in the balance sheet to which it related as per a management estimate (see Note 4b).

In 2003, the Company decided to change a way of reporting of contributed assets so that the adjustment to acquired property could present fairly the assets, in particular, with respect to constructions, separate movable items and inventory, and so that the adjustment could present more fairly the effects on net profit or loss with-

in the income statement, in particular, with respect to the following items:

a) Depreciation of contributed fixed assets is corrected by release of adjustment while taking into consideration a residual economic useful lives of these assets;
b) Depreciation of net book values upon the asset disposal is corrected by a release of a proportionate part of adjustment.

The solution lies with matching of adjustment to acquired property to each asset category (in the form of provisions against land, constructions, separate movable items, inventory).

The balance of adjustment to acquired property as of 31st December 2002 was corrected in 2003 for provision against land based on an updated expert opinion, for provision against inventory and for depreciation of adjustment to acquired property until 2002.

Regarding the algorithm of calculation of adjustment release, the method of average residual depreciation period (average residual economic useful life) was approved. The average depreciation period for constructions and movable items was determined, and an amount of provision against constructions and movable items to be released was determined for this residual period.

The average expected number of years of depreciation was calculated based on net book values and depreciation for the year 2003. The expected number of years of depreciation with respect to constructions and separate movable items is 34.22 years and 8.88 years, respectively.

C) FINANCIAL ASSETS

Short-term financial assets consist of cash on hand and in bank and depository notes.Long-term financial assets consist of ownership interests and shareholdings.

Starting in 2002, interests and shareholdings are valued at their acquisition cost, which includes the purchase price and direct costs related to the acquisition, e.g. fees and commissions paid to agents and stock exchanges.

In respect of depository notes, interest income is recorded observing the matching and accrual principles. Accrued interest income is included in the relevant securities account.

If there is a decrease in the carrying value of long-term financial assets, the difference is considered a temporary diminution in value and is recorded as a provision.

D) INVENTORY

Purchased inventory is stated at actual cost being determined on the standard costing (acquisition cost is a fixed amount – so-called standard cost) and price variances (standard cost variation). An update of the standard cost is carried out twice a week.

Costs of purchased inventory include acquisition related costs (freight, customs, commission, etc.).

Work-in-progress is valued at standard cost. The cost of inventory produced internally includes direct material, internally developed semi-finished products, direct wages and other direct costs. The value of finished products in addition includes production overhead costs.

Since metallurgical production is financed by OSINEK, a. s., (see Note 3k), the below-stated principles for the accounting and valuation of work-in-progress, semi-finished products and finished products were adopted. The following items are reported in OSINEK, a. s. records:

- primary direct costs, particularly costs for materials (purchases made by OSINEK, a. s.);
- primary overhead costs (overhead costs of OSINEK, a. s.).

VÍTKOVICE STEEL, a. s. reports a portion of costs for direct material processing, i.e. a relevant portion of labour costs

and a portion of other direct costs for material re-processing, in work-in-progress and semi-finished products.

The processing of materials and energy to finished products is subject to contracts for work and, based on which monthly billing is applied.

Purchases are made in accordance with commercial agency contracts; sales of finished products are made on the basis of consignment contracts and are also subject to monthly billing.

E) RECEIVABLES

Both long- and short-term receivables are carried at their realizable value after provision for doubtful accounts. Additions to the provision account are charged to income.

F) DERIVATIVES

In 2004 the Company entered into contracts for derivatives (forwards, options) which hedged future cash flows against foreign currency risks. Derivatives are valued at cost and all derivative contracts were terminated as at 31st December 2004.

G) EQUITY

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Regional Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting, which was not entered in the Commercial Register as of the financial statements date, is recorded through changes in basic capital.

In the first year in which profit is generated, a joint-stock company should allocate 20 % of profit after tax (however, not more than 10 % of basic capital) to the legal reserve fund. In subsequent years, the legal reserve fund is allocated 5 % of profit after tax until it reaches 20 % of basic capital. These funds can only be used to offset losses.

H) RESERVES AND LIABILITIES

The Company creates legal reserves within the meaning of the Act on Reserves and reserves for losses and risks if the related purpose, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term liabilities and current liabilities are carried at their nominal values.

I) FINANCIAL LEASES

The Company records leased assets by expensing the lease payments and capitalizing the residual value of the leased assets when the lease contract expires and the purchase option is exercised. Lease payments paid in advance are recorded as prepaid expenses and amortized over the lease term.

J) FOREIGN CURRENCY TRANSACTIONS

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate existing at the transaction date, and on the balance sheet date they are adjusted to the exchange rates published by the Czech National Bank at 31st December.

Realized exchange rate gains and losses were charged or credited, as appropriate, to income for the year. From 2003 unrealized exchange rate gains and losses are also recognized or charged, as appropriate, into income. Until 2002 these gains and losses were not recognized or charged, as appropriate, into income until collection or payment of the related item occurred, and were included in other liabilities or other assets, as appropriate,

in the accompanying balance sheet. Unrealized exchange rate losses were reported as assets in the accompanying balance sheet and were offset by a reserve with a corresponding charge to income.

K) RECOGNITION OF REVENUES AND EXPENSES

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

The Company recognizes as an expense any additions to reserves for or provisions against risks, losses or physical damage that are known as at the financial statements date.

FINANCING AND ACCOUNTING FOR EXPENSES AND REVENUES

On the basis of a government resolution, the company OSINEK, a. s., owned by the National Property Fund of the Czech Republic, was determined to finance metallurgical production at VÍTKOVICE, a. s. Therefore OSINEK, a. s., obtained a loan from the state-owned Konsolidační banka Praha s. p. ú.

The funding of metallurgical production at VÍTKOVICE, a. s. commenced as of 1 April 2000 in Division 200 – Flat products, and includes the purchase of basic input raw materials and energy at the OSINEK, a. s. The producer processes the input raw materials into finished metallurgical products, i.e. heavy plates, sections, sheet piles and cut shapes and obtains fees for the work. The delivered input raw materials are the property of OSINEK, a. s. in all pre-production and production stages. The finished products are also the property of OSINEK, a. s., which sells them. OSINEK, a. s. also funds all external sales costs. This financing method has been adopted by VÍTKOVICE STEEL, a. s., which arose through a contribution of part of an enterprise (Division 200 – Flat products) in 2001.

OSINEK, a. s. purchases all inputs for metallurgical production – direct materials, direct technology and overhead energy. The Company produces flat and long products and cut shapes for processor's remuneration. The products are sold on behalf of and at OSINEK, a. s., account.

L) INCOME TAX

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible reserves and provisions, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, taking into consideration the period of realization.

M) PROVISIONS

The Company creates provisions against tangible fixed assets if a temporary diminution in their value is ascertained due to devaluation, environmental burden, temporary non-use or a potential loss on their sale.

As the Company acquired assets mostly through contribution, the existing adjustment to acquired property (net of depreciation) reflecting risks related to the contribution valuation was considered when stipulating the amount of this provision in 2002. In 2003, the Company decided to allocate the adjustment to acquired property to provisions against each type of contributed assets for the purpose of a fairer presentation of assets.

The Company creates provisions against inventory based on physical stock-takes, which may reveal a possible temporary decline in inventory value.

Provisions are created against non-moving inventory of spare parts, i.e. inventory, which does not move for either one two or three years. In compliance with the Company methodology, the provision is estimated taking regard of the degree of depreciation of related production units. This amount is reconciled with the adjustment to acquired property related to inventory acquired through contribution.

4. FIXED ASSETS

A) INTANGIBLE FIXED ASSETS (IN TCZK)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Software	83 793	0	0	400	84 193
Intangibles in progress	191	469	0	-400	260
2004 Total	**83 984**	**469**	**0**	**0**	**84 453**
2003 Total	**67 709**	**16 275**	**0**	**0**	**83 984**
2002 Total	**66 878**	**831**	**0**	**0**	**67 709**

ACCUMULATED AMORTIZATION

	At beginning of year	Amortization during year	Disposals	At end of year	Net book value
Software	-69 584	-4 262	0	-73 846	10 347
Intangibles in progress	0	0	0	0	260
2004 Total	**-69 584**	**-4 262**	**0**	**-73 846**	**10 607**
2003 Total	**-66 878**	**-2 706**	**0**	**-69 584**	**14 400**
2002 Total	**-66 853**	**-25**	**0**	**-66 878**	**831**

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 1,150 thousand as at 31st December 2004.

B) TANGIBLE FIXED ASSETS (IN TCZK)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	386 509	0	0	0	386 509
Constructions	2 856 278	0	-163	38 582	2 894 697
Machinery and equipment	7 148 200	0	-37 841	42 426	7 152 785
Vehicles	487 235	0	-3 850	8 995	492 380
Furniture and fixtures	31 796	0	-75	0	31 721
Other tangible fixed assets	37 459	5 052	-6 908	0	35 603
Art works and collections	61	0	0	0	61
Tangibles in progress	55 747	70 018	-545	- 89 513	35 707
Advances for tangibles	0	2 898	0	0	2 898
2004 Total	**11 003 285**	**77 968**	**-49 382**	**490**	**11 032 361**
2003 Total	**7 852 368**	**178 934**	**-402 537**	**3 374 520**	**11 003 285**
2002 Total	**7 989 989**	**170 810**	**-308 431**	**0**	**7 852 368**

ACCUMULATED DEPRECIATION

	At beginning of year	Depreciation during year	Cost of sales or liquidation	Disposals	Transfers	At end of year	Provisions	Net book value
Land	0	0	0	0	0	0	-37 147	349 362
Constructions	-1 290 293	-50 217	-5	163	0	-1 340 352	-778 464	775 881
Machinery and equipment	-4 732 651	-356 584	-378	37 841	0	-5 051 772	-1 420 737	680 276
Vehicles	-389 954	-14 378	0	3 850	-490	-400 972	0	91 408
Furniture and fixtures	-19 686	-1 569	0	75	0	-21 180	0	10 541
Other tangible fixed assets	-36 561	-4 921	0	6 908	0	-34 574	0	1 029
Art works and collections	0	0	0	0	0	0	0	61
Tangibles in progress	0	0	0	0	0	0	0	35 707
Advances for tangibles	0	0	0	0	0	0	0	2 898
2004 Total	**-6 469 145**	**-427 669**	**-383**	**48 837**	**-490**	**-6 848 850**	**-2 236 348**	**1 947 163**
2003 Total	**-5 979 641**	**-438 506**	**-40 821**	**310 772**	**-320 949**	**-6 469 145**	**-2 521 654**	**2 012 486**
2002 Total	**-5 988 674**	**-207 958**	**-91 124**	**308 115**	**0**	**-5 979 641**	**-965**	**1 871 761**

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 73,999 thousand, CZK 75,346 thousand and CZK 86,015 thousand at acquisition cost as at 31st December 2004, 2003 and 2002, respectively.

Certain tangible fixed assets (section mill of a blooming mill, mill 450, and certain buildings) were no longer in service or were being held for sale or redevelopment. These assets had cost of CZK 24,127 thousand, CZK 23,942 thousand and CZK 21,284 thousand and accumulated depreciation of CZK 19,583 thousand, CZK 19,410 thousand and CZK 17,335 thousand, as at 31st December 2004, 2003 and 2002, respectively.

Major additions to tangible fixed assets in 2004 included technical improvement of electro building in the amount of CZK 21,606 thousand and laser measuring device of basin lining at an amount of CZK 12,549 thousand. Other significant additions included the acquisition of the VANAD flame cutting machine and a bridge crane in the amount of CZK 8,412 thousand and CZK 8,510 thousand, respectively.

In 2003 the Company disposed of mill 450 with a net book value of CZK 40,700 thousand. In previous years, this asset was provisioned for in the contributor's books of account. In 2003 the Company expensed the net book value of the asset and made a reversal of a provision, which was excluded from the adjustment to acquired property in the same amount in 2002.

Tangible fixed assets in progress totalling CZK 35,707 thousand as at 31st December 2004 included work on the GOMO integrated secondary metallurgy system totalling CZK 9,833 thousand and modernization of push furnace No. 2 of CZK 5,285 thousand.

The Company has an easement to Energetika Vítkovice, a. s. and VÍTKOVICE – Zkušebny a laboratoře, spol. s r.o., (electricity, gas, water etc. distribution systems). The Company rents certain non-residential premises to individuals (physicians) and legal entities. The premises particularly include cloakrooms, offices, garages or unused halls) for a total rent of CZK 27,165 thousand, VAT inclusive.

Adjustment to acquired property of CZK 3,461,248 thousand arose in connection with the contribution of a part of an enterprise in 2001. Depreciation of this adjustment to acquired property and an extraordinary write-off of the disposed section mill of a blooming mill at an amount of CZK 86,728 thousand were recognized in revenue in 2002. Each asset category was provisioned for in 2002 in accordance with an expert opinion based on the adjusted net asset value valuation method.

	Balance as at 31/ 12/ 2001	Depreciation for 1-12 month	Extraordinary write-off	Balance as at 31/ 12/ 2002
Provision against acquired land	344 100	-23 596	0	320 504
Provision against machinery and equipment (reclassified)				40 700
Provision against acquired depreciable property	2 798 897	-185 977	-86 728	2 485 492
Provision against acquired materials	222 105	-15 230	0	206 875
Total	**3 365 102**	**-224 803**	**-86 728**	**3 053 571**

The valuation of the contributed land reflects environmental damage in the respective area. A provision against acquired land was made as the difference between the net asset value of the land as per the expert opinion and its book value. In 2002 the Company reclassified a portion of the adjustment to acquired property and reported it as a provision against acquired land totalling (CZK 320,504 thousand) and provision against disposed machinery and equipment totalling (CZK 40,700 thousand) in the balance sheet. Pursuant to an updated expert opinion, the Company determined the value of land at CZK 349,362 thousand in 2003, which means that the amount of provision against land was CZK 37,147 thousand as at 31 December 2003. This provision is not depreciated.

In 2003, the Company decided to allocate the adjustment to acquired property to provisions against each type of contributed assets.

THE BALANCE OF ADJUSTMENT TO ACQUIRED PROPERTY AS AT 31ST DECEMBER 2002 IN THE AMOUNT OF CZK 3,461,248 THOUSAND WAS ADJUSTED IN 2003 BY THE FOLLOWING ITEMS:

Provision against land pursuant to updated expert opinion	37 147
Provision assigned to inventory	228 451
Depreciation of adjustment to acquired property for the year 2001	96 146
Depreciation of adjustment to acquired property for the year 2002	224 803
Extraordinary write-off in 2002 (disposal of blooming mill)	86 728
Exclusion of provision against mill 450 (disposal in 2003)	40 700
Adjustment to acquired property after correction	2 747 273

The balance of adjustment to acquired assets was increased after correction by depreciation assigned to spare parts of (CZK 6,346 thousand) and (CZK 15,230 thousand) in 2001 and 2002, respectively.
The balance of adjustment to acquired property, corrected as above, totalling CZK 2,768,849 thousand served an initial balance for reclassification of adjustment to acquired property as provisions against each type of contributed assets. The amount to be released of the reclassified provisions was determined pursuant to an average depreciation period for constructions (34.22 years) and movable items (8.88 years) (see Note 3b).

	Balance as at 31/12/2002	Balance as at 31/12/2003	Balance as at 31/12/2004	Depreciation for the months 1-12 (annual depreciation in the years 2003-2009)	Annual depreciation in 2010	Annual depreciation in 2035
Provision against constructions	829 013	803 739	778 464	-25 275	-25 275	-20 220
Provision against separate movable items and groups of movable items	1 939 836	1 679 804	1 419 772	-260 032	-119 615	0
Subtotal	2 768 849	2 483 543	2 198 236	-285 307	-144 890	-20 220
Provision against a part of non-disposed blooming mill (created in 2003)	965	965	965	0	0	0
Total provision against separate movable items and groups of movable items	**1 940 801**	**1 680 769**	**1 420 737**	**-260 032**	**-119 615**	**0**

A portion of adjustment to acquired assets amounting to CZK 206,875 thousand related to non-moving spare parts was reported as provision against materials in 2003. It was reclassified as provision against spare parts in 2003. As at December 31, 2004 additional provision was created in the amount of CZK 21,087 thousand in accordance with the methodology described in Notes 3 d), m) and 7.

C) LONG-TERM FINANCIAL INVESTMENTS (IN TCZK)

SUMMARY OF CHANGES IN LONG-TERM FINANCIAL INVESTMENTS:

	Balance as at 31/ 12/ 2002	Additions	Disposals	Balance as at 31/ 12/ 2003	Additions	Disposals	Balance as at 31/ 12/ 2004
Subsidiaries	48 270	84 496	0	132 766	2	0	132 768
Associates	74 897	0	-74 897	0	0	0	0
Long-term investments in progress	0	0	0	0	2 706	0	2 706
Provisions	-105 334	0	1 700	-103 634	-2 789	0	-106 423
Total	**17 833**	**84 496**	**-73 197**	**29 132**	**-81**	**0**	**29 051**

SUBSIDIARIES AND ASSOCIATES AS AT 31ST DECEMBER 2004 WERE AS FOLLOWS (IN TCZK):

Company name	VÍTKOVICE - Servis centrum, a. s. In liquidation At 31 December 2004	VÍTKOVICE - Servis centrum, a. s. At 31 December 2003	VÍTKOVICE - Servis centrum, a. s. At 31 December 2002	VÍTKOVICE STEEL Polska Sp. z o. o. At 31 December 2004	VÍTKOVICE STEEL Polska Sp. z o. o. At 31 December 2003	VÍTKOVICE STEEL Polska Sp. z o. o. At 31 December 2002	VITKOVICE International GmbH At 31 December 2004	VITKOVICE International GmbH At 31 December 2003	VITKOVICE International GmbH At 31 December 2002
Registered office	Frýdek- -Místek	Frýdek- -Místek	Frýdek- -Místek	Krakow, Poland	Krakow, Poland	Krakow, Poland	Düsseldorf, Germany	Düsseldorf, Germany	Düsseldorf, Germany
Percentage of ownership	97,96	97,96	97,96	100	100	100	100	100	33,3
Total assets	11 302	12 667	49 422	22 452	19 874	0	17 806	17 883	18 835
Equity	11 214	12 557	14 061	5 960	59	0	15 217	14 995	13 442
Basic capital and capital funds	48 900	48 900	48 900	373	345	370	33 792	35 942	35 049
Funds created from profit	0	0	0	0	0	0	0	0	0
Retained earnings/ losses B/F	-36 343	-35 667	-22 509	-309	0	0	-19 679	-22 039	-23 012
Profit/loss for the current year	-1 343	-676	-12 696	5 896	-285	0	1 104	1 092	1 405
Acquisition cost of share / interest	47 900	47 900	47 900	370	370	370	84 498	84 496	74 897
Nominal value of share / interest	47 900	47 900	47 900	50*	50*	50*	1 590*	1 69*0	1 648*
Intrinsic value of share / interest*	10 985	12 963	13 415	5 960	59	0	15 217	14 995	4 476
Provision	-36 915	-34 126	-34 126	0	0	0	-69 508	-69 508	-71 208

(*VITKOVICE STEEL Polska Sp. z o.o. in PLN and VÍTKOVICE International, GmbH translated into EUR at the 31/12 rate in 2002, 2003, 2004).

In 2001 the Company acquired a 33.3 % interest in VÍTKOVICE INTERNATIONAL GmbH (hereinafter "VI"), which has been a strategically significant sales representative of the VÍTKOVICE group in Germany and the European Union since its foundation. In 2001 the Company established a provision against this financial investment, reflecting a reduction in equity of "VI". In 2003 the Company purchased interests from VÍTKOVICE, a. s. and VÍTKOVICE - Export, a. s. for the price, including indirect costs, of CZK 9,599 thousand and became its 100% owner. With respect to the reported results of "VI" in 2003, the Company decreased the provision by CZK 1,700 thousand.

Further, in 2001 the Company acquired a 97.96 % interest in VÍTKOVICE - Servis centrum, a. s., for CZK 47,900 thousand through a share subscription. As these subscribed shares were not recorded in the Commercial Register until 3rd January 2002, they were not reported as long-term financial assets in the balance sheet as at 31st December 2001. The nominal value of the subscribed shares of VÍTKOVICE - Servis centrum, a. s., was recorded as a long-term receivable. A provision of CZK 20,000 thousand was created against this long-term receivable. In 2002 the receivable was reclassified as a long-term financial investment including the aforementioned provision. Due to negative developments at VÍTKOVICE - Servis centrum, a. s., the provision was increased by CZK 2,789 thousand and 14,125 thousand in 2004 and 2002, respectively. Following the decision of the VÍTKOVICE - Servis centrum, a. s.,´s Annual General Meeting of 28th June 2004, the company was wound up with liquidation as at 1st July 2004. The Annual General Meeting also decided to reduce capital by CZK 36,675 thousand to CZK 12,225 thousand. This fact was not entered in the Commercial Register as of the financial statements date. The net book value of the financial investment represents the Company's share in the equity of VÍTKOVICE - Servis centrum, a. s.

In 2002 the Company established a new company VÍTKOVICE STEEL Polska Sp. z o. o. in Poland. VÍTKOVICE STEEL, a. s. owns a 100% share in the Polish company.

In 2004 the Company acquired 6.7 % of shares of Hutnictví železa including incidental acquisition costs for CZK 2,706 thousand. As per the excerpt from the Securities Centre the Company became owner of the shares as at 7th January 2005.

Financial information about these companies for the year 2004 was obtained from the companies' standalone unaudited financial statements.

Unrealised losses are recorded in provisions accounts and reflected in the corrections column of the accompanying balance sheet (see Note 7).

5. INVENTORY

Excess, obsolete and slow moving inventory has been written down to its estimated net realizable value by a provision account. The provision is determined by management based on depreciation level of the main production units (see Note 7).

6. RECEIVABLES

Provisions against outstanding receivables that are considered doubtful were charged to income based on a collectibility analysis in 2004, 2003 and 2002 (see Note 7).

Trade receivables include, in particular, receivables from OSINEK, a. s. related to processor's fees.

Based on the commissionaire contract signed with OSINEK, a. s., the Company is obliged to purchase from OSINEK, a. s. receivables overdue by more than 90 days at their face value. In 2001 a reserve was established for contingent risks and losses associated with these receivables. In 2004, 2003 and 2002 the reserve was partially released. The Company purchased receivables amounting to CZK 12,039 thousand, CZK 54,408 thousand and CZK 176,371 thousand in 2004, 2003 and 2002, respectively (see note 19).

Receivables overdue for more than 180 days totalled CZK 149,347 thousand, CZK 156,125 thousand and CZK 121,289 thousand as at 31st December 2004, 2003 and 2002, respectively. In 2004, 2003 and 2002 the Company created provisions against these receivables totalling CZK 167,561 thousand, CZK 165,566 thousand and CZK 80,026 thousand, respectively, based on their collectibility.

The Company had no long-term receivables as at 31st December 2004 and 2003. As at 31st December 2002 the Company had CZK 3,921 thousand of long-term receivables relating to the sale of vehicles to JC Trans Ostrava.

7. PROVISIONS

Provisions reflect a temporary diminution in value of assets (see Notes 4, 5 and 6).

CHANGES IN THE PROVISION ACCOUNTS (IN TCZK):

Provisions against	Balance as at 31/ 12/ 2002	Reclassification of adjustment to acquired property	Additions	Deductions	Balance as at 31/ 12/ 2003	Additions	Deductions	Balance as at 31/ 12/ 2004
Fixed assets	965	2 846 695	0	-326 006	2 521 654	0	-285 306	2 236 348
Financial investments	105 334	0	0	-1 700	103 634	2 789		106 423
Inventory	21 288	206 874	0	-23 665	204 497	21 087	-15 230	210 354
Receivables – legal	78 216	0	30 798	-666	108 348	72 139	- 40 314	140 173
Receivables – other	1 810	0	56 761	-1 353	57 218	19 366	-49 196	27 388

Legal provisions are created in compliance with the Act on Reserves and are tax deductible.

8. SHORT-TERM FINANCIAL ASSETS

THE COMPANY REPORTS SHORT-TERM FINANCIAL ASSETS CONSISTING OF DEPOSITORY NOTES OF CZK 150,320 THOUSAND AS FOLLOWS:

Bank	Face value	Maturity
Citibank	15 302	3/ 1/ 2005
Komerční banka	135 018	3/ 1/ 2005
Total depository notes	**150 320**	

9. OTHER ASSETS

Prepaid expenses of CZK 132,189 thousand include, in particular, financial lease payments not yet charged to income (CZK 210,492 thousand and CZK 288,605 thousand in 2003 and 2002, respectively) which are charged to income as the relevant costs are incurred. Other material items include costs of consultancy of CZK 41,381 thousand, the effects of which are expected in the next period, and costs of insurance premium arising from management insurance policies in the amount of CZK 51,050 thousand, which are charged to income over five years.

10. EQUITY

THE BASIC CAPITAL OF THE COMPANY OF CZK 2,602,000 THOUSAND CONSISTS OF REGISTERED SHARES FULLY SUBSCRIBED AND PAID, WITH THE FOLLOWING NOMINAL VALUES:

Number of shares	Nominal value of share
20 shares	100 in tCZK
32 shares	50,000 in tCZK
40 shares	20,000 in tCZK
30 shares	5,000 in tCZK
50 shares	1,000 in tCZK

In 2001, a non-cash capital contribution was recorded in the Company's basic capital. The valuation of the contribution was based on an expert opinion. The contribution's market value was determined by two forensic appraisers at CZK 3,468,729 thousand, of which CZK 2,602,000 thousand was included in the basic capital; the difference amounting to CZK 868,729 thousand was reported as liability and has been gradually paid to the contributor (see Note 19).

THE MOVEMENTS IN THE CAPITAL ACCOUNTS DURING 2004, 2003 AND 2002 WERE AS FOLLOWS (IN TCZK):

	Balance as at 31/ 12/ 2002	Increase	Balance as at 31/ 12/ 2003	Increase	Balance as at 31/ 12/ 2004
Number of shares	172	0	172	0	172
Basic capital	2 602 000	0	2 602 000	0	2 602 000
Legal reserve fund	0	9 264	9 264	7 170	16 434

THE ANNUAL GENERAL MEETINGS HELD ON 29TH JUNE 2004 AND 16TH JUNE 2003, RESPECTIVELY, APPROVED THE FOLLOWING PROFIT DISTRIBUTION FOR 2003 AND 2002 (IN TCZK):

Loss for 2001	-257 022	Profit for 2002	46 320	Profit for 2003	143 399
Allocation to reserve fund	0	Allocation to reserve fund	-9 264	Allocation to reserve fund	-7 170
Unsettled loss transfer	257 022	Unsettled loss transfer	-37 056	Unsettled loss transfer	-136 229
Accumulated loss at 31/ 12/ 2002	-257 022	Accumulated loss at 31/ 12/ 2003	-219 966	Accumulated loss at 31/ 12/ 2004	-83 737

11. RESERVES

THE MOVEMENTS IN THE RESERVE ACCOUNTS WERE AS FOLLOWS (IN TCZK):

Reserves	Balance as at 31/ 12/ 2002	Creation of reserves	Release of reserves	Balance as at 31/ 12/ 2003	Creation of reserves	Release of reserves	Balance as at 31/ 12/ 2004
Legal	16 656	0	-16 656	0	0	0	0
Risks and losses	61 927	14 500	-43 027	33 400	0	-2 100	31 300
Income Tax	0	0	0	0	99 500	0	99 500

As at 31st December 2004, 2003 and 2002, reserves for risks and losses were created pursuant to amendment No. 1/2000 to the commissionaire contract concluded with OSINEK, a. s. Pursuant to this contract, the Company is obliged to purchase from OSINEK, a. s. receivables overdue by more than 90 days at their face value. OSINEK, a. s. performed an analysis to identify risky receivables, and related reserves of CZK 24,976 thousand was created in 2002. The reserves reflect the collectibility of receivables in the given year. In 2004 and 2003 outstanding receivables were ceded (see Note 6), and certain overdue receivables were partially settled. These facts affect the release of reserves in 2004.

A reserve for transferable foreign exchange risks from OSINEK, a. s. created at CZK 22,451 thousand in 2002 was released in 2003.

The Company created a reserve for risks and losses in association with real estate transfer tax. Assets contributed in basic capital are generally exempt from real estate transfer tax. However, the part of assets being repaid to the contributor (CZK 869 million - see Note 19) can be considered as having been sold, and can thus be subject to this tax. As the contributor was engaged in settlement proceedings, the possible tax liability was transferred to the successor. This matter is not addressed by the current legislation, and the Company is thus negotiating with the tax administrator and tax advisors. The contributed real estate has been valued at CZK 2,341,506 thousand for tax purposes.

In 2001, a reserve of CZK 29,000 thousand was established on the basis of tax expert estimates and an analysis of various options. In 2002 the Company, based on its analysis of contingent risks, decided to release a portion of the reserve. In 2003, the Company decided to add amounts to this reserve until the amount of CZK 29,000 thousand, i.e. the 2001 balance, was reached.

The Company created a reserve for corporate income tax in 2004 (see Note 14).

12. LONG-TERM LIABILITIES

The Company had no long-term liabilities as at 31st December 2004. A long-term liability as at 31st December 2002 (see Note 19).

13. CURRENT LIABILITIES

As at 31st December 2004, 2003 and 2002, the Company had overdue current payables totalling CZK 1,898 thousand, CZK 3,244 thousand and CZK 20,256 thousand, respectively. As at 31st December 2004 the Company reports CZK 19,855 thousand of payables due to the Czech Social Security Administration and health insurance companies for social security and health insurance. The payable was settled on 21st January 2005.

Payables to related parties (see Note 19).

14. INCOME TAX

	2004 Amount in CZK thousands	2003 Amount in CZK thousands	2002 Amount in CZK thousands
Profit (Loss) before taxes	1 566 360	143 399	46 320
Total non-deductible items	90 842	566 654	84 828
Non-taxable items	-637 033	-436 286	-1 014 462
Taxable income	1 020 169	273 767	-883 314
Tax loss deduction	-655 807	-273 767	0
Other items reducing the tax base	- 9 029	0	0
Reduced tax base	355 333	0	0
Current income tax rate	28 %	31 %	31 %
Current tax expense	99 493	0	0

In accordance with the Income Taxes Act, a Company can carryforward tax losses generated since 2001 for up to seven years. The 2001 and 2002 tax loss totalling CZK 655,807 thousand was fully claimed in the 2004 financial statements.

Following the recommendation of its tax advisor the Company decided upon the submission of the 2003 corporate income tax return not to claim a difference between accounting and tax depreciation and claim tax losses carried forward. It also increased the tax deductible amount. Therefore the financial information for 2003 differs from the preliminary calculation of corporate income tax contained in the 2003 financial statements.

THE COMPANY QUANTIFIED DEFERRED TAXES AS FOLLOWS:

	2004	2003	2002
Deferred tax items	**Deferred tax asset (liability)**	**Deferred tax asset (liability)**	**Deferred tax asset (liability)**
Difference between net book value of fixed assets for accounting and tax purposes	34 524	-71 493	-9 256
Other temporary differences:			
Provision against receivables	6 573	13 707	561
Provision against inventory	50 485	49 079	6 599
Provision against acquired assets	0	0	946 607
Provision against fixed assets	562 265	630 069	32 953
Reserves	8 138	9 352	24 361
Tax loss carryforward	0	183 626	292 685
Total	**661 985**	**814 340**	**1 294 510**

The Company calculated a deferred tax asset of CZK 661,985 thousand, CZK 814,340 thousand and CZK 1,294,510 thousand as a result of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes as at 31st December 2004, 2003 and 2002, respectively. Since no tax planning, that would enable to estimate the level of probability and time-frame of the deferred tax asset realization, was available, the Company did not account for the deferred tax asset.

In association with the change in the 2003 corporate income tax calculation, the 2003 calculation of deferred tax also changed due to the amount of tax losses brought forward.

15. LEASES

The Company leases fixed assets, which are not recorded on balance sheet (see Note 3i).

ASSETS WHICH ARE BEING USED BY THE COMPANY UNDER OPERATING LEASES AS AT 31ST DECEMBER 2004, 2003 AND 2002 CONSIST OF THE FOLLOWING (IN TCZK):

Description	Expense in 2004	Expense in 2003	Expense in 2002	Cost
Minolta s.r.o. (office technology)	2 326	2 085	1 375	3 336
JC TRANS, s.r.o. (passenger cars)	3 010	3 146	1 840	5 142
Total	**5 336**	**5 231**	**3 215**	**8 478**

The instalments include VAT.

ASSETS WHICH ARE BEING USED BY THE COMPANY UNDER FINANCE LEASES (I.E. THE ASSETS ARE TRANSFERRED TO THE COMPANY WHEN THE LEASE TERM EXPIRES) AS AT 31ST DECEMBER 2004, 2003 AND 2002 CONSIST OF THE FOLLOWING (IN TCZK):

						Remaining payments as at 31st December 2004	
Description	Due dates	Total lease	Payments made as at 31/12/2004	Payments made as at 31/12/2003	Payments made as at 31/12/2002	Due within one year	Due over one year
Cranes	IV.07	87 755	87 755	87 755	87 755	0	0
Push furnace No. 3	IV.06	429 828	429 828	429 828	429 828	0	0
Filtering device	IV.07	80 520	80 520	80 520	80 520	0	0
Flame-cutting machine Omnimat	IV.05	13 437	12 312	8 938	5 564	1 125	0
Flame-cutting machine Vanad	V.06	6 849	3 615	1 332	0	2 283	951
VW Passat	III.04	1 336	1 336	1 243	870	0	0
VW Passat	VIII.06	1 056	469	117	0	352	235
VW Passat	VI.07	828	138	0	0	276	414
Magma	VIII.02	910	910	910	910	0	0
Škoda Octavia cars (9)	IX.07	5 517	459	0	0	1 836	3 222
Total		628 036	617 342	610 643	605 447	5 872	4 822

The instalments include VAT. The total of instalments does not include advance payments at the beginning of the lease.

16. COMMITMENTS AND CONTINGENCIES

As at 31st December 2004, 2003 and 2002, the Company had contingent liabilities and commitments, which were recorded off balance sheet.

AS AT 31ST DECEMBER 2004, THE COMPANY HAD THE FOLLOWING CONTINGENT SHORT-TERM LIABILITIES SECURED BY GUARANTEES (IN THOUSANDS EUR):

Future debtor	Amount	Due date	Description of collateral or guarantee
Gontermann – Peipers GmbH	293	21/ 8/ 2005	Contract for the opening of a documentary letter of credit for the purchase of 3.5 KVARTO rollers
AKERS Sedan	292	30/ 10/ 2005	
Total	**585**		

The Company had an open letter of credit totalling EUR 289,080 with Komerční banka, a. s. As at 31st December 2004 the letter of credit was secured by a pledge agreement for receivable from OSINEK, a. s. totalling CZK 10,214 thousand and a term deposit amounting to EUR 123,100.

The Company had an open letter of credit totalling EUR 292,000 with ABN AMRO Bank N.V. As at 31st December 2004 the letter of credit was secured by a pledge agreement for a receivable from OSINEK, a. s. and mandatary´s fees of CZK 35,097 thousand for November 2004.

SECURITY BILLS ISSUED

The Company reports security blank bills to lease contracts with Raiffeisen – Leasing, s. r. o. and ABN AMRO Bank N.V. resulting from the General Agreement for treasury products and with Citibank, a. s. resulting from the Agreement for loans and other products.

LITIGATION

The Company is a party in two pre-trial settlements in Poland let against the bankruptcy trustee of Stocznia Szczecińska Porta Holding S.A., Stocznia Szczecińska Nowa sp. z o.o. (a limited liability company) and Powszechna Kasa Oszczędności (saving house) of the Polish bank (PKO BP) regarding disputable receivable at an amount corresponding to PLN 8,436 thousand and against the bankruptcy trustee of Stocznia Szczecińska Porta Holding S.A., Stocznia Szczecińska Nowa sp. z o.o. and the bank WestLB Polska S.A regarding disputable receivable at an amount corresponding to PLN 3,346 thousand. In addition, the company filed with bankruptcy proceedings receivables from Stocznia Szcecinska Porta Holding S.A. at an amount corresponding to USD 4,315 thousand and from GLAZBUD S.A. at an amount corresponding to EUR 2,214 thousand. The law office AK KUBAS, KOS conducts on behalf of the Company the respective trials in Polish courts-of-law. In addition, a statement of claim against VÍTKOVICE, a. s. was filed with the Regional Court in Ostrava with respect to a conflicting view concerning the payment of compensations for loss of earnings resulting from work-related injuries (CZK 144 thousand). The Company filed an action against LAVIMONT, s.r.o. and claimed a partial payment of invoice (CZK 300 thousand) for delivered metallurgy products. A receivable from FEZAM CZ s.r.o. (CZK 1,740 thousand) was filed for bankruptcy proceedings.

ENVIRONMENTAL LIABILITIES

In 2001, the National Property Fund instructed the firm AQ-test to perform a detailed probe of old environmental damage on the Company's territory for the purposes of elimination of these damages. The costs to eliminate the old environmental damage shall be covered by the National Property Fund within the meaning of contract No. 203/96 between the National Property Fund of the Czech Republic and VÍTKOVICE, a. s., and within the meaning of methodology instruction No. 8/99 of the National Property Fund of the Czech Republic. Covering the way of elimination of the old environmental damage of VÍTKOVICE, a. s. (i.e. the "upper" and the "lower" area which is currently closed) at an amount of approximately CZK 5.2 billion.

FUTURE CAPITAL EXPENDITURES

As of the financial statements date, the Company had contractual liabilities of CZK 24,572 thousand with respect to future capital expenditures.

DISPUTE CONCERNING LIQUID PIG IRON

The litigation, directly affecting the Company and its operations, is conducted by OSINEK, a. s., the Company's majority shareholder. The dispute concerns the price that OSINEK, a. s., is to pay to VYSOKÉ PECE Ostrava, a. s. ("VPO"), and an exclusive supplier of liquid steelmaking pig iron in the Ostrava region. The dispute commenced at the beginning of 2003 and the parties, despite of a number of serious negotiations, reached no agreement regarding the above matter.

Several investigations or proceedings are conducted regarding the aforementioned dispute for the deliveries of liquid steelmaking pig iron and OSINEK, a. s., resists against VPO´s actions. Main proceedings are conducted with the Anti-Monopoly Office and the Ostrava Regional Court.

LAWSUITS CONDUCTED AT THE OSTRAVA REGIONAL COURT

Plaintiff	Defendant	Cause of Action	Status of Action	Amount Sued
VPO	OSINEK, a. s.	Pig iron price in 2003 and January through February 2004	Before an order to hear	Approximately CZK 271 million for 2003 and approximately CZK 81 million for January-February 2004 plus interest and charges
OSINEK, a. s.	VPO	Unjust enrichment due to pig iron price in 2003 and the 1st half of 2004	Before an order to hear	Approximately CZK 681 million plus interest and charges

Actions for the 2nd period of 2004 and 2005 have not been filed by OSINEK, a. s. but are being prepared.

PROCEEDINGS (DECLARATORY) CONDUCTED WITH THE ANTI-MONOPOLY OFFICE

Participant	Ref. No.	Subject of Proceedings	Status of Proceedings	Coming into Force
VPO, OSINEK, a. s.	S 25/04	Vindicatory proceedings as to whether VPO misused or not its dominant position by the limitation of liquid steelmaking pig iron deliveries to OSINEK, a. s. in January and February 2004	The proceeding have been terminated, currently there is a follow-up in an extra-appellate procedure, OSINEK, a. s. is contemplating to file a suit	10/1/2005
VPO, OSINEK, a. s.	S 138/03	Declaratory proceedings under Section 11/3 of the Economic Competition Protection Act as to whether VPO´s certain actions are or not misuse of dominant position	A final second instance ruling was given, OSINEK, a. s. is contemplating to sue a part of the verdict	17/1/2005
VPO, OSINEK, a. s.	S 98/04	Declaratory proceedings under Section 11/3 of the Economic Competition Protection Act as to whether VPO´s certain actions (in connection with the proposed transition to the so-called processing regime) are or not misuse of dominant position	A first instance ruling was given, currently there are exposition proceedings in place	So far not in force
Mittal STEEL Ostrava, a. s.	S 148/04	Vindicatory proceedings as to whether Mittal Steel Ostrava, a. s., (formerly ISPAT Nová Huť, a. s.) misused or not its dominant position by increasing the prices of inputs for the production of liquid pig iron in 2003	Unknown	So far not in force

At the beginning of May 2004 OSINEK, a. s., sent a complaint to the European Commission against actions of LNM Holding (currently Mittal Steel Company), ISPAT Nová Huť, a. s., (currently Mittal Steel Ostrava, a. s.) and VPO (members of the Mittal Steel Company group) which breach the European competition law. The European Commission is currently contemplating if it will deal with the case.

Except for the aforementioned legal actions, no other litigation is conducted against the Company the amount of which would exceed 1 % of the Company's sales.

17. REVENUES

THE BREAKDOWN OF REVENUES ON ORDINARY ACTIVITIES IS AS FOLLOWS (IN TCZK):

	2004		2003		2002	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Metallurgical production	3 576 347	0	2 308 766	0	1 793 133	0
Trading	358 991	0	231 482	0	211 245	0
Maintenance services	18 343	0	21 404	0	18 998	0
Other	31 127	64	25 670	106	61 555	4 921
Total revenues	**3 984 808**	**64**	**2 587 322**	**106**	**2 084 931**	**4 921**

In 2004 the revenues of the Company were concentrated primarily with OSINEK, a. s., as a result of the method of Company's funding (see Note 3k).

18. PERSONNEL AND RELATED EXPENSES

THE BREAKDOWN OF PERSONNEL EXPENSES IS AS FOLLOWS (IN TCZK):

	2004		2003		2002	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1 629	62	1 721	63	1 818	61
Wages and salaries	507 550	55 329	456 380	57 449	425 577	44 846
Social security and health insurance	173 735	18 866	159 308	20 106	147 349	15 965
Social cost	21 606	2 347	10 557	4 749	5 118	0
Total personnel expenses	**702 891**	**76 542**	**626 245**	**82 304**	**578 044**	**60 811**

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 1,818 thousand, CZK 1,835 thousand and CZK 1,975 thousand in 2004, 2003 and 2002, respectively.

19. RELATED PARTY INFORMATION

Benefits to the members and former members of statutory and supervisory bodies and to directors and executive officers include the use of company cars for private purposes. In addition, a capital pension insurance policy has been effected for the Company's management for five years in 2003.

The related parties are considered to be, in particular, the subsidiaries of VÍTKOVICE STEEL, a. s. and the parties related through the parent company OSINEK, a. s., and the National Property Fund of the Czech Republic. The Company has following relationships with the above entities: Balances of payables and receivables as at 31st December are disclosed just for the companies being a related party over the entire accounting period.

LIST OF COMPANIES CONTROLLED BY THE NATIONAL PROPERTY FUND OF THE CZECH REPUBLIC THROUGH 40 % TO 100 % OF SHARES IN 2004

(PARTIES RELATED TO VÍTKOVICE STEEL, A. S.) – IN TCZK

Firm	Business registration number (IC)	Number of months	Sales	Receivables	Advances made
OSINEK, a. s.	12173	12	3 867 082	1 381 516	-
SME, a. s.	47675691	12	-	-	1
Energetika Vítkovice, a. s.	25854712	12	4 821	365	-
VÍTKOVICE STEEL Polska, Sp. z o.o.		12	85	106	-
VÍTKOVICE International GmbH		12	-	-	-

Firm	Business registration number (IC)	Number of months	Purchases	Payables	Advances received
OSINEK, a. s.	12173	12	18 182	133 648	-
SME, a. s.	47675691	12	6	-	-
Energetika Vítkovice, a. s.	25854712	12	26 083	3 796	-
VÍTKOVICE STEEL Polska, Sp. z o.o.		12	9505	594	-
VÍTKOVICE International GmbH		12	12 076	1 097	-

LIST OF COMPANIES CONTROLLED BY THE NATIONAL PROPERTY FUND OF THE CZECH REPUBLIC THROUGH 40 % TO 100 % OF SHARES IN 2003

(PARTIES RELATED TO VÍTKOVICE STEEL, A. S.) – IN TCZK

Firm	Business registration number (IC)	Number of months	Sales	Receivables	Advances made
OSINEK, a. s.	12173	12	2 621 265	240 118	-
VÍTKOVICE STEEL Polska, Sp. z o.o.	KSR 0000139053	12	70	3 240	-
VÍTKOVICE International GmbH		12	-	-	-
VÍTKOVICE Servis centrum, a. s.	25824341	12	-	-	6
Energetika Vítkovice, a. s.	25854712	12	4 971	516	-
ePRIM Ostrava	25889567	12	-	-	-
Severomoravská energetika, a. s.	47675691	12	-	-	1
KOTOUČ Štramberk	47972165	12	-	-	-
VÍTKOVICE – Export, a. s.	549070	9	-	-	-
Vítkovické slévárny, spol. s r. o.	25362810	9	18	-	-
VÍTKOVICE – Zkušebny a laboratoře, spol. s r. o.	25870556	9	907	-	-
VÍTKOVICE – Údržba, spol. s r. o.	25871587	9	3 789	-	-
VÍTKOVICE Ozubárna, a. s.	25877933	9	49	-	-
VÍTKOVICE STROJÍRENSTVÍ, a. s.	25877950	9	1 082	-	-
Vítkovice Doprava, a. s.	25909339	9	601	-	-
VÍTKOVICE, a. s. Ostrava	45193070	9	465	-	-
VÍTKOVICE Lisovna, spol. s r. o.	62305492	9	-	-	-
VÍTKOVICE – STAMONT, spol. s r. o.	64617874	9	-	-	-
Hotel ATOM Ostrava, spol. s r. o.	25386727	4	-	-	-
VÍTKOVICE – Výzkum a vývoj, spol. s r. o.	25870807	3	2	-	-
VYSOKÉ PECE Ostrava, a. s.	25352954	1	1 318	-	-
ISPAT NOVÁ HUŤ	45193258	1	-	-	-
JÄKL Karviná	47672781	1	-	-	-
NH – Válcovna za studena, spol. s r. o.	64617882	1	548	-	-

Firm	Business registration number (IC)	Number of months	Purchases	Payables	Advances received
OSINEK, a. s.	12173	12	71 439	218 785	-
VÍTKOVICE STEEL Polska, Sp. z o.o.	KSR 0000139053	12	-	-	-
VÍTKOVICE International GmbH		12	17 767	3 010	-
VÍTKOVICE Servis centrum, a. s.	25824341	12	-	-	-
Energetika Vítkovice, a. s.	25854712	12	16 285	2 862	-
ePRIM Ostrava	25889567	12	1	-	-
Severomoravská energetika, a. s.	47675691	12	7	-	-
KOTOUČ Štramberk	47972165	12	-	-	-
VÍTKOVICE – Export, a. s.	549070	9	4 700	-	-
Vítkovické slévárny, spol. s r. o.	25362810	9	17 326	-	-
VÍTKOVICE – Zkušebny a laboratoře, spol. s r.o.	25870556	9	47 188	-	-
VÍTKOVICE – Údržba, spol. s r. o.	25871587	9	197 787	-	-
VÍTKOVICE Ozubárna, a. s.	25877933	9	761	-	-
VÍTKOVICE STROJÍRENSTVÍ, a. s.	25877950	9	25 592	-	-
Vítkovice Doprava, a. s.	25909339	9	99 001	-	-
VÍTKOVICE, a. s. Ostrava	45193070	9	75 591	-	-
VÍTKOVICE Lisovna, spol. s r. o.	62305492	9	-	-	-
VÍTKOVICE – STAMONT, spol. s r. o.	64617874	9	19 149	-	-
Hotel ATOM Ostrava, spol. s r.o.	25386727	4	61	-	-
VÍTKOVICE – Výzkum a vývoj, spol. s r. o.	25870807	3	611	-	-
VYSOKÉ PECE Ostrava, a. s.	25352954	1	-	-	-
ISPAT NOVÁ HUŤ	45193258	1	54	-	-
JÄKL Karviná	47672781	1	-	-	-
NH – Válcovna za studena, spol.s r.o.	64617882	1	-	-	-

LIST OF COMPANIES CONTROLLED BY THE NATIONAL PROPERTY FUND OF THE CZECH REPUBLIC THROUGH 40 % TO 100 % OF SHARES IN 2002

(PARTIES RELATED TO VÍTKOVICE STEEL, A. S.) – IN TCZK

Firm	Business registration number (IC)	Sales	Receivables	Advances made
OSINEK, a. s.	12173	2 013 687	227 171	-
VÍTKOVICE STEEL Polska, Sp. z o.o.	KSR 0000139053	98	98	-
VÍTKOVICE International GmbH		-	-	-
VÍTKOVICE Servis centrum, a. s.	25824341	-	-	-
Energetika Vítkovice, a. s.	25854712	4 464	408	-
ePRIM Ostrava	25889567	-	-	-
Severomoravská energetika, a. s.	47675691	-	-	3
KOTOUČ Štramberk	47972165	-	-	-
VÍTKOVICE – Export, a. s.	549070	-	-	-
Vítkovické slévárny, spol. s r. o.	25362810	50	6	-
VÍTKOVICE – Zkušebny a laboratoře, spol. s r.o.	25870556	1 108	1 161	-
VÍTKOVICE – Údržba, spol. s r. o.	25871587	6 117	911	1 207
VÍTKOVICE Ozubárna, a. s.	25877933	60	15	-
VÍTKOVICE STROJÍRENSTVÍ, a. s.	25877950	75	88	7 500
Vítkovice Doprava, a. s.	25909339	543	63	-
VÍTKOVICE, a. s. Ostrava	45193070	5 265	67	1 642
VÍTKOVICE Lisovna, spol. s r. o.	62305492	-	-	-
VÍTKOVICE – STAMONT, spol. s r. o.	64617874	9	-	-
Hotel ATOM Ostrava, spol. s r. o.	25386727	-	-	-
VÍTKOVICE – Výzkum a vývoj, spol. s r. o.	25870807	39	22	-
VYSOKÉ PECE Ostrava, a. s.	25352954	-	-	-
NOVÁ HUŤ, a. s.	45193258	9 802	2 019	-
JÄKL Karviná	47672781	-	-	-
NH – Válcovna za studena, spol. s r. o.	64617882	6 796	609	-

Firm	Business registration number (IC)	Purchases	Payables	Advances received
OSINEK, a. s.	12173	244 849	2 481	-
VÍTKOVICE STEEL Polska, Sp. z o.o.	KSR 0000139053	-	-	-
VÍTKOVICE International GmbH		-	-	-
VÍTKOVICE Servis centrum, a. s.	25824341	-	19 183	-
Energetika Vítkovice, a. s.	25854712	12 611	1 138	-
ePRIM Ostrava	25889567	-	-	-
Severomoravská energetika, a. s.	47675691	12	-	-
KOTOUČ Štramberk	47972165	-	-	-
VÍTKOVICE – Export, a. s.	549070	1 294	8	-
Vítkovické slévárny, spol. s r. o.	25362810	31 393	3 929	-
VÍTKOVICE – Zkušebny a laboratoře, spol. s r.o.	25870556	51 629	7 729	-
VÍTKOVICE – Údržba, spol. s r. o.	25871587	254 094	13 587	-
VÍTKOVICE Ozubárna, a. s.	25877933	1 736	67	-
VÍTKOVICE STROJÍRENSTVÍ, a. s.	25877950	5 627	3 100	-
Vítkovice Doprava, a. s.	25909339	79 067	21 398	-
VÍTKOVICE CAD/CAM Systémy, spol. s r. o.	61972576	192	-	-
VÍTKOVICE, a. s. Ostrava	45193070	228 783	12 001	-
VÍTKOVICE Lisovna, spol. s r. o.	62305492	307	-	-
VÍTKOVICE – STAMONT, spol. s r. o.	64617874	2 673	55	-
KRALOVOPOLSKÁ strojírna Brno, a. s.	63490188	829	-	-
Hotel ATOM Ostrava, spol. s r. o.	25386727	-	-	-
VÍTKOVICE – Výzkum a vývoj, spol. s r. o.	25870807	10 512	2 062	-
VYSOKÉ PECE Ostrava, a. s.	25352954	6	3	-
NOVÁ HUŤ, a. s.	45193258	4 638	328	-
JÄKL Karviná	47672781	170	-	-
NH – Válcovna za studena, spol. s r. o.	64617882	357	-	-

Long-term liabilities to OSINEK, a. s. totalling CZK 164,229 thousand as at 31st December 2002 relate to a part of the non-cash contribution repayable in the form of monthly instalments (see Note 10). As at 31st December 2004 and 2003 the balance of the fund was CZK 131,383 thousand and CZK 164,229 thousand, respectively and was reported within short-term payables. The entire liability was paid in February 2005 due to the termination of the tolling process and commencement of a tender for the Company's sale.

In 2003 the Company granted VÍTKOVICE STEEL Polska Sp. z o.o. a loan of CZK 3,240 thousand (EUR 100 thousand) which was repaid on 30th June 2004. Interest on the loan amounted to CZK 66 thousand and was paid on 13th August 2004.

In 2004 the Company purchased from OSINEK, a. s. receivables totalling CZK 12,039 thousand. The receivables included a receivable from VOJUS, a. s., – CZK 11,481 thousand, from Mechanické dílny Kojetín, spol. s r. o., – CZK 258 thousand and from LAVIMONT, spol. s r. o., – CZK 300 thousand. The receivable from VOJUS, a. s. was transferred to the company KARLA Bruntál and paid. Other receivables acquired from OSINEK, a. s. in 2004 were fully provided for. In addition, the Company records receivables purchased from OSINEK, a. s. as at 31st December 2003 totalling CZK 54,408 thousand. These are receivables from FEZAM CZ, s. r. o. – CZK 1,658 thousand, and Glazbud – CZK 52,750 thousand.

20. RESEARCH AND DEVELOPMENT COSTS

Research and development costs amounted to CZK 7,650 thousand, CZK 6,681 thousand and CZK 7,181 thousand in 2004, 2003 and 2002, respectively and were expensed as incurred.

21. SIGNIFICANT ITEMS OF INCOME STATEMENT

Other operating revenues include particularly recompense from insurance contracts amounting to CZK 23,961 thousand and interest on late payment from Glazbud, which is in bankruptcy, amounting to CZK 17,860 thousand. Other operating expenses include particularly insurance costs of CZK 25,686 thousand and contributions to trade union activities of CZK 7,300 thousand.

Other financial revenues include particularly revenues from derivative transactions amounting to CZK 23,903 thousand and foreign currency exchange gains of CZK 5,320 thousand. Other financial expenses include costs for derivative transactions amounting to CZK 13,269 thousand and foreign currency exchange losses of CZK 23,844 thousand.

22. SUBSEQUENT EVENTS

A) TERMINATION OF FINANCING OF PROCESSING COSTS (TOLLING)

Following the decision of the majority shareholder OSINEK, a. s. the tolling financing was terminated as at 31st January 2005. The Company has transferred to direct financing effective from 1st February 2005. The transaction is based on the following basic principles:

1. The Company has secured a bank loan on an arms-length basis with the total credit line of CZK 2.3 billion. The loan may be used for the purchase of inventories (including work-in-progress) and operating financing. The loan was provided by ABN AMRO and Česká spořitelna.

2. As soon as the tolling system is terminated, the Company's working capital will be financed through a bank loan provided on an arms-length basis with appropriate surety.

3. The Company purchased from OSINEK, a. s. all inventories including work-in-progress. As of the tolling termination date all contracts concerning work-in-progress were ceded to the Company.

4. Details of business relations with OSINEK, a. s. were adjusted as follows:

- Company receivables from OSINEK, a. s. related to processor's fees

- Mutual settlement of results of lawsuits regarding the price of pig iron conducted against the supplier VPO and costs for the lawsuits including legal advisory fees;

- Settlement of other costs associated with the tolling termination by 30th September 2005;

- Payment of the remaining portion of the receivable to OSINEK, a. s. after the deduction of retention money for OSINEK´s risks and costs associated with the tolling termination in the following amounts:

  i. CZK 409 million for the risk related to the pig iron litigation;

  ii. CZK 100 million for the settlement of receivables outstanding as at 30th April 2005;

  iii. CZK 100 million for the settlement of costs associated with the tolling termination;

- Discharge of obligations resulting from nonceded contracts with customers and suppliers;

5. Neither the purchase of receivables from realized business transactions nor the assumption of OSINEK´s trade payables were carried out by the tolling termination date which means that OSINEK´s receivables will be paid by individual customers at OSINEK´s account as at the tolling termination date. The only exception will be the outstanding receivables of OSINEK the balance of which will be determined as at 30th April 2005. The Company will be obliged to purchase these receivables from OSINEK, a. s. at their nominal value.

6. Effective from 1st February 2005 all billings (purchases and sales) which were formerly made on behalf of OSINEK, a. s. and at its account have been made on behalf of the Company and at its account.

7. Supplier contracts were transferred from OSINEK, a. s. to the Company as at 1st February 2005.

B) DISPUTE CONCERNING LIQUID PIG IRON

All impacts which will result from the decision of respective authorities and the outcome of lawsuits will affect the financing of the Company's metallurgical production and processor's fees and directly impact on the Company's results of operations and cash flows. VYSOKÉ PECE Ostrava, a. s., notified VÍTKOVICE STEEL, a. s., of its intention to terminate deliveries of liquid pig iron, which is the subsidiary's significant input for its metallurgical production at the end of april 2005.

On 7th April 2005 OSINEK, a. s. lodged a filing with the Regional Court in Ostrava and extended mutual action against VYSOKÉ PECE Ostrava a. s. for additional amount of CZK 1,378,376,468.02 plus interest and charges. OSINEK, a. s. demands the rendering of a decision about unjust enrichment on the grounds that VPO retained unjustifiably received payments for the deliveries of pig iron in the 3rd and 4th quarter of 2004. In addition VYSOKÉ PECE Ostrava, a. s. did not make settlement of purchase prices for pig iron so that it reflects contractually bounded limitation of profit margin for the 4th quarter of 2002 which is at variance with the valid contract.

C) CHANGES IN THE STATUTORY BODY MEMBERSHIP AFTER 31ST DECEMBER 2004.

The following changes were made to the composition of the Board of Directors after 31st December 2004: Radim Valas was replaced by Jiří Chuchro, who is simultaneously at the position of the Chief Finance Officer as at 26th January 2005.

As at 27th January 2005 the following changes were made to the composition of the Supervisory Board and the board was enlarged as follows: members Jiří Chuchro (as at 26th January 2005), Libor Novák, Ivo Štěpán were replaced by new members Jan Škurek, Jan Nedvídek, Jaroslav Kubovic, Radmila Kleslová and Antonín Hanzlík.

23. STATEMENT OF CASH FLOWS (SEE SCHEDULE X.)

Cash flow statement was prepared under the indirect method. The Company did not consider any cash equivalents.

24. STATEMENT OF CHANGES IN EQUITY (SEE SCHEDULE 10)

THE FOLLOWING CHANG
OF THE BOARD OF DIREC
DIM VALAS WAS REPLAC
TANEOUSLY AT THE POSIT

Prepared on:	Signature of accounting entity's statutory body:	Person responsible for accounting (name, signature):	Person responsible for financial statement (name, signature):
April 8, 2005	Vladimír Bail, Ph.D.	Jiří Chuchro	Jana Struminská

GES WERE MADE TO THE CO
CTORS AFTER 31 DECEMBER
CED BY JIŘÍ GUHGURO, WH
TION OF F FINAN

TRANSOCEANIC SHIP GRANDE ANVERSA

... OUR OBJECTIVE IS TO KEEP INCREASING THE SALES OF HIGHER VALUE ADDED PRODUCTS. THIS INCLUDES SUPPLIES OF CUT SHAPES AND PLATES FOR PRODUCTION OF LINE PIPES...

CASH FLOW
LONG FORM

FOR THE YEAR ENDED 31ST DECEMBER 2004
(IN THOUSAND OF CZECH CROWNS)

YEAR	MONTH	ID
2004	12	25874942

Company's name and address:
VÍTKOVICE STEEL, a. s.
ŠTRAMBERSKÁ 2871/47
OSTRAVA-HULVÁKY
709 00

Marking	TEXT		Current year 2004	Prior year 2003	Prior year 2002
P.	Cash and cash equivalents at beginning of year	1	86 555	35 801	13 051
	Cash flows from operating activities	2			
Z.	Profit or loss on ordinary activities before taxation (+/-)	3	1 566 360	143 399	46 320
A.1.	Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	4	181 109	161 560	79 075
A.1.1.	Depreciation and amortization of fixed assets (+,-), write-off of receivables (+) and adjustment to acquired property (+,-)	5	444 924	481 757	296 345
A.1.2.	Change in provisions, reserves and foreign exchange difference	6	-260 399	-321 770	-215 301
A.1.3.	(Gain)/Loss on disposal of fixed assets including (gain)/loss on revaluation of capital interest	7	-2 712	-6 059	-10 830
A.1.4.	Gains from dividends (with the exception of investment companies and funds)(-)	8			
A.1.5.	Interest expense (+) excluding capitalized interest and interest income (-)	9	-704	7 632	8 861
A.1.6.	Other non-cash movements	10			
A.*	Net cash from operating activities before taxation, changes in working capital and extraordinary items	11	1 747 469	304 959	125 395
A.2.	Change in non-cash components of working capital	12	-1 099 422	-11 497	133 130
A.2.1.	Change in trade receivables and temporary accounts of assets	13	-1 061 451	-25 920	215 863
A.2.2.	Change in trade payables and temporary accounts of liabilities	14	-25 500	-7 493	-146 316
A.2.3.	Change in inventory	15	-12 471	21 916	63 583
A.2.4.	Change in short-term financial assets non-included in monetary assets	16			
A.**	Net cash from operating activities before taxation, interest paid and extraordinary items	17	648 047	293 462	258 525
A.3.	Interest paid excluding capitalized interest (-)	18	-2 507	-8 313	-7 929
A.4.	Interest received (with the exception of interest from investment companies and funds) (+)	19	3 211	1 740	1 416
A.5.	Tax paid (-)	20		-114	
A.6.	Extraordinary items included in extraordinary profit and loss (+,-)	21			

Marking	TEXT		Current year 2004	Prior year 2003	Prior year 2002
A.***	Net cash provided by (used in) operating activities	22	648 751	286 775	252 012
	Cash flows from investing activities	23			
B.1.	Purchase of fixed assets (-)	24	-69 836	-107 568	-82 890
B.2.	Proceeds from sale of fixed assets (+)	25	3 048		14 753
B.3.	Intercompany loans (-,+)	26		7 046	
B.***	Net cash provided by (used in) investing activities	27	-66 788	-100 522	-68 137
	Cash flows from financing activities	28			
C.1.	Change in long-term liabilities and long-term loans (+,-)	29	-32 846	-135 499	-161 125
C.2.	Effect of changes in basic capital on cash	30			
C.2.1.	Increase of cash due to increase of basic capital and/or reserve funds, including advances for increase (+)	31			
C.2.2.	Dividends or profit sharing paid (+)	32			
C.2.3.	Financial gifts and fundings of basic capital (+)	33			
C.2.4.	Settlement of loss by shareholders (+)	34			
C.2.5.	Direct payments from funds (-)	35			
C.2.6.	Payments of dividends (-)	36			
C.3.	Dividends received (with the exception of investment companies and funds)	37			
C.***	Net cash provided by (used in) financing activities	38	-32 846	-135 499	-161 125
F.	Net increase (decrease) in cash	39	549 117	50 754	22 750
R.	Cash and cash equivalents at end of year	40	635 672	86 555	35 801

Prepared on:	Signature of accounting entity's statutory body:	Person responsible for accounting (name, signature):	Person responsible for financial statement (name, signature):
April 8, 2005	Vladimír Bail, Ph.D.	Jiří Chuchro	Jana Struminská

DESCRIPTION OF BASIC RELATIONSHIPS AMONG RELATED PERSONS

VÍTKOVICE STEEL, a. s., is a 98.96 % subsidiary of a parent company OSINEK, a. s., which is a 100 % subsidiary of the National Property Fund of the Czech Republic.

VÍTKOVICE STEEL, a. s., is the controlling person for three legal persons in which VÍTKOVICE STEEL, a.s, has at least 40 % property share:

- VÍTKOVICE – Servis Centrum, a. s. „in liquidation“, ID no. 25824341, registered at Frýdek-Místek, Příborská 333, Post Code 738 01, reg. file no. B 2038 at the District Court in Ostrava, share of VÍTKOVICE STEEL, a. s., is 97.96 %. The controlled person VÍTKOVICE – Servis centrum, a. s., has the Board of Directors and the Supervisory Board as its statutory bodies. Both three-member bodies are appointed by the shareholders meeting in which the controlling person VÍTKOVICE STEEL, a. s., is the majority shareholder with the above mentioned percentage shareholding. This percentage shareholding represents the same share on voting rights, i.e., the controlling person VÍTKOVICE STEEL, a. s., is able to enforce appointment or removal of persons who are members of the Board of Directors and the Supervisory Board of VÍTKOVICE – Servis centrum, a. s.

- VÍTKOVICE STEEL Polska, Sp. z o.o., KSR 0000139053, ul. Garncarska 3, Kraków, registered at the county register at the County Court in Kraków under reg. no. KR.XI NS-REJ. KSR/10562/02/246, share of VÍTKOVICE STEEL, a. s., is 100 %. The controlled person VÍTKOVICE STEEL Polska, Sp. z o.o., has currently a three-member Board of Directors and with respect to the ownership of a 100 % shareholding the controlling person VÍTKOVICE STEEL, a. s., is able to enforce appointment or removal of members of the Board of Directors.

- VÍTKOVICE International, GmbH, Graf Adolf Strasse 18, Düsseldorf, shareholding of VÍTKOVICE STEEL, a. s., is 100%. The controlled person VÍTKOVICE International, GmbH, has currently a two-member Board of Directors. With respect to the ownership of a 100% shareholding the controlling person VÍTKOVICE STEEL, a. s., is able to enforce appointment or removal of members of the Board of Directors.

In line with the notice issued by the National Property Fund of the Czech Republic reg. no. 7/311/05 dated January 12, 2005, VÍTKOVICE STEEL, a. s., is a related person – in line with provisions of Section 66a) par. 9, act no. 513/1991 in the effective wording – with 32 companies in which the National Property Fund of the Czech Republic has 40 % or more shareholding. In this 1st level we had business relationship with one company in 2004. In the 2nd and 3rd level, i.e., with entities that are controlled by companies indicated in the above mentioned notice issued by the National Property Fund of the Czech Republic our company had direct or indirect business relationship through other entities with 4 legal persons.

On the basis of concluded business contracts effective in 2004, VÍTKOVICE STEEL, a. s., had business relationships with the following related persons:

RELATED PERSON OF THE 1ST LEVEL	RELATED PERSON OF THE 2ND AND 3RD LEVEL
OSINEK, a. s., ID no. 00012173	Severomoravská energetika, a. s., ID no. 47675691 Energetika VÍTKOVICE, a. s., ID no. 25854712 (VÍTKOVICE STEEL, a. s., ID no. 25874942) VÍTKOVICE STEEL Polska, Sp. z o.o. KSR 0000139053 VÍTKOVICE International GmbH, HRB 42951

LEGAL RELATIONSHIPS BETWEEN THE CONTROLLING AND THE CONTROLLED PERSONS

Controlling person:	OSINEK, a. s. ID no. 00012173 Ruská 56/397 Ostrava-Vítkovice, Post Code 706 02
Controlled person:	VÍTKOVICE STEEL, a. s. ID no. 25874942 Štramberská 2871/47 Ostrava-Hulváky, Post Code 709 00

No controlling contract was concluded between the controlling and the controlled person. Business relationships between OSINEK, a. s., and VÍTKOVICE STEEL, a. s., were carried out in 2004 on the tolling basis and they were based on 2 commission contracts, 1 mandate contract, 2 framework contracts, 1 contract on business representation, 1 purchase contract, 1 contract on provision of services. Performance from the controlling person has not resulted in any disadvantages, losses or unreasonable advantages for our company.

LEGAL RELATIONSHIPS AMONG RELATED PERSONS

In 2004, VÍTKOVICE STEEL, a. s., had business relationships with related persons based on 86 contracts (effective in 2004) and these contracts are filed at the Company's headquarters.

VÍTKOVICE STEEL, a. s., has not made any actions or measures in favor of the related persons. No loss has resulted from the concluded contracts. Prices indicated in the contracts are contracted on an arms length basis and in those cases in which VÍTKOVICE STEEL, a. s., is in the position of the manufacturer, the realization prices are supported by calculations of costs used in mass steel production.

The following summary provides a list of the type and quantity of business contracts that VÍTKOVICE STEEL, a. s., concluded with the individual related persons in 2004 (or the contracts had been concluded in the previous period) which were legally effective in 2004:

OSINEK, a. s., Ostrava-Vítkovice, Ruská 56/397, Post Code 706 02,
ID no. 00012173 – 2CC; 2 MC; 2 FC; 1 CBR; 3 PC; 1 CPS; 3 CAR; 3 LOC;

Severomoravská energetika, a. s., Ostrava, 28. října 152, Post Code 709 02,
ID no. 47675691– 2 PC; 1 CPS;

Energetika Vítkovice, a. s., Ostrava-Vítkovice, Výstavní 1144/103, Post Code 706 02,
ID no. 25854712 – 14 WC; 2 LEC;

VÍTKOVICE STEEL Polska, Sp. z o.o., Kraków, Garncarska 3, 31115, Poland,
KSR 0000139053 – 44 PC; 1 LOC; 1 MC;

VÍTKOVICE International GmbH, Düsseldorf, Graf Adolf Strasse 18, D-402 12,
HRB 42951 – 1 MC; 3 LOC;

Note: CAR = contract on assignment of receivables; CBR = contract on business representation; CC = commission contract; CPS = contract on provision of services; FC = framework contract; LEC = lease contract; LOC = loan contract; MC = mandate contract; PC = purchase contract; WC = works contract

BUSINESS ACTIVITIES AMONG RELATED PERSONS

VÍTKOVICE STEEL, a. s., sells services to its dominant customer, i.e., OSINEK, a. s. In small volumes the company sells also products to other related persons. The volume of sales to related persons in 2004 reached 3 871 988 thousand CZK, receivables as of Dec. 31, 2004 reached 1 381 987 thousand CZK and advances granted reached 1 thousand CZK.

VÍTKOVICE STEEL, a. s., purchases products and services from related persons within ordinary business activities of the company. In 2004 the volume of purchases from related persons reached 65 852 thousand CZK, liabilities as of Dec. 31, 2004 reached 139 135 thousand CZK and advances received as of the same date were none.

RELATIONSHIP OF VÍTKOVICE STEEL, A. S., TOWARDS RELATED PERSONS (IN TCZK)

Company	ID no.	Sales	Receivables	Advances granted	Purchases	Liabilities	Advances received
OSINEK, a. s.	00012173	3867082	1381516	-	18182	133648	-
Severomoravská energetika, a. s.	47675691	-	-	1	6	-	-
Energetika VÍTKOVICE, a. s.	25854712	4821	365	-	26083	3796	-
VÍTKOVICE STEEL Polska, Sp. z o.o.		85	106	-	9505	594	-
VÍTKOVICE International GmbH		-	-	-	12076	1097	-

The Board of Directors of VÍTKOVICE STEEL, a. s., declares that the company has not incurred any loss from the relationships with related persons.

.....

Vladimír Bail, Ph.D.
Chairman of the Board of Directors
of VÍTKOVICE STEEL, a. s.

.....

Jiří Chuchro
Member of the Board of Directors
of VÍTKOVICE STEEL, a. s.

THE GROWTH OF TOTAL SALES IN 2004 WAS SIGNIFICANTLY SUPPORTED MAINLY BY THE GROWING SHARE ON THE DOMESTIC MARKET...

... THE GROWTH OF TOTAL SALES IN 2004 WAS SIGNIFICANTLY SUPPORTED MAINLY BY THE GROWING SHARE ON THE DOMESTIC MARKET...

ERNST & YOUNG

(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

AUDITORS' REPORT

To the Shareholders of VÍTKOVICE STEEL, a.s.:

We have audited the financial statements of VÍTKOVICE STEEL, a.s. for the year ended 31 December 2004 in accordance with the Act No. 254/2000 Coll. on Auditors and the auditing guidelines issued by the Chamber of Auditors of the Czech Republic. Our audit included an examination of evidence supporting the financial statements and of the accounting policies and estimates used by management in their preparation. Our audit procedures were carried out on a test basis and with regard to the principle of materiality.

The management of VÍTKOVICE STEEL, a.s., is responsible for maintaining accounting records and for preparing financial statements which give a true and fair view of the assets, liabilities, equity, financial results and financial position of VÍTKOVICE STEEL, a.s. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit performed in accordance with this Act and the auditing guidelines.

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of VÍTKOVICE STEEL, a.s. as at 31 December 2004 and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant legislation.

Without qualifying our opinion we would like to draw your attention to the following significant matters:

1. As more fully discussed in Notes 16 and 22, VÍTKOVICE STEEL, a.s. processes pig iron purchased by its parent company OSINEK, a.s. from Vysoké pece Ostrava, a.s. The parent company is in dispute with the pig iron supplier over the price of supplies carried out in 2003 and in the period from 1 January 2004 to 20 February 2004. The parent company's management believes that the increase was unjustified and, consequently, the parent company did not accounted for and did not pay the total increase of the price of supplied raw material being CZK 353 million. In 2004 Vysoké pece Ostrava, a.s., lodged an action with the Regional Court in Ostrava against the parent company for payment of pig iron increased price plus the respective interest and charges.

   On 30 July 2004 the parent company lodged an action with the Regional Court in Ostrava against Vysoké pece Ostrava, a.s., for rendering a decision about unjust enrichment totalling CZK 681.9 million related to the paid deliveries of pig iron in 2003 and in the first half of 2004.

   Pursuant to the agreement for the termination of financing of processing costs, all risks associated with the dispute for the pig iron price transfer from OSINEK, a.s., to VITKOVICE STEEL, a.s.

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In opinion of legal experts, it is impossible to reliably determine the final result of these disputes. Therefore, neither VÍTKOVICE STEEL, a.s., nor the parent company reflected any potential risk associated with this dispute in the financial statements for the year ended 31 December 2004.

2. VÍTKOVICE STEEL, a.s., is included in the program of the Czech steel industry restructuring announced by the Government of the Czech Republic, the part of which is also a selection of the Company's strategic partner. The Company's ability to continue as a going concern is in particular dependent on the result of the dispute over the pig iron price and on the selection of appropriate strategic partner and its plans. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We have also audited the financial statements of VÍTKOVICE STEEL, a.s., as at 31 December 2003 and issued an unqualified opinion thereon on 9 April 2004. We, however, pointed to uncertain outcome of the litigation between the parent company OSINEK, a.s., and the pig iron supplier Vysoké pece Ostrava, a.s., the ongoing company restructuring and a change in the method of reporting and depreciation of the difference between the net book value of the assets as recorded in the contributor's books and an expert valuation.

We have also audited the prior year financial statements of VÍTKOVICE STEEL, a.s as at 31 December 2002 and issued an unqualified report thereon dated 10 April 2003.

The accompanying annual report for 2004 contains information about important matters related to the Company's financial statements, the evolution of its business and other matters. We have checked that the accounting information in the annual report is consistent with that contained in the audited financial statements as of 31 December 2004. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

We have reviewed the information contained in the report on related parties, which was prepared in accordance with Section 66a of the Commercial Code. The Board of Directors are responsible for the complete and accurate presentation of the report. Our responsibility is to review the accuracy of the information included in the report. During our audit, nothing came to our attention that would cause us to believe that the information disclosed in the report was inaccurate. We did not review the completeness of the information presented in the report. In addition, we are unable to assess whether the relationships between related parties had an adverse affect on the Company. However, the management of the Company believes that all transactions between related parties were performed on an arm's length basis.

Ernst & Young ČR, s.r.o.
License No. 401

Milan Slavík
Auditor, License No.708

8 April 2005
Prague, Czech Republic

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TANKER HELLENICA

BUILDING OF A TRANSOCEANIC SHIP MATTHEOS

THE GOOD
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HISTORICAL

Concept, Production, Manufacturing: Agentura API s. r. o.
Graphic design: Kantor´s Creative Club

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