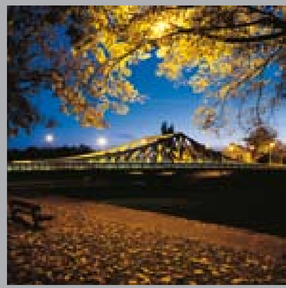


2005

VÍTKOVICE STEEL

ANNUAL REPORT

VÍTKOVICE STEEL

ANNUAL REPORT 2005

Vladimír Bail, Ph.D.

VÍTKOVICE STEEL, a. s. Board of Directors Chairman

Zbyněk Kvapík, MBA

VÍTKOVICE STEEL, a. s. Board of Directors Member

CONTENTS

GAS CONTAINERS OF THE COMPANY SIAD
IN RAJHRADICE U BRNA, CZECH REPUBLIC

I. ESTABLISHMENT OF VÍTKOVICE STEEL, A. S., STATUTORY BODIES

The trading company VÍTKOVICE STEEL, a. s., seated in OSTRAVA – Hulváky, Štramberská 2871/47, postal code 709 00, was established based on a deed of foundation of the sole founder, VÍTKOVICE, a.s. The company VÍTKOVICE STEEL, a. s., with basic capital of CZK 2 million, arose upon its entry in the commercial register kept by the Regional Court in Ostrava on 7 March 2001, section B, entry No. 2475.

At 1 August 2001, Division 200 – VÍTKOVICE Flat Products, incorporating the basic production aggregates Steelworks I, Rolled Section Mill, 4,5 Two - High Rolling Mill and 3,5 Four - High Rolling Mill, was contributed to VÍTKOVICE STEEL, a. s. With the contribution of this part of VÍTKOVICE, a.s., the basic capital of VÍTKOVICE STEEL, a. s. was increased to CZK 2.602 billion.

Based on a public tender and on the execution of a contract on the purchase of 98.96% of the Company's shares on 29 March 2002, OSINEK, a.s. became the majority owner of VÍTKOVICE STEEL, a. s. The company VÍTKOVICE, a.s. owns the remaining 1.04% share.

The Board of Directors comprising the following members manages VÍTKOVICE STEEL, a. s. operations pursuant to the generally binding legal regulations and valid Company articles: Vladimír Bail, Ph.D. (chairman), Vratislav Vícha (vice-chairman), Zbyněk Kvapík, MBA, Jiří Poštulka, MBA, until 24 January 2005 Radim Valas, from 27 January 2005 Jiří Chuchro (members).

The Supervisory Board, the control body of VÍTKOVICE STEEL, a. s., comprised the following members: Jiří Staněk (chairman), Rostislav Fromelius, until 26 January 2005 Jiří Chuchro, Pavel Makový, until 27 January 2005 Libor Novák and Ivo Štěpán, from 27 January 2005 Antonín Hanzalík, Radmila Kleslová, Jaroslav Kubovic, Jan Nedvídek, B.A., Jan Škůrek, from 25 March 2005 Jaroslav Novák (members).

SKIHALLE SPORTING FACILITY, NEUSS, GERMANY

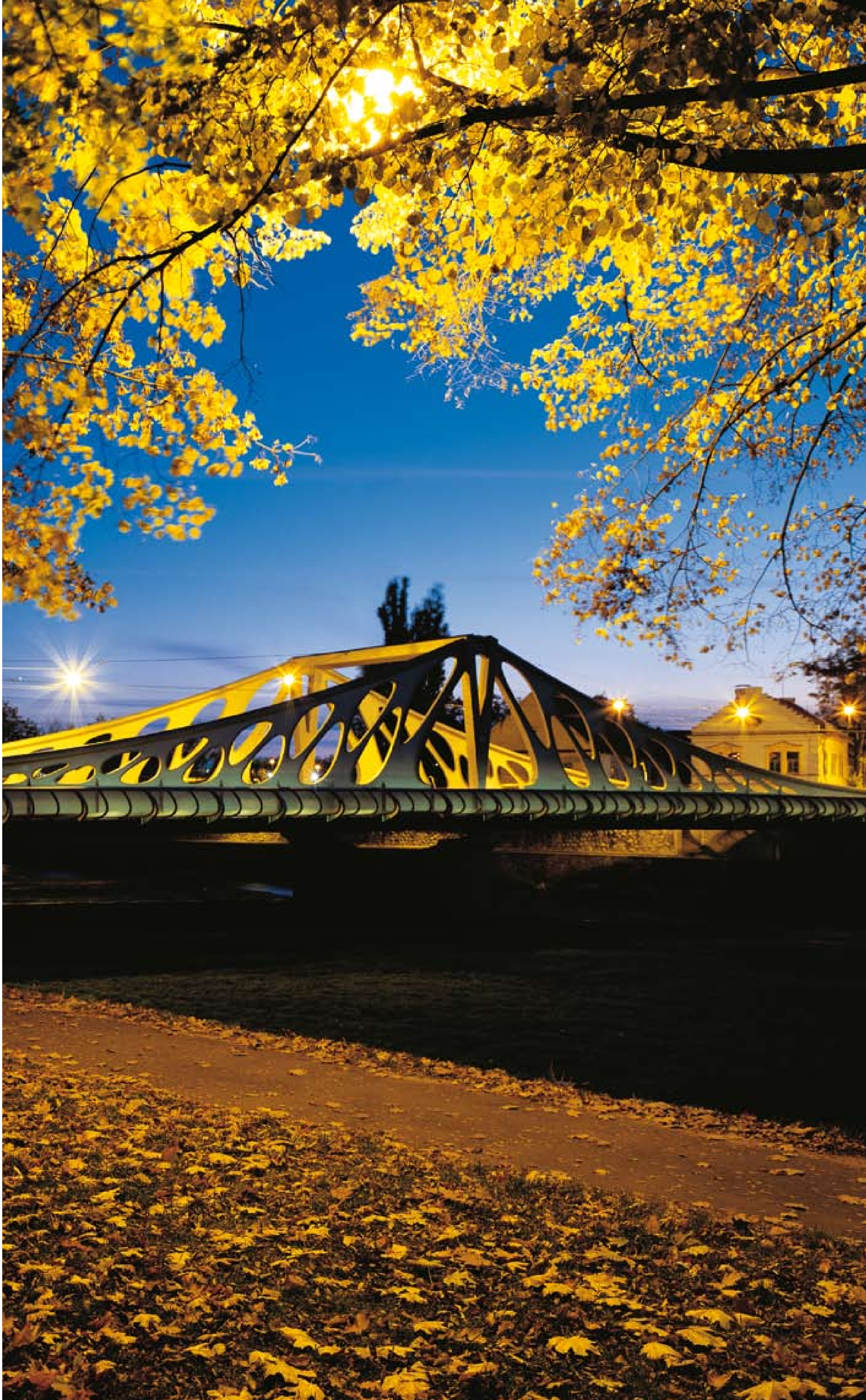
In the period from 1 January 2005 to 31 January 2005, VÍTKOVICE STEEL, a. s. conducted the sales and production process in the form of a tolling arrangement. On its own account, the parent company OSINEK, a.s. purchased raw materials, material, energy and fuel and then sold the jointly produced finished products. VÍTKOVICE STEEL, a. s. participated in joint production by providing labour, ordering and financing repair and maintenance work, using its own tangible and intangible fixed assets, procuring and financing other overhead operations and handling virtually the whole process of purchasing inputs and selling finished products on behalf of OSINEK, a.s.

Pursuant to a decision of the majority shareholder of OSINEK, a.s., tolling financing was terminated effective from 31 January 2005 with a subsequent change-over to direct financing by VÍTKOVICE STEEL, a. s. as of 1 February 2005. At this date, VÍTKOVICE STEEL, a. s. secured a market rate bank loan of CZK 2.3 billion for the gradual purchase of inventories (including work in progress) and operational financing. VÍTKOVICE STEEL, a. s. standardised its commercial transactions with the parent company; all supplier contracts were ceded from OSINEK, a.s. to VÍTKOVICE STEEL, a. s. at 1 February 2005. As of this date, all billing (purchases and sales) was performed in the name and on the account of VÍTKOVICE STEEL, a. s. Prior receivables from earlier commercial transactions (effected until 31 January 2005) were gradually settled pursuant to an agreement.

Effective from 15 November 2005, the new parent company MASTERCROFT LIMITED began to exercise the ownership rights attached to its 98.96% shareholding in VÍTKOVICE STEEL, a. s. VÍTKOVICE, a. s. continued to have a 1.04% shareholding.

S

Supply of plates for the steel construction of the Dlouhý Bridge across the Vltava river in České Budějovice, final customer Vodní stavby Bohemia, CZ. Construction of the railway bridge was completed in 1998.



Dear Shareholders,

In the course of January 2005, the VÍTKOVICE STEEL, a. s. Supervisory Board comprised the following members:

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

At 26 January 2005 Jiří Chuchro stepped down as a Supervisory Board member. In accordance with the articles approved by the extraordinary General Meeting of 27 January 2005, the number of Supervisory Board members was increased to nine and the Supervisory Board thereafter comprised the following members:

Chairman: Jiří Staněk
Members: Rostislav Fromelius
Antonín Hanzalík
Radmila Kleslová
Jaroslav Kubovic
Pavel Makový
Jan Nedvídek, B.A.
Jan Škůrek

On 25 March 2005 Mr. Jaroslav Novák was elected to the Supervisory Board as an employee representative.

The Supervisory Board conducted eleven ordinary meetings in 2005, all of which achieved a quorum. In accordance with its agenda, it discussed materials relating to corporate operations, particularly in these areas:

- the trading result of VÍTKOVICE STEEL, a. s.
- the termination of tolling and securing of financing for working capital
- progress in the process of privatising VÍTKOVICE STEEL and the settlement of transactions at 14 November 2005
- the preparation and elaboration of the Company business plan for 2006
- the development of the production base including presentation of the Integrated Secondary Metallurgy System (ISSM) investment project
- the situation concerning deliveries of liquid pig iron from VPO, a.s., the contracting of deliveries and legal resolution of past disputes
- the status of collective bargaining for the given year.

The Supervisory Board responded on an ongoing basis to the Company’s situation and discussed operational matters.

At the 23rd ordinary meeting of the Supervisory Board, a Board of Directors member change was discussed: Radim Valas stepped down from the position of Board of Directors member as of 24 January 2005 and was replaced as of 27 January 2005 by the newly elected Jiří Chuchro.

At its ordinary meeting of 25 May 2005, the Supervisory Board reviewed the comprehensive materials prepared by the Company's Board of Directors to be discussed at the General Meeting of 31 May 2005. Pursuant to Decision No. 2/27/05, the Company's ordinary financial statements for the year ending 31 December 2004 and the proposal for the distribution of profit were reviewed and recommended for approval to the General Meeting. The Supervisory Board also reviewed the auditor's report on the review of the ordinary financial statements and other materials to be used in General Meeting decisions.

Co-operation between the Board of Directors and Supervisory Board was excellent. The Board of Directors submitted all materials for discussion as required within the time limits stipulated by the Supervisory Board and regularly attended Supervisory Board meetings to present these materials.

Jiří Staněk
VÍTKOVICE STEEL, a. s. Supervisory Board Chairman

Dear Shareholders, Business Partners and Colleagues,

VÍTKOVICE STEEL, a. s. has a demanding but highly successful year behind it, a year characterised by strategic change. On 13 January 2005, parent company OSINEK, a.s. announced a tender for the sale of 98.96% of the shares of VÍTKOVICE STEEL, a. s. At the end of January, the management of VÍTKOVICE STEEL signed a contract for a club loan for CZK 2.3 billion provided by the banking institutions ABN AMRO Bank N.V. and Česká spořitelna. After four years of financing based on what is known as tolling by the parent company OSINEK, we switched over to a self-reliant system for the financing of working capital, making our Company a far more attractive privatisation prospect. This process continued in February 2005 with the submission of an information memorandum to potential investors and in April of 2005 the final, most demanding phase of the privatisation process – the performance of a legal and financial due diligence – commenced. In May 2005 investors submitted their final price proposals, which were then evaluated by the OSINEK Board of Directors and an inter-ministerial government privatisation committee. The Czech government confirmed the tender winner on 13 July 2005. The signing of the relevant contract documentation by the investor and the company OSINEK followed in August.

On 14 November 2005 the process of privatising our Company entered its final phase. OSINEK, a sole subsidiary of the National Property Fund transferred 145 VÍTKOVICE STEEL shares to the company MASTERCROFT Ltd. (a member of the Russian mining and steel concern Evraz Group) pursuant to fulfilment of contractual agreements and payment of the purchase price. The aggregate nominal value of the shares represents an interest of 98.96% of the basic capital of the steel company purchased for a total price of CZK 7.05 billion.

MASTERCROFT Ltd. contractually undertook, inter alia, to see that VÍTKOVICE STEEL, a. s. met the criterion of remaining competitive and other conditions pertaining to the completed restructuring in compliance with the European Union Treaty of Accession of the Czech Republic. The new owner also undertook to invest a sum of CZK 800 million over a period of 11 years in a wide variety of projects to foster growth and development in the Moravia-Silesia region.

It should also be noted here that VÍTKOVICE STEEL was privatised for the third time in a very short period. Here the privatisation process came to its end and gave the employees of this last government steel works a strong owner able to continue investing in Company growth. I personally believe that the new owner will make good on the commitments set out in its business plan and I am convinced that VÍTKOVICE STEEL need not be concerned about its future. The steel works strengthened its position in the Czech Republic as a result of the entry of a strong investor, the very good trading results achieved over the last two years and the application of a progressive marketing strategy, turning itself into a firm able to withstand strong competition and further strengthen its position.

Bail

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

V. ORGANISATIONAL STRUCTURE

GENERAL MEETING

SUPERVISORY BOARD

BOARD OF DIRECTORS

GENERAL MANAGER

- MANAGING DIRECTOR
- IT DIRECTOR
- QUALITY MANAGEMENT DIRECTOR
- PERSONNEL DIRECTOR
- TECHNICAL DIRECTOR
- FINANCE DIRECTOR
- COMMERCIAL DIRECTOR
- PRODUCTION AND LOGISTICS DIRECTOR
- DIRECTOR FOR PURCHASING

- CUT SHAPES
- STEELWORKS
- ROLLED SECTION MILL
- FINISHED PRODUCT WAREHOUSE
- FOUR - HIGH ROLLING MILL
- TWO - HIGH ROLLING MILL
- SERVICING

SUBSIDIARIES

WITH CONTROLLING INFLUENCE

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

VI. SELECTED PRODUCTION AND DELIVERY DATA – INCLUDING OSINEK, A.S.

tolling financing was discontinued at 31 January 2005.

STEELWORKS AND ROLLING MILL PRODUCTION in tons

Production unit	Product	Year 2005	Year 2004	Year 2003
Steelworks	- total steel	797 000	965 000	986 200
	of which: continuous casting (slabs)	772 000	924 700	929 200
	ingots	25 000	40 300	57 000
	- refractory materials	0	0	200
Rolled Section Mill	- sections	108 027	103 253	115 284
Two - High Rolling Mill	- plates	51 533	67 763	85 894
Four - High Rolling Mill	- plates	674 091	710 815	662 981
Cut shapes Cost Centre	- cut shapes	19 535	20 969	15 463

ROLLING MILL DELIVERIES in tons

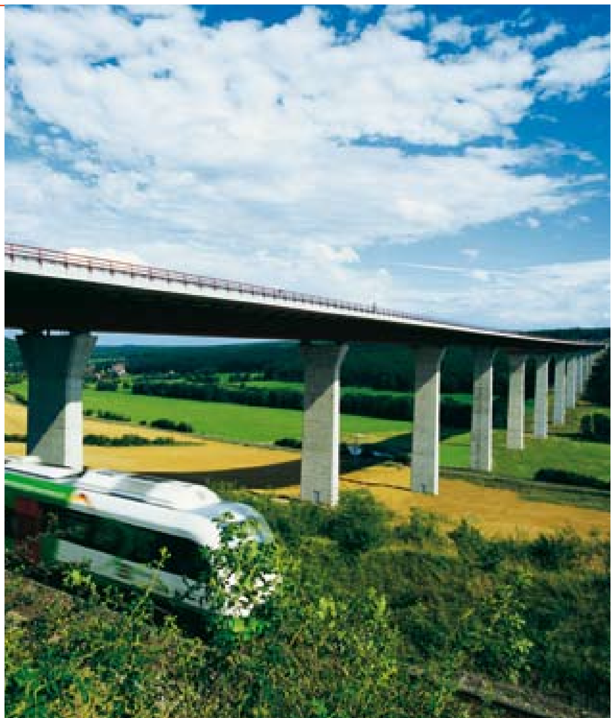
Production unit	Product	Year 2005	Year 2004	Year 2003
Rolled Section Mill	- sections	105 690	97 650	113 206
Two - High Rolling Mill	- plates	45 034	61 777	77 283
Four - High Rolling Mill	- plates	626 672	685 949	638 046
	- continuous casting (slabs)	242	10	9 126
Cut shapes Cost Centre	- cut shapes	20 159	20 799	14 999
Finished Products Warehouse	- sections	4 297	2 667	1 214
	- plates from Two - High Rolling Mill	0	103	1 362
	- plates from Four - High Rolling Mil	0	380	5 309

FINISHED PRODUCTS in TCZK

Production unit - customer	Year 2005	Year 2004	Year 2003
Steelworks total	**9 215 122**	**8 207 974**	**6 187 606**
of which: transfers to rolling mills	9 215 122	8 207 974	6 187 606
domestic and foreign sales	0	0	0
Rolled Section Mill total	**1 863 011**	**1 508 345**	**1 287 082**
of which: transfers to another cost centre	56 326	41 381	15 763
domestic and foreign sales	1 806 685	1 466 964	1 262 319
Two - High Rolling Mill total	**1 101 667**	**1 188 551**	**1 028 130**
of which: transfers to another cost centre	98 893	84 053	104 184
domestic and foreign sales	1 002 774	1 104 498	923 946
Four - High Rolling Mill total	**12 129 309**	**10 802 745**	**6 774 767**
of which: transfers to another cost centre	286 588	252 771	215 220
domestic and foreign sales	11 842 721	10 549 974	6 559 547
Cut Shapes Cost Centre total	**531 466**	**465 465**	**258 963**
of which: transfers to another cost centre	934	0	0
domestic and foreign sales	530 532	465 465	258 963
Finished Products Warehouse total	**62 368**	**48 039**	**82 519**
of which: transfers to another cost centre	0	0	0
domestic and foreign sales	62 368	48 039	82 519

Note: Values of finished products in 2004 and 2005 are stated prior to the provision of a financing, consignment and target bonus (i.e. are unreduced). Bonuses provided to customers in 2004 and 2005 totalled TCZK 109 631 and TCZK 131 088, respectively.

REICHENBACHTALBRÜCKE HIGHWAY BRIDGE, GERMANY.



VII. REPORT AND COMPANY BUSINESS AND PROPERTY

VÍTKOVICE STEEL, a. s. is a manufacturer of steel and steel products – heavy plates, heavy and medium sections and cut shapes from heavy plates. The Company ranks among Europe's top producers of heavy plates and is their dominant producer in the Czech Republic. VÍTKOVICE STEEL, a. s. also manufactures sheet piles, a significant share of which is exported.

The VÍTKOVICE STEEL, a. s. production base is divided into 6 internal cost centres, of which 4 are production-related and 2 are not. The Company's production section comprises the Steelworks cost centre (2 OXYVIT converters, secondary metallurgy, ladle furnace, equipment for continuous and ingot casting), the Rolled Section Mill, Four - High Rolling Mill (the Two - High Rolling Mill is also incorporated into this cost centre) and Cut Shapes. The two remaining cost centres – Finished Products Warehouse and Servicing – support the production process in specific ways.

Until 31 January 2005, VÍTKOVICE STEEL, a. s. carried out its manufacturing and business operations under a special regime – tolling – together with its partner OSINEK, a.s. Tolling co-operation commenced on 1 April 2000. At that time, today's joint stock company VÍTKOVICE STEEL was still an internal unit of VÍTKOVICE, a.s. (the Flat Products Division). The separate company arose with its entry in the commercial register on 7 March 2001 and commenced actual operations on 1 August 2001. The year 2005 is the fourth full calendar year in the commercial life of VÍTKOVICE STEEL, a. s. Ownership of 98.96% of the shares of VÍTKOVICE STEEL, a. s. was transferred from OSINEK, a.s. to MASTERCROFT LIMITED on 15 November 2005 in the course of the privatisation process.

Like the year before, 2005 was a good year for steel, characterised by a stable demand for steel and steel products. Technological aggregates recorded no serious operational breakdowns despite their extensive capacity utilisation. In the interests of optimising the market placement of our products, the Company stepped up purchases of slabs for rolling mill production. Thus the market situation literally shaped the Company's external and internal economic results. We ended the year with a very good pre-tax business result of TCZK 2 620 729.

The aim of the Company's business strategy was quickly and capably to react to the needs of the steel products market and individual customer demands. A high standard of communication with business partners contributed to the perception of VÍTKOVICE STEEL, a. s. as an important, reliable supplier of steel products on domestic and foreign markets.

Total earnings in 2005 were greatly impacted by domestic sales and market share. Some 33% of total Company sales were realised at home, while domestic sales accounted for some 40% of total sales of heavy plates products (where the Company holds a dominant position).

Key customer groups comprise large-scale customers with their own distribution networks and end customers from industrial sectors – construction, machine building, ship building, vehicle production, pressure vessels, machinery for construction and pipeline production. About 50% of plates deliveries and 27% of section deliveries went to end customers in 2005.

It is our aim continuously to increase sales of products with higher added value. This strategy was launched in 2004 with the Company's entry into the market for lengthwise welded pipes for pipelines. In 2005, sales of plates for pipeline production grew by 60 kt year-on-year. Sales of this product are projected based on long-term stable market demand.

Sheet pile sections, which on average comprise 50% of rolled section production, are key to the Company's section product segment. The Company is the sole producer of sheet pile sections on the domestic market and has a 90% market share. The sheet pile sections we manufacture are finding ever broader applications. For example, they were recently used in the reconstruction of pillars supporting an important cultural monument – the Charles Bridge in Prague.

We promoted VÍTKOVICE STEEL, a. s. at five important trade fairs and exhibitions. The most significant of these were the International Engineering Fair in Brno, the Baltexpo Shipping Trade Fair and the International Mining, Power and Metallurgy Trade Fair in Katowice, Poland.

VÍTKOVICE STEEL, a. s. is also a significant contributor to social, sporting and charitable events in the Czech Republic and Moravia-Silesia region. In 2005 the Company became the general partner of the Vítkovice Ice Hockey Club, which then changed its name to HC VÍTKOVICE STEEL. Other important Company partnerships include the Zlatá tretra athletic meeting, the European Quality Weeks in the Czech Republic and the Czech-Russian Economic Forum in Ostrava.

The success of sales and production is contingent on the Company's information system. The VÍTKOVICE STEEL, a. s. integrated information system is based on a communication link between the Steel Production Management System, local control information systems of individual steel aggregates and the E-Business Suite. The information system thus ensures functionality in the areas of production logistics and economic and commercial processes, from taking an order, through production planning, managing production processes, quality management, warehousing and delivery to billing. The system is also customer-oriented as contract-related information may be uploaded to (and viewed on) the internet. The Company has a website **www.vitkovicesteel.com** to present VÍTKOVICE STEEL, a. s. and its products to business partners.

The primary tasks of the information system are to support the corporate business strategy by providing IT services and information to recipients as quickly as possible, to provide tools for dynamic corporate development and to fulfil strategic goals. The utility value of the information environment has been increased via IT development projects. For this purpose, in 2005 the Company launched a project to consolidate the information system software architecture. One of the chief goals of this project was to ensure the continuous running of critical Company operations – application layers ensuring smooth production. This project raised IT reliability and flexibility at VÍTKOVICE STEEL, a. s. to the apex of the steel industry standard.

No less importantly, an essential condition that the Company must fulfil on its path to greater success is ongoing improvement of the quality management systems harmonised with ISO 9001:2001, API Q1 specifications and the environmental management system harmonised with ISO 14001:2004 standards. An ongoing task to ensure quality is the renewal of certifications and approbation of products by the companies RWTÜV, API (American Petroleum Institute), Deutsche Bahn, ABS, BV, DNV, GL, RINA, ČLPR, RMLR and others. One Company priority is to achieve a solid environmental profile and minimise the environmental impact of our activities and products, which we want to accomplish while respecting the valid environmental legislation and the principles of sustainable growth.

The employees of VÍTKOVICE STEEL, a. s. work in accordance with the Company's approved quality and environmental management policy. The targets of both systems – QMS and EMS – were met in 2005. In compliance with EU environmental legislation, the Company obtained an Integrated Permission for Steel Works Operation and applied for an Integrated Permission for Rolling Mill Operation. Environmental limits are not exceeded and greenhouse gas emissions were audited. Waste management was carried out in compliance with the valid legislation.

The Company's sound financial position enabled massive investment to upgrade the quality of control and information systems, expand the product range and introduce cost-cutting measures as well as measures to improve hygiene and workplace safety. GOMO ultrasound lines were introduced, a new testing regime was launched in the Four - High Rolling Mill and the construction component of a new integrated secondary metallurgy system (ISSM) facility in the steel works was completed. The Company continues to focus on its extensive investment plan for the years 2006 through 2009. In the area of technical and technological development, the Company carried out a total of 8 R&D tasks in collaboration with technical institutes and universities. Six improvement proposals were adopted and three were implemented.

VÍTKOVICE STEEL, a. s. is obliged to present complete business results at the General Meeting in the form of annual financial statements, which are provided in detail further in this annual report. Here we provide a selection of key indicators briefly characterising VÍTKOVICE STEEL, a. s. operations (exclusive of OSINEK, a.s.) at 31 December 2005:

Outputs	15 791 025 TCZK
Revenues from the sale of own products and services	14 348 754 TCZK
Production consumption	12 276 717 TCZK
Added value	3 514 308 TCZK
Operating result	2 637 758 TCZK
Trading result before tax	2 620 729 TCZK
Intangible fixed assets (net)	23 431 TCZK
Tangible fixed assets (net)	2 106 549 TCZK
Long-term financial assets (net)	29 051 TCZK
Inventories (net: provision totals 194 724 TCZK)	1 973 829 TCZK
Long-term receivables	487 849 TCZK
Short-term receivables	2 493 334 TCZK
Short-term financial assets	2 325 298 TCZK
Accruals	112 503 TCZK
Basic capital	2 602 000 TCZK
Trade payables	1 545 243 TCZK
Payables to partners	0 TCZK

S

Supply of 3,000 tons of ship plates for construction of the luxury yacht Birka Paradise, Aker Finnyards shipyard, Rauma, Finland. The ship was built for the company Birka Line and is used for passenger transport on the regular Stock-holm (Sweden) – Mariehamm (Finland) route. Ship dimensions: length 177m, wid-th 28m. Completi-on date: 11/2004.

VÍTKOVICE STEEL, a. s., at 31 December 2005
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

BALANCE SHEET

			Current year			Prior year	
			Gross	Provisions	Net	Net 2004	Net 2003
		TOTAL ASSETS	**19 254 740**	**-9 702 896**	**9 551 844**	**4 669 506**	**3 153 047**
A.		**STOCK SUBSCRIPTION RECEIVABLE**					
B.		**FIXED ASSETS**	**11 490 621**	**-9 331 590**	**2 159 031**	**1 986 821**	**2 056 018**
B. I.		Intangible assets	101 652	- 78 221	23 431	10 607	14 400
	3	Software	84 689	- 78 221	6 468	10 347	14 209
	5	Goodwill					
	6	Other intangible assets	1 790		1 790		
	7	Intangible assets in progress	15 173		15 173	260	191
B. II.		Tangible assets	11 253 495	-9 146 946	2 106 549	1 947 163	2 012 486
B. II.	1	Land	386 415	- 37 147	349 268	349 362	349 362
	2	Constructions	2 905 620	-2 143 434	762 186	775 881	762 246
	3	Separate movable items and groups of movable items	7 698 654	-6 938 297	760 357	782 225	844 172
	6	Other tangible assets	29 126	- 28 068	1 058	1 090	959
	7	Tangible assets in progress	225 453		225 453	35 707	55 747
	8	Advances granted for tangible assets	8 227		8 227	2 898	
B. III.		Financial investments	135 474	- 106 423	29 051	29 051	29 132
B. III.	1	Subsidiaries	132 768	- 106 423	26 345	26 345	29 132
	3	Other long-term securities and interests	2 706		2 706		
	6	Long-term investments in progress				2 706	
C.		**CURRENT ASSETS**	**7 651 616**	**- 371 306**	**7 280 310**	**2 435 569**	**781 154**
C. I.		Inventory	2 168 553	- 194 724	1 973 829	407 952	400 992
C. I.	1	Materials	978 846	- 194 724	784 122	268 118	311 294

VITKOVICE STEEL

VÍTKOVICE STEEL, a. s., at 31 December 2005
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

		Current year			Prior year	
		Gross	Provisions	Net	Net 2004	Net 2003
2	Work in progress and semi-finished production	915 469		915 469	124 464	79 384
3	Finished products	270 323		270 323	15 300	8 278
5	Goods					347
6	Advances granted for inventory	3 915		3 915	70	1 689
C. II.	Long-term receivables	487 849	0	487 849	0	0
8	Deferred tax asset	487 849		487 849		
C. III.	Short-term receivables	2 669 916	- 176 582	2 493 334	1 391 945	293 607
C. III. 1	Trade receivables	2 495 800	- 176 582	2 319 218	1 390 343	261 880
2	Receivables to group companies with majority control					3 240
6	Due from government - tax receivables	169 065		169 065	7	24 152
7	Short-term advances granted	4 879		4 879	1 351	4 313
9	Other receivables	172		172	244	22
C. IV.	Short-term financial assets	2 325 298	0	2 325 298	635 672	86 555
C. IV. 1	Cash	1 051		1 051	537	212
2	Bank accounts	1 551 191		1 551 191	484 815	4 811
3	Short-term securities and interests	773 056		773 056	150 320	81 532
D.	**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**112 503**	**0**	**112 503**	**247 116**	**315 875**
D. I.	Accrued assets and deferred liabilities	112 503	0	112 503	247 116	315 875
D. I. 1	Prepaid expenses	110 387		110 387	228 983	315 875
3	Unbilled revenue	2 116		2 116	18 133	

Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

		Current year	Prior year 2004	Prior year 2003
	TOTAL EQUITY & LIABILITIES	**9 551 844**	**4 669 506**	**3 153 047**
A.	**EQUITY**	**6 562 730**	**4 001 903**	**2 534 697**
A. I.	Basic capital	2 602 000	2 602 000	2 602 000
A. I. 1	Registered capital	2 602 000	2 602 000	2 602 000
A. II.	Capital funds	346	346	0
2	Other capital funds	346	346	
A III.	Reserve funds, (indivisible fund) and other funds created from profit	89 777	16 434	9 264
A III. 1	Legal reserve fund/Indivisible fund	89 777	16 434	9 264
A. IV.	Profit (loss) for the previous years	1 295 180	- 83 737	- 219 966
IV. 1	Retained earnings for the previous years	1 295 180		
2	Accumulated loss of previous years		- 83 737	- 219 966
A. V.	Profit (loss) for the year (+ / -)	2 575 427	1 466 860	143 399
B.	**LIABILITIES**	**2 964 317**	**666 556**	**618 350**
B. I.	Reserves	514 328	130 800	33 400
3	Reserve for corporate income tax	485 328	99 500	
4	Other reserves	29 000	31 300	33 400
B. II.	Long-term liabilities	0	0	0
B. III.	Current liabilities	1 749 989	535 756	584 950
B. III. 1	Trade payables	1 545 243	217 124	288 907

VíTKOVICE STEEL, a. s., at 31 December 2005
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

		Current year	Prior year 2004	Prior year 2003
2	Liabilities to group companies with majority control	0	131 383	164 229
5	Liabilities to employees	30 589	32 520	26 980
6	Liabilities arising from social security and health insurance	18 628	19 855	16 662
7	Due to government – taxes and subsidies	8 773	99 147	4 797
8	Advances received	94 899		
10	Unbilled deliveries	48 164	33 109	81 869
11	Other liabilities	3 693	2 618	1 506
B. IV.	Bank loans and borrowings	700 000	0	0
2	Short-term bank loans	700 000		
C.	**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**24 797**	**1 047**	**0**
C. I.	Accrued liabilities and deferred assets	24 797	1 047	0
C. I. 1	Accruals	2 139	1 047	
2	Deferred income	22 658		

Prepared on 24 March 2006

Vladimír Bail, Ph.D.
Signature of accounting entity's statutory body

Jiří Chuchro
Person responsible for accounting

Jana Struminská
Person responsible for financial statements

Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

INCOME STATEMENT

			Current year	Prior year 2004	Prior year 2003
I.	1	Revenue from sale of goods	23	446	544
A.	2	Cost of goods sold	23	347	809
+		Gross margin	0	99	- 265
II.		Production	15 791 025	4 052 983	2 607 623
II.	1	Revenue from sale of finished products and services	14 348 754	3 984 426	2 586 884
	2	Change in inventory produced internally	1 046 027	52 102	4 553
	3	Own work capitalized	396 244	16 455	16 186
B.		Production related consumption	12 276 717	1 623 845	1 611 647
B.	1	Consumption of material and energy	10 513 924	599 447	590 835
B.	2	Services	1 762 793	1 024 398	1 020 812
+		Value added	3 514 308	2 429 237	995 711
C.		Personnel expenses	794 114	704 709	628 080
C.	1	Wages and salaries	568 473	507 550	456 380
C.	2	Bonuses to members of company or cooperation bodies	3 006	1 818	1 835
C.	3	Social security and health insurance	198 503	173 735	159 308
C.	4	Other social costs	24 132	21 606	10 557
D.		Taxes and charges	3 196	2 541	2 639
E.		Amortization and depreciation of intangible and tangible fixed assets	426 704	431 978	480 919
III.		Revenue from sale of intangible and tangible fixed assets and materials	106 595	36 514	52 226
III.	1	Revenues from sale of intangible and tangible fixed assets	79 058	3 048	7 046
	2	Revenue from sale of materials	27 537	33 466	45 180
F.		Net book value of intangible and tangible fixed assets and materials sold	28 532	28 623	22 857
F.	1	Net book value of intangible and tangible fixed assets sold	2 386	336	987
F.	2	Materials sold	26 146	28 287	21 870
G.		Change in reserves and provisions relating to operations and in pre-paid expenses (specific-purpose expenses)	- 291 916	- 279 554	- 258 745
	1	Creation of legal provisions	9 755	72 139	42 260
	2	Creation of other provisions	2 352	40 453	56 761
	3	Reversal of legal provisions	- 2 499	- 40 314	- 666
	4	Reversal of other provisions	- 301 524	- 349 732	- 351 024
	6	Creation of other reserves			14 500
	8	Reversal of other reserves		- 2 100	- 20 576
IV.	2	Other operating revenues	326 506	59 927	9 435
H.	1	Other operating expenses	349 021	60 225	43 430
*		Profit or loss on operating activities	2 637 758	1 577 156	138 192
VII.		Income from financial investments	0	0	0

VITKOVICE STEEL

VÍTKOVICE STEEL, a. s., at 31 December 2005
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

			Current year	Prior year 2004	Prior year 2003
VIII.	1	Income from short-term financial assets	614	114	63
M.	1	Change in reserves and provisions relating to financial activities	- 2 300	2 789	- 40 807
X.	1	Interest income	27 292	3 211	1 740
N.	2	Interest expense	28 854	2 507	9 372
XI.	1	Other finance income	170 651	29 222	22 282
O.	2	Other finance cost	189 032	38 047	50 313
*		Profit or loss on financial activities	- 17 029	- 10 796	5 207
Q.		Tax on profit or loss on ordinary activities	45 302	99 500	0
Q.	1	- due	533 151	99 500	
Q.	2	- deferred	- 487 849		
**		Profit or loss on ordinary activies after taxation	2 575 427	1 466 860	143 399
*		Extraordinary profit or loss	0	0	0
***		Profit or loss for the year (+/-)	2 575 427	1 466 860	143 399
****		Profit or loss before taxation	2 620 729	1 566 360	143 399

Prepared on 24 March 2006

Vladimír Bail, Ph.D.
Signature of accounting entity's statutory body

Jiří Chuchro
Person responsible for accounting

Jana Struminská
Person responsible for financial statements

S

Supply of steel plates for steel construction of the Volkswagen Arena stadium in Wolfsburg, company SAM Zwickau, Germany. Stadium capacity: 30,000 spectators.

CONTENTS

VITKOVICE STEEL

WIND POWER PLANTS PRODUCED FROM COMPONENTS OF THE COMPANY SAIG CORP., GERMANY.

1. DESCRIPTION OF THE COMPANY

VÍTKOVICE STEEL, a. s. ("the Company") is a joint stock company incorporated on 7 March 2001 in the Czech Republic. The Company's registered office is located at Štramberská 2871/47, Ostrava, 709 00, Czech Republic, and its 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 MASTERCROFT LIMITED, which holds a 98.96% share in the basic capital and is the parent company.

MASTERCROFT LIMITED is wholly owned by EVRAZ Group S.A.
The Company is included in the consolidated group of EVRAZ Group S.A.

The members of the statutory bodies as at 31 December 2005 were as follows:

BOARD OF DIRECTORS

Chair:	Vladimír Bail, Ph.D.
Vice-chair:	Vratislav Vícha
Member:	Jiří Chuchro
Member:	Zbyněk Kvapík, MBA
Member:	Jiří Poštulka, MBA

SUPERVISORY BOARD

Chair:	Jiří Staněk
Member:	Rostislav Fromelius
Member:	Antonín Hanzalík
Member:	Radmila Kleslová
Member:	Jaroslav Kubovic
Member:	Pavel Makový
Member:	Jan Nedvídek, B.A.
Member:	Jaroslav Novák
Member:	Jan Škůrek

THE COMPANY'S ORGANIZATIONAL STRUCTURE IS AS FOLLOWS:

MANAGEMENT

100
GENERAL MANAGER

200
MANAGING DIRECTOR

200.1
IT DIRECTOR

200.2
QUALITY MANAGEMENT DIRECTOR

200.3
PERSONNEL DIRECTOR

200.4
TECHNICAL DIRECTOR

200.5
FINANCE DIRECTOR

200.6
COMMERCIAL DIRECTOR

200.7
PRODUCTION AND LOGISTICS DIRECTOR

200.8
FURCHASING DIRECTOR

210
CUT SHAPES

220
STEELWORKS

230
SECTION ROLLING MILL

240
FINISHED PRODUCTS WAREHOUSE

260
FOUR-HIGH ROLLING MILL

270
SERVICING

SUBSIDIARIES

VÍTKOVICE – SERVIS CENTRUM, A. S.

VÍTKOVICE INTERNATIONAL GMBH

VÍTKOVICE STEEL POLSKA, SP. Z O. O.

VITKOVICE STEEL

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 2005, 2004 and 2003, Decree No. 500/2002 Coll., and the Czech accounting standards for entrepreneurs as applicable for 2005.

EXPLANATION ADDED FOR TRANSLATION INTO ENGLISH

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2005, 2004 and 2003 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 are expensed and carried only in a subsidiary ledger.
Other intangible fixed assets (emission allowances) that were received free of charge are valued at replacement cost. As at the date of allocation, emission allowances were valued by the Company using the exchange rate taken from the nearest market for emission trading – i.e., from the European Energy Exchange, Leipzig.

B) TANGIBLE FIXED ASSETS

Purchased tangible fixed assets with a cost exceeding CZK 40 thousand are recorded at their acquisition cost, which consists of purchase price, freight, customs duties and other related costs. Internally-developed tangible fixed assets are recorded at their accumulated cost, which consists of direct material and labor costs and production overheads.
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 are expensed and carried only in a subsidiary ledger.

Depreciation

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

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

C) FINANCIAL ASSETS

Short-term financial assets consist of liquid valuables, cash in-hand and at-bank, and depository notes.
Long-term financial assets consist of ownership interests and shareholdings.
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 the 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 and price variances (variation from standard cost). An update of the standard cost is carried out twice a week. Costs of purchased inventory include acquisition related costs (freight, customs, commission, etc.).
Finished products, semi-finished products and work-in-progress are valued at standard cost. The cost of inventory produced internally includes direct material, semi-finished products, direct wages and other direct costs. The value of finished products in addition includes production overhead costs.
Until 31 January 2005, metallurgical production was financed by the company OSINEK, a.s. (see Note 22).
The work-in-progress and semi-finished products were valued at the portion of costs for direct material processing, i.e., the relevant portion of labor costs and the portion of other direct costs for material re-processing.

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 2005, the Company entered into derivative contracts (FRA, options) which hedged future cash flows against foreign currency risks. Derivatives are measured at cost. All derivative contracts were terminated as at 31 December 2005.

G) EQUITY

The basic capital of the Company is stated as the amount recorded in the Commercial Register maintained at the Regional Court. Any increase or decrease in the basic capital made pursuant to a decision of the General Meeting which was not entered in the Commercial Register as at the date 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.
Short-term loans are carried at their nominal values.
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 pre-paid 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 on the transaction date. On the balance sheet date, monetary items are adjusted to the exchange rates published by the Czech National Bank as at 31 December.
Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income for the year.

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.
Until 31 January 2005, metallurgical production was financed by OSINEK, a.s. (see Note 22). Expenses and revenues were recognized by the Company as follows:
OSINEK, a. s. purchased all inputs for metallurgical production – direct materials, direct technology and energy overheads. The Company produced flat and long products and cut shapes for the processor's remuneration. The products were sold on behalf of OSINEK, a.s., and at its account.
Since 1 February 2005, the Company has been purchasing all inputs on its own behalf, as well as selling finished products on its own behalf and at its own 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 (non-deductible reserves and provisions, entertainment expenses, differences between book and tax depreciation, etc.).
The Company creates a reserve for corporate income tax. The reserve is equal to the tax liability calculated from the financial statements less any advance payments, and the ultimate reserve covers the difference, if any. Current expenses reflect the estimated total tax liability for the period.
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.
The adjustment to acquired property arose as a result of an asset contribution. In 2003, the adjustment to acquired property was allocated to provisions against each type of contributed asset in order to present the assets more fairly.

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 the non-moving inventory of spare parts, i.e. inventory which does not move for one, two or three years. In compliance with the Company's methodology, the provision is estimated taking account of the degree of depreciation of the related production units.

4. FIXED ASSETS

A) INTANGIBLE FIXED ASSETS (IN CZK THOUSANDS)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Software	84 193	496	-	-	84 689
Other intangible fixed assets (emission allowances)	-	296 291	-294 501	-	1 790
Intangibles in progress	260	15 409	-496	-	15 173
2005 Total	84 453	312 196	-294 997	-	101 652
2004 Total	83 984	469	-	-	84 453
2003 Total	67 709	16 275	-	-	83 984

ACCUMULATED AMORTIZATION

	At beginning of year	Amortization for year	Disposals	At end of year	Net book value
Software	-73 846	-4 375	-	-78 221	6 468
Other intangible fixed assets (emission allowances)	-	-	-	-	1 790
Intangibles in progress	-	-	-	-	15 173
2005 Total	-73 846	-4 375	-	-78 221	23 431
2004 Total	-69 584	-4 262	-	-73 846	10 607
2003 Total	-66 878	-2 706	-	-69 584	14 400

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 2,638 thousand and CZK 1,150 thousand at acquisition cost as at 31 December 2005 and 2004, respectively.

Intangibles in progress of CZK 15,173 thousand posted as at 31 December 2005 included the development of information technology – ORACLE, Windows and LEGATO – totaling CZK 14,023 thousand.

On 24 October 2005, the Company received 464,505 emission allowances with a total value of CZK 296,291 thousand. In 2005, the Company sold 117,000 emission allowances, their value being CZK 74,630 thousand. Emission allowances required to cover the Company's own purposes as at 31 December 2005 are estimated at 344,698 allowances with a total value of CZK 219,871 thousand.

B) TANGIBLE FIXED ASSETS (IN CZK THOUSANDS)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Land	386 509	211	-305	-	386 415
Constructions	2 894 697	-	-2 228	13 151	2 905 620
Machinery and equipment	7 152 785	-	-61 932	81 959	7 172 812
Vehicles	492 380	-	-10 474	12 018	493 924
Furniture and fixtures	31 721	-	-	197	31 918
Other tangible fixed assets	35 603	3 142	-9 680	-	29 065
Art works and collections	61	-	-	-	61
Tangibles in progress	35 707	290 590	-	-100 844	225 453
Advances for tangibles	2 898	5 329	-	-	8 227
2005 Total	11 032 361	299 272	-84 619	6 481	11 253 495
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

ACCUMULATED DEPRECIATION

	At beginning of year	Depreciation of year	Cost of sales or liquidation	Disposals	Transfers	At end of year	Provisions	Net book value
Land	-	-	-	-	-	-	-37 147	349 268
Constructions	-1 340 352	-51 456	-665	2 228	-	-1 390 245	-753 189	762 186
Machinery and equipment	-5 051 772	-351 038	-1 176	61 932	-6 481	-5 348 535	-1 160 705	663 572
Vehicles	-400 972	-13 862	-2 080	10 474	-	-406 440	-	87 484
Furniture and fixtures	-21 180	-1 437	-	-	-	-22 617	-	9 301
Other tangible fixed assets	-34 574	-3 174	-	9 680	-	-28 068	-	997
Art works and collections	-	-	-	-	-	-	-	61
Tangibles in progress	-	-	-	-	-	-	-	225 453
Advances for tangibles	-	-	-	-	-	-	-	8 227
2005 Total	-6 848 850	-420 967	-3 922	84 314	-6 481	-7 195 905	-1 951 041	2 106 549
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

The Company capitalized machinery with a cost of CZK 6,481 thousand in 2005; the machinery was acquired by the Company after its finance lease term expired. The related accumulated depreciation totaled CZK 6,481 thousand.

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 77,183 thousand, CZK 73,999 thousand and CZK 75,346 thousand at acquisition cost as at 31 December 2005, 2004 and 2003, respectively.

Certain tangible fixed assets (section mill of a blooming mill, 450 mill, and certain buildings) were no longer in service or were being held for sale or redevelopment. These assets had a cost of CZK 21,984 thousand, CZK 24,127 thousand and CZK 23,942 thousand and accumulated depreciation of CZK 17,813 thousand, CZK 19,583 thousand and CZK 19,410 thousand as at 31 December 2005, 2004 and 2003, respectively.

Major additions to tangible fixed assets in 2005 included technical improvements to the testing management of CZK 26,682 thousand, and technical improvements to the push furnace of CZK 14,654 thousand and to push furnace No. 2 of CZK 7,988 thousand. Other additions included the acquisition of the OMNIMAT flame cutting machine for CZK 6,481 thousand and the ultrasound test device for plate testing for CZK 6,187 thousand.

Tangibles in progress totaling CZK 225,453 thousand as at 31 December 2005 included work on the GOMO integrated secondary metallurgy system (Steel Mill I) totaling CZK 136,022 thousand, the IT system development of CZK 34,897 thousand, the modernization of the ultrasound line of CZK 13,430 thousand and of the Waldrich lathe of CZK 12,340 thousand.

The Company has an easement to Energetika Vítkovice, a.s. and VÍTKOVICE TESTING CENTER s. r. o. (electricity, gas, water, etc. distribution systems). The Company rents certain non-residential premises to individuals (physicians) and legal entities (particularly cloakrooms, offices, garages and unused halls) and movable items (production equipment), whose net book value as at 31 December 2005 totaled CZK 79,469 thousand.

The provision against tangible fixed assets reflects the net book value of the adjustment to acquired property that, pursuant to the Company's decision, was allocated to provisions against each type of contributed asset in 2003. The reversal of the allocated provisions is based on the average depreciation period with respect to constructions (34.22 years) and separate movable items (8.88 years).

The balances of the provisions arising from the adjustment to acquired property are as follows (in CZK thousands):

	Balance as at 31/ 12/ 2003	Balance as at 31/ 12/ 2004	Balance as at 31/ 12/ 2005	Depreciation for months 1-12 (annual depreciation charge in 2003 through 2009)	Annual depreciation charge in 2010	Annual depreciation charge in 2035
Provisions against constructions	803 739	778 464	753 189	-25 275	-25 275	-20 220
Provisions against separate movable items and sets of movable items	1 679 804	1 419 772	1 159 740	-260 032	-119 615	-
Provisions against a part of unliquidated blooming mill (established in 2003)	965	965	965	-	-	-
Total provision	**2 484 508**	**2 199 201**	**1 913 894**	**-285 307**	**-144 890**	**-20 220**

C) LONG-TERM FINANCIAL INVESTMENTS (IN CZK THOUSANDS)

Summary of changes in long-term financial investments

	Balance as at 31/ 12/ 2003	Additions	Disposals	Balance as at 31/ 12/ 2004	Additions	Disposals	Balance as at 31/ 12/ 2005
Subsidiaries	132 766	2	-	132 768	-	-	132 768
Other long-term securities and interests	-	-	-	-	2 706	-	2 706
Long-term investments in progress	-	2 706	-	2 706	-	-2 706	-
Provisions	-103 634	-2 789	-	-106 423	-	-	-106 423
Total	**29 132**	**-81**	**-**	**29 051**	**2 706**	**-2 706**	**29 051**

Subsidiaries and associates as at 31 December 2005 were as follows (in CZK thousands):

Company name	VÍTKOVICE - Servis centrum, a. s. in liquidation	VÍTKOVICE - Servis centrum, a. s.	VÍTKOVICE - Servis centrum, a. s.	VÍTKOVICE STEEL Polska Sp. z o. o.	VÍTKOVICE STEEL Polska Sp. z o. o.	VÍTKOVICE STEEL Polska Sp. z o. o.	VÍTKOVICE International GmbH	VÍTKOVICE International GmbH	VÍTKOVICE International GmbH
	as at 31 December 2005	as at 31 December 2004	as at 31 December 2003	as at 31 December 2005	as at 31 December 2004	as at 31 December 2003	as at 31 December 2005	as at 31 December 2004	as at 31 December 2003
Registered office	Frýdek Místek	Frýdek Místek	Frýdek Místek	Krakow, Poland	Krakow, Poland	Krakow, Poland	Frankfurt, Germany	Frankfurt, Germany	Frankfurt, Germany
Percentage of ownership	97,96	97,96	97,96	100	100	100	100	100	100
Total assets	11 475	11 302	12 667	69 141	22 452	19 874	16 773	17 806	17 883
Equity	11 296	11 214	12 557	8 383	5 960	60	15 291	15 217	14 995
Basic capital and capital funds	12 225	48 900	48 900	376	373	345	32 172	33 792	35 942
Funds created from profit	1 008	-	-	5 628	-	-	-	-	-
Retained earnings (accumulated loss)	-2 019	-36 343	-35 667	-	-309	-	-17 765	-19 679	-22 039
Profit (loss) for the current year	82	-1 343	-676	2 379	5 896	-285	884	1 104	1 092
Acquisition cost of share / interest	47 900	47 900	47 900	370	370	370	84 498	84 498	84 496
Nominal value of share / interest*	11 976	47 900	47 900	50*	50*	50*	1 514*	1 590*	1 690*
Intrinsic value of share / interest	11 066	10 985	12 963	8 383	5 960	59	15 291	15 217	14 995
Provision	-36 915	-36 915	-34 126	-	-	-	-69 508	-69 508	-69 508

(*VÍTKOVICE STEEL Polska Sp. z o.o. in PLN thousands and VÍTKOVICE International GmbH translated at the CZK/ EUR exchange rates valid as at 31 December 2005, 2004 and 2003, respectively)

Pursuant to the decision of the Annual General Meeting of VÍTKOVICE - Servis centrum, a.s. held on 28 June 2004, the company was wound up and liquidation was effective as of 1 July 2004. The Annual General Meeting also decided to reduce the basic capital by CZK 36,675 thousand to CZK 12,225 thousand.

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

The financial information about these companies relating to 2005 was obtained from the companies' standalone unaudited financial statements.

The temporary decrease in the value of long-term financial investments is recorded in provision accounts and reflected in the corrections column of the accompanying balance sheet (see Note 7).

5. INVENTORY

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

TROJEK, s. r. o. issued a stock sheet for a total of CZK 72 million for the benefit of the Company in order to secure 12,000 tones of steel scrap stored with TROJEK, s. r. o.

6. RECEIVABLES

In 2005, 2004 and 2003, provisions against outstanding receivables that are considered doubtful were charged to income based on their expected recoverability (see Note 7).

Receivables overdue for more than 180 days totaled CZK 176,749 thousand, CZK 149,347 thousand and CZK 156,125 thousand as at 31 December 2005, 2004 and 2003, respectively. In 2005, 2004 and 2003, the Company established provisions of CZK 176,582 thousand, CZK 167,561 thousand and CZK 165,566 thousand, respectively, based on the expected recoverability of the receivables.

Based on the agency contract entered into with OSINEK, a.s. (see Note 11), the Company was obliged to purchase from OSINEK, a.s. receivables overdue by more than 90 days at their face value (the contract expired as a result of terminating the financing of processing costs, see Note 22). A reserve established for contingent risks and losses associated with these receivables was partially reversed in 2005, 2004 and 2003. The Company purchased receivables amounting to CZK 12,039 thousand and CZK 54,408 thousand in 2004 and 2003, respectively (see Note 19).

Pursuant to the contract for terminating the financing of processing costs (tolling), the outstanding receivables of OSINEK, a.s. were settled on 30 April 2005 by the Company purchasing them at their face value totaling CZK 104,908 thousand (see Note 22). As at 31 December 2005, receivables of CZK 102,331 thousand had been recovered.

As at 31 December 2005, the Company recorded a receivable of CZK 409,000 thousand from OSINEK, a.s. arising from the termination of the tolling system. The receivable represents a retention fee covering the risk arising from the legal dispute over the price of pig iron between OSINEK, a.s. and VYSOKÉ PECE Ostrava, a.s. (see Note 22).

The following receivables secured by collateral or guarantees were maintained off balance sheet as at 31 December 2005:

- Trade receivables of CZK 64 thousand and EUR 688 thousand were secured by promissory notes; these receivables totaled CZK 20,025 thousand as at 31 December 2005.
- As at 31 December 2005, trade receivables were also secured by four letters of credit totaling CZK 29,134 thousand (EUR 595 thousand and USD 484 thousand).
- As at 31 December 2005, trade receivables of CZK 184,743 thousand (EUR 2,190 thousand and CZK 121,222 thousand) were secured by nine bank guarantees.
- As at 31 December 2005, trade receivables of CZK 20,000 were secured by a returnable security deposit.
- Receivables from suppliers of CZK 194,612 thousand (EUR 2,400 thousand and CZK 125,000 thousand) were secured by third–party guarantees.

The Company had no long-term receivables as at 31 December 2005, 2004 or 2003, respectively.

7. PROVISIONS

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

Changes in the provision accounts (in CZK thousands):

Provisions against:	Balance as at 31/ 12/ 2003	Additions	Deductions	Balance as at 31/ 12/ 2004	Additions	Deductions	Balance as at 31/ 12/ 2005
Fixed assets	2 521 654	-	-285 306	2 236 348	-	-285 307	1 951 041
Financial investments	103 634	2 789	-	106 423	-	-	106 423
Inventory	204 497	21 087	-15 230	210 354	-	-15 630	194 724
Receivables - legal	108 348	72 139	-40 314	140 173	9 755	-2 499	147 429
Receivables - other	57 218	19 366	-49 196	27 388	2 352	-587	29 153

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

8. SHORT-TERM FINANCIAL ASSETS

As at 31 December 2005 the Company reported short-term financial assets consisting of depository notes of CZK 773,056 thousand due on 3 January 2006.

9. OTHER ASSETS

In 2005, prepaid expenses include, in particular, time-distinguished finance lease payments of CZK 51,272 thousand (CZK 132,189 thousand and CZK 210,492 thousand in 2004 and 2003, respectively); they are charged to income as the relevant costs are incurred. Other material items include consultancy costs of CZK 15,219 thousand, the effects of which are expected in the next period, and the insurance premium of CZK 42,753 thousand relating to management insurance policies, 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 face values:

Number of shares	Face value per share
20 shares	CZK 100 thousand
32 shares	CZK 50,000 thousand
40 shares	CZK 20,000 thousand
30 shares	CZK 5,000 thousand
50 shares	CZK 1,000 thousand

The movements in the capital accounts during the 2005, 2004 and 2003 fiscal years were as follows (in CZK thousands):

	Balance as at 31/ 12/ 2003	Increase	Balance as at 31/ 12/ 2004	Increase	Balance as at 31/ 12/ 2005
Number of shares	172	-	172	-	172
Basic capital	2 602 000	-	2 602 000	-	2 602 000
Other capital funds	-	346	346	-	346
Legal reserve fund	9 264	7 170	16 434	73 343	89 777

The Annual General Meetings held on 13 May 2005, 29 June 2004 and 16 June 2003, respectively, approved the following profit distributions for 2004, 2003 and 2002 (in CZK thousands):

Profit for 2002	46 320	Profit for 2003	143 399	Profit for 2004	1 466 860
Allocation to legal reserve fund	-9 264	Allocation to legal reserve fund	-7 170	Allocation to legal reserve fund	-73 343
Transfer to accumulated losses	-37 056	Transfer to accumulated losses	-136 229	Transfer to accumulated losses	-83 737
				Transfer of retained earnings	-1 295 180
				Royalties	-14 600
Accumulated losses as at 31/ 12/ 2003	-219 966	Accumulated losses as at 31/ 12/ 2004	-83 737	Accumulated losses as at 31/ 12/ 2005	1 295 180

11. RESERVES

The movements in the reserve accounts were as follows (in CZK thousands):

Reserves	Balance as at 31/ 12/ 2003	Additions	Deductions	Balance as at 31/ 12/ 2004	Additions	Deductions	Balance as at 31/ 12/ 2005
For risks and losses	33 400	-	-2 100	31 300	-	-2 300	29 000
For corporate income tax	-	99 500	-	99 500	485 328	-99 500	485 328

As at 31 December 2004 and 2003, reserves for risks and losses were created pursuant to amendment No. 1/2000 of the commissionaire contract (later on agency contract) entered into with OSINEK, a.s. Pursuant to this contract, the Company was obliged to purchase from OSINEK, a.s. receivables overdue by more than 90 days at their face value. As at the date of terminating the tolling with OSINEK, a.s. (see Note 22), the above reserves were reversed in full.

The Company created a reserve for risks in association with real estate transfer tax and the Company is thus negotiating the correctness of their own method with the tax administrator 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.

The Company created a reserve for corporate income tax in 2005 and 2004, respectively (see Note 14).

12. CURRENT LIABILITIES

As at 31 December 2005, 2004 and 2003, the Company had overdue current payables totaling CZK 2,504 thousand, CZK 1,898 thousand and CZK 3,244 thousand, respectively.

As at 31 December 2005, the Company recorded CZK 18,628 thousand of payables due to the Czech Social Security Administration and health insurance companies for social security and health insurance. The payables were settled when they became due.

Payables to related parties (see Note 19).

13. BANK LOANS AND BORROWINGS

The Company entered into a syndicated loan agreement with ABN AMRO Bank N.V. and Česká spořitelna, a.s. as of 31 January 2005. The credit limit of CZK 2,300 million may either be used in cash or, up to CZK 300 million, in the form of letters of credit or bank guarantees. The unused balance of the loan as at 31 December 2005 was CZK 700 million.

In 2005, the interest expense relating to bank loans and borrowings was CZK 28,382 thousand.

Liabilities arising from the syndicated loan agreement were secured by the following collateral as at 31 December 2005:

- lien on movable items (inventory) of	CZK 1,388,018 thousand
- conditional cession of receivables of	CZK 1,502,724 thousand
- pledge of bank accounts of	CZK 24 thousand

14. INCOME TAX

	2005 Amount in CZK thousands	2004 Amount in CZK thousands	2003 Amount in CZK thousands
Profit before taxes	2 620 729	1 566 360	143 399
Total non-deductible items	57 671	90 842	566 654
Total non-taxable items	-628 800	-637 033	-436 286
Taxable income	2 049 600	1 020 169	273 767
Tax loss carry-forward	-	-655 807	-273 767
Additional items reducing the tax base	-	- 9 029	-
Reduced tax base	2 049 600	355 333	-
Current income tax rate	26 %	28 %	31 %
Current tax expense	532 896	99 493	-
Corrections, additional tax payments, etc.	255	7	-
Total current tax expense	**533 151**	**99 500**	**-**

The 2001 and 2002 tax losses totaling CZK 655,807 thousand was fully claimed in the 2004 financial statements.
Following the recommendation of its tax advisor, the Company decided, in its 2003 corporate income tax return, not to claim the difference between book and tax depreciation. However, it did decide to claim tax losses carried forward. 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 (in CZK thousands):

Deferred tax items	2005	2004	2003
	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	-43 042	34 524	-71 493
Other temporary differences:			
Provision against receivables	6 996	6 573	13 707
Provision against inventory	46 734	50 485	49 079
Provision against fixed assets	468 250	562 265	630 069
Reserves	6 960	8 138	9 352
Social security and health insurance - outstanding	1 951	-	-
Tax loss carry-forward	-	-	183 626
Total	**487 849**	**661 985**	**814 340**

To be cautious, the Company did not account the deferred tax asset in 2004 or 2003.
In 2005 the Company accounted the deferred tax asset of CZK 487,849 thousand, considering the high probability of realization of 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 31 December 2005, 2004 and 2003 consist of the following (in CZK thousands):

Description	Expense in 2005	Expense in 2004	Expense in 2003	Cost
Minolta, s. r. o. (office equipment)	2 627	2 326	2 085	4 305
JC TRANS, s. r. o. (passenger and utility cars)	2 533	3 010	3 146	5 297
RT TORAX (passenger cars)	1 637	787	-	4 373
Total	**6 797**	**6 123**	**5 231**	**13 975**

The installments 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 31 December 2005, 2004 and 2003 consist of the following (in CZK thousands):

Description	Terms/ Conditions	Total lease	Payments made			Remaining payments as at 31/12/2005	
			as at 31/12/2005	as at 31/12/2004	as at 31/12/2003	Due within one year	Due over one year
Cranes	IV.07	87 755	87 755	87 755	87 755	-	-
Push furnace No. 3	IV.06	429 828	429 828	429 828	429 828	-	-
Filtering device	IV.07	80 520	80 520	80 520	80 520	-	-
Flame-cutting machine Omnimat	IV.05	13 437	13 437	12 312	8 938	-	-
Flame-cutting machine Vanad	V.06	6 849	5 898	3 615	1 332	951	-
VW Passat	III.04	1 336	1 336	1 336	1 243	-	-
VW Passat	VIII.06	1 056	821	469	117	235	-
VW Passat	VI.07	828	414	138	-	276	138
Škoda Octavia cars (9)	IX.07	5 517	2 295	459	-	1 836	1 386
Škoda Fabia cars (3)	IX.08	807	66	-	-	270	471
Total		**627 933**	**622 370**	**616 432**	**609 733**	**3 568**	**1 995**

The installments include VAT. The installment totals do not include the lease down payments.

16. COMMITMENTS AND CONTINGENCIES

As at 31 December 2005, the Company had the following contingent current liabilities secured by guarantees (in EUR thousands):

Future debtor	Amount	Due date	Description of collateral or guarantee
Gontermann – Peipers GmbH	344	23 February 2007	Contract for the opening of a documentary letter of credit for the purchase of Four High - Rolling Mill working rolls
Karl Buch Walzengiesserei	329	30 June 2010	
AKERS Sedan	146	30 October 2005-23 July 2007	
Gontermann – Peipers GmbH	645	30 June 2010	Contract for the opening of a documentary letter of credit for the purchase of Four High - Rolling Mill backing rolls
Total	**1 464**		

Letters of credit opened with ABN AMRO Bank N. V. as at 31 December 2005 that were secured by term deposits totaled CZK 42,473 thousand. A portion of CZK 300 million of the syndicated loan entered into as of 31 January 2005 may be used in the form of letters of credit or bank guarantees. As at 31 December 2005, the Company was using one letter of credit of USD 9,630 thousand +/- 5 % from the syndicated loan credit limit. The funds were used to purchase slabs from East Metals S.A. (the balance as at 31 December 2005 was CZK 236,782 thousand). The letter of credit is open until 21 January 2006.

A) SECURITY BILLS ISSUED

Liabilities arising from the general agreement for treasury products entered into with ABN AMRO Bank N.V. are secured by a blank promissory note. Contingent liabilities arising from the contract for loan facilities and other products entered into with Citibank a.s. for the purposes of granting bank guarantees and letters of credit are also secured by a blank promissory note. As at 31 December 2005, the balance of the liabilities arising from the above contracts was zero. The Company granted no bank guarantees in 2005.

B) LITIGATION

The Company is a party in two arbitration hearings in Poland against the bankruptcy trustee of Stocznia Szczecińska Porta Holding S.A., Stocznia Szczecińska Nowa sp. z o.o. and Powszechna Kasa Oszczędności (saving house) of the Polish bank (PKO BP) regarding a disputed receivable equal 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 a disputed receivable equal to PLN 3,346 thousand. In addition, as part of bankruptcy proceedings, the Company has filed for the recovery of its receivables of USD 4,315 thousand from Stocznia Szcecinska Porta Holding S.A. and of EUR 2,214 thousand from GLAZBUD S.A. The law firm AK KUBAS, KOS is conducting the respective trials on behalf of the Company in the Polish courts.

C) DISPUTE CONCERNING LIQUID PIG IRON

The litigation, directly affecting the Company and its operations, is conducted by OSINEK, a.s. ("OSINEK"), the former majority shareholder of the Company. The dispute concerns the price that OSINEK is to pay to VYSOKÉ PECE Ostrava, a.s. ("VPO"), the monopoly supplier of liquid steelmaking pig iron in the Ostrava region. The outcome of the dispute may affect the Company in connection with the termination of the tolling relationship between the Company and OSINEK (see Note 22).

D) 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. The contract with the National Property Fund, stipulating the elimination of the old environmental damage of VÍTKOVICE, a.s. (i.e. both the "upper" and the "lower" area), covered damage of approximately CZK 5.2 billion. In addition, the contract covered environmental damage pertaining to the former Division 200. In connection with the establishment of the Company in 2001 and the related asset contribution (see Notes 22), CZK 324 million (incl. VAT) of the above amount has been reserved to cover the costs incurred in the elimination of environmental damages on the land held by the Company.

E) FUTURE CAPITAL EXPENDITURES

As at the date of the financial statements, the Company had legal contractual obligations of CZK 160,741 thousand. The obligations relate to the reconstruction and modernization of tangible fixed assets.
Several investigations and legal or administrative proceedings are in progress regarding the aforementioned dispute for the deliveries of liquid steelmaking pig iron. OSINEK is fighting VPO's claims.

Lawsuits held with the Ostrava Regional Court:

Participants	Cause of action	Status of proceedings
VPO OSINEK	VPO seeks the payment of approximately CZK 353 million plus interest and charges as a supplementary charge for the supplies of liquid pig iron in 2003 and in January through February 2004. OSINEK has filed a cross action for CZK 682 million plus interest and charges claiming VPO's unjust enrichment in connection with the supplies of liquid pig iron in January 2003 through June 2004.	The Court entered the order to hear the case in early January 2006.
VPO OSINEK	OSINEK seeks the payment of approximately CZK 1.5 billion plus interest and penalties, claiming VPO's unjust enrichment in connection with the supplies of liquid pig iron in the fourth quarter of 2002, second half of 2004 and January 2005.	The Court has not entered the order to hear the case yet.

Administrative proceedings held with the Office for the Protection of Competition ("the OPC") and related lawsuits held with the Brno Regional Court:

Participants	Ref. No.	Subject of proceedings	Status of proceedings
VPO OSINEK	S 25/04	Vindicatory proceedings as to whether VPO misused its dominant position or not in negotiating terms and conditions and by limiting liquid steelmaking pig iron deliveries to OSINEK in January and February 2004.	OSINEK has filed a remonstrance petition against the first instance decision of the OPC, which discontinued the proceedings.
VPO OSINEK	S 138/03	Declaratory proceedings under Section 11(3) of the Economic Competition Protection Act, in the original wording, as to whether certain VPO actions (relating to VPO's pricing policies, prioritizing clients and supply limiting) constitute a misuse of its dominant position.	The OPC has ruled that certain actions constitute a misuse of dominant position by VPO, while other actions do not constitute a misuse of dominant position by VPO. OSINEK has filed a lawsuit against the latter part of this second instance OPC decision with an administrative court; the lawsuit is currently being tried by the Brno Regional Court.
VPO OSINEK	S 98/04	Declaratory proceedings under Section 11(3) of the Economic Competition Protection Act, in the original wording, as to whether certain VPO actions (relating to the proposed conversion to the tolling system) constitute a misuse of its dominant position.	The OPC has ruled that in some circumstances, certain actions constitute a misuse of dominant position by VPO, while other actions do not constitute the misuse of dominant position by VPO. OSINEK has filed a lawsuit against this second instance decision of the OPC with an administrative court; the lawsuit is currently being tried by the Brno Regional Court.
Mittal Steel Ostrava a. s.	S 148/04	Vindicatory proceedings initiated by the OPC as to whether Mittal Steel Ostrava, a.s., (formerly ISPAT Nová Huť, a.s.) misused or its dominant position not by increasing the prices of inputs for the production of liquid pig iron in 2003.	OSINEK has filed a lawsuit with an administrative judiciary body against the final decision of the OPC, which discontinued the proceedings; the lawsuit is currently being tried by the Brno Regional Court.

On 11 May 2004, OSINEK filed a complaint with the European Commission on the merits that LNM Holdings N.V. (currently Mittal Steel Holdings N.V.) and its subsidiaries Mittal Steel Ostrava a.s. and VPO, are misusing their dominant position. In its letter of 23 June 2005, the European Commission officially informed OSINEK of its tentative opinion that there was not sufficient community interest in examining the case. OSINEK forwarded its reasoned objections to the case, but the European Commission has not adopted any final and conclusive decision in this case yet.
Except for the aforementioned legal actions, no other litigation is held against the Company that would amount to more than 1% of the Company's sales.

17. REVENUES

The breakdown of revenues on ordinary activities is as follows (in CZK thousands):

	2005		2004		2003	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Metallurgical production	5 242 664	9 039 879	3 576 347	-	2 308 766	-
Trade	32 445	-	358 991	-	231 482	-
Maintenance services	19 722	-	18 343	-	21 404	-
Other	13 294	773	31 127	64	25 670	106
Total revenues	**5 308 125**	**9 040 652**	**3 984 808**	**64**	**2 587 322**	**106**

The method of financing the Company's operations was changed in 2005 (see Note 22), which had an impact on its revenue components.

18. PERSONNEL AND RELATED EXPENSES

The breakdown of personnel expenses is as follows (in CZK thousands):

	2005		2004		2003	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	1 603	61	1 629	62	1 721	63
Wages and salaries	568 473	85 632	507 550	55 329	456 380	57 449
Social security and health insurance	198 503	29 000	173 735	18 866	159 308	20 106
Social cost	24 132	3 706	21 606	2 347	10 557	4 749
Total personnel expenses	**791 108**	**118 338**	**702 891**	**76 542**	**626 245**	**82 304**

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 3,006 thousand, CZK 1,818 thousand and CZK 1,835 thousand in 2005, 2004 and 2003, 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 five-year capital pension insurance policy was affected for the Company's management in 2003.

The related parties are considered to be the subsidiaries of VÍTKOVICE STEEL, a. s. and the parties related through the parent company MASTERCROFT LIMITED in the EVRAZ Group S.A. group and, until 14 November 2005, OSINEK, a.s., and the National Property Fund of the Czech Republic. The Company has the following relationships with the above entities.

As at 31 December 2005, no business transactions were entered into with EVRAZ Group S.A. companies.

The Company's relationships with related parties* in 2005 were as follows (in CZK thousands):

(As at 31 December 2005 no receivables or liabilities were recorded in connection with companies that were not related parties as at 31 December 2005)

Firm	Number of months	Sales	Receivables as at 31/12/2005
OSINEK, a. s.	10,5	474 202	-
Energetika Vítkovice, a. s.	10,5	3 916	-
VÍTKOVICE STEEL Polska, Sp. z o. o.	12	134 486	53 471

Firm	Number of months	Purchases	Payables as at 31/12/2005
OSINEK, a. s.	10,5	1 478 110	-
Energetika Vítkovice, a. s.	10,5	21 669	-
VÍTKOVICE STEEL Polska, Sp. z o. o.	12	2 331	145
VÍTKOVICE International GmbH	12	15 243	1 334

The Company's relationships with related parties* in 2004 were as follows (in CZK thousands):

Firm	Number of months	Sales	Receivables as at 31/12/2004
OSINEK, a. s.	12	3 867 082	1 381 516
Energetika Vítkovice, a. s.	12	4 821	365
VÍTKOVICE STEEL Polska, Sp. z o. o.	12	85	106

Firm	Number of months	Purchases	Payables as at 31/12/2004
OSINEK, a. s.	12	18 182	133 648
Severomoravská energetika, a. s.	12	6	-
Energetika Vítkovice, a. s.	12	26 083	3 796
VÍTKOVICE STEEL Polska, Sp. z o. o.	12	9 505	594
VÍTKOVICE International GmbH	12	12 076	1 097

* Companies controlled by the National Property Fund through 40% to 100% of shares

The Company's relationships with related parties* in 2003 were as follows (in CZK thousands):

Firm	Number of months	Sales	Receivables as at 31/12/2003
OSINEK, a. s.	12	2 621 265	240 118
VÍTKOVICE STEEL Polska, Sp. z o. o.	12	70	3 240
Energetika Vítkovice, a. s.	12	4 971	516
Vítkovické slévárny, spol. s r. o.	9	18	-
VÍTKOVICE – Zkušebny a laboratoře, spol. s r. o.	9	907	-
VÍTKOVICE-Údržba, spol. s r. o.	9	3 789	-
VÍTKOVICE Ozubárna, a. s.	9	49	-
VÍTKOVICE STROJÍRENSTVÍ, a. s.	9	1 082	-
VÍTKOVICE Doprava, a. s.	9	601	-
VÍTKOVICE, a. s.	9	465	-
VÍTKOVICE - Výzkum a vývoj, spol. s r. o.	3	2	-
VYSOKÉ PECE Ostrava, a. s.	1	1 318	-
NH-Válcovna za studena, spol. s r. o.	1	548	-

Firm	Number of months	Purchases	Payables as at 31/12/2003
OSINEK, a. s.	12	71 439	218 785
VÍTKOVICE International GmbH	12	17 767	3 010
Energetika Vítkovice, a. s.	12	16 285	2 862
ePRIM, a. s.	12	1	-
Severomoravská energetika, a. s.	12	7	-
VÍTKOVICE - Export, a. s.	9	4 700	-
Vítkovické slévárny, spol. s r. o.	9	17 326	-
VÍTKOVICE - Zkušebny a laboratoře, spol. s r. o.	9	47 188	-
VÍTKOVICE-Údržba, spol. s r. o.	9	197 787	-
VÍTKOVICE Ozubárna, a. s.	9	761	-
VÍTKOVICE STROJÍRENSTVÍ, a. s.	9	25 592	-
VÍTKOVICE Doprava, a. s.	9	99 001	-
VÍTKOVICE, a. s.	9	75 591	-
VÍTKOVICE-STAMONT, spol. s r. o.	9	19 149	-
Hotel ATOM Ostrava, spol. s r. o.	4	61	-
VÍTKOVICE-Výzkum a vývoj, spol. s r. o.	3	611	-
ISPAT NOVÁ HUŤ, a. s.	1	54	-

* Companies controlled by the National Property Fund through 40% to 100% of shares

The liabilities to OSINEK, a.s. relate to part of the non-cash contribution. As at 31 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 (see Note 22).

In 2004 the Company purchased receivables totaling CZK 12,039 thousand from OSINEK, a.s. In addition, the Company records receivables purchased from OSINEK, a.s. totaling CZK 54,408 thousand as at 31 December 2003. These are receivables from FEZAM CZ, s. r. o. (CZK 1,658 thousand) and GLAZBUD S.A. (CZK 52,750 thousand).
In 2005 the Company purchased receivables totaling CZK 104,908 thousand from OSINEK, a.s. in connection with the termination of tolling (see Note 22).

20. RESEARCH AND DEVELOPMENT COSTS

Research and development costs amounted to CZK 7,748 thousand, CZK 7,650 thousand and CZK 6,681 thousand in 2005, 2004 and 2003, respectively, and were expensed as incurred.

21. SIGNIFICANT ITEMS OF INCOME STATEMENT

Revenues from sales of fixed assets include proceeds from sales of emission allowances of CZK 77,229 thousand.
Other operating revenues particularly include the subsidy for the use of emission allowances totaling CZK 294,500 thousand and stock-take differences arising from surplus assets totaling CZK 26,422 thousand. Other operating expenses particularly include costs connected with the use of emission allowances totaling CZK 294,500 thousand, insurance costs of CZK 44,829 thousand and contributions to trade union activities of CZK 8,363 thousand.
Other financial revenues particularly include foreign currency exchange gains of CZK 135,088 thousand and revenues from derivative transactions amounting to CZK 35,562 thousand. Other financial expenses include foreign currency exchange losses of CZK 157,705 thousand and costs of derivative transactions amounting to CZK 31,327 thousand.

22. TERMINATION OF FINANCING OF PROCESSING COSTS (TOLLING)

On the basis of a government resolution, the company OSINEK, a.s. owned by the National Property Fund of the Czech Republic (hereinafter "OSINEK") was set to finance metallurgical production at VÍTKOVICE, a.s. until 31 January 2005. For this purpose, OSINEK obtained a loan from the state-owned Konsolidační banka Praha s. p. ú., subsequently the Czech Consolidation Agency.
The funding of metallurgical production at VÍTKOVICE, a.s. commenced on 1 April 2000 in Division 200 – Flat Products, and included the purchase of basic input raw materials and energy at the Company's account.
The producer processed the input raw materials into finished metallurgical products, i.e. heavy plates, sections, sheet piles and cut shapes, for which it obtained a processing fee. The delivered input raw materials were the property of OSINEK in all

pre-production and production stages. The finished products were also the property of OSINEK and were sold by OSINEK, which also funded all external sales costs. This financing method was adopted by VÍTKOVICE STEEL, a. s., established in 2001 through the contribution of part of the enterprise (Division 200 – Flat Products).

Following the decision of the former majority shareholder OSINEK, the tolling financing was terminated as at 31 January 2005. The Company has transferred to direct financing, effective from 1 February 2005.

The Company has secured a bank loan on an arm's length basis with a total credit line of CZK 2.3 billion. The loan was progressively used for the purchase of inventories (including work-in-progress) and operating financing. The loan provided by ABN AMRO Bank N.V. and Česká spořitelna a.s. (see Note 13) serves to finance the Company's working capital after the termination of the tolling system.

In connection with the termination of the tolling system, the Company purchased all inventories from OSINEK as at 1 February 2005. The volume of purchased inventory was determined based on stock-takes as at

31 January 2005; the price was determined by an independent expert. As a result, the Company acquired material totaling CZK 414,284 thousand, work-in-progress and semi-finished products totaling CZK 845,594 thousand and finished products totaling CZK 24,663 thousand. As at the tolling termination date, all contracts concerning work-in-progress were ceded to the Company.

OSINEK's trade receivables that had not been paid by individual customers after the tolling termination date were ceded to VITKOVICE STEEL, a.s. as at 30 April 2005 (see Note 22ii).

The Company's receivable relating to outstanding processing fees represented OSINEK's retention fee until the settlement of the following receivables/payables defined in the contract on the termination of the tolling system. The retention fee consisted of the following three parts:

i. CZK 409 million for the risk connected with the legal dispute concerning the price of pig iron between OSINEK and VYSOKÉ PECE Ostrava, a.s., a supplier, and with the litigation costs including lawyers' fee (see Note 16). The Company recorded this amount as a receivable from OSINEK as at 31 December 2005 (see Note 6).
ii. CZK 100 million retained for the settlement of OSINEK's outstanding receivables. As at 30 April 2005 the Company purchased outstanding receivables from OSINEK totaling CZK 104,908 thousand. CZK 102,331 thousand of these receivables was paid as at 31 December 2005.
iii. CZK 100 million retained to cover the costs associated with the tolling system termination, used to compensate for costs of CZK 93,217 thousand; the difference of CZK 6,783 thousand was paid by OSINEK on 14 October 2005.

As at 1 February 2005, supplier contracts were ceded from OSINEK to VÍTKOVICE STEEL, a. s. Effective from 1 February 2005, all billings (purchases and sales) formerly made in the name of OSINEK are performed in the name of, and at the expense of, the Company.

The Company further adjusted its business relationships with OSINEK concerning the mutual settlement of the results of litigation regarding the price of pig iron and the discharge of obligations resulting from non-ceded customer and supplier contracts.

23. SUBSEQUENT EVENTS

A) DISPUTE CONCERNING LIQUID PIG IRON

On 10 January 2006 the Regional Court in Ostrava rendered a decision in the dispute between VPO and OSINEK, disallowing VPO's claims against OSINEK for the payment of CZK 353 million plus interest and fees as an additional payment for the supply of liquid pig iron in 2003 and in January and February 2004 and OSINEK's claims against VPO for the recovery of unjust enrichment of CZK 682 million plus interest and fees obtained by VPO at the expense of OSINEK in connection with the deliveries of liquid pig iron in the period from January 2003 to June 2004 (see Note 16). Both participating companies filed an appeal against the decision to the High Court in Olomouc.

In the administrative proceedings before the Antimonopoly Office, Ref. No. S 25/04, concerning VPO's abuse of its dominant position in connection with the negotiation of contractual terms and conditions and restriction of liquid pig iron deliveries to OSINEK in January and February 2004, the Chairman of the Antimonopoly Office decided, on 4 January 2006, to cancel the Office's first instance decision and remand the case for reconsideration and a new decision, mostly supporting OSINEK's legal and administrative point of view. Based on the Antimonopoly Office's subsequent decision of 28 February 2006, the administrative proceedings in question were adjourned on the grounds of the above dispute before the Regional Court in Ostrava (the appellate proceedings before the High Court in Olomouc) concerning VPO's claim against OSINEK for the payment of CZK 353 million plus interest and fees as an additional payment for the supply of liquid pig iron in 2003 and in January and February 2004 and OSINEK's claim against VPO for the recovery of unjust enrichment of CZK 682 million plus interest and fees obtained by VPO at the expense of OSINEK in connection with the deliveries of liquid pig iron in the period from January 2003 to June 2004.

B) CHANGE OF MAJORITY OWNER

The company ABA Assets s.r.o. became the Company's majority owner through the purchase of a 98.96% interest in the Company's basic capital from MASTERCROFT LIMITED as at 17 January 2006. The company ABA Assets s.r.o. is a part of EVRAZ Group S.A.

C) CHANGES IN THE STATUTORY BODY MEMBERSHIP

The following changes were made to the composition of the Board of Directors after 31 December 2005: Vratislav Vícha, vice-chairman of the Board, was replaced by Alexander Nikolajevich Sorokin as at 20 January 2006.

As at 20 January 2006 the following changes were made to the composition of the Supervisory Board and the number of members was reduced as follows: chairman Jiří Staněk was replaced by Alexander Vladimirovich Frolov; members Pavel Makový, Jan Škůrek, Jaroslav Kubovic, Jan Nedvídek, B.A., Radmila Kleslová and Antonín Hanzlík were replaced by the new members, Valery Ivanovich Khoroshkovsky, Pavel Sergeevich Tatyanin and Antonino Craparotta.

D) REPAYMENT OF SYNDICATED LOAN

As at 23 January 2006 the Company repaid the remaining part of the loan provided by ABN AMRO Bank N.V. and Česká spořitelna, a.s. totaling CZK 700 million. The Company now uses its own sources of financing.

E) FINAL USE OF EMISSION ALLOWANCES IN 2005

On 22 March 2006 the company TŰV NORD Czech s.r.o. issued a report on the review of greenhouse gas emissions for 2005. Based on the report, the verified number of emission allowances used by the Company is 342,580, i.e. 2,118 fewer than the number recorded as at 31 December 2005.

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

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

25. STATEMENT OF CHANGES IN EQUITY (SEE NOTE 10)

Prepared on: 24 March 2006

Vladimír Bail, Ph.D.

Signature of accounting unit's statutory representative

Jiří Chuchro

Person responsible for accounting

Jana Struminská

Person responsible for financial statements

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Supply of plates for the Swedish company Volvo Construction Equipment, the world's leading manufacturer of constructi-on machines. The company is currently an important plate customer of VÍTKOVICE STEEL, a. s.

X. CASH FLOW STATEMENT

VíTKOVICE STEEL, a. s., at 31 December 2005
Czech Statutory Financial Statement Forms (in thousands of Czech crowns)

Marking	Text	Current year	Prior year 2004	Prior year 2003
	Cash flows from operating activities			
Z.	Profit or loss on ordinary activities before taxation (+/-)	2 620 729	1 566 360	143 399
A. 1.	Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	53 232	181 109	161 560
A. 1. 1.	Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	426 704	444 924	481 757
A. 1. 2.	Change in provisions, reserves and foreign exchange differences	- 298 362	- 260 399	- 321 770
A. 1. 5.	(Gain)/Loss on disposal of fixed assets	- 76 672	- 2 712	- 6 059
A. 1. 6.	Interest expense and interest income	1 562	- 704	7 632
A *	Net cash from operating activities before taxation, changes in working capital and extraordinary items	2 673 961	1 747 469	304 959
A. 2.	Change in non-cash components of working capital	-1 229 965	-1 099 422	- 11 497
A. 2. 1.	Change in inventory	-1 550 247	- 12 471	21 916
A. 2. 2.	Change in other receivables and in prepaid expenses and unbilled revenue	- 970 669	-1 061 451	- 25 920
A. 2. 4.	Change in other payables, short-term loans and in accruals and deferred income	1 290 951	- 25 500	- 7 493
A **	Net cash from operating activities before taxation, interest paid and extraordinary items	1 443 996	648 047	293 462
A. 3. 1	Interest paid	- 28 854	- 2 507	- 8 313
A. 4. 1	Interest received		3 211	1 740
A. 5. 1	Tax paid	- 147 316		- 114
A ***	Net cash provided by (used in) operating activities	1 267 826	648 751	286 775
	Cash flows from investing activities			
B. 1. 1	Purchase of fixed assets	- 238 567	- 69 836	- 107 568
B. 2. 1	Proceeds from sale of fixed assets	79 058	3 048	
B. 3. 1	Loans granted			7 046
B. 4. 1	Interest received	27 292		
B ***	Net cash provided by (used in) investing activities	- 132 217	- 66 788	- 100 522
	Cash flows from financing activities			
C. 1.	Change in long-term liabilities and long-term, resp. short-tem, loans	568 617	- 32 846	- 135 499

Marking	Text	Current year	Prior year 2004	Prior year 2003
C. 2. 2.	Dividends, royalties or profit sharing paid	- 14 600		
C ***	Net cash provided by (used in) financing activities	554 017	- 32 846	- 135 499
F.	Net increase (decrease) in cash	1 689 626	549 117	50 754
P.	Cash and cash equivalents at beginning of year	635 672	86 555	35 801
R.	Cash and cash equivalents at end of year	2 325 298	635 672	86 555

Prepared on 24 March 2006

Vladimír Bail, Ph.D.
Signature of accounting entity's statutory body

Jiří Chuchro
Person responsible for accounting

Jana Struminská
Person responsible for financial statements

DESCRIPTION OF BASIC RELATIONS BETWEEN RELATED PERSONS

Until 14 November 2005, VÍTKOVICE STEEL, a. s. was a 98.96%-owned subsidiary of its parent company OSINEK, a.s., a wholly-owned subsidiary of the National Property Fund of the Czech Republic. Since 15 November 2005, VÍTKOVICE STEEL, a. s. has been a 98.96%-owned subsidiary of its new parent MASTERCROFT LIMITED.

VÍTKOVICE STEEL, a. s. controls three corporate entities in which it has a 40% or greater ownership interest:

- VÍTKOVICE – Servis Centrum, a.s., "in liquidation", Business registration number: 25824341, registered office: Frýdek-Místek, ul. Příborská 333, postal code 738 01, entered under file number B 2038 in the commercial register maintained by the Regional Court in Ostrava, VÍTKOVICE STEEL, a. s. share: 97.96%. The statutory bodies of controlled person VÍTKOVICE – Servis Centrum, a.s. comprise a Board of Directors and Supervisory Board. Both three-member bodies are appointed by the General Meeting of Shareholders; the majority shareholder is VÍTKOVICE STEEL, a. s., with the above stated percentage of shares. This shareholding establishes an equivalent share in voting rights, i.e. the controlling person VÍTKOVICE STEEL, a. s. is able to vote through the appointment and recall of persons who are members of the Board of Directors and Supervisory Board of VÍTKOVICE – Servis Centrum, a.s.

- VÍTKOVICE STEEL Polska, Sp. z o.o., Business registration number: KSR 0000139053, ul. Garncarska 3, Krakow, entered in the district register maintained by the District Court in Krakow under reference number KR.XI NS-REJ, KSR/10562/02/246, VÍTKOVICE STEEL, a. s. share: 100%. The controlled person VÍTKOVICE STEEL Polska, Sp. z o.o. currently has a three-member Board of Directors. The controlling person VÍTKOVICE STEEL, a. s. is able to vote through the appointment and recall of Board of Directors members given its 100% shareholding.

- VÍTKOVICE International GmbH, Graf Adolf Strasse 18, Düsseldorf, VÍTKOVICE STEEL, a. s. share: 100%. The controlled person VÍTKOVICE International GmbH currently has a two-member Board of Directors. The controlling person VÍTKOVICE STEEL, a. s. is able to vote through the appointment and recall of Board of Directors members given its 100% shareholding.

Pursuant to National Property Fund of the Czech Republic Notification No. 563/311/2005 dated 30 December 2005, until 14 November 2005 VÍTKOVICE STEEL, a. s. was – in accordance with the provision of Section 66a) of Act No. 513/1991 Coll., as amended – related to 25 companies in which the NPF CR has a 40% or greater ownership interest. At this first level we engaged in commercial transactions with one company in 2005. At the second and third levels, i.e. in respect of subjects controlled by the companies listed in the above cited NPF CR Notification, our Company engaged in direct and indirect commercial transactions with four corporate entities.

VÍTKOVICE STEEL, a. s. had commercial relationships with the following related companies on the basis of commercial agreements executed in 2005:

RELATED PERSON – FIRST LEVEL

OSINEK, a.s., Business registration number 00012173

RELATED PERSONS – SECOND AND THIRD LEVEL

Severomoravská energetika, a.s., Business registration number 47675691
Energetika VÍTKOVICE, a.s., Business registration number 25854712
(VÍTKOVICE STEEL, a. s., Business registration number 25874942)
VÍTKOVICE STEEL Polska, Sp. z z.o., Business registration number KSR 0000139053
VÍTKOVICE International GmbH, HRB 42951

LEGAL RELATIONS BETWEEN THE CONTROLLING AND CONTROLLED PERSON

Controlling person (until 14 November 2005):

OSINEK, a. s.
Business registration number: 00012173
Ruská 56, č.p. 397
OSTRAVA-Vítkovice, PSČ 706 02

Controlling person (since 15 November 2005):

MASTERCROFT LIMITED
JULIA HOUSE, 3 Themistokli Dervi
P.C.1066, Nicosia
Cyprus

Controlled person:

VÍTKOVICE STEEL, a. s.
Business registration number 25874942
Štramberská č.p. 2871/47
OSTRAVA-Hulváky, PSČ 709 00

No control contracts were concluded between the controlling and controlled person.

Commercial transactions between OSINEK, a.s. and VÍTKOVICE STEEL, a. s. were conducted on the basis of tolling until 31 January 2005 and from 1 February 2005 until 14 November 2005 in the form of standard commercial transactions, all of which were supported by 1 framework agreement, 1 agency contract, 1 contract for work, 2 mandate contracts, 6 purchase contracts, 7 framework acceptance agreements, 3 contracts on the cession of rights and assumption of obligations, 3 contracts on the assignment of receivables, 1 loan contract and 15 specific financial agreements.

In the period subsequent to 15 November 2005, a purchase contract was concluded with the company East Metals, SA, which is a member of the EVRAZ Group and is related to VÍTKOVICE STEEL, a. s. through MASTERCROFT LIMITED. Although the foregoing contract was effective for all of 2005, it did not begin to be performed until after 31 December 2005.

No performance rendered by controlling persons caused our Company any damage, detriment or unreasonable advantages.

LEGAL RELATIONS BETWEEN RELATED PERSONS

In 2005, VÍTKOVICE STEEL, a. s. conducted commercial transactions with related persons on the basis of 170 contracts executed in 2005. These contracts are filed in the Company's management offices.

VÍTKOVICE STEEL, a. s. performed no other acts and adopted no other measures for the benefit of related persons. Our Company suffered no detriment as a result of concluded contracts. The prices stipulated in these contracts are the arm's-length prices for standard commercial transactions, and in cases where VÍTKOVICE STEEL, a. s. is in the position of manufacturer, the prices it charged are supported by cost calculations which are standard in the steel production industry.

The following overview states the types and number of commercial contracts that VÍTKOVICE STEEL, a. s. concluded with individual related persons in 2005 (or earlier) and that were in force in 2005:

OSINEK, a.s., OSTRAVA-Vítkovice, Ruská 56, č.p. 397, postal code 706 02, Business registration number: 00012173 – 6 purchase contracts, 1 framework agreement, 1 agency contract, 1 contract for work, 2 mandate contracts, 3 receivable assignment contracts, 1 loan contract, 3 framework acceptance agreements, 7 contracts on the cession of rights and assumption of obligations, 15 specific financial agreements

Severomoravská energetika, a.s., Ostrava, 28. října 152, postal code 709 02, Business registration number 47675691 – 1 contract for work

Energetika VÍTKOVICE, a.s., Ostrava-Vítkovice, Výstavní 1144/103, postal code 706 02, Business registration number 25854712 – 19 contracts for work

VÍTKOVICE STEEL Polska, Sp. z o.o., Krakow, ul. Garncarska 3, postal code 311 15, Poland, Business registration number: KSR 0000139053 – 106 purchase contracts, 2 mandate contracts

VÍTKOVICE International GmbH, Düsseldorf, Graf Adolf Strasse 18, D – 40212, Germany, HRB 42951 – 2 mandate contracts

TRANSACTIONS BETWEEN RELATED PERSONS

Until 31 January 2005, VÍTKOVICE STEEL, a. s. sold services to its primary customer OSINEK, a.s. To a lesser extent, it sold its products to the related person VÍTKOVICE STEEL Polska Sp. z o.o., throughout 2005. In 2005 sales to related persons totalled TCZK 612 614.

VÍTKOVICE STEEL, a. s. purchases products and services from related persons in the course of its regular business activity. In 2005 purchases from related persons totalled TCZK 1 517 353.

RELATIONSHIP OF VÍTKOVICE STEEL, a. s. TO RELATED PERSONS IN TCZK

Company	Business registration number	Sale	Receivables	Provided advances	Purchase	Payables	Received advances
OSINEK, a. s.*	00012173	474 202	X	-	1 478 110	X	-
Energetika VÍTKOVICE, a. s.*	25854712	3 916	X	-	21 669	X	-
VÍTKOVICE STEEL Polska, Sp. z o. o.		134 486	53 471	-	2 331	145	-
VÍTKOVICE International GmbH		-	-	-	15 243	1 334	-

* OSINEK, a.s. and Energetika VÍTKOVICE, a.s. were related persons until 14 November 2005; Sale and Purchase values are stated until that date, Receivables and Payables values are not stated.

The VÍTKOVICE STEEL, a. s. Board of Directors declares that the Company suffered no detriment as a result of transactions entered into with related persons.

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

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

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Repair of the pillars of the Charles Bridge in Prague. One example of a practical application of sheet piles from VÍTKOVICE STEEL, a. s., which prevented water from the Vltava River from leaking into the area designated for the pillars repair work. The building work was performed by the company Zakládání staveb Praha, CZ.

ERNST & YOUNG

AUDITORS' REPORT

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

I. We have audited the financial statements of VÍTKOVICE STEEL, a.s. for the year ended 31 December 2005. These financial statements are the responsibility of the management of VÍTKOVICE STEEL, a.s. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors, International Standards on Auditing and implementation guidance of the Chamber of Auditors of the Czech Republic. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes an assessment of the accounting principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 2005 and the financial results for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Without qualifying our opinion we would like to point to the following significant matter:

As more fully discussed in Notes 16 and 22, all risks resulting from the dispute over the price of pig iron have been transferred from OSINEK, a.s. to VÍTKOVICE STEEL, a.s. pursuant to the contract for the termination of financing of processing costs (tooling). OSINEK, a.s. is in dispute with the pig iron supplier, VYSOKÉ PECE Ostrava a.s., over the price of supplies supplied in 2003 and in the period from 1 January 2004 to 20 February 2004. The management of OSINEK, a.s. believes that the increase was unjustified and, consequently, OSINEK, a.s. did not account for and did not pay the total increase of the price of supplied raw material, being CZK 353 million, or the respective late payment charges.

In the opinion of the legal experts, it is impossible to reliably determine the final result of the dispute. The management of VÍTKOVICE STEEL, a.s. believes that the risks resulting from the dispute over the pig iron price is low. Therefore no reserve for contingent liability was established in the financial statements for the year ended 31 December 2005.

We also audited the financial statements of VÍTKOVICE STEEL, a.s. as at 31 December 2004 and 2003 and issued unqualified opinions thereon on 8 April 2005 and 9 April 2004, respectively. In these opinions we emphasised the uncertain outcome of the litigation between OSINEK, a.s. and the pig iron supplier VYSOKÉ PECE Ostrava, a.s. and the ongoing company restructuring. In addition, the auditor's report on the financial statements for the year ended 31 December 2003 emphasised a change in the method of reporting and amortisation of the difference between the net book value of the assets as recorded in the contributor's books and an expert valuation.

ERNST & YOUNG

II. We have also reviewed the consistency of the annual report with the above-mentioned financial statements. The management of VÍTKOVICE STEEL, a.s. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our review, an opinion on the consistency of the annual report with the financial statements.

We conducted our review in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We believe that our review provides a reasonable basis for our opinion.

Based on our review, the information presented in the annual report is consistent, in all material respects, with the above-mentioned financial statements.

III. In addition, we have reviewed the accuracy of the information contained in the report on related parties of VÍTKOVICE STEEL, a.s. for the year ended 31 December 2005. The management of VÍTKOVICE STEEL, a.s. is responsible for the preparation of the report on related parties. Our responsibility is to issue a report based on our review.

We conducted our review in accordance with applicable International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the report on related parties is free from material misstatement. The review is limited primarily to enquiries of company personnel, to analytical procedures applied to financial data and to examining, on a test basis, the accuracy of information, and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the report on related parties of VÍTKOVICE STEEL, a.s. for the year ended 31 December 2005 is materially misstated.

Ernst & Young
Ernst & Young Audit & Advisory, s.r.o., člen koncernu
License No. 401

Ladislav Langr
Ladislav Langr
Auditor, License No.257

24 March 2006
Prague, Czech Republic

A Member of Ernst & Young Global – Ernst & Young Audit & Advisory, s.r.o., člen koncernu
with its registered office at Karlovo náměstí 10, 120 00 Prague 2, Phone +420 225 335 111 has been incorporated
in the Commercial Register administered by the Municipal Court in Prague, Section C, entry no. 88504, under Identification No. 26704153.

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