

Foreword

Dear Ladies and Gentlemen

I submit to you, through this Annual report, the assessment of 2008.

The year 2008 will be perceived in the history of VOP-026 Šternberk, s.p. as a successful year especially because the company coped with challenging problems; nevertheless it achieved outstanding economic results based upon our annual plan.



The first challenge occurred at the very beginning of the year. The complicated negotiations of the Czech Ministry of Defence related to further continuation of the Pandur II 8x8 project brought uncertainty that resulted particularly in the form of vacant manufacturing and testing capacities namely at those divisions whose major customer is the Czech Ministry of Defence. In the course of the year we saw the deepening impact of the global recession that affected in particular the sphere of civilian production. The demand for products of the Engineering Production Division that operates on highly competitive foreign markets dropped by tens of percent.

The response to both these facts was the introduction of significant personnel and organizational changes that substantially eliminated the effects of the recession on the company. Some partial changes adopted within the senior management of the company gave initial impetus to increased efforts of the other management members. This impetus subsequently carried over and still carries over to the middle management and to the ordinary workers. The responsible officials of the company accelerated their efforts to search for potential defence contracts and we subsequently managed to fill the manufacturing capacities of these divisions until the end of the year.

VOP-026 Šternberk, s.p. is entering the year 2009 as an economically strong and stable business ready to meet the demanding requirements of all its customers, especially of its strategic customer – the Army of the Czech Republic (AČR). We have drawn up a realistic financial plan based upon highly probable revenues and corresponding productive manufacturing capacities and fixed costs.

The power of an economic entity also translates into its „company climate“ – employees' satisfaction or the way the company is regarded by its surroundings. It forms successfully not only due to filled manufacturing capacities but what also matters is a good working environment. As regards technical and safety support, the company climate in VOP-026 Šternberk, s.p. has achieved a very high standard.

In the near future VOP-026 Šternberk, s.p. will be facing the most imposing challenge in its entire history – the merger of the two strategic state-owned companies established by the Czech Ministry of Defence. The merger of our company with Vojenský opravárenský podnik 025 Nový Jičín, s.p. will be a very ambitious job namely in the situation when both the companies are significantly involved in the execution of the PANDUR II 8x8 project.

I am convinced that the merger of the two state-owned companies, focused on supply of products and services to the Ground Forces of the AČR, will enjoy success and the merger will generate an economically strong entity that will find its place in the European defence and security market.

Jiří Hynek
CEO

Company Profile

VOP-026 Šternberk, s.p. is a state enterprise pursuing business with state-owned assets in its own name and responsibility.

The company's principal focus: to meet the broad requirements and interests of the country in terms of deliveries of products and services needed to ensure defence and security of the country, to contribute in fulfilling the Czech Republic's commitments resulting from membership in the EU and NATO, to support the implementation of army reforms and professionalization of the Army of the Czech Republic and finally, to execute additional business activities in the civilian sector.

VOP-026 Šternberk, s.p. is one of the most significant engineering companies in the Czech Republic. More than 60% of our production in 2008 was aimed at meeting the requirements of the Army of the Czech Republic; 25% represents welded assemblies of construction equipment for foreign customers. Four out of our five divisions – Defence Production Division, VTÚPV Vyškov Division, VTÚVM Slavičín Division and VTÚO Brno Division - fully participate in deliveries to the AČR. Production for civilian use is carried out by our Engineering Production Division.

VOP-026 Šternberk, s.p. is systematically creating prerequisites to strengthen its position as an integrator and supplier of modern defence equipment and systems primarily for the AČR and is gradually evolving its activities for foreign customers. Participation in international R&D projects within the European Defence Agency and NATO or sharing in important acquisitions of the AČR in cooperation with international contractors provide new experience and capabilities for VOP-026 Šternberk, s.p. in order to also be successful in foreign markets.

Another important activity at VOP-026 Šternberk, s.p. is the expansion of engineering production for civilian use. The Engineering Production Division is operating in a very competitive international market with welded assemblies and sub-assemblies. We especially favour products with high value added content, e.g. the assembly of pump sets. Almost 100% of our engineering products for civilian use are exported to Germany, the UK and Holland.

In parallel with the main production programme, VOP-026 Šternberk, s.p. also enhances testing. We have four accredited testing laboratories structured in several dozen specialized testing facilities and one EU certified testing facility. All the equipment to be introduced into the Ground Forces of the AČR, and also recently more and more civilian products, are tested here.

An important management and organizational tool of our company is the expansion of information and communication technologies. This forms our ability to efficiently communicate, not only within the company, but also with our industrial and commercial partners.

Employee professional development and training is a key method for strengthening the competitive edge of the company. We employ research workers and technicians in such numbers and professional structures as to be able to execute new projects and contracts.

VOP-026 Šternberk, s.p. constantly strives to protect its industrial property rights in the form of patents, utility and industrial designs and registered trademarks. The trademark of VOP-026 Šternberk, s.p. is a registered part of our industrial property.

VOP-026 Šternberk, s.p. is an open and flexible organization and a reliable partner to all who share the same business values.

Statutory body, Supervisory Board and Management

Statutory body

Jiří H y n e k, Plavecká 947, 252 42 Jesenice
CEO

Martin S m o l k a, U Vrby 2214/12, 785 01 Šternberk
Vice CEO

Supervisory Board

Jiří K r á l	Chairman of the Supervisory Board
Peter S z ö n y i	Vice Chairman of the Supervisory Board
Vladimír H a v r d a	Member of the Supervisory Board
Jan M r á z e k	Member of the Supervisory Board
Karla M u d r á k o v á	Member of the Supervisory Board
Jaroslav Ž a l u d a	Member of the Supervisory Board

Management

Jiří H y n e k	Chief Executive Officer
Martin S m o l k a	Vice CEO & Financial Director
Šárka F a j k o š o v á	Research & Development Director
Jiří H a n z l	Technical Director
Iveta K á ň o v á	Personnel Director
Blanka K o ň a ř í k o v á	Security Director
Miroslav M a ř á k	Commercial Director
Milada S o k o l o v á	Director of Secretariat
Jiří V e p ř e k	Quality Director
Zdeněk J u r č a	Engineering Production Division Director
Zdeněk K a š p a r	VTÚVM Slavičín Division Director
Radoslav K o č á r	VTÚPV Vyškov Division Director
Bohuslav Š a f á ř	VTÚO Brno Division Director
Jiří Š p a č e k	Defence Production Division Director

Identification

VOP-026 Šternberk, s.p.

Olomoucká 1841/175, 785 01 Šternberk, Czech Republic, Identification No. 000 00 493

VOP-026 Šternberk, s.p. is registered in the Companies Register at the Regional Court in Ostrava, section A XIV, enclosure No. 150.

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VOP-026 Šternberk, s.p. has no foreign affiliations.

Principal Business Objectives

- Meeting the broad requirements and interests of the country in terms of deliveries of products and services needed to ensure defence and security of the country, fulfilling those commitments of the Czech Republic that result from membership in NATO or that are related to implementation of army reforms and professionalization of the AČR.
- Preferential strategic deliveries and services for defence and security of the country, general overhauls and other repairs of defence equipment, production and supply of new defence equipment, research, development and upgrading of special defence equipment and material, armament, explosives, ammunition and rockets and their testing; assembling and maintenance services and technical support to the Armed Forces.
- Provision of military, organizational and economic technical services, solutions, activities and processes linked to or associated with equipping the AČR in the relevant areas and technologies for Ground Forces and logistics.

Company's Organizational Structure



CHIEF EXECUTIVE OFFICER

DIVISIONS	SPECIALIZED MANAGEMENT
Defence Production Division	Economics & Finances
Engineering Production Division	Human Resources
VTÚO Brno Division	Technical Support
VTÚVM Slavičín Division	Commerce & Marketing
VTÚPV Vyškov Division	Security
	Research & Development
	Quality Assurance
	IT

Summary

of business activities in 2008 & estimated development in 2009

Company's Organizational Structure

The VOP-026 Šternberk, s.p. organizational structure remained unchanged in 2008. The five individual production divisions - Defence Production Division, Engineering Production Division, VTÚPV Vyškov Division, VTÚVM Slavičín Division and VTÚO Brno Division were professionally and methodically managed by the administrative units of the company. Business autonomy enables the divisions to win large numbers of specific contracts and our corporate cohesion provides them with joint synergy during execution of these contracts.

The end of 2008 saw an important personnel change in the company senior management. Mr Rostislav Levíček was removed from CEO office and on 14 November 2008 Mr Jiří Hynek was appointed a Chief Executive Officer.

The Supervisory Board remained unchanged in 2008.

Defence Production Division

In 2008 the Defence Production Division continued to pursue traditional company activities, i.e., support of the entire life-cycle of the AČR Ground Forces' equipment, namely infantry fighting vehicles, armoured personnel carriers, special tracked and wheeled combat vehicles, air defence equipment or earth moving and engineer machines. The new requirement is a preparation of equipment for international missions.

The division completed a batch of armoured commander's vehicles built upon BMP chassis and final assembly of a 70-ton vehicle-launched bridge prototype. At present the Division participates in other new projects in the field of ballistic-proof containers.

Last year the range of ground forces equipment repair was extended to include the repair of air defence KUB launching system superstructures. We have introduced repairs of RM-70 rocket launchers and the repair of individual variants of Land Rover vehicles.

In 2008 the division's sales amounted to € 9,575,000 which is a 20% increase over the preceding year. At the end of 2008 the division had 166 personnel.

Engineering Production Division

Engineering production for civilian use has its roots in our defence production. The Engineering Production Division was established within VOP-026 Šternberk, s.p. due to an overall reduction in defence equipment repair.

The Defence Production Division specializes in production of painted welded assemblies. More than 90 % of its production was exported to EU countries. Due to growing competition in this market segment the division had to invest funds into new highly efficient technologies.

In 2008 the sales of assembled final products have been increased fivefold.

In 2008 the division's sales amounted to € 11,153,000 which is a 22 % drop in comparison to the preceding year. The principal cause was the falling-off demand in the field of construction equipment manufacture that effected the division in the latter half of the year. At the end of 2008 the division had 186 personnel in total.

VTÚPV Vyškov Division

In 2008 the division continued to successfully accomplish its objectives in the field of provision of special services and products. This was realized especially for the Czech Ministry of Defence (or for the AČR), in terms of maintenance and evolving its specific capabilities and achieving a positive business income namely in the situation of extreme reduction of customer requirements, revision of acquisition programmes and the coming global recession.

The scheduled sales dropped by 50% to circa € 12,955,000 in comparison with the preceding year. The cancellation of the PANDUR II 8x8 contract resulted in the loss of several dozen thousands of standard hours in managerial, designing, manufacturing and testing activities. The number of personnel was reduced by 5%.

For the first time in the VTÚPV Division's history we saw the deliveries to the Czech MoD drop under 50% of the sales. The Czech MoD procured products and services in the volume of 37% of the total sales, the remaining 63 % were taken by other customers. As to the final customer approximately 55% of sales were performed on the domestic market, 45% comprise direct and indirect export.

The most important contracts, in material as well as financial terms, comprise VAP-1M (mobile laboratory), VŠV (command-staff vehicle), AM 70 (vehicle-launched bridge), ATS-810 (medium off-road vehicle), initialization of MOP+HALL (mobile maintenance and repair shop for helicopters) , enhancement of PN SK (field hospital), photovoltaic structures, KTN+AN 17 (radar mast), imitating container munitions, etc.

The division's accredited test sites took a significant share in testing and introduction of new types of ground force equipment such as the vehicles IVECO, DINGO and T-810 or in repeated independent testing of PANDUR II 8x8.

The year 2008 saw the greatest investment of the VTÚPV Vyškov Division – a new EMC Semianechoic chamber valued in excess of € 1 million (technology) and € 372,000 (building works).

VTÚVM Slavičín Division

The VTÚVM Slavičín Division also experienced a reduced demand for its products and services on the part of the AČR.

Nevertheless, the division has retained its capabilities in the field of research and development of state-of-the-art defence and security technologies. Among the major products are the design of a functional demonstrator of the Future soldier modular system including its own software, the prototype of a remotely controlled weapon station armed with a 7.62 mm machine gun and the results of the developmental work on the 60 mm illumination mortar bombs in visible and IR spectrum.

The Military Police received the 5th generation guarding and monitoring systems.

Thermobaric ammunition for the 60 mm mortar ANTOS was supplied to the Special Forces.

The capabilities of the 60 mm mortar were demonstrated to a foreign customer and it is likely that an order will be placed for 2009.

As to the division's economy the key-contracts were those in the field of disposal and re-processing of rockets and missiles.

A separate section of the division comprises independent accredited test laboratories.

In 2008 the division's sales amounted to € 6,249,000. At the end of 2008 the division had 132 personnel.

VTÚO Brno Division

In 2008 this division was focused primarily on projects in the field of defence research and development and testing within NBC defence, materials engineering and electronic warfare. There were projects for the Czech MoD, Czech Ministry of Industry and Trade, EDA and U.S. DoD.

The materials engineering project dealt with vehicle armour protection.

Electronic warfare R&D efforts addressed the issue of signal processing for reconnaissance, detection of roadside bombs (IED) or so-called trap explosives and camouflaging.

NBC defence research focused on detection of NBC substances and radiation, decontamination and individual or collective protection. The exploitation of photo-degradation for sensitive decontamination, remote detection of NBC substances, detection of toxins, etc. enjoyed great success.

The most significant contract executed independently of the Czech MoD was an experimental study of chemical warfare agents' persistence named AGENT FATE. This long-term project has been worked on according to the requirements of the U.S. Air Force.

In 2008 the division's sales amounted to € 6,121,000 which is an 8 % growth in comparison with the preceding year. At the end of 2008 the division had 137 personnel.

Finance

In 2008 VOP-026 Šternberk, s.p. did not achieve such extraordinary economic results as in 2007. Yet 2008 may be regarded as a financially successful year.

The total company revenues amounted almost to € 49 million, the profit is € 1,378,000. The net earnings are transferred into company's funds, which are then used for further business activities. The company also sets aside reserves for on going and planned projects that are entered in the costs of the current year.

Financial summary:

Total revenues:	€ 48,629,000
of which is sales	€ 38,941,000
Research & Development funded by public funds	€ 8,224,000

Total expenses:	€ 47,240,000
of which is operational consumption:	€ 28,000,000

Our company's income results from efficient exploitation of all the company's resources.

At the end of the year the company was in a sound financial position; it has set aside sufficient funds (€ 9,876,000) and reserves (€ 3,755,000) to be able to eliminate prospective impact of the global recession or other adverse effects.

Research & Development

In 2008 the VOP-026 Šternberk s.p. research & development represented a significant part of company activities. The 2008 R&D projects were financed from three areas:

- Projects in the form of commercial transactions - 24 projects at the value of € 3,154,000.
- Projects funded by public funds - 72 projects (VTÚO Brno Division - 38 projects, VTÚPV Vyškov Division - 20 projects and VTÚVM Slavičín Division - 14 projects) at a value of € 7,923,000. The customer for 59 projects was the Czech MoD, 11 projects for the Ministry of Industry and Trade, 1 project for the Czech Science Foundation and 1 project for the National Security Office.
- Projects financed by the company's funds - 39 projects at a value of approximately € 1,765,000 of which 8 projects were partially funded by the public funds and 31 projects were fully financed by the company's internal funds.

In 2008 14 staff again actively represented the Czech Republic in EU/NATO working groups.

The international projects TRAM (research and development of new transparent armour materials) and RAPTORS (radar absorbing paints for lower signature) researched in the EDA European consortiums were successfully completed in 2008. The company joined the research of Explosively Formed Penetrators International Project (development of new technologies for protection of vehicles against EFP) and applied for research of other EDA projects.

The individual divisions continued to operate as national authorities with regard to the relevant STANAG, AP and ČOS standards. VOP-026 Šternberk, s.p. is a national authority in 28 areas.

Significant projects

In 2008 VOP-026 Šternberk, s.p. worked on major projects with a value or with a commercial potential of over € 3,755,000. These were:

- 70-ton Vehicle-Launched Bridge AM 50 – development and manufacture of the 70-ton bridge vehicle. Following completion of the AM 50/70 prototype the combined company and control tests, approval tests and army tests were performed in 2008 and the system will be introduced into the AČR.

- Soldier of 21st century V21 project – the Future Soldier project. The research phase, focused on the proposal and creation of functional C4I core sample and relevant interfaces of the MBK soldier on an individual level as well as dismounted members of a mechanized unit, was completed in 2008. VOP-026 Šternberk, s.p. presented the research of this project at several conferences and also at the international show Future Soldier 2008 that was held in October in Prague.

Trade

In 2008 our major customer was again the Ministry of Defence of the Czech Republic that purchased products and services totalling €16,260,000, which is 35% of our total sales. However in comparison with 2007 the scope of deliveries to the Czech MoD dropped by half.

A part of the defence products was supplied to our domestic customers who either incorporated them into their final products that were then delivered to the AČR, or exported them to foreign markets (indirect export – in excess of € 4,506,000).

The direct export of defence equipment and services at a value of € 600,000 comprised in particular NBC units, testing, training of NBC specialists and documentation.

The civilian production amounted to € 15,359,000 i.e. 33% of sales of which 30 % was domestic deliveries and 70% export to foreign markets. The downturn of export at the end of the year resulted in a 25% reduction of export sales in comparison with 2007. We managed to acquire new customers not only for the welded assemblies but also for manufacture and assembly of final products.

Although the cancellation of the Programme for Rearmament of the Army of the Czech Republic with wheeled armoured personnel carriers by the Czech MoD did not affect the company's sales (the first specialized vehicle variants were to be delivered in 2009), we had to look for other opportunities to make full use of our professional capacities at all the divisions.

In 2008 we supplied our products and services to 452 customers in 17 countries, besides Europe to the USA, China, Jordan or Israel.

Products and Services

The VOP-026 Šternberk, s.p. products and services are internally classified in 21 programme areas. We supply to our customers several hundred kinds of products and services in the entire range of equipment for ground forces, air defence or products for civilian use.

In 2008 the Engineering Production Division introduced new products for the UK customers (chassis and boom arms), two types of pump sets for our Dutch customer and components for construction machines. For domestic customers those were new components for road rollers and parts for agricultural machines or cranes – all this new production amounted to € 462,000.

The VTÚO Brno Division offered to the customers above all new services in the field of measuring and testing (spectral reflectance curves, pyrotechnic generators, detoxification efficiency, paint systems, persistence of chemical warfare agents) as well as equipment repair and maintenance or provision of monitoring system designs.

The Defence Production Division introduced repair services for the AČR's equipment in excess of € 600,000– e.g. Bombardier four wheelers, Tatra vehicles and their special mission packages, GM-578/2P25 superstructures and particularly Land Rover vehicles.

The VTÚPV Vyškov Division supplied to the Czech MoD brand new products totalling € 2,681,000, based upon a medium truck – a field kitchen, mobile workshops for GM vehicles, mobile workshops for repair and maintenance of batteries and mobile workshop for engineer equipment.

The 2008 new products and services of the VTÚVM Slavičín Division were designed for the Czech MoD – specialized training for LOS system (light observation system), LOS spare part kits, 60 mm thermobaric mortar bombs, remotely controlled target systems, monitoring and guarding systems SOM-5 and ASKD-V mobile weapon repair shop, totalling € 2,753,000.

The volume of new products supplied by VOP-026 Šternberk, s.p. in 2008 amounted to € 6,780,000.

Award-winning Products

The International Journalist Jury at the International Defence Show IDEB 2008 held in Bratislava, Slovakia awarded to VOP-026 Šternberk, s.p., CCE Praha, s.r.o and Hacker Model Production a.s. the „Prestigious Prize IDEB 2008“ for Project of the workplaces for troops protection.

At the „Future Soldier 2008“ show in Prague the International Journalist Jury awarded VOP-026 Šternberk, s.p. and the Brno University of Defence the “Prestigious Prize” for the Modular Combat System.

Assets

In 2008 we purchased new assets at a value of € 4,716,000 and external services required for maintenance of company assets at € 736,000.

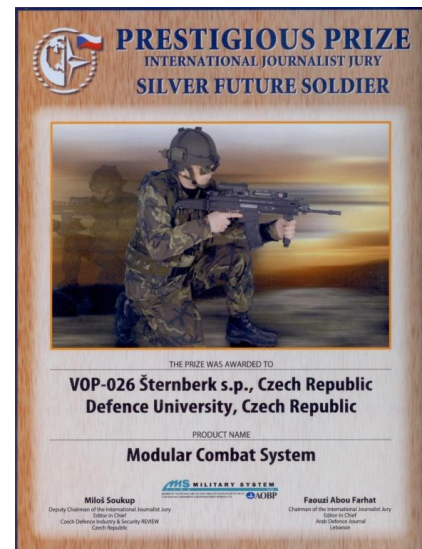
The most crucial company investment was a development of a new Semianechoic chamber at the VTÚPV Vyškov Division that amounted to € 1,400,000. Finnish ETS Lindgren’s state-of-the-art technology installed into the chamber sized 18.8 m x 11.6 m x 8.5 m allows to perform certified measurements of electromagnetic compatibility (electromagnetic emissions) in the range defined in accordance with all civilian as well as military standards.

The other investments were directed particularly to the following major segments:

- measuring, testing, checking and diagnostic devices and equipment dedicated chiefly for R&D projects and provision of services to other customers;
- upgrading of machining, welding and material cutting technologies through purchase of new equipment (CNC machining centres, CNC laser cutting machine, robot welder, etc.);
- material handling and transportation (vehicles, fork lift trucks, cranes, road refurbishment);
- refurbishment of power distribution system, workshop lighting control systems focused on power consumption rationalization due to growing prices;
- improvement of labour conditions (air-conditioning of the building in Veslařská st., refurbishing of workshops and offices);
- alteration and enhancement of servers, data security, data network optimization, provision of new software, extension of existing software licenses.

The funds invested in 2008 into procurement of new equipment and maintenance of company assets support and enhance the company’s capability to supply to its customers state-of-the-art products and services.

Information Technologies



In 2008 VOP-026 Šternberk, s.p. completed introduction of the Document Management System (DMS) that enables uniform management of digital documentation (design data, approval procedures, MS Office files, etc.). The heavy-duty hardware (data connection, servers) provides efficient computer access in all company locations. For 2009 we plan to upgrade the DMS with digital clearance of received invoices and management of purchase requisitions and orders.

In 2008 we implemented the Business Intelligence System that enables operations over the database of the economic section of the OR-SYSTEM (finances and human resources). The system provides efficient access to the information within MS Excel.

The economic section of the OR-SYSTEM was upgraded with work-in-progress processing capability. The objective of this project was to quit the local processing, to set the links to the other company units (logistics, production, wages, finances, etc.) and to streamline the entire process of work-in-progress costing.

The information system certification project for confidential information processing was completed in 2008.

The most significant project scheduled for 2009 is introduction of the Management Information System (MIS) that will operate over the database of the OR-SYSTEM. The goal is to ensure an efficient access to the information and default of the automatic executive reporting system. The desired benefits are to be an efficient access to uniform information and reduced labour requirements required for creation of data needed for executive decision-making processes.

Personnel

The year 2008 was, following several years lasting expansion accompanied by growth in personnel, a year of stagnation.

The huge reduction of new orders placed especially on the Engineering Production Division and to a lesser extent on the other divisions initiated a complex of contingency measures. One of them was a reduction of jobs. In December we had to adopt collective redundancies. The redundant employees received redundancy payments in accordance with the Collective bargaining agreement. In the course of the year the company cut more than 80 jobs more than half of them were productive labourers.

Our primary efforts in the coming period will focus on employee development to prevent any degradation in the sphere of education and to ensure that the invested funds produce added value. We are preparing an EU-funded project for further employee education.

We will also continue to enhance our cooperation with vocational schools, secondary schools, universities and institutions that are a potential source of manpower.

Prize-winning Employees – Personalities of the Year 2008

In the course of March and April 2009 we will be assessing our staff in order to nominate Employee-Personalities of the Year 2008. Such chosen employees will be decorated with Silver or Gold VOP-026 Šternberk, s.p. Badges.

In 2008 Mr Rostislav Levíček was decorated with a Gold Badge on the occasion of his vacation from the CEO office.

Security Policy

The security policy of VOP-026 Šternberk, s.p. continued to pursue the objectives defined in the past years. It focused on protection of classified data in compliance with law No. 412/2005 Coll. "On protection of classified data and on security qualification" and on protection of trade secrets – proprietary information.

In 2008 the National Security Office granted VOP-026 Šternberk, s.p. a certificate that proves the verification and authorization of the company's information system qualification for classified data management at determined workstations within the entire company.

The protection of classified data was applied in 2008 primarily to the activities of selected specialists in the NATO expert groups.

Quality

The long-term strategic goal of VOP-026 Šternberk, s.p. is to sell high quality products and services, to regulate the production and services to the customers' requirements and first and foremost to endeavour to protect the environment in all the company operations. In order to fulfil this strategy the company management made decision to build and introduce the Integrated Management System.

The Environmental Management System pursuant to ČSN EN ISO 14 001:2005 has been integrated into the existing introduced and certified Quality Management System in accordance with ČSN EN ISO 9001:2001.

Thus created Integrated Management System will be certified in April 2009 by Lloyd's Register Quality Assurance, Prague Business Centre.

The Integrated Management System encompasses the NATO Quality Management System requirements in compliance with ČOS 051622 (AQAP 2110).

The Integrated Management System is also applied to testing activities. Our testing facilities have been accredited by the Czech Accreditation Institute (ČIA) that issued a certificate of accreditation No. 429/2003 and VOP-026 Šternberk, s.p. is a certified authority No. 3064 for product certification. Based upon the positive accreditation results and under the law 22/1997 Coll. the Czech Office for Standards, Metrology and Testing issued to VOP-026 Šternberk, s.p. a certification of authorization as an authorized body No. 253.

2009 Plan

The revenues planned for 2009 are € 35,899,000 of which the total sales are € 25,460,000 and R&D funded by public funds € 9,200,000. The estimated turnover drop results from the impact of the global recession. A significant drop in sales is estimated in the engineering production oriented to highly competitive foreign markets. A drop in sales will be experienced also by the divisions whose products and services are supplied predominantly to the Czech MoD.

We addressed the decline in revenues in the time of preparation of the financial plan by proposing economic measures related to expenses. Other activities concerning cost savings will be prepared in the first half of 2009 with a special focus on increased efficiency of support processes.

We are making a maximum effort to ensure sales, to search for new business opportunities independent of the Czech Ministry of Defence, at home and abroad. In 2009 we are also planning investments into our own research & development that is a major source of our future revenues.

The planned profit is foreseen to drop to € 323,000. In 2009 VOP-026 Šternberk, s.p. will again be capable of generating a profit.

Supervisory Board Report

The results of 2008 have demonstrated that VOP-026 Šternberk, s.p. continues to be one of the most important industries in the Czech Republic. The company's management managed to cope with the external negative aspects that were affecting all spheres of business activities in the preceding year.

The opportunities of the company-founder to influence the execution of the state-owned company planned projects were limited by the scope of available funds that were allocated, during the assessed period, for acquisition of required assets or services related to VOP-026 Šternberk, s.p.'s main scope of business. The impact of the global recession affected this area and the individual requirements have been substantially reduced.

Although VOP-026 Šternberk, s.p. did not reach the 2007 profit level (historically the company's most successful year as far as economic results are concerned) the Supervisory Board finds that the year 2008 was economically a successful year. The planned objectives have been accomplished or in some respects actually exceeded. The company even managed to overcome the negative effect of the suspension of the PANDUR II 8x8 programme.

The Supervisory Board positively perceives the personnel and organizational changes adopted in the course of 2008. These focus particularly on the enhanced management activities of searching for other potential business activities, using spare capacities (especially as regards engineering production) and also for the benefit of Czech MoD. It has been demonstrated how essential the system-prepared organizational and management structure of a company is for flexible solving of unpredictable factors.

This structure based upon application of a rational information system along with an effective decentralization of partial management aspects enabled in the past year to mobilize synergic effects of the diversified R&D and manufacturing programme.

The most significant and absolutely essential organizational change is currently under preparation – a merger of two sizable and fully operational state-owned companies with a mutually linked and coherent ground force equipment programme into one business unit. This project goes beyond the scope of the two involved businesses.

The execution of this project will impose demanding requirements not only on the founder of the two state-owned companies but also on their senior managements to make sure that the prepared merger does not comprise just a simple addition of labour and manufacturing capacity. This transformation change must generate a new level of quality.

The state-owned company VOP-026 Šternberk, s.p. is entering the year 2009 in a sound financial position and it has all the prerequisites for eliminating the possible negative impact of the economic crisis.

The Supervisory Board has reviewed the audited 2008 financial statements in accordance with the law 77/1997 Coll. on the State enterprise as amended and come to a conclusion that the accounting records and books have been managed in a transparent manner pursuant to the Accountancy Law and the financial statements correctly reflect the financial situation of the company.

The Supervisory Board finds that VOP-026 Šternberk, s.p. is fully capable to perform the projects in the field of development, production and repair in accordance with its foundation charter.

The Supervisory Board hereby thanks all the company personnel for the economic results achieved in 2008.

Jiří Král
Chairman of the Supervisory Board

INDEPENDENT AUDITOR'S REPORT

for the Founders and Statutory Body on an audit of the standard financial statements to 31.12. 2008 of the company VOP-026 Šternberk, State Public Enterprise based in Šternberk, Olomoucká 1841/175, company No. 00000493.

We have audited the accompanying financial statements of the company VOP-026 Šternberk, State Public Enterprise which comprises the balance sheet as of 31.12. 2008, and the income statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. Information about the company VOP-026 Šternberk, State Public Enterprise is presented in Note 1 to these financial statements.

Statutory Body's Responsibility for the Financial Statements

Statutory Body of the company VOP-026 Šternberk, State Public Enterprise is responsible for the preparation and fair presentation of these financial statements in accordance with Czech accounting regulations. This responsibility includes designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

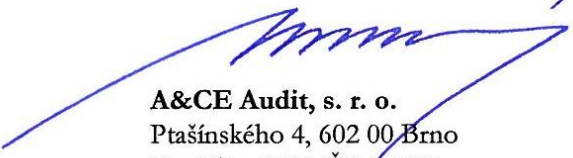
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the company VOP-026 Šternberk, State Public Enterprise as of 31.12. 2008, and of its financial performance for the year then ended in accordance with Czech Accounting regulations.

V Brně dne 16.3.2009




A&CE Audit, s. r. o.
Ptašínského 4, 602 00 Brno
Osvědčení KA ČR č. 007
Ing. Leoš Kozohorský, jednatel společnosti


Ing. Libor Cabicar
Auditor, Osvědčení č. 1277

Attachments: Balance Sheet to 31.12.2008, Profit and Loss Statement to 31.12.2008,
Appendix to Financial Statements

Financial statements to 31 December 2008

INCOME STATEMENT to 31 December 2008

in millions of EUR

Production	38.9
Sales of own manufactured goods and services	38.9
Change in inventory of work-in-progress and finished goods	-1.3
Own work capitalised	1.2
Consumption	27.9
Material and energy consumed in production	21.7
Cost of services	6.2
Value added	11
Personal costs	16.2
Depreciation of fixed assets	3.8
Revenue from sale of fixed assets and material sold	0.5
Change in reserves and adjusting items	-2.2
Other operating earnings	8.5
Other operating costs	0.1
Operating profit (loss)	1.8
Profit (loss) from financial activities	-0.4
Tax on income from ordinary activities	-0.1
Profit (loss) for accounting period (EBT)	1.4

BALANCE SHEET to 31 December 2008

in millions of EUR

TOTAL ACTIVE ACCOUNTS		51.7
Fixed assets		32.8
Intangible fixed assets		0.2
Tangible fixed assets		32.6
Current assets		18.8
Inventories		6.6
Material		3.7
Work-in-progress		1.7
Finished goods		1.2
Short term receivables		6.1
Financial assets		6.2
Accrued income, prepaid expenses		0.1
TOTAL PASSIVE ACCOUNTS		51.7
Equity		41.9
Base capital		6.3
Capital funds		23.5
Funds from profit		10.5
Profit (loss) for the current year(EAT)		1.5
Liabilities		9.1
Reserves (provisions)		3.8
Long term liabilities		0
Short term liabilities		5.4
Bank and other loans		0
Accruals		0.8