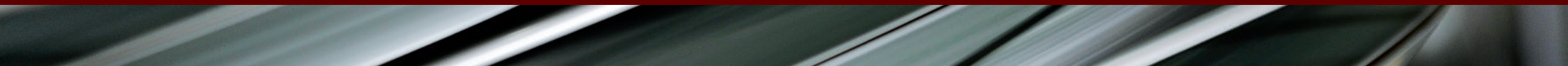


ANNUAL REPORT

2017



**MORAVIA STEEL**

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# GENERAL SECTION

## I

## OPENING STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD



### TO SHAREHOLDERS, BUSINESS PARTNERS AND EMPLOYEES

From a general economic perspective, 2017 may be assessed to be a favourable year both for the Company and the Czech steel industry. However, going forward, varied risks will persist in the industry, which will need to be tackled or eliminated in a coordinated manner in the form of various measures. This applies not only to the Czech Republic but also to the whole European Union (EU).

#### GENERAL ECONOMIC SITUATION

In general terms, Czech export had a record-breaking year in 2017, having grown by more than 5% year-on-year and reaching a volume of CZK 4.2 billion. The EU has been a key market in the long-term, with export to the EU seeing a year-on-year increase of approximately CZK 200 billion and thereby totalling CZK 3.5 trillion. Among individual countries, Germany continues to be the Czech Republic's largest business partner. Export to the Western neighbour grew by 7% to CZK 1.4 trillion.

According to the Ministry of Industry and Trade's estimates, the favourable export situation

should persist in 2018. However, given the shortage of adequate labour and salary growth, production capacities may prove limiting for Czech firms. The continued strengthening of the Czech crown is also considered to be a potential issue.

Czech export went hand in hand with growth in domestic industrial production and gross domestic product (GDP). The year-on-year increase in GDP amounted to 4.6% and had been the second highest since the 2009 global crisis. The pace of growth thus only lagged behind 2015; however, at that time, it was affected by a large-scale utilisation of EU funds.

According to the Czech Statistical Office, all industries contributed to the domestic economy's growth in relation to domestic and foreign demand. As salaries and pensions grew, households spent more. Investments also recorded an increase. Industry made the greatest contribution to economic growth; however, services also did well.

Following an excellent performance in 2017, Czech banking analysts expect the domestic economy to grow at a slightly slower pace, the reason being that its available industry capacities have been used up for the most part.

## DEVELOPMENT IN THE INDUSTRY

In 2017, the global production of raw steel grew by 5.3%, exceeding the level of 1,691 million tonnes. The average utilisation of global production capacities amounted to 72.3% in 2017. In the prior year, the figure was 69.3%. Having produced almost 832 million tonnes of steel, China remains to be the largest global producer. Year-on-year, it recorded an increase of 5.7%. EU countries produced 168.7 million tonnes of raw steel, which represented an increase of 4.1%.

Global steel consumption should continue to grow at a moderate pace. However, in recent years, the European steel industry in particular has had to face the pressure of growing unfair imports and protective measures of certain countries.

In the long-term, the Czech steel industry also faces risks arising from emission allowances. In order to preserve tens of thousands of jobs, it would be advisable to adopt effective measures to protect the Czech and European industries against imports from what are referred to as “third countries”, which do not have appropriate environmental and labour legislation in place. Furthermore, it is necessary to allocate allowances according to the realistic technological capacities of steel mills and to implement national compensation of indirect

In 2017,  
MORAVIA STEEL a.s.  
reported a profit of CZK

**2.737**  
billion

costs in the Czech Republic, following the example of individual EU countries.

Year-on-year, production of raw steel declined by more than 14% in the Czech Republic, amounting to 4.55 million tonnes. However, the decline was affected to the greatest degree by the planned reconstructions and modernisations at the two largest domestic steel mills. Despite this, TŘINECKÉ ŽELEZÁRNY, a. s., which is a subsidiary of MORAVIA STEEL a.s., produced 2.528 million tonnes of raw steel in 2017. This represents a year-on-year decline of a mere 3%. The steel mill in Třinec thus retained its position of the Czech Republic's largest steel producer, which it has held for nine years.

In 2017, the import of metallurgical products to the Czech Republic grew virtually across the entire product range, including flat and long products, tubes and other products. In terms of volume, this represented an increase of 9.4% to 7.24 million tonnes. In contrast, the volume of total Czech export fell by 8% to 4.63 million tonnes. At least, the positive information is that the financial value of Czech steel export grew by 6% to CZK 96 billion.

Nevertheless, the Steel Union, an association of Czech and Slovak metallurgical firms, is optimis-

tic about 2018, which it explains by the expected economic developments in the Czech Republic's most significant markets, including Germany and Poland.

### DEVELOPMENT OF THE COMPANY

In 2017, MORAVIA STEEL a.s. generated a profit for the year of CZK 2.737 billion. In the prior year, the Company reported a profit of CZK 2.326 billion. In 2017, sales of goods amounted to CZK 57.202 billion, recording a year-on-year increase of almost 15%.

In 2017, MORAVIA STEEL a.s. sold metallurgical products in the total volume of 2,301.5 kt. In the previous year, the amount was 2,361.5 kt. More than 1,553 kt of products were exported. Export, expressed in kilo tonnes, thus exceeded 67%. The Company's dominant markets include EU countries, which accounted for almost 91% of total export, including neighbouring Slovakia. Domestically, the Company sold over 748 kt.

Yours sincerely,

**Tomáš Chrenek**

CHAIRMAN OF THE SUPERVISORY BOARD  
OF MORAVIA STEEL A.S.

# II

## COMPANY PROFILE

### MORAVIA STEEL A.S. HOLDS A STABLE AND STRONG POSITION AMONG THE LEADING SELLERS OF METALLURGICAL PRODUCTS IN THE CZECH REPUBLIC AS WELL AS FOREIGN MARKETS, PRIMARILY IN EU COUNTRIES.

The key economic indicators of MORAVIA STEEL a.s. between 2013 and 2017 prove the Company's ability to cope with less favourable periods in global economic development and in the metallurgical and steel industry.

An integral part of the Company's activities is the provision of domestic and international transportation and the purchase and sale of raw materials and other inputs necessary for metallurgical production.

#### ECONOMIC INDICATORS BETWEEN 2013 – 2017 (IN CZK MILLION)

Indicator	2013	2014	2015	2016	2017
Sales of goods	60 039	59 479	56 903	49 845	57 202
Sales of own products and services	625	685	639	611	584
Operating profit or loss	1 118	1 385	1 588	1 167	1 675
Financial profit or loss	1 207	-23	1 484	1 386	1 344
Profit or loss for the reporting period	1 967	1 105	2 776	2 326	2 737
Total assets	22 226	20 941	19 388	19 966	20 553
Fixed assets	8 295	8 481	8 643	8 619	8 694
Equity	12 648	13 753	14 529	14 854	15 591
Share of liabilities including accrued expenses (%)	43.09%	34.33%	25.06%	25.60%	24.14%
EBITDA	1 139	1 407	1 612	1 196	1 703

# III

## STATUTORY BODIES AND MANAGEMENT OF THE COMPANY

### SUPERVISORY BOARD OF THE COMPANY AS OF 31 DECEMBER 2017

Title	Name
Chairman	Tomáš Chrenek
Vice-Chairman	Evžen Balko
Vice-Chairman	Ján Moder
Member	Mária Blašková



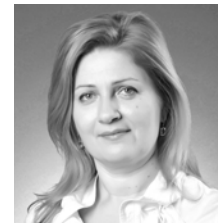
Tomáš Chrenek



Evžen Balko



Ján Moder



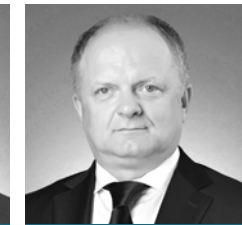
Mária Blašková

### BOARD OF DIRECTORS OF THE COMPANY AS OF 31 DECEMBER 2017

Title	Name
Chairman	Petr Popelář
Vice-Chairman	Krzysztof Ruciński
Member	Mojmír Kašpříšín
Member	Uršula Novotná



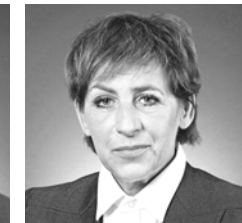
Petr Popelář



Krzysztof Ruciński



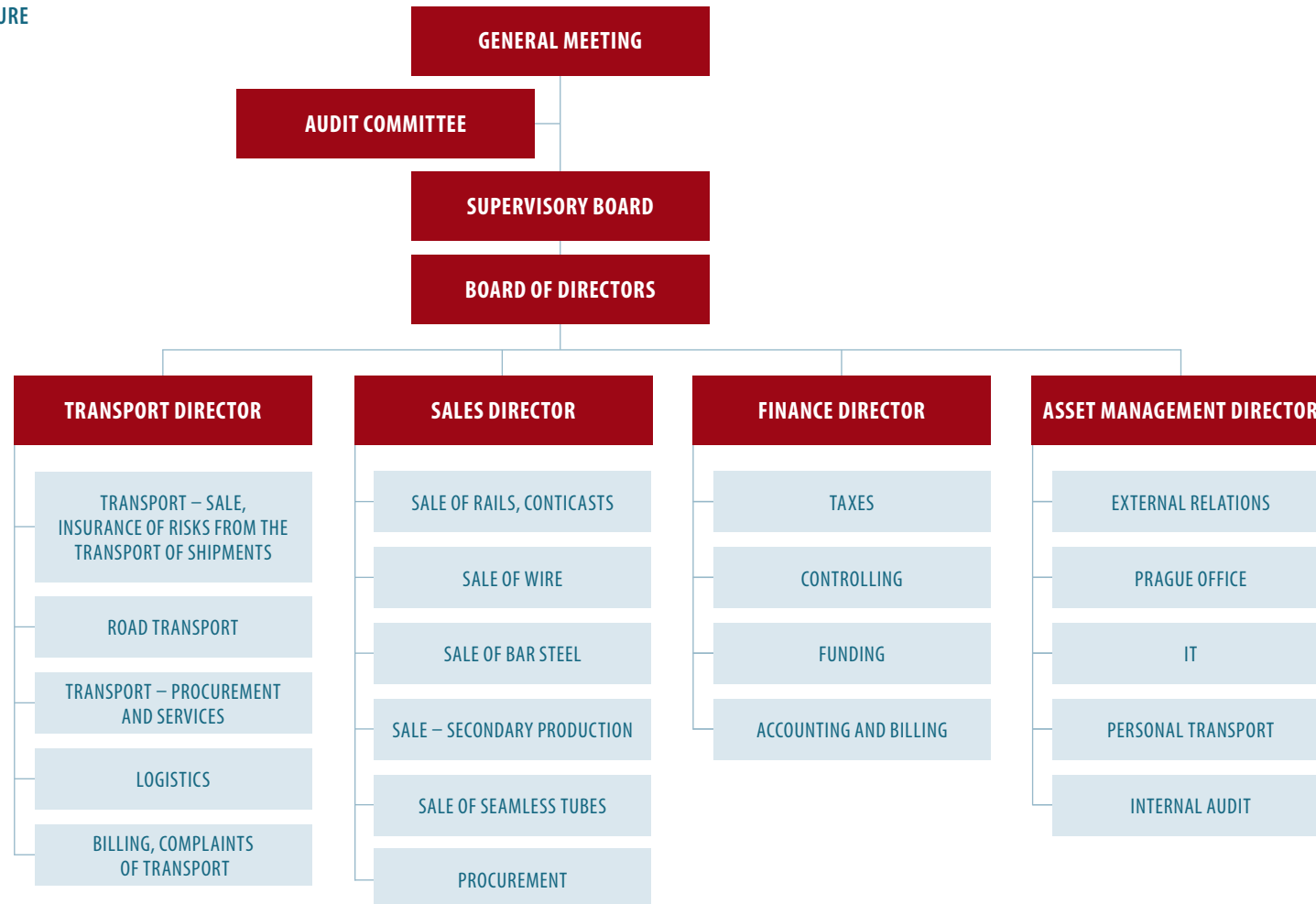
Mojmír Kašpříšín



Uršula Novotná



## ORGANISATIONAL STRUCTURE



# IV

## REPORT OF THE BOARD OF DIRECTORS

### DEVELOPMENT OF THE INDUSTRY

The global production of raw steel grew by 5.3% in 2017 and thus reached a total volume of 1,691.2 million tonnes. In terms of individual countries, the world's greatest producer is China. In 2017, it produced 831.7 million tonnes of steel, which represented a year-on-year increase of 5.7%. China currently accounts for 49.2% of global production.

Asia produced a total of 1,162 million tonnes of steel. In terms of volume, the second largest steel producer on the continent after China is India, where production increased by 6.2% year-on-year to 101.4 million tonnes. South Korea produced 71.1 million tonnes of steel.

In 2017, North America succeeded in increasing steel production by 4.8%, achieving a volume of 116 million tonnes.

In terms of continents, the greatest increase was recorded by South America, where production rose by as much as 8.7% to 43.7 million tonnes. With 34.4 million tonnes of steel produced and year-on-year growth of 9.9%, Brazil played a major role in this.

The Commonwealth of Independent States produced 102.1 million tonnes of steel. Of this, Russia accounted for 71.3 million tonnes, which represented a minor year-on-year increase of 1.3%. In contrast, Ukraine reported a decline in production of 6.4% to 22.7 million tonnes of steel.

The EU can boast a positive development in the volume of raw steel produced in 2017. It recorded a year-on-year increase of 4.1%, with total production amounting to 168.7 million tonnes. The EU's share in global production remained more or less unchanged at around 10%. In terms of individual EU countries, Germany produced 43.6 million tonnes of steel, recording year-on-year growth of 3.5%. Italy saw an increase of 2.9% to 24 million tonnes and Spain of as much as 6.2% to 14.5 million tonnes.

In the Czech Republic, steel production declined by about 14% in 2017 to 4.55 million tonnes. The decline was primarily affected by the planned reconstruction and modernisation of two major domestic steel mills. TŘINECKÉ ŽELEZÁRNY, a. s. (TŽ), which is a subsidiary of MORAVIA STEEL a.s., produced 2.528 million tonnes of steel in 2017. This represents a year-on-year decline in production of a mere 3%.



In 2017,  
MORAVIA STEEL a.s.  
sold over

**2 301**

kt of metallurgical  
production

### DEVELOPMENT OF THE COMPANY

MORAVIA STEEL a.s. has operated in the metallurgical production market since 1996. Since then, it has held a strong and stable position both in the Czech Republic and in foreign markets. In addition, MORAVIA STEEL a.s. provides intrastate and international transportation, and the purchase and sale of raw materials, including other inputs necessary for metallurgical production.

In 2017, the Company reported a profit for the year of CZK 2.737 billion, with sales of goods of CZK 57.202 billion. In 2016, it generated a profit of 2.326 billion, with sales of almost CZK 50 billion.

The Company's assets recorded a year-on-year increase from CZK 19.966 billion to CZK 20.553 billion. The Company's fixed assets slightly increased from CZK 8.619 billion to CZK 8.694 billion.

In 2017, the Company's equity grew to CZK 15.591 billion. In the previous year, it amounted to CZK 14.854 billion.

In 2017, MORAVIA STEEL a.s. sold metallurgical products in the total volume of almost 2 301.5 kt, with more than 1 553 kt of products exported and 748 kt sold domestically.

In the long-term, the Company's key export territory is the EU, having accounted for almost 91% of the Company's total export. Another important territory are the American markets, to which 6.9% of metallurgical products were exported.

Germany remained the Company's key customer among individual EU countries, accounting for 27.4% of export to the EU. Italy received 17.6%, Slovakia 16.8% and Poland 12%. Important customers in terms of the volume of export to the EU also include Hungary (7.8%) and the United Kingdom (4.9%).

The 2017 results of MORAVIA STEEL a.s. reflect the long-term strategy of the MS/TŽ Group. This strategy focuses on products with a higher processing grade and the creation of product chains, with a focus on products intended for the engineering, energy, oil or automotive industries. For this reason, the group prefers the production of rolled wire for the production of screws, springs, bearings and cords, special bar steel, steel treated in the final phase, and wide and flat tool steel.

## DEVELOPMENT IN SALES BETWEEN 2013 – 2017, MORAVIA STEEL A.S.

Supplies in tonnes	2013	2014	2015	2016	2017
Export	1 586 700	1 479 673	1 592 029	1 616 696	1 553 141
Domestic	767 860	753 529	774 651	744 822	748 337
<b>TOTAL</b>	<b>2 354 560</b>	<b>2 233 201</b>	<b>2 366 680</b>	<b>2 361 518</b>	<b>2 301 478</b>

## STRUCTURE OF EXPORTS AS A PERCENTAGE OF TOTAL SUPPLIES OF MORAVIA STEEL A.S.

Structure of exports in %	2013	2014	2015	2016	2017
European Union	77.4	75.8	75.7	75.7	75.6
Other European countries	1.3	1.1	0.6	0.7	0.4
Africa	0.0	0.0	0.0	0.0	0.1
Asia	0.0	0.2	1.6	2.7	1.7
America	9.1	11.0	9.2	7.4	6.9
Australia	0.0	0.0	0.0	0.0	0.0
Slovakia	12.2	11.9	12.9	13.5	15.3
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## DEVELOPMENT IN THE PRODUCT RANGE STRUCTURE OF METALLURGICAL PRODUCT SALES OF MORAVIA STEEL A.S.

Sales in thousands of tonnes	2013	2014	2015	2016	2017
Rolled wire	951 207	819 540	944 588	981 702	997 418
Billets and continuous castings	285 989	297 578	274 855	276 517	259 762
Reinforcing steel	17 256	9 070	3 957	0	0
Rails	247 229	247 094	253 560	216 900	169 503
Products of the Kladno factory	294 975	282 728	298 741	276 273	286 109
UT Bohumín	47 294	44 688	45 863	47 831	37 958
Products of VF – operations	73 467	78 622	81 650	86 985	92 200
Other (bars, sections, etc)	325 993	338 311	354 147	368 716	350 445
Pipes – VT TŽ Ostrava	94 604	96 768	91 663	95 492	94 808
Rail fastenings	16 546	18 802	17 656	11 102	13 275
<b>TOTAL</b>	<b>2 354 560</b>	<b>2 233 201</b>	<b>2 366 680</b>	<b>2 361 518</b>	<b>2 301 478</b>

Accounting for 43% of the total production, **rolled wire** has been the most significant item of TŽ's production programme in the long term.

In 2017, the Company sold over 990 kt of rolled wire, of which approx. 869.7 kt at the Wire Rolling Mill (KDT) and approx. 120.5 kt at the Continuous Fine Rolling Mill (KJT). This represents a year-on-year increase of approximately 15 kt, with 10 at the KDT and 5 kt at the KJT.

In terms of the structure of individual steel groups produced at the KDT, the total volume of medium- and high-carbon steel amounted to 58.5%, which

represents a slight year-on-year increase of 2.5%. With 18%, the second biggest item is low-carbon steel, which recorded a slight decrease of 4% to the benefit of higher steel grades. The share of electrode steel remains stable at around 11%. The increased shares of screw and other types of steel (such as spring, chain, bearing and alloy steel) were also reflected in increased production and sales.

The most significant commodity of KJT are screw-type wires with a share of 37.7% (+3.7% year-on-year), followed by carbon steel with 24% (no year-on-year change), low-carbon with a little less than 18% (a decrease of more than 3% to

the benefit of higher steel grades, namely spring steel), free-cutting with 9.5% and spring-type with 9%. The rest consists of a minor amount of chain and bearing steel.

The second most important portfolio item in terms of volume is **bar steel**. It includes the production of the Medium Rolling Mill and the Continuous Fine Rolling Mill in Třinec and the rolling mill at the TŽ Kladno plant. The sales of bar steel in 2017 amounted to 637.5 kt, which represents a minor year-on-year decrease in volume of approximately 1%. However, thanks to the higher exercise prices of bar steel (+16%), sales grew by 15% to CZK 11.9 billion. In terms of the structure of bar sales by individual rolling mills, the Medium Rolling Mill sold 7.6 kt in 2017 (a year-on-year decrease of 4.8 kt), the Continuous Fine Rolling Mill 343.7 kt (-12.6 kt) and the Kladno plant 286.1 kt (+9.9 kt).

In 2017, demand for bar steel was very strong, which made it possible to gradually reflect the higher prices of raw materials from late 2016 in the exercise prices of bars. The market situation was also positively affected by lower imports from China and Russia to EU countries. As in previous years, major bar steel consumers included customers from among the automotive industry and related engineering sectors, such as blacksmith's workshops, producers of bearings,

springs, screws etc. Other positive factors included the recovering demand of the petrochemical industry, which made it possible to return to what used to be customary volumes of sales in countries such as the US and the UK.

In 2017, the operation of the TŽ Universal Rolling Mill in Bohumín and the actual sales of **wide steel** were significantly affected by the shutdown of the blooming mill and its modernisation. Given the limited availability of continuous castings in the second quarter and the limited volumes of inventories of blooms and slabs in the latter half of the year, the Universal Rolling Mill was operated in a limited regime from March to December 2017. The resulting sales thus amounted to approximately 38 kt of wide steel, which is approximately 10 kt fewer than in 2016. However, given the reduced monthly sales, the Company was not under the usual commercial pressure and was able to contract smaller volumes in the basic construction brands, which positively affected the resulting exercise prices. From 2018 onwards, the Company again expects sales of approximately 47 kt a year.

An interesting added value in the MS/TŽ Group is **drawn steel**, for which reason we endeavoured to continue increasing its sale. In 2017, sales of drawn steel amounted to 92.2 kt, recording a year-on-year increase of 5.2 kt. Growing sales volumes were primarily recorded in respect of

free-cutting and carbon steel for the automotive industry.

Sales of drawn, annealed and phosphatised wire in coils amounted to 7.18 kt. This amount was 0.5 kt higher than the previous year and it was primarily directed at automotive customers and bearing producers.

The volume of **seamless tubes** supplied by the Company to the market amounted to 95 kt in 2017. The decisive factor were the growing oil prices in the first quarter and the recovery of oil demand as well as the gradual increase in interest in mechanical tubes for the engineering industry. Regarding the range of products, the Company gradually rolled out the production and sale of materials with higher added value (Q+T).

In 2017, the sale of **rails** was affected by the reconstruction and modernisation of the blooming mill, which required the suspension of rail production at TŽ for more than 90 days. The roll-out curve subsequent to the reconstruction of the part of the steel rolling mill made it possible to generate total sales of 170 kt. Nevertheless, thanks to inventories created prior to the shutdown, we were able to cover the needs of major customers in the Czech Republic. Compared to 2016, domestic rail consumption started to slightly increase. This was primarily thanks to contracts concluded with SŽDC, which related to

maintenance as well as investment projects. However, tenders with the participation of construction entities continue to be subject to lengthy assessment processes and deferrals. Regarding other markets, the Company places a steady focus primarily on supplies to welding plants in countries such as Canada and the US. However, the Company continues to face competitive rail supplies on the Czech as well as foreign markets, particularly in respect of the R350HT grade and rails with a 120-m production length. Their prices are significantly lower compared to prior periods, with the MS/TŽ Group additionally forced to account for extra costs in the form of welding and transport. Despite these disadvantages, the Company succeeded in tenders for supplies to major European railways, such as the German or Finnish ones. In 2018, the Company plans to utilise TŽ's production capacities to the maximum possible degree in terms of rail supplies, with the pro-export plan focusing on the confirmation of long-term cooperation with customers in Canada, the US, Israel, Poland and other European countries.

In 2017, **rail fastenings** recorded increased sales, primarily in Poland, where a large-volume contract was concluded for the reconstruction and maintenance of PKP PLK's tracks. In addition, the Company implements subsidised projects comprising the reconstruction and renewal of regional or side tracks in the Czech Republic

and other European countries that make use of the conventional types of rail fastenings from among our production portfolio. Compared to the major decrease in 2016, consumption is gradually returning to prior years' volumes, with customers primarily focusing on the exercise price. Major markets for the Company's product range continue to include Poland, the Czech Republic, Hungary, Switzerland and Romania. However, the Company also faces strong competition and non-standard requirements, or cumulation into wholes, in respect of this product series (such as in Germany – DB).

In 2017, direct sales of **continuous castings** and **billets** amounted to 260 kt. They recorded a year-on-year decrease of approximately 15 kt, primarily owing to the reconstruction of the blooming mill and the planned repairs of continuous casting. The objective for 2017 was to ensure supplies to key customers in the railway transport and wind power sectors to the greatest possible degree. Therefore, the production of semi-finished casting products and continuous castings was primarily directed at a domestic producer of rail components and in the same sector also to Spain, Germany and France. Other continuous castings were mostly shipped to producers of rings and components for the wind power segment in the Czech Republic, Germany, Italy and Spain. The share of the domestic market

in total supplies amounted to approximately 122 kt, which is about half of the total supplies of continuous castings and semi-finished casting products.

During 2017, the Company commenced acquisition activities with the aim of acquiring another entity with higher added value, thereby achieving the long-term objective of finalising TŽ's primarily production to the maximum possible degree. In addition, the Company carried out the first stage of the construction preparation for the production of 600-mm continuous castings. This would result in strengthening the Company's position as a supplier for the wind power segment. Additional development of direct trade in continuous castings and semi-finished casting products focuses on improving the quality of steel for the railway transport and wind power segments as well as for the engineering and aircraft industries.

The **purchase of raw materials and other inputs** for TŽ and other subsidiaries is a significant part of the Company's turnover. To secure production at TŽ, strategic raw materials include ores, coal, coke, scrap, ferrous alloys, metals and basic additives.

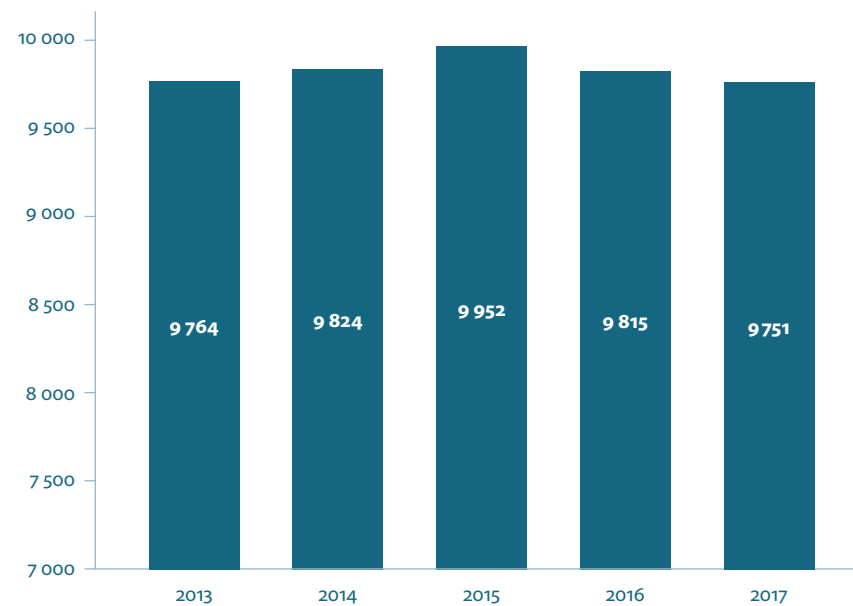
MORAVIA STEEL a.s. procures the essential raw materials with respect to availability, required quality and optimum acquisition costs.

## LOGISTICS, FREIGHT TRANSPORTATION

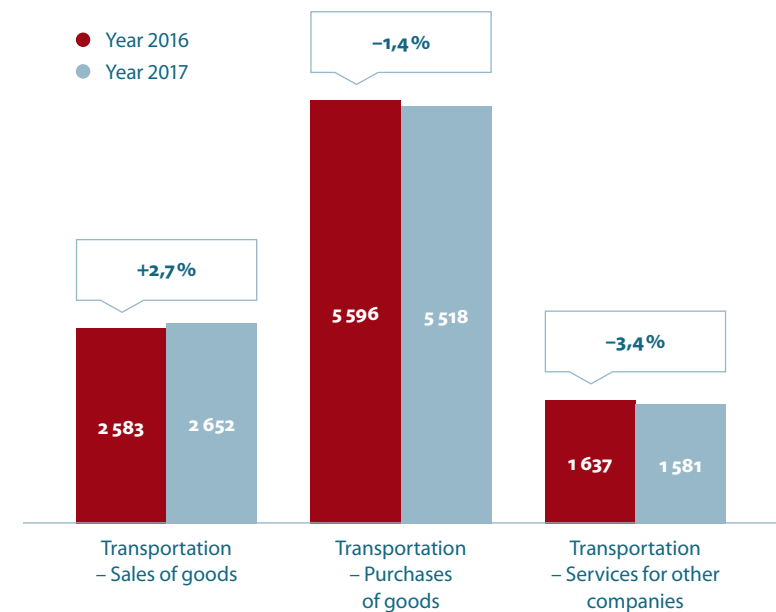
Logistics and the transport of goods represent an important part of the product portfolio of MORAVIA STEEL a.s. The sector has been characterised in the long term by a high share in the performances of the Czech Republic's transport network.

In 2017, the internationally-oriented logistics system was further advanced as an important determinant of growth in efficiency focused on supplying customers as well as suppliers with the requested level of services.

DEVELOPMENT IN THE TRANSPORTED VOLUME OF MORAVIA STEEL A.S. (IN THOUSANDS OF TONNES)



STRUCTURE OF THE TRANSPORTED VOLUME (KT)





The transportation volume of 2017 was primarily affected by investments in the modernisation and renewal of technologies at the production plants of the MS/TŽ group.

**Project activities primarily focused on the following areas:**

**Process and capacity optimisation**

- Extension of information system functionalities, provision of services through web applications;
- Digitalisation of the order system and the document administration system;
- Performance indicators as part of the quality system; and
- Assessment of IT service providers for the transport and logistics sectors.

**Increase in logistics performance**

- Audits of strategic surfaces and warehouse systems;
- Use of innovative cargo units (costs of securing products during transportation);
- Extension of warehouse capacities as part of the Group's production plants with a view to customer's growing demands for ongoing availability of goods; and
- Reverse product logistics.

**Risk management**

- Elimination of risks of long-term supplier chain failures;
- Information on the operating conditions in terms of the inadequacy of the transport infrastructure, preventive measures; and
- Cyber risks, transport fraud.

**The assessment and analyses also comprised growth and development trends in the transport sector:**

- EU policy for transport infrastructure between 2014–2020;
- Czech transport policy for 2014–2020 with an outlook until 2050 and relating documents;
- Implementation of the amendment to the Railway Act and relating amendments to other regulations (concerning the operation of service equipment on certain tracks, new rules for access to tracks and official review of the issue, carrier licencing, railway infrastructure financing);
- Environment – impact of the Paris Agreement (2015) on the provision of power for transport – emission limits, alternative fuels and drives, implementation of the IMO agreement to decrease the allowed level of emissions in maritime transport (MARPOL);

- Strategies of national carriers on international markets, interoperability of national railway systems (ETCS, ERTMS, TSI), investments of railway carriers – rail vehicles;
- Concentration and competition in the transport industry;
- Innovation of logistics technologies, robotisation;
- Personal data protection legislation – GDPR;
- Externalities of the global economic conjuncture – capacity limitations of transport networks, vehicles and warehouse premises, shortage of labour, congestion; and
- National protectionism – new draft EU legislation on road freight transportation (the Road Package).

MORAVIA STEEL a.s. continued to foster cooperation with professional associations and the state administration.

### MANAGEMENT SYSTEM, HUMAN RESOURCES

The Company's approach towards employees is based on openness and mutual respect. It supports the education and professional development of its employees on an ongoing basis, primarily in the form of specialised training, workshops, language courses and IT courses. The Company also provides its employees with above-standard employee benefits.

The basic principles of the Company's conduct, including its relation to employees, corporate culture and corporate social responsibility, are set out in the "Code of Ethics of MORAVIA STEEL a.s.", with which all employees have been made duly familiar.

In relation to the new EU personal data protection regulation, which will become effective on 25 May 2018, the Company commenced implementing the necessary steps to ensure compliance with the General Regulation (Regulation of the EP and the EU Council No. 2016/679), or "GDPR", in processing the personal data of all its employees.

On 1 January 2017, the Company successfully launched a project relating to the change in the trading model on the German market. In doing so, the Company increased the efficiency and effectiveness of the process of selling metallurgical products to its key customer.

The main aim of the "Business Partner Database" project is to develop a unified environment and binding procedures in conducting business transactions with individual companies in order to document individual transactions including the creation of an "audit trail". The project was implemented during January 2017. Full wordings of concluded contracts are recorded in an electronic form, including appendices and amendments.

During 2017, the Company recorded high and stable interest in sending documents in electronic form. The Company's management will certainly continue to prefer this form as the exchange of documents is much more efficient and effective than the sending of documents in traditional paper form.

The objective of the comprehensive development of the above projects is to increase the reliability, accuracy, safety and rapidity of transfers of documents, resulting in better management of the MS/TŽ Group's individual activities.

The Company does not conduct its own research and development; however, it is involved in the fulfilment of selected tasks in the group through its employees.

The Company performs its activities in accordance with the applicable environmental legislation.

MORAVIA STEEL a.s. has no branch or any other part of the business abroad.

No events occurred subsequent to the Annual Report date that would have a significant impact on the Annual Report.



## REPORT OF THE SUPERVISORY BOARD

### **THE SUPERVISORY BOARD OF MORAVIA STEEL A.S. REVIEWED THE GENERAL-PURPOSE FINANCIAL STATEMENTS AND THE GENERAL-PURPOSE CONSOLIDATED FINANCIAL STATEMENTS OF MORAVIA STEEL A.S. FOR THE YEAR ENDED 31 DECEMBER 2017 BASED ON THE PRESENTED DOCUMENTS DISCUSSED BY THE BOARD OF DIRECTORS OF MORAVIA STEEL A.S. AND DISCUSSED THE PROPOSED ALLOCATION OF PROFIT FOR 2017.**

Based on the audit of the consolidated annual report of MORAVIA STEEL a.s. as of 31 December 2017 performed by Deloitte Audit s.r.o. and their Report, which includes unqualified opinions, the Supervisory Board recommends that the above document, including the proposal of the Board of Directors for the allocation of profit for 2017, be approved by the general meeting.

The Supervisory Board also reviewed the Report on Relations for the year ended 31 December 2017 and, with regard to the opinion of Deloitte Audit s.r.o., it has come to the conclusion that the Report on Relations was prepared in accordance with the Act on Business Corporations and the true state of the relations between the controlling and the controlled entities.

#### **Tomáš Chrenek**

CHAIRMAN OF THE SUPERVISORY BOARD  
OF MORAVIA STEEL A.S.

# VI

## REPORT OF THE AUDIT COMMITTEE

### THE AUDIT COMMITTEE OF MORAVIA STEEL A.S. (THE “COMMITTEE”) HAS THREE MEMBERS IN COMPLIANCE WITH THE COMPANY’S ARTICLES OF ASSOCIATION (JUDR. ING. DANA TREZZIOVÁ, ING. JÁN MODER AND ING. TOMÁŠ CHRENEK, PH.D.).

The Committee performed its activities in compliance with the applicable legislation and Articles of Association of MORAVIA STEEL a.s. (“MS”).

During its meetings, the Audit Committee primarily addressed the following issues:

- i. Monitoring of the procedure used in preparing MS’s financial statements and consolidated financial statements: MS’s financial statements for the year ended 31 December 2017 and MS’s consolidated financial statements for the year ended 31 December 2017 were prepared in compliance with Czech as well as international accounting standards, and the financial statements have been audited;
- ii. Monitoring of the process of the statutory audit of the financial statements prepared by the individual companies controlled by MS for the year ended 31 December 2017, of MS’s financial statements for the year ended 31 December 2017 and MS’s consolidated financial statements for the year ended 31 December 2017;
- iii. Assessment of the independence of the statutory auditor and audit firm, and monitoring of the provision of other than audit services by the statutory auditor and audit firm;
- iv. Receipt of information, representations and reports from the statutory auditor in line with the applicable legislation;
- v. Ongoing monitoring of the efficiency of internal control at MS and MS’s subsidiaries forming the consolidation group as defined by MS’s Board of Directors (the “MS Group”), and of the risk management system including the discussion of risk management reports;
- vi. Ongoing monitoring of the efficiency of internal audit, ensuring its functional independence;
- vii. Discussion of internal audit activities and material internal audit results, and monitoring of compliance with the recommendations and remedial measures arising from internal audits;
- viii. Monitoring of adherence to the plan of activities of MS’s internal audit department for the year ended 31 December 2017;
- ix. Familiarising itself with information about the impacts of the external economic environment on MS’s economic activities;

- x. Informing MS's Supervisory Board about the issues within the Committee's remit, and making recommendations on points that were the subject of the Committee's meeting; and
- xi. Preparing the Committee's Report for the general meeting of shareholders.

During 2017, the Committee's meetings were also attended by key members of the statutory auditor's team, MS's Chief Financial Officer, head of MS's internal audit department and MS's employees responsible for or participating in the activities which the Audit Committee focused on in performing its task.

During the whole period of its operation, the Committee was able to consult documents and records relating to MS's activities to the extent necessary for the performance of its activities.

#### **Financial Statements and their Statutory Audit**

Following the decision of the general meeting of 29 June 2015, the statutory audit is performed by Deloitte Audit s.r.o. At its meetings, the Committee focused on monitoring the procedures used in preparing the financial statements and on the accounting treatment of material transactions. The Committee was kept informed about the audit schedule and material audit findings by the auditor on an ongoing basis.

The Committee received a statement of the statutory auditor and audit firm about its independence of the audited entity. The Committee assessed the independence and impartiality of the external auditor, worked together with the auditor and reviewed the nature and scope of the additional other than audit services provided by the auditor. In this regard, the Committee did not note any deficiencies.

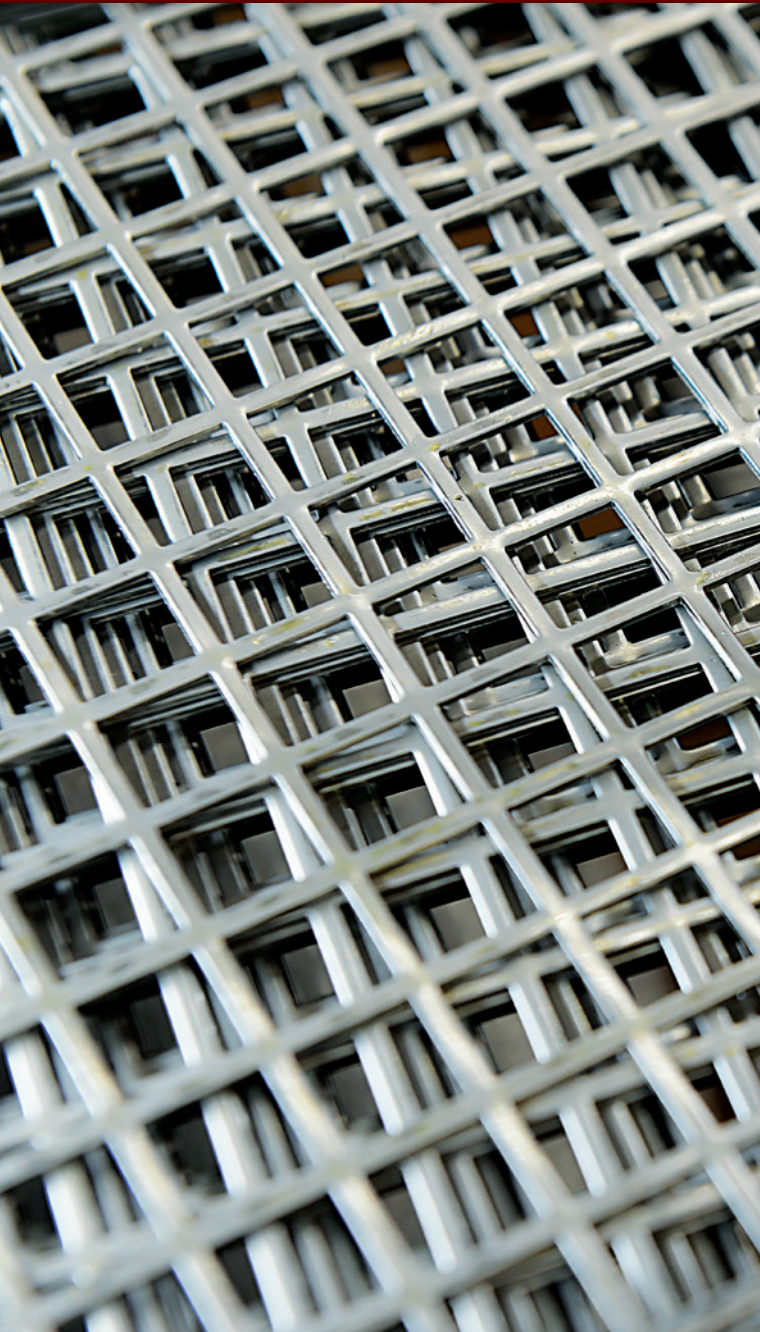
As part of its activities, the Audit Committee also obtained assessment information relating to the external auditor's activities. The Audit Committee participated in the communication between the auditor and MS and assessed the manner in which MS's management followed the recommendations provided by the auditor. The Audit Committee also monitored the integrity of the financial information provided by MS.

The Audit Committee reviewed the procedure used in preparing MS's financial statements and MS's consolidated financial statements. The Audit Committee monitored the process of the statutory audit of MS's financial statements for the year ended 31 December 2017, MS's consolidated financial statements for the year ended 31 December 2017 and financial statements of individual entities in the MS Group. The procedure used in preparing MS's financial statements for the year ended 31 December 2017

and MS's consolidated financial statements for the year ended 31 December 2017 complied with Czech as well as international accounting standards, and the financial statements have been audited. The Committee also acknowledged the auditor's opinion on MS's financial statements and MS's consolidated financial statements prepared as of 31 December 2017, stating that it had audited the financial statements and that, in its view, they gave a true and fair view of the financial situation as of 31 December 2017, and the financial performance and cash flows for the year ended 31 December 2017. The Committee informed MS's Supervisory Board of its meetings, findings and conclusions, including the fact that the statutory audit significantly contributed to ensuring the integrity of the accounting and financial reporting systems.

#### **Internal Audit, Internal Control System and Risk Management**

The Audit Committee monitored the efficiency of internal control and internal audit at MS and individual entities within the MS Group. The Audit Committee was regularly informed of the activities of MS's internal audit department and the implementation of the internal audit plan for 2017. The Committee monitored the efficiency and effectiveness of MS's internal audit and assessed its functional independence. In 2017, three audits were performed. The Committee regularly dis-



cussed the results of audit activities, namely the key findings and recommendations arising from audits. The Committee discussed information on the performance of the remedial measures arising from audits which were approved by the Company's management. The Committee acquainted itself with the plan of activities of MS's internal audit department for 2018. Based on the results of the audits performed at MS, it may conclude that MS's internal control system is effective and efficient, with any deficiencies addressed on an ongoing basis in connection with the deliverables of the activities performed by the internal audit department.

At its meetings, the Committee discussed information and ongoing reports on risk management and risk management systems at MS and individual entities within the MS Group. The Committee received information about the impacts of the external environment on the economic activities of MS and the MS Group. The Audit Committee informed

MS's Supervisory Board of its findings regarding risk management and impacts of the external environment on MS's economic activities.

## CONCLUSION

In performing the main activities entrusted to it by MS's Articles of Association, ie monitoring the procedure used in preparing the financial statements and the consolidated financial statements, monitoring the process of the statutory audit of the financial statements and the consolidated financial statements, monitoring the efficiency of MS's internal control and risk management system, monitoring and assessing the efficiency of the internal control system, internal audit and risk management, and assessing the independence of the statutory auditor, including the provision of other than audit services by MS's statutory auditor, the Audit Committee did not, either during the course of 2017 or as of the preparation date of this report of the Committee, identify any shortcomings or other serious facts about which MS's general meeting should be informed.

**JUDr. Ing. Dana Trezziová**

CHAIRWOMAN OF THE AUDIT COMMITTEE



# FINANCIAL PART





## VII

AUDITOR'S  
REPORT


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ID. No.: 49620592  
Tax ID. No.: CZ49620592

## INDEPENDENT AUDITOR'S REPORT To the Shareholder of MORAVIA STEEL a.s.

Having its registered office at: Průmyslová 1000, Staré Město, 739 61 Třinec

### Opinion on the Financial Statements and Consolidated Financial Statements

- We have audited the accompanying financial statements of MORAVIA STEEL a. s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2017, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.
- We have audited the accompanying consolidated financial statements of the MORAVIA STEEL a. s. consolidation group (hereinafter also the "Group") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the consolidated balance sheet as of 31 December 2017, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

### In our opinion:

- The accompanying financial statements give a true and fair view of the financial position of MORAVIA STEEL a. s. as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.
- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the MORAVIA STEEL a. s. consolidation group as of 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements and Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and the consolidated financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements and the consolidated financial statements does not cover the other information. In connection with our audit of the financial statements and the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements and the consolidated financial statements is, in all material respects, consistent with the financial statements and the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors, Supervisory Board and Audit Committee for the Financial Statements and the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements and the consolidated financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements and the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the consolidated financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements and the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements and the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements and consolidated financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements and the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's and Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements and the consolidated financial statements, including the disclosures, and whether the financial statements and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicate with the Board of Directors and the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

In Prague on 28 May 2018

Audit firm:

Deloitte Audit s.r.o.  
registration no. 079



Statutory auditor:

Václav Loubek  
registration no. 2037



## VIII

FINANCIAL PART I.  
FINANCIAL STATEMENTS

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

<b>Name of the Company:</b>	<b>MORAVIA STEEL a.s.</b>
<b>Registered Office:</b>	Průmyslová 1000, Staré Město, 739 61 Třinec
<b>Legal Status:</b>	akciová společnost
<b>Corporate ID:</b>	634 74 808
<b>Record in the Register of Companies:</b>	Recorded in File 1297, Section B of the Register of Companies held by the Regional Court in Ostrava.

**Components of the Financial Statements:**

- Balance Sheet
- Profit and Loss Account Structured by the Nature of Expense Method
- Statement of Changes in Equity
- Cash Flow Statement
- Notes to the Financial Statements

These financial statements were prepared on 23 March 2018.

<b>Statutory body of the reporting entity</b>	<b>Signature</b>
<b>Petr Popelář</b> Chairman of the Board of Directors	
<b>Mojmír Kašpiřin</b> Member of the Board of Directors	

## BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	31. 12. 2017			31. 12. 2016
	Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>	<b>21 241 571</b>	<b>688 392</b>	<b>20 553 179</b>	<b>19 966 143</b>
<b>B. Fixed assets</b>	<b>9 223 999</b>	<b>530 406</b>	<b>8 693 593</b>	<b>8 619 088</b>
<i>B.I. Intangible fixed assets</i>	<b>175 280</b>	<b>47 371</b>	<b>127 909</b>	<b>145 261</b>
B.I.2. Valuable rights	<b>174 282</b>	<b>46 439</b>	<b>127 843</b>	<b>145 173</b>
B.I.2.1. Software	1 678	1 521	157	260
B.I.2.2. Other valuable rights	172 604	44 918	127 686	144 913
B.I.4. Other intangible fixed assets	998	932	66	88
<i>B.II. Tangible fixed assets</i>	<b>90 855</b>	<b>67 175</b>	<b>23 680</b>	<b>28 172</b>
B.II.2. Tangible movable assets and sets of tangible movable assets	90 855	67 175	23 680	28 172
<i>B.III. Non-current financial assets</i>	<b>8 957 864</b>	<b>415 860</b>	<b>8 542 004</b>	<b>8 445 655</b>
B.III.1. Equity investments – controlled or controlling entity	8 651 270	415 860	8 235 410	8 157 249
B.III.3. Equity investments in associates	178 197		178 197	178 197
B.III.7. Other non-current financial assets	<b>128 397</b>		<b>128 397</b>	<b>110 209</b>
B.III.7.2. Prepayments for non-current financial assets	128 397		128 397	110 209
<b>C. Current assets</b>	<b>12 004 402</b>	<b>157 986</b>	<b>11 846 416</b>	<b>11 273 015</b>
<i>C.I. Inventories</i>	<b>325 092</b>		<b>325 092</b>	<b>113 604</b>
C.I.1. Material	1 474		1 474	1 388
C.I.3. Products and goods	<b>323 618</b>		<b>323 618</b>	<b>112 216</b>
C.I.3.2. Goods	323 618		323 618	112 216
<i>C.II. Receivables</i>	<b>8 337 662</b>	<b>157 986</b>	<b>8 179 676</b>	<b>7 559 553</b>
<i>C.II.1. Long-term receivables</i>	<b>100 100</b>		<b>100 100</b>	<b>169 606</b>
C.II.1.2. Receivables – controlled or controlling entity				59 000
C.II.1.5. Receivables – other	<b>100 100</b>		<b>100 100</b>	<b>110 606</b>
C.II.1.5.2. Long-term prepayments made	3		3	514
C.II.1.5.4. Sundry receivables	100 097		100 097	110 092
<i>C.II.2. Short-term receivables</i>	<b>8 237 562</b>	<b>157 986</b>	<b>8 079 576</b>	<b>7 389 947</b>
C.II.2.1. Trade receivables	7 919 549	156 024	7 763 525	7 174 909
C.II.2.2. Receivables – controlled or controlling entity	71 029		71 029	
C.II.2.4. Receivables – other	<b>246 984</b>	<b>1 962</b>	<b>245 022</b>	<b>215 038</b>
C.II.2.4.3. State – tax receivables	94 028		94 028	48 013
C.II.2.4.4. Short-term prepayments made	13 318		13 318	35 435
C.II.2.4.5. Estimated receivables	65 661		65 661	112 051
C.II.2.4.6. Sundry receivables	73 977	1 962	72 015	19 539

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<i>C.IV.</i>	<b>Cash</b>	<b>3 341 648</b>	<b>3 341 648</b>	<b>3 599 858</b>
C.IV.1.	Cash on hand	350	350	729
C.IV.2.	Cash at bank	3 341 298	3 341 298	3 599 129
<b>D.</b>	<b>Other assets</b>	<b>13 170</b>	<b>13 170</b>	<b>74 040</b>
D.1.	Deferred expenses	2 254	2 254	56 798
D.2.	Complex deferred expenses			72
D.3.	Accrued income	10 916	10 916	17 170

## BALANCE SHEET FULL VERSION – LIABILITIES &amp; EQUITY

(IN CZK THOUSAND)

	31. 12. 2017	31. 12. 2016
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>20 553 179</b>	<b>19 966 143</b>
<b>A. Equity</b>	<b>15 591 240</b>	<b>14 854 245</b>
A.I. <b>Share capital</b>	<b>3 157 000</b>	<b>3 157 000</b>
A.I.1. Share capital	3 157 000	3 157 000
A.III. <b>Funds from profit</b>	<b>631 400</b>	<b>631 400</b>
A.III.1. Other reserve funds	631 400	631 400
A.IV. <b>Retained earnings (+/-)</b>	<b>9 065 845</b>	<b>8 740 145</b>
A.IV.1. Accumulated profits brought forward	9 065 845	8 740 145
A.V. <b>Profit or loss for the current period (+/-)</b>	<b>2 736 995</b>	<b>2 325 700</b>
<b>B.+C. Liabilities</b>	<b>4 927 319</b>	<b>5 061 591</b>
<b>B. Reserves</b>	<b>956</b>	<b>897</b>
B.IV. Other reserves	956	897
<b>C. Payables</b>	<b>4 926 363</b>	<b>5 060 694</b>
C.I. <b>Long-term payables</b>	<b>630</b>	
C.I.8. Deferred tax liability	630	
C.II. <b>Short-term payables</b>	<b>4 925 733</b>	<b>5 060 694</b>
C.II.3. Short-term prepayments received	425 645	242 638
C.II.4. Trade payables	4 256 710	4 298 180
C.II.8. <b>Other payables</b>	<b>243 378</b>	<b>519 876</b>
C.II.8.1. Payables to partners	45 650	45 650
C.II.8.3. Payables to employees	9 716	14 615
C.II.8.4. Social security and health insurance payables	4 561	4 583
C.II.8.5. State – tax payables and subsidies	20 608	120 965
C.II.8.6. Estimated payables	64 949	334 048
C.II.8.7. Sundry payables	97 894	15
<b>D. Other liabilities</b>	<b>34 620</b>	<b>50 307</b>
D.1. Accrued expenses	34 620	50 170
D.2. Deferred income		137

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

(IN CZK THOUSAND)

	Year ended 31. 12. 2017	Year ended 31. 12. 2016
I. Sales of products and services	584 280	611 345
II. Sales of goods	57 202 343	49 844 809
A. Purchased consumables and services	<b>55 738 574</b>	<b>48 940 319</b>
A.1. Costs of goods sold	54 630 870	47 834 002
A.2. Consumed material and energy	7 570	7 777
A.3. Services	1 100 134	1 098 540
D. Staff costs	<b>322 673</b>	<b>336 633</b>
D.1. Payroll costs	252 082	268 800
D.2. Social security and health insurance costs and other charges	<b>70 591</b>	<b>67 833</b>
D.2.1. Social security and health insurance costs	67 898	64 728
D.2.2. Other charges	2 693	3 105
E. Adjustments to values in operating activities	<b>-96 535</b>	<b>589</b>
E.1. <i>Adjustments to values of intangible and tangible fixed assets</i>	<b>28 332</b>	<b>29 048</b>
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	28 332	29 048
E.3. Adjustments to values of receivables	-124 867	-28 459
III. Other operating income	<b>38 938</b>	<b>93 545</b>
III.1. Sales of fixed assets	1 782	1 324
III.2. Sales of material	1 656	1 493
III.3. Sundry operating income	35 500	90 728
F. Other operating expenses	<b>186 026</b>	<b>104 956</b>
F.1. Net book value of sold fixed assets	552	549
F.2. Net book value of sold material	1 677	1 498
F.3. Taxes and charges	598	1 070
F.4. Reserves relating to operating activities and complex deferred expenses	131	-692
F.5. Sundry operating expenses	183 068	102 531
* <b>Operating profit or loss (+/-)</b>	<b>1 674 823</b>	<b>1 167 202</b>
IV. Income from non-current financial assets – equity investments	1 618 797	1 452 837
IV.1. Income from equity investments – controlled or controlling entity	1 618 797	1 452 837

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G.	Costs of equity investments sold	59	
VI.	Interest income and similar income	<b>5 868</b>	<b>8 449</b>
VI.1.	Interest income and similar income – controlled or controlling entity	1 436	3 425
VI.2.	Other interest income and similar income	4 432	5 024
I.	Adjustments to values and reserves relating to financial activities	47 787	7 114
J.	Interest expenses and similar expenses		<b>584</b>
J.2.	Other interest expenses and similar expenses		584
VII.	Other financial income	411 700	312 721
K.	Other financial expenses	644 730	380 460
*	<b>Financial profit or loss (+/-)</b>	<b>1 343 789</b>	<b>1 385 849</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>3 018 612</b>	<b>2 553 051</b>
L.	Income tax	<b>281 617</b>	<b>227 351</b>
L.1.	Due income tax	280 987	227 351
L.2.	Deferred income tax (+/-)	630	
**	<b>Profit or loss net of tax (+/-)</b>	<b>2 736 995</b>	<b>2 325 700</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>2 736 995</b>	<b>2 325 700</b>
*	Net turnover for the current period	<b>59 861 926</b>	<b>52 323 706</b>



## STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
<b>Balance at 31 December 2015</b>	<b>3 157 000</b>		<b>631 400</b>	<b>7 964 470</b>		<b>2 775 675</b>	<b>14 528 545</b>
Distribution of profit or loss				775 675		-775 675	
Profit shares paid						-2 000 000	-2 000 000
Profit or loss for the current period						2 325 700	2 325 700
<b>Balance at 31 December 2016</b>	<b>3 157 000</b>		<b>631 400</b>	<b>8 740 145</b>		<b>2 325 700</b>	<b>14 854 245</b>
Distribution of profit or loss				325 700		-325 700	
Profit shares paid						-2 000 000	-2 000 000
Profit or loss for the current period						2 736 995	2 736 995
<b>Balance at 31 December 2017</b>	<b>3 157 000</b>		<b>631 400</b>	<b>9 065 845</b>		<b>2 736 995</b>	<b>15 591 240</b>

## CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2017	Year ended 31. 12. 2016
<b>P. Opening balance of cash and cash equivalents</b>	<b>3 599 858</b>	<b>3 260 346</b>
<b><i>Cash flows from ordinary activities (operating activities)</i></b>		
Z. Profit or loss before tax	3 018 612	2 553 051
A.1. Adjustments for non-cash transactions	<b>-1 664 786</b>	<b>-1 453 151</b>
A.1.1. Depreciation of fixed assets	28 332	29 048
A.1.2. Change in provisions and reserves	-77 021	-21 595
A.1.3. Profit/(loss) on the sale of fixed assets	-1 230	-775
A.1.4. Revenues from profit shares	-1 618 797	-1 452 837
A.1.5. Interest expense and interest income	-5 868	-7 865
A.1.6. Adjustments for other non-cash transactions	9 798	873
<b>A.* Net operating cash flow before changes in working capital</b>	<b>1 353 826</b>	<b>1 099 900</b>
A.2. Change in working capital	-976 514	333 512
A.2.1. Change in operating receivables and other assets	-504 525	-5 955
A.2.2. Change in operating payables and other liabilities	-260 501	350 983
A.2.3. Change in inventories	-211 488	-11 516
<b>A.** Net cash flow from operations before tax</b>	<b>377 312</b>	<b>1 433 412</b>
A.3. Interest paid		-589
A.4. Interest received	5 868	8 449
A.5. Income tax paid from ordinary operations	-214 136	-264 236
A.6. Received profit shares	1 618 797	1 462 837
<b>A.*** Net operating cash flows</b>	<b>1 787 841</b>	<b>2 639 873</b>
<b><i>Cash flows from investing activities</i></b>		
B.1. Fixed assets expenditures	-35 804	-12 348
B.2. Proceeds from fixed assets sold	1 782	1 324
B.3. Loans and borrowings to related parties	-12 029	-214 323
<b>B.*** Net investment cash flows</b>	<b>-46 051</b>	<b>-225 347</b>
<b><i>Cash flow from financial activities</i></b>		
C.1. Change in payables from financing		-75 014
C.2. Impact of changes in equity	-2 000 000	-2 000 000
C.2.6. Profit shares paid	-2 000 000	-2 000 000
<b>C.*** Net financial cash flows</b>	<b>-2 000 000</b>	<b>-2 075 014</b>
<b>F. Net increase or decrease in cash and cash equivalents</b>	<b>-258 210</b>	<b>339 512</b>
<b>R. Closing balance of cash and cash equivalents</b>	<b>3 341 648</b>	<b>3 599 858</b>

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## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

MORAVIA STEEL a.s. (hereinafter the “Company”) was formed by a Memorandum of Association as a joint stock company on 27 July 1995 and was incorporated following its registration in the Register of Companies held at the Regional Court in Brno – venkov on 23 August 1995. At present, the Company is recorded in the Register Companies held at the Regional Court in Ostrava, Section B, File 1297.

As of 31 December 2017, the Company’s issued share capital is CZK 3,157,000 thousand.

The Company’s financial statements have been prepared as of and for the year ended 31 December 2017.

The following table shows legal entities with an equity interest greater than 20 percent and the amounts of their equity interests:

Shareholder	Ownership percentage
FINITRADING, a.s., nám. Svobody 526, Třinec	100%
<b>Total</b>	<b>100%</b>

The Company is primarily engaged in purchasing goods for resale and sale, which accounts for 98.79% of its revenues. The Company is additionally involved in providing domestic and international shipping services.

The Company’s operations are principally focused on Třinecké železářny, a.s. and its subsidiary companies (for further details refer to Note 4.14).

The consolidated financial statements are available at the registered office of MORAVIA STEEL a.s.

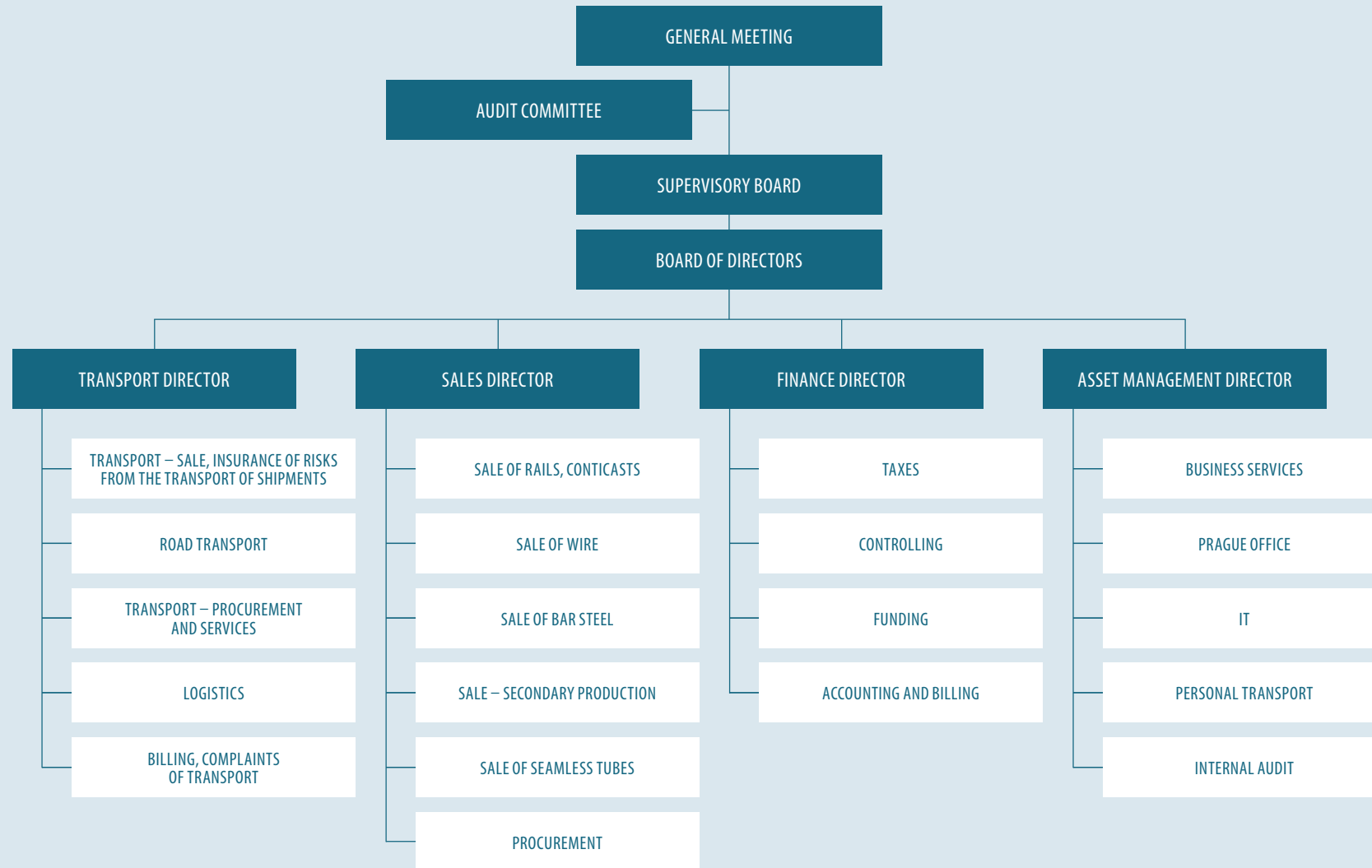
### 1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2017, two changes to the Register of Companies were made. On 28 February 2017, the change of the manner of representation of the Company’s Board of Directors changed and on 6 June 2017, the address of Ján Moder, Vice-Chairman of the Supervisory Board, changed.

### 1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2017

	Position	Name
Board of Directors	Chairman	Petr Popelář
	Vice Chairman	Krzysztof Ruciński
	Member	Mojmír Kašpříš
	Member	Uršula Novotná
Supervisory Board	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Balko
	Member	Mária Blašková

1.4. ORGANISATIONAL STRUCTURE OF THE COMPANY AS OF 31 DECEMBER 2017



## 2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

The Company's accounting books and records are maintained and the financial statements were prepared in accordance with Accounting Act 563/1991 Coll., as amended; Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis, the accruals principle, the prudence concept and the going concern assumption.

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

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. TANGIBLE FIXED ASSETS

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

Purchased tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses. The Company carried no internally developed tangible fixed assets during the year ended 31 December 2017.

The cost of fixed asset improvements exceeding CZK 40 thousand for the period increases the acquisition cost of the related fixed asset.

Depreciation is charged so as to write off the cost of tangible fixed assets, other than land and assets under construction, over their estimated useful lives, using the straight line method, on the following basis:

Category of assets	Number of years
Machinery and equipment	3 – 12
Vehicles	4 – 5
Furniture and fixtures	6 – 15

### Provisioning

Provisions against fixed assets are recognised based on an assessment of their value during the stock count.

The Company recorded no provisions against tangible and intangible fixed assets in the year ended 31 December 2017.

### 3.2. INTANGIBLE FIXED ASSETS

Intangible fixed assets consist of assets with an estimated useful life greater than one year and an acquisition cost greater than CZK 60 thousand on an individual basis.

Purchased intangible fixed assets are stated at cost.

The cost of fixed asset improvements exceeding CZK 60 thousand for the taxation period increases the acquisition cost of the related intangible fixed asset.

Amortisation of intangible fixed assets is recorded over the estimated useful lives of assets using the straight line method as follows:

	Number of years
Software	4
Valuable rights	4 – 10
Other intangible fixed assets	4 – 5

### 3.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments.

Securities and equity investments are carried at cost upon acquisition. The cost of securities or equity investments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges and bonuses to the Company's employees relating to the acquisition of securities and equity investments.

As of the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments in subsidiaries and associates or debt securities held to maturity, or securities and equity investments available for sale.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments – controlled or controlling entity'.

Investments in enterprises in which the Company is in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments in associates'.

At the balance sheet, equity investments in controlled and controlling entities are stated at cost net of any provisions.

#### Provisioning

Investments are provisioned if there is a risk that the fair value of a non-current financial asset is lower than its carrying value.

In charging provisions against equity securities that are not fair-valued, the Company refers to its detailed knowledge of the relevant entity, the results of its operations and available expert valuations.

### 3.4. INVENTORY

#### Valuation

Purchased inventory of material is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as customs fees, freight costs and storage fees during transportation, commissions and insurance charges.

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

Goods are purchased and sold directly to customers and are not physically stored at the Company's premises. Reported stocks comprise goods in transit where supplies are delivered based on different delivery terms (e.g. delivery in port, delivery free on board). This gives rise to a certain mismatch between the purchase date and the date of sale to the customer, during which the goods are carried as the Company's assets.

### Provisions

No provisions were recognised in respect of inventory in 2017.

### 3.5. CURRENT FINANCIAL ASSETS

Current financial assets principally consist of cash on hand and cash at banks and debt securities with a maturity of less than one year held to maturity (mainly depository bills of exchange).

Current financial assets are carried at cost upon acquisition and at the balance sheet date. The cost of securities includes the direct costs of acquisition, such as fees paid to banks.

If the value of securities held to maturity exceeds their estimated recoverable value as of the balance sheet date, such current financial assets are provisioned pursuant to an expert estimate.

### 3.6. RECEIVABLES

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and bad amounts. Receivables acquired for consideration or through an investment are stated at cost less provisioning for doubtful and bad amounts.

### Provisioning

#### The Company recognised provisions against accounts receivable according to their aging categories as follows:

Receivables past due by more than 180 and less than 365 days are provisioned at 50 percent; and

Receivables past due by more than 365 days are provisioned in full.

In circumstances where there is doubt over the collectability of individual debts, the Company increases the provisioning charge taking into consideration the collateral underlying these debts.

### 3.7. TRADE PAYABLES

Trade payables are stated at their nominal value.

### 3.8. LOANS

Loans are stated at nominal value.

The portion of long-term loans maturing within one year from the balance sheet date is included in short – term loans.

### 3.9. FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies are translated using the exchange rate of the Czech National Bank prevailing on the date preceding the transaction date.

As of the balance sheet date, financial assets, current assets and liabilities denominated in a foreign currency are translated using the effective exchange rate promulgated by the Czech National Bank as of that date. Any resulting foreign exchange rate gains and losses are recorded as the current year's financial expenses or revenues as appropriate.



### 3.10. RESERVES

Reserves are intended to cover future obligations or expenditure, the nature of which is clearly defined and which are likely to be incurred, but which are uncertain as to the amount or the date on which they will arise.

### 3.11. FINANCE LEASES

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases is amortised and expensed over the lease period.

### 3.12. TAXATION

#### 3.12.1. Tax Depreciation of Fixed Assets

Depreciation of fixed assets for taxation purposes is recorded on an accelerated basis.

#### 3.12.2. Current Tax Payable

The tax currently payable is based on taxable profit for the reporting period. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using the tax rate that has been enacted by the balance sheet date.

#### 3.12.3. Deferred Tax

Deferred tax is accounted for using the balance sheet liability method.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset and reported on an aggregate net basis in the balance sheet, except when partial tax assets cannot be offset against partial tax liabilities.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

### 3.13. IMPAIRMENT

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the greater of the net selling price and the value in use. In assessing the value in use, estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

### 3.14. USE OF ESTIMATES

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

### 3.15. REVENUE RECOGNITION

Revenues are recognised when supplier terms under INCOTERMS 2010 are fulfilled or when services are rendered and are reported net of discounts and VAT.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the shareholders' rights to receive payment have been declared.

### 3.16. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents can be analysed as follows:

	(CZK THOUSAND)	
	31 Dec 2017	31 Dec 2016
Cash on hand	350	729
Cash at bank and cash in transit	3 341 298	3 599 129
<b>Total current financial assets</b>	<b>3 341 648</b>	<b>3 599 858</b>
<b>Total cash and cash equivalents</b>	<b>3 341 648</b>	<b>3 599 858</b>

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

## 4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

### 4.1. FIXED ASSETS

#### 4.1.1. Intangible Fixed Assets

##### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Start-up costs	72	0	0	72	0	0	72
Software	1 372	307	0	1 679	0	1	1 678
Valuable rights	135 416	37 188	0	172 604	0	0	172 604
Other intangible FA	926	0	0	926	0	0	926
Intangible FA under construction	0	37 494	37 494	0	0	0	0
Prepayments and advances for intangible FA	38 012	0	38 012	0	2 021	2 021	0
<b>Total</b>	<b>175 798</b>	<b>74 989</b>	<b>75 506</b>	<b>175 281</b>	<b>2 021</b>	<b>2 022</b>	<b>175 280</b>

##### Accumulated Amortisation

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Start-up costs	72	0	0	72	0	0	72
Software	1 372	47	0	1 419	102	0	1 521
Valuable rights	10 409	17 282	0	27 691	17 227	0	44 918
Other intangible FA	815	23	0	838	22	0	860
<b>Total</b>	<b>12 668</b>	<b>17 352</b>	<b>0</b>	<b>30 020</b>	<b>17 351</b>	<b>0</b>	<b>47 371</b>

##### Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Start-up costs	0	0
Software	260	157
Valuable rights	144 913	127 686
Other intangible FA	88	66
Intangible FA under construction	0	0
Prepayments and advances for intangible FA	0	0
<b>Total</b>	<b>145 261</b>	<b>127 909</b>

Amortisation of intangible fixed assets was CZK 17,352 thousand and CZK 17,352 thousand as of 31 December 2017 and 31 December 2016, respectively.

#### 4.1.2. Tangible Fixed Assets

##### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Tangible movable assets	92 795	13 055	8 533	97 317	7 040	13 502	90 855
– Machines and equipment	13 613	261	0	13 874	346	392	13 828
– Vehicles	72 520	12 794	8 506	76 808	6 694	12 308	71 194
– Furniture and fixtures	6 662	0	27	6 635	0	802	5 833
Tangible FA under construction	0	12 334	12 334	0	6 855	6 855	0
Prepayments for tangible FA	100	0	100	0	8 068	8 068	0
<b>Total</b>	<b>92 895</b>	<b>25 389</b>	<b>20 967</b>	<b>97 317</b>	<b>21 963</b>	<b>28 425</b>	<b>90 855</b>

##### Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Tangible movable assets	65 171	11 696	7 722	69 145	10 980	12 950	67 175
– Machines and equipment	12 380	582	0	12 962	582	392	13 152
– Vehicles	46 251	11 077	7 695	49 633	10 381	11 756	48 258
– Furniture and fixtures	6 540	37	27	6 550	17	802	5 765
<b>Total</b>	<b>65 171</b>	<b>11 696</b>	<b>7 722</b>	<b>69 145</b>	<b>10 980</b>	<b>12 950</b>	<b>67 175</b>

##### Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Tangible movable assets	28 172	23 680
– Machines and equipment	912	676
– Vehicles	27 175	22 936
– Furniture and fixtures	85	68
Tangible FA under construction	0	0
Prepayments for tangible FA	0	0
<b>Total</b>	<b>28 172</b>	<b>23 680</b>

The Company principally acquired cars in 2016 and 2017.

The Company acquired tangible assets that were charged directly to expenses in the amounts of CZK 2,218 thousand and CZK 1,770 thousand for the years ended 31 December 2017 and 2016, respectively. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported within fixed assets. These assets are directly expensed on a one-off basis.

Depreciation of tangible fixed assets amounted to CZK 10,980 thousand and CZK 11,696 thousand as of 31 December 2017 and 31 December 2016, respectively.

## 4.2. NON-CURRENT FINANCIAL ASSETS

### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Equity investments – controlled or controlling entities	8 516 403	8 919	0	8 525 322	108 592	373	8 633 541
Equity investments – associates	178 197	0	0	178 197	0	0	178 197
Acquisition of non-current financial assets	0	0	0	0	225 832	208 103	17 729
Prepayments for non-current financial assets	118 956	0	8 747	110 209	124 515	106 327	128 397
<b>Total</b>	<b>8 813 556</b>	<b>8 919</b>	<b>8 747</b>	<b>8 813 728</b>	<b>458 939</b>	<b>314 803</b>	<b>8 957 864</b>

Pursuant to the mandate contract between MORAVIA STEEL a.s., CYRRUS CORPORATE FINANCE, a.s. and TŘINECKÉ ŽELEZÁRNY, a.s. dated 25 July 2013, the purchase of participation securities from allocated funds continued during 2017. This increased the investment by CZK 108,277 thousand, ie from CZK 6,965,760 thousand to CZK 7,074,037 thousand.

### 4.2.1. Equity Investments – Controlled or Controlling Entities

#### 2017

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.*)	Třinec	7 091 540	8 109 863	100	25 756 117	1 424 138	0	1 400 000
Barrandov Studio a.s.	Prague	746 439	197 112	99.85	817 981	53 498	150 000	0
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	8 315	2 025	0	0
Moravia Steel Italia, srl	Milano	2 580	2 075	66	75 011	29 693	0	17 355
Moravia Steel Ibéria, s.a.	Lisabon	10 850	2 533	99.33	10 208	2 128	0	10 912
MS – Slovensko s.r.o.	Bratislava	161	160	100	9 002	6 293	0	0
Moravia Steel Israel Ltd.	Petach Tikva	605	466	100	**)	**)	0	0
Beskydská golfová, a.s	Ropice	254 342	230 000	100	214 558	750	100 000	0
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	243 787	44 637	65 860	75 000
M Steel Projects a.s.	Třinec	218 875	10 000	100	365 989	74 787	100 000	0
Moravia Steel UK Ltd	Cheshire	1 449	728	100	34 473	1 691	0	31 660
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	70 109	22 863	0	53 870
NEOMET Sp. Z o.o.	Radomsko	4 127	4 856	100	113 966	26 215	0	0
Moravia Mining Plc	Addis Ababa	3 153	3 157	76	**)	**)	0	0
<b>Total</b>		<b>8 651 043</b>	<b>8 565 442</b>		<b>27 719 516</b>	<b>1 688 718</b>	<b>415 860</b>	<b>1 588 797</b>

\*) During 2017, the purchase of participation securities of TŘINECKÉ ŽELEZÁRNY, a.s. continued, the amount increased by CZK 108,277 thousand, ie from CZK 6,965,760 thousand to CZK 7,091,540 thousand. This amount includes the amount of CZK 17,503 thousand, which is related to the securities included in the ongoing legal dispute concerning the correct valuation of the shares of TŘINECKÉ ŽELEZÁRNY, a.s.

\*\*\*) As of the end of 2017, Moravia Steel Israel Ltd. and Moravia Mining Plc. reported a deficit on equity. Both companies reported a loss in 2017.

## 2016

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.**)	Třinec	6 965 760	8 109 863	100	25 731 979	1 439 564	0	1 400 000
Barrandov Studio a.s.	Prague	746 439	197 112	99.85	764 091	-15 800	150 000	0
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	6 853	1 494	0	0
Moravia Steel Italia, srl	Milan	2 580	2 075	66	85 470	27 392	0	17 837
Moravia Steel Ibéria, s.a.	Lisbon	10 850	2 533	99.33	19 830	1 988	0	0
Moravia Goel Trade, d.o.o.	Samobor	59	59	60	*)	*)	59	0
MS – Slovensko s.r.o.	Bratislava	161	160	100	3 066	2 189	0	0
Moravia Steel Israel Ltd.	Petach Tikva	605	466	100	-10	-56	0	0
Beskydská golfová, a.s	Ropice	254 342	230 000	100	213 808	174	100 000	0
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	274 150	36 886	18 014	20 000
M Steel Projects a.s.	Třinec	218 875	10 000	100	282 126	111 719	100 000	0
Moravia Steel UK Ltd	Cheshire	1 449	728	100	67 635	1 545	0	0
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	104 749	29 686	0	0
NEOMET Sp. Z o.o.	Radomsko	4 127	4 856	100	88 224	22 823	0	0
Moravia Mining Plc	Addis Ababa	3 153	3 157	76	2 817	-749	0	0
<b>Total</b>		<b>8 525 322</b>	<b>8 565 501</b>		<b>27 644 788</b>	<b>1 658 885</b>	<b>368 073</b>	<b>1 437 837</b>

\*) In liquidation

\*\*) During 2016, the purchase of participation securities of TŘINECKÉ ŽELEZÁRNY, a.s. continued, the amount increased by CZK 8,919 thousand, ie from CZK 6,956,840 thousand to CZK 6,965,760 thousand.

## 4.2.2. Equity Investments – Associates

## 2017

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
Kovárna VIVA a.s.	Zlín	175 311	25 000	50	866 626	102 861	0	30 000
Moravia Steel Middle East FZO	Dubai	2 886	2 841	40	314 655	213 107	0	0
<b>Total</b>		<b>178 197</b>	<b>27 841</b>		<b>1 181 281</b>	<b>315 968</b>	<b>0</b>	<b>30 000</b>

## 2016

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
Kovárna VIVA a.s.	Zlín	175 311	25 000	50	865 857	139 691	0	15 000
Moravia Steel Middle East FZO	Dubai	2 886	2 841	40	143 285	40 503	0	0
<b>Total</b>		<b>178 197</b>	<b>27 841</b>		<b>1 009 142</b>	<b>180 194</b>	<b>0</b>	<b>15 000</b>

#### 4.2.3. Pledged Non-Current Financial Assets and Current Equity Securities

None of the Company's non-current financial assets or current equity securities were pledged in 2017 and 2016.

#### 4.3. INVENTORY

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
– Material	1 474	1 388
– Inventory – raw material	12 003	53 479
– Inventory – metallurgical products	311 615	58 737
<b>Total</b>	<b>325 092</b>	<b>113 604</b>

In the year ended 31 December 2017, the Company recognised no provision against inventory.

No prepayments for inventory were provided in the reporting periods.

#### 4.4. RECEIVABLES

##### 4.4.1. Long-Term Receivables

As of 31 December 2017, the Company reports long-term receivables of CZK 100,100 thousand.

During 2015, the Company provided two loans to HC OCELÁŘI TRINEC o.s. with the aggregate value of CZK 100,000 thousand (CZK 50,000 thousand each). The loans will be due in 2019.

As of 31 December 2017 and 2016, the Company records no long-term receivables with maturity exceeding 5 years.

##### 4.4.2. Trade Receivables

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Short-term		
– Customers	7 916 205	7 452 267
– Bills of exchange to be collected	3 344	3 344
– Provisions – customers	–152 680	–277 358
– Provisions – bills of exchange to be collected	–3 344	–3 344
<b>Total</b>	<b>7 763 525</b>	<b>7 174 909</b>

**4.4.3. Aging of Receivables from Customers**

(CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2017	<b>Gross</b>	7 067 778	848 427	<b>7 916 205</b>
	<b>Provisions</b>	0	152 680	<b>152 680</b>
31 Dec 2016	<b>Gross</b>	6 576 067	876 200	<b>7 452 267</b>
	<b>Provisions</b>	0	277 358	<b>277 358</b>

Receivables typically mature within 30 days.

**Past due receivables:**

(CZK THOUSAND)

Year ended	Local	Cross-border	Total
31 Dec 2017	125 525	722 902	848 427
31 Dec 2016	142 511	733 689	876 200

**4.4.4. Intercompany Trade Receivables**

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2017	Balance at 31 Dec 2016
<b>Short-term trade receivables</b>		
TŘINECKÉ ŽELEZÁRNY, a.s.	1 567 333	1 578 529
Strojírny a stavby Třinec, a.s.	125	57
ENERGETIKA TŘINEC, a.s.	46 963	15 340
Slévárny Třinec, a.s.	31 327	27 231
Moravia Steel Deutschland GmbH, Germany	-1 360	684 117
Řetězárna a.s.	16 807	14 944
HŽP a.s.	43 458	32 010
Moravia Steel UK Ltd	0	1
DOPRAVA TŽ, a.s.	0	0
Beskydská golfová, a.s.	61	61
VÚHŽ, a.s.	7 462	11 381
Šroubárna Kyjov spol. s r.o.	14 586	17 760
Kovárna VIVA a.s.	113 673	75 051
M STEEL PROJECTS a.s.	242	121
ŽDB DRÁTOVNA a.s.	319 966	215 457
„NEOMET“ sp.z o.o.	575	237
<b>Total short-term intercompany receivables</b>	<b>2 161 218</b>	<b>2 672 297</b>
Receivables outside the Group	5 758 331	4 783 314
<b>Receivables outside the Group</b>	<b>7 919 549</b>	<b>7 455 611</b>



**4.4.5. State – Tax Receivables**

State – tax receivables principally comprise a receivable arising from VAT of CZK 94,028 thousand as of 31 December 2017 (2016: receivables arising from corporate income tax of CZK 48,013 thousand).

**4.5. SHAREHOLDERS' EQUITY****4.5.1. Share Capital**

The Company's share capital in the aggregate amount of CZK 3,157,000 thousand as of 31 December 2017 is composed of 1,514 registered shares with a nominal value of CZK 500 thousand each, 100 registered shares with a nominal value of CZK 10,000 thousand each and 2 registered shares with a nominal value of CZK 700,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board.

**4.5.2. Changes in Equity**

Based on the decision of the General Meeting of Shareholders held on 27 June 2017, the profit of CZK 2,325,700 thousand for the year ended 31 December 2016 was allocated as follows:

- CZK 325,700 thousand was transferred to retained earnings; and
- CZK 2,000,000 thousand was used for the payment of dividends.

It is anticipated that the profit of CZK 2,736,995 thousand for the year ended 31 December 2017 will be distributed as follows: CZK 2,000,000 thousand will be used for the payment of dividends and CZK 736,995 thousand will be transferred to retained earnings.

**4.6. PAYABLES****4.6.1. Long-Term Payables**

The Company records no long-term trade payables with maturities exceeding five years as of 31 December 2017.

**4.6.2. Aging of Payables to Suppliers**

(CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2017	Short-term	4 254 319	2 391	4 256 710
31 Dec 2016	Short-term	4 294 548	3 632	4 298 180

Payables typically mature within 45 days.

**4.6.3. Intercompany Payables**

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Short-term trade payables		
TŘINECKÉ ŽELEZÁRNY, a.s.	1 798 888	1 919 099
Strojírny a stavby Třinec, a.s.	5	2
Řetězárna a.s.	0	0
REFRASIL, s.r.o.	10 934	5 322
FINITRADING, a.s.	169 261	0
Moravia Steel Italia, srl	16 677	15 070
Moravia Steel Ibéria, s.a.	1 276	730
Moravia Steel Slovenija, d.o.o.	4 212	3 277
DOPRAVA TŽ, a.s.	18	20
VESUVIUS ČESKÁ REPUBLIKA, a.s.	25 291	27 378
ŽDB DRÁTOVNA a.s.	0	0
Beskydská golfová a.s.	0	3
Třinecké gastroslužby, s.r.o.	274	284
Minerfin a.s.	54 814	99 763
Moravia Steel Deutschland GmbH	0	0
Moravia Steel UK Ltd	11 575	11 024
<b>Total intercompany short-term payables</b>	<b>2 093 225</b>	<b>2 081 972</b>
Payables to other than Group companies	2 163 485	2 216 208
<b>Total short-term trade payables</b>	<b>4 256 710</b>	<b>4 298 180</b>

**4.6.4. Collateralised Payables or Otherwise Covered**

As of the last quarter of 2016, the Company no longer collateralises payables arising from the Company's bank loans by the conditional pledge or assignment of receivables (refer to Notes 4.6.9.).

**4.6.5. Payables to Partners and Association Members**

As of 31 December 2017, the Company recorded no payables to partners and association members.

**4.6.6. Estimated Payables**

Estimated payables principally consist of unbilled supplies of raw materials amounting to CZK 20,854 thousand (2016: CZK 229,214 thousand), unbilled supplies of work and services amounting to CZK 38,171 thousand (2016: CZK 56,555 thousand) and an estimated payable for staff costs in the amount of CZK 5,924 thousand (2016: CZK 48,279 thousand).

**4.6.7. Due Amounts from Social Security and Health Insurance**

As of 31 December 2017, the aggregate amount of due amounts related to social security, state employment policy and health insurance contributions was CZK 4,561 thousand (2016: CZK 4,583 thousand). These payables were fully settled as of the balance sheet date.

**4.6.8. State – Tax Payables**

State – tax payables principally comprise a payable arising from corporate income tax net of the anticipated income tax for 2017 amounting to CZK 18,837 thousand as of 31 December 2017 (2016: a payable arising from VAT of CZK 119,169 thousand).

**4.6.9. Short-term Bank Loans**

During the year ended 31 December 2017, the Company used no bank loans.

During the year ended 31 December 2016, the Company repaid all of its bank loans including interest.

In the year ended 31 December 2016, the interest rates on bank loans ranged between 0.5% and 0.625 % p.a.

**4.6.10. Short-Term Prepayments Received**

In the year ended 31 December 2017, the Company recorded short-term prepayments received of CZK 425,645 thousand (2016: CZK 242,638 thousand).

**4.6.11. Accrued Expenses**

Accrued expenses largely comprise costs related to the year ended 31 December 2017 for transportation and other services paid in 2018 in the amount of CZK 34,615 thousand (2016: CZK 50,170 thousand) and banking fees and bank interest payable on short-term and long-term operating loan facilities in the amount of CZK 5 thousand (2016: CZK 0 thousand).

**4.6.12. Deferred Taxation**

The deferred tax asset/liability is analysed as follows:

**Deferred Tax Arising from**

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Accumulated depreciation and amortisation of fixed assets	-6 457	-4 280
Estimated payable arising from outstanding vacation days	1 126	779
Estimated payable arising from extraordinary bonuses	0	8 394
Provisions – receivables	5 226	7 956
Unpaid (un-received) penalty	-525	-893
<b>Total recognised tax asset (+) / liability (-)</b>	<b>-630</b>	<b>11 956</b>

#### 4.7. INCOME TAX ON ORDINARY AND EXTRAORDINARY ACTIVITIES

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Profit before tax	3 018 613	2 553 051
Tax at the domestic income tax rate of 19%	573 536	485 080
Tax effect of permanent differences	-291 272	-256 115
Deferred tax liability	-630	0
Additional taxes of prior years	-17	-1 614
<b>Total income tax on ordinary activities</b>	<b>281 617</b>	<b>227 351</b>

#### 4.8. DETAILS OF INCOME

(CZK THOUSAND)

	2017			2016		
	Local	Cross-border	Total	Local	Cross-border	Total
Goods – raw material	19 385 631	0	19 385 631	15 296 672	0	15 296 672
Goods – metallurgical products	12 937 405	24 879 307	37 816 712	10 541 503	24 006 634	34 548 137
Sales of goods	32 323 036	24 879 307	57 202 343	25 838 175	24 006 634	49 844 809
Sales of services	510 215	74 065	584 280	524 679	86 666	611 345
<b>Total sales of own products and services</b>	<b>510 215</b>	<b>74 065</b>	<b>584 280</b>	<b>524 679</b>	<b>86 666</b>	<b>611 345</b>

The line entitled 'Goods – raw material' represents the income from the purchases of input raw material for Třinecké železářny, a. s., and its subsidiaries. The line entitled 'Goods – metallurgical products' largely relates to sales of products purchased from Třinecké železářny, a. s.

Sales of services principally comprise the provision of forwarding services of CZK 464,619 thousand for the year ended 31 December 2017 (2016: CZK 503,391 thousand). The sales of services also comprise revenues arising from remuneration and commissions based on mandatory contracts.

#### 4.9. COSTS OF GOODS SOLD

(CZK THOUSAND)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Purchase of goods – raw materials	18 726 699	14 912 060
Purchase of goods – metallurgical products	34 207 022	30 995 404
Costs for transport of goods – metallurgical products	1 697 149	1 926 538
<b>Total costs of goods sold</b>	<b>54 630 870</b>	<b>47 834 002</b>

**4.10. SERVICES**

(CZK THOUSAND)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Transportation costs – services	434 341	471 382
Lease of trademark	123 000	123 000
Commissions	245 523	115 190
Advertising	128 853	160 616
Rental fees	9 641	9 643
Telecommunications	11 542	11 511
Legal advisory and auditing activities	22 856	84 596
Other services	124 378	122 602
<b>Total</b>	<b>1 100 134</b>	<b>1 098 540</b>

**4.11. CHANGE IN RESERVES AND PROVISIONS RELATING TO OPERATING ACTIVITIES AND COMPLEX DEFERRED EXPENSES**

(CZK THOUSAND)

	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Settlement of complex deferred expenses	72	94
Change in reserves	59	-786
Reserves relating to operating activities and complex deferred expenses	131	-692
Changes in provisions under special legislation	-110 494	-3 990
– <i>provisions against receivables</i>	-110 494	-3 990
Changes in tax non-deductible provisions:	-14 373	-24 469
– <i>provisions against receivables</i>	-14 373	-24 469
Changes in receivables	124 867	28 459
<b>Total</b>	<b>-124 736</b>	<b>-29 151</b>

**4.12. OTHER OPERATING EXPENSES AND INCOME**

Other operating expenses primarily include the costs of the write-off of receivables due to the completed insolvency proceedings and sale of receivables of CZK 87,314 thousand (2016: CZK 701 thousand) and the costs of insurance of supplies and other insurance in the aggregate amount of CZK 46,631 thousand (2016: CZK 46,631 thousand). Other operating income primarily includes discounts and rebates of CZK 15,029 thousand (2016: CZK 17,987 thousand) and supplies of insurance companies arising from insurance of receivables of CZK 17,319 thousand (2016: CZK 62,803 thousand).

**4.13. OTHER FINANCIAL EXPENSES AND INCOME**

Other financial income is composed of foreign exchange rate gains of CZK 411,700 thousand (2016: CZK 312,721 thousand).

Other financial expenses principally comprise foreign exchange rate losses of CZK 620,347 thousand (2016: CZK 376,633 thousand). The remaining balance consists of other financial expenses such as fees under letters of credit, fees under loan agreements, banking fees and other financial costs of CZK 24,383 thousand (2016: CZK 3,827 thousand).

## 4.14. RELATED PARTY TRANSACTIONS

### 4.14.1. Income Generated with Related Parties

2017

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Services	Other income	Fin. income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	18 784 349	344 501	2 937	0	19 131 787
Barrandov Studio a.s.	Subsidiary	0	0	1	1 274	1 275
Beskydská golfová, a.s.	Subsidiary	0	600	0	0	600
HŽP a.s.	Subsidiary of a subsidiary	316 232	7 297	2	0	323 531
Moravia Steel Italia s.r.l.	Subsidiary	0	0	0	0	0
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	0	0	0
Moravia Steel UK Ltd	Subsidiary	0	0	0	0	0
Kovárna VIVA a.s.	Subsidiary	424 472	925	9	0	425 406
M STEEL PROJECTS a.s.	Subsidiary	618 741	5 204	0	114	624 059
Strojírny a stavby Třinec, a.s	Subsidiary of a subsidiary	20	669	16	0	705
ENERGETIKA TŘINEC, a.s.	Subsidiary of a subsidiary	445 674	464	26	0	446 164
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	156 058	7 283	47	0	163 388
REFRASIL, s.r.o.	Subsidiary of a subsidiary	0	0	1	0	1
Řetězárna a.s.	Subsidiary of a subsidiary	195 103	0	1	0	195 104
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary	246 998	0	0	0	346 998
VÚHŽ, a.s.	Subsidiary of a subsidiary	125 815	3 484	6	0	129 305
Šroubárna Kyjov, spol. s r.o.	Subsidiary of a subsidiary	364 063	9 969	6	0	374 038
ŽDB DRÁTOVNA a.s.	Subsidiary of a subsidiary	1 579 742	96 834	73	0	1 676 649
FINITRADING, a.s.	Controlling entity	0	0	0	0	0
NEOMET Sp. Z o.o.	Subsidiary	0	9 781	2	0	9 783
Minerfin a.s.	Group entity	16	153	0	0	169
„Metalurgia“ Spółka akcyjna	Subsidiary of a subsidiary	75 126	6	6	0	75 138
„D&D“ Drótáru	Subsidiary of a subsidiary	947 753	0	28	0	947 781
Moravskoslezský kovošrot, a.s.	Subsidiary	0	3 098	3	0	3 101
<b>Total</b>		<b>24 280 162</b>	<b>490 268</b>	<b>3 164</b>	<b>1 388</b>	<b>24 774 982</b>

2016

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Services	Other income	Fin. income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	14 807 818	353 495	43 823	0	15 205 136
Barrandov Studio a.s.	Subsidiary	0	0	59 961	456	60 417
Beskydská golfová, a.s.	Subsidiary	0	600	85	0	685
HŽP a.s.	Subsidiary of a subsidiary	220 160	8 891	1 091	0	230 142
Moravia Steel Italia s.r.l.	Subsidiary	0	0	89	0	89
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	0	0	0
Moravia Steel UK Ltd	Subsidiary	477	26	0	0	503
Kovárna VIVA a.s.	Subsidiary	324 373	1 048	416	0	325 837
M STEEL PROJECTS a.s.	Subsidiary	924 577	7 133	0	2 968	934 678
Strojírny a stavby Třinec, a.s	Subsidiary of a subsidiary	100	588	730	0	1 418
ENERGETIKA TŘINEC, a.s.	Subsidiary of a subsidiary	384 807	0	2 362	0	387 169
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	104 295	10 413	694	0	115 402
REFRASIL, s.r.o.	Subsidiary of a subsidiary	0	0	124	0	124
Řetězárna a.s.	Subsidiary of a subsidiary	158 030	0	683	0	158 713
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	0	31	12	0	43
Moravia Steel Deutschland GmbH	Subsidiary	6 069 660	1 347	124	0	6 071 131
VÚHŽ, a.s.	Subsidiary of a subsidiary	92 406	4 764	382	0	97 552
Šroubárna Kyjov, spol. s r.o.	Subsidiary of a subsidiary	248 196	9 091	669	0	257 956
ŽDB DRÁTOVNA a.s.	Subsidiary of a subsidiary	1 337 446	96 667	2 438	0	1 436 551
FINITRADING, a.s.	Controlling entity	0	0	69	0	69
NEOMET Sp. Z o.o.	Subsidiary	0	5 112	178	0	5 290
Minerfin a.s.	Group entity	385	382	0	0	767
„Metalurgia“ Spółka akcyjna	Subsidiary of a subsidiary	41 300	159	620	0	42 079
„D&D“ Drótáru	Subsidiary of a subsidiary	834 766	0	95	0	834 861
Moravskoslezský kovošrot, a.s.	Subsidiary	0	3 289	101	0	3 390
<b>Total</b>		<b>25 548 796</b>	<b>503 036</b>	<b>114 746</b>	<b>3 424</b>	<b>26 170 002</b>

## 4.14.2. Purchases

2017

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	34 319 207	600	168 517	0	0	34 488 324
Moravia Steel Italia, s.r.l.	Subsidiary	0	0	74 499	0	0	74 499
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	12 152	0	0	12 152
Moravia Steel Slovenija, d.o.o.	Subsidiary	0	0	16 662	0	0	16 662
Barrandov Studio, a.s.	Subsidiary	0	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary.	63 091	0	111 993	0	0	175 084
Moravia Steel UK Ltd.	Subsidiary	0	0	28 821	0	0	28 821
Beskydská golfová, a.s.	Subsidiary	0	0	6 883	3	0	6 886
HŽP a.s.	Subsidiary of a subsidiary	0	0	0	0	0	0
Strojírny a stavby Třinec, a.s.	Subsidiary of a subsidiary	11	0	43	0	0	54
REFRASIL, s.r.o.	Subsidiary of a subsidiary	82 523	0	0	0	0	82 523
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	159	0	0	0	0	159
TRISIA, a.s.	Subsidiary of a subsidiary	0	0	3 755	146	0	3 901
Třinecké gastroslužby, s.r.o.	Subsidiary of a subsidiary	0	0	656	3 063	0	3 719
FINITRADING, a.s.	Controlling entity	2 675 593	0	0	0	0	2 675 593
VESUVIUS ČESKÁ REPUBLIKA, a.s.	-	114 173	0	0	0	0	114 173
Minerfin a.s.	Group entity	533 753	0	0	0	0	533 753
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	0	0	0	0	0	0
<b>Total</b>		<b>37 788 510</b>	<b>600</b>	<b>423 981</b>	<b>3 212</b>	<b>0</b>	<b>38 216 303</b>



2016

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	30 924 703	502	168 005	239	0	31 093 449
Moravia Steel Italia, s.r.l.	Subsidiary	0	0	67 498	0	0	67 498
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	11 061	0	0	11 061
Moravia Steel Slovenija, d.o.o.	Subsidiary	0	0	12 471	0	0	12 471
Barrandov Studio, a.s.	Subsidiary	0	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary	0	0	638	41 260	0	41 898
Moravia Steel UK Ltd.	Subsidiary	0	0	21 160	0	0	21 160
Beskydská golfová, a.s.	Subsidiary	0	0	9 159	6	0	9 165
HŽP a.s.	Subsidiary of a subsidiary	0	0	0	13	0	13
Strojírny a stavby Třinec, a.s.	Subsidiary of a subsidiary	0	1	26	0	0	27
REFRASIL, s.r.o.	Subsidiary of a subsidiary	79 325	0	0	0	0	79 325
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	253	0	650	0	0	903
TRISIA, a.s.	Subsidiary of a subsidiary	0	73	5 466	27	0	5 566
Třinecké gastroslužby, s.r.o.	Subsidiary of a subsidiary	0	0	884	3 079	0	3 963
FINITRADING, a.s.	Controlling entity	1 741 484	0	0	0	0	1 741 484
VESUVIUS ČESKÁ REPUBLIKA, a.s.	–	122 626	0	0	0	0	122 626
Minerfin a.s.	Group entity	739 140	0	0	0	0	739 140
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	21	0	0	0	0	21
<b>Total</b>		<b>33 607 552</b>	<b>576</b>	<b>297 018</b>	<b>44 624</b>	<b>0</b>	<b>33 949 770</b>

## 5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The average number of the Company's employees and managers and staff costs for the years ended 31 December 2017 and 2016 are as follows:

**2017** (CZK THOUSAND)

	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Employees	291	169 374	53 290	2 693	225 357
Management	15	82 708	14 608	0	97 316
<b>Total</b>	<b>306</b>	<b>252 082</b>	<b>67 898</b>	<b>2 693</b>	<b>322 673</b>

**2016** (CZK THOUSAND)

	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Employees	291	163 097	50 508	3 013	216 618
Management	15	105 703	14 220	92	120 015
<b>Total</b>	<b>306</b>	<b>268 800</b>	<b>64 728</b>	<b>3 105</b>	<b>336 663</b>

The number of employees is based on the average recalculated headcount. As of 31 December 2017, management includes the Finance Director and Board Chairman, Sales Director and Board Vice Chairman, Asset Management Director and Board member, Transportation Director and Board member, Procurement Director, Sale of Wires Director, Re-processing Director, Bar Steel Director for TŽ, Sale of Rails and Semi-Finished Products Director, Sale of Seamless Tubes Director, Audit Committee Chairman, Supervisory Board Chairman, Supervisory Board Vice Chairmen and Supervisory Board members.

Other costs principally include remuneration of statutory bodies paid in other than the 'salaries' form.

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

The Company provides members of the Board of Directors and Supervisory Board with company cars and other movable assets for both business and private purposes (the amount presented in the table below increases the tax base of employees):

(CZK THOUSAND)

	2017	2016
Board of Directors	1 146	1 147
Supervisory Board	390	190
<b>Total</b>	<b>1 536</b>	<b>1 337</b>

Management of the Company includes the Board of Directors.

Benefits provided to the members of the Supervisory Board and Board of Directors also included the payment of premiums under the liability insurance for damage caused in performing professional duties of a statutory member. Insurance for 2017 for all members of the Board of Directors and the Supervisory Board totalled CZK 1,034 thousand (2016: CZK 884 thousand).

## 6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS AND LEGAL DISPUTES

As of 31 December 2017, the Company was involved in no legal dispute, the outcome of which would significantly impact the Company.

As of 31 December 2017, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 6,358 thousand.

At the meeting held on 21 November 2017, the Board of Directors of MORAVIA STEEL a.s. approved the intention to provide a cash loan to TŘINECKÉ ŽELEZÁRNY, a.s., up to the amount of EUR 44,307 thousand, i.e. CZK 1,131,601 thousand.

The Regional Court in Ostrava is conducting, under file ref. no. 15 Cm 151/2013, court proceedings to review the adequacy of payment. The proceedings had been initiated based on a petition filed by 75 petitioners – former minority shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. The proceedings are being conducted against TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s., with the petitioners seeking a review of the adequacy of the payment provided by the majority shareholder, MORAVIA STEEL a.s., to minority shareholders. TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. consider the amount of the payment, which had been decided by the general meeting of shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. on 31 July 2013, to be appropriate. In 2016, the court engaged an expert institute for the proceedings, instructing it to determine the value of a single share of TŘINECKÉ ŽELEZÁRNY, a. s. and to explain differences, if any, between the valuations of shares presented in the expert opinions submitted by the participants in the proceedings. The expert institute has yet to provide the court with its expert opinion.

On 26 February 2013, the subsidiary Moravia Steel Deutschland GmbH received a legal action filed by the group entities of Deutsche Bahn (DB Netz AG and companies) with the State Court in Frankfurt am Main whereby the plaintiffs are claiming from Moravia Steel Deutschland GmbH and other entities (inter alia also MORAVIA STEEL a.s.) compensation for damage arising from unlawful cartel arrangements. The same legal action was delivered to MORAVIA STEEL a.s. on 29 March 2013 where the liability for damage is derived from one economic unit that the Company allegedly formed with Moravia Steel Deutschland GmbH.

The legal dispute is in the phase of first-instance procedures and preparation of the first verbal proceedings where the parties are presenting their written statements on the case to the court. As a next step, replies of defendants shall be presented to the court. Legal proceedings in this matter have not yet commenced.

Inasmuch as the Company's management considers the above legal actions against MORAVIA STEEL a.s. to lack merit, no reasonable estimate of the future payments, if any, in respect of these legal disputes can presently be made.

The Company's financial statements include no adjustments in respect of the legal dispute referred to above.

## 7. POST BALANCE EVENTS

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.

## IX

FINANCIAL PART II.  
CONSOLIDATED FINANCIAL  
STATEMENTS

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

<b>Name of the Company:</b>	<b>MORAVIA STEEL a.s.</b>
<b>Registered Office:</b>	Průmyslová 1000, Staré Město, 739 61 Třinec
<b>Legal Status:</b>	akciová společnost
<b>Corporate ID:</b>	634 74 808
<b>Record in the Register of Companies:</b>	Recorded in File 1297, Section B of the Register of Companies held by the Regional Court in Ostrava.

**Components of the Financial Statements:**

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

These financial statements were prepared on 9 April 2018.

<b>Statutory body of the reporting entity</b>	<b>Signature</b>
<b>Petr Popelář</b> Chairman of the Board of Directors	
<b>Mojmír Kašpiřin</b> Member of the Board of Directors	

## CONSOLIDATED BALANCE SHEET

(IN CZK THOUSAND)

		31. 12. 2017			31. 12. 2016
		Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>		<b>88 395 359</b>	<b>36 452 997</b>	<b>51 942 362</b>	<b>49 296 077</b>
<b>B.</b>	<b>Fixed assets</b>	<b>61 006 139</b>	<b>35 388 785</b>	<b>25 617 354</b>	<b>23 584 642</b>
<i>B.I.</i>	<b>Intangible fixed assets</b>	<b>1 706 117</b>	<b>852 906</b>	<b>853 211</b>	<b>896 741</b>
B.I.1.	Research and development	4 553	4 553		
B.I.2.	<i>Valuable rights</i>	<b>1 123 283</b>	<b>833 661</b>	<b>289 622</b>	<b>298 603</b>
B.I.2.1.	Software	347 235	314 102	33 133	39 774
B.I.2.2.	Other valuable rights	776 048	519 559	256 489	258 829
B.I.3.	Goodwill	356	356		
B.I.4.	Other intangible fixed assets	567 964	14 336	553 628	584 515
B.I.5.	<i>Prepayments for intangible fixed assets and intangible fixed assets under construction</i>	<b>9 961</b>		<b>9 961</b>	<b>13 623</b>
B.I.5.1.	Prepayments for intangible fixed assets				54
B.I.5.2.	Intangible fixed assets under construction	9 961		9 961	13 569
<i>B.II.</i>	<b>Tangible fixed assets</b>	<b>57 548 893</b>	<b>34 434 117</b>	<b>23 114 776</b>	<b>21 440 296</b>
B.II.1.	<i>Land and structures</i>	<b>15 892 324</b>	<b>7 520 905</b>	<b>8 371 419</b>	<b>7 815 905</b>
B.II.1.1.	Land	1 173 533	1 277	1 172 256	1 172 555
B.II.1.2.	Structures	14 718 791	7 519 628	7 199 163	6 643 350
B.II.2.	Tangible movable assets and sets of tangible movable assets	40 138 980	26 711 419	13 427 561	12 447 891
B.II.4.	<i>Other tangible fixed assets</i>	<b>204 467</b>	<b>186 065</b>	<b>18 402</b>	<b>17 301</b>
B.II.4.3.	Other tangible fixed assets	204 467	186 065	18 402	17 301
B.II.5.	<i>Prepayments for tangible fixed assets and tangible fixed assets under construction</i>	<b>1 313 122</b>	<b>15 728</b>	<b>1 297 394</b>	<b>1 159 199</b>
B.II.5.1.	Prepayments for tangible fixed assets	201 334		201 334	176 555
B.II.5.2.	Tangible fixed assets under construction	1 111 788	15 728	1 096 060	982 644
<i>B.III.</i>	<b>Non-current financial assets</b>	<b>562 074</b>	<b>52 900</b>	<b>509 174</b>	<b>183 183</b>
B.III.1.	Equity investments – controlled or controlling entity	409 584	34 755	374 829	173 037
B.III.3.	Equity investments in associates	26 201	18 057	8 144	8 144
B.III.5.	Other non-current securities and investments	2 089	88	2 001	2 002
B.III.7.	<i>Other non-current financial assets</i>	<b>124 200</b>		<b>124 200</b>	
B.III.7.2.	Prepayments for non-current financial assets	124 200		124 200	
<b>B.IV.</b>	<b>Goodwill on consolidation</b>	<b>417 132</b>	<b>48 862</b>	<b>368 270</b>	<b>368 208</b>
B.IV.1.	Positive goodwill on consolidation	417 132	48 862	368 270	368 208

THE TABLE CONTINUES ON THE NEXT PAGE ▼

<b>B.V.</b>	<b>Securities and equity investments under equity accounting</b>	<b>771 923</b>		<b>771 923</b>	<b>696 214</b>
<b>C.</b>	<b>Current assets</b>	<b>27 195 207</b>	<b>1 064 212</b>	<b>26 130 995</b>	<b>25 483 442</b>
<b>C.I.</b>	<b>Inventories</b>	<b>12 606 216</b>	<b>705 774</b>	<b>11 900 442</b>	<b>10 715 290</b>
C.I.1.	Material	5 409 255	376 425	5 032 830	4 830 470
C.I.2.	Work in progress and semifinished goods	4 243 775	265 265	3 978 510	3 166 515
C.I.3.	Products and goods	<b>2 936 689</b>	<b>64 084</b>	<b>2 872 605</b>	<b>2 714 706</b>
C.I.3.1.	Products	2 901 489	63 848	2 837 641	2 687 328
C.I.3.2.	Goods	35 200	236	34 964	27 378
C.I.5.	Prepayments for inventories	16 497		16 497	3 599
<b>C.II.</b>	<b>Receivables</b>	<b>9 347 502</b>	<b>345 890</b>	<b>9 001 612</b>	<b>8 996 795</b>
C.II.1.	Long-term receivables	<b>227 471</b>		<b>227 471</b>	<b>249 972</b>
C.II.1.1.	Trade receivables	24 923		24 923	54 640
C.II.1.4.	Deferred tax asset	47 385		47 385	24 840
C.II.1.5.	Receivables – other	<b>155 163</b>		<b>155 163</b>	<b>170 492</b>
C.II.1.5.2.	Long-term prepayments made	43 970		43 970	62 191
C.II.1.5.4.	Sundry receivables	111 193		111 193	108 301
<b>C.II.2.</b>	<b>Short-term receivables</b>	<b>9 120 031</b>	<b>345 890</b>	<b>8 774 141</b>	<b>8 746 823</b>
C.II.2.1.	Trade receivables	7 880 100	270 444	7 609 656	6 974 333
C.II.2.2.	Receivables – controlled or controlling entity	50 251	26 211	24 040	
C.II.2.4.	Receivables – other	<b>1 189 680</b>	<b>49 235</b>	<b>1 140 445</b>	<b>1 772 490</b>
C.II.2.4.3.	State – tax receivables	825 062		825 062	1 000 628
C.II.2.4.4.	Short-term prepayments made	123 112	26 007	97 105	51 972
C.II.2.4.5.	Estimated receivables	155 016		155 016	475 411
C.II.2.4.6.	Sundry receivables	86 490	23 228	63 262	244 479
<b>C.III.</b>	<b>Current financial assets</b>	<b>46 840</b>	<b>12 548</b>	<b>34 292</b>	<b>35 704</b>
C.III.2.	Other current financial assets	46 840	12 548	34 292	35 704
<b>C.IV.</b>	<b>Cash</b>	<b>5 194 649</b>		<b>5 194 649</b>	<b>5 735 652</b>
C.IV.1.	Cash on hand	8 274		8 274	9 067
C.IV.2.	Cash at bank	5 186 375		5 186 375	5 726 585
<b>D.</b>	<b>Other assets</b>	<b>194 013</b>		<b>194 013</b>	<b>227 993</b>
D.1.	Deferred expenses	73 249		73 249	115 792
D.2.	Complex deferred expenses	118 847		118 847	86 326
D.3.	Accrued income	1 917		1 917	25 875

## CONSOLIDATED BALANCE SHEET

(IN CZK THOUSAND)

	31. 12. 2017	31. 12. 2016
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>51 942 362</b>	<b>49 296 077</b>
<b>A. Equity</b>	<b>37 625 951</b>	<b>36 705 345</b>
<i>A.I. Share capital</i>	<b>3 157 000</b>	<b>3 157 000</b>
A.I.1. Share capital	3 157 000	3 157 000
<i>A.II. Share premium and capital funds</i>	<b>-104 210</b>	<b>-72 576</b>
<i>A.II.2. Capital funds</i>	<b>-104 210</b>	<b>-72 576</b>
A.II.2.1. Other capital funds	17 767	16 420
A.II.2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	-121 977	-88 996
<i>A.III. Funds from profit</i>	<b>1 800 143</b>	<b>1 800 138</b>
A.III.1. Other reserve funds	1 800 143	1 800 138
<i>A.IV. Retained earnings (+/-)</i>	<b>28 943 637</b>	<b>27 879 234</b>
A.IV.1. Accumulated profits brought forward	28 993 663	27 933 203
A.IV.2. Accumulated losses brought forward (-)	-38 790	-53 969
A.IV.3. Other profit or loss from prior years (+/-)	-11 236	
<i>A.V. Profit or loss for the current period, net of minority interests</i>	<b>2 998 606</b>	<b>3 185 338</b>
A.V.1. Profit or loss for the period	2 856 494	3 095 088
A.V.2. Share in the profit/(loss) of equity accounted investments	142 112	90 250
<i>VII. Consolidation reserve fund</i>	<b>830 775</b>	<b>756 211</b>
<b>B.+C. Liabilities</b>	<b>13 826 485</b>	<b>12 090 644</b>
<b>B. Reserves</b>	<b>713 803</b>	<b>535 686</b>
B.I. Reserve for pensions and similar liabilities	9 869	8 746
B.III. Reserves under special legislation	11 610	17 254
B.IV. Other reserves	692 324	509 686
<b>C. Payables</b>	<b>13 112 682</b>	<b>11 554 958</b>
<i>C.I. Long-term payables</i>	<b>3 889 344</b>	<b>3 338 114</b>
C.I.2. Payables to credit institutions	2 267 851	1 773 056
C.I.3. Long-term prepayments received		331
C.I.4. Trade payables	51 997	57 108
C.I.8. Deferred tax liability	1 569 233	1 507 389
<i>C.I.9. Payables – other</i>	<b>263</b>	<b>230</b>
C.I.9.3. Sundry payables	263	230

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C.II.	<b>Short-term payables</b>	<b>9 223 338</b>	<b>8 216 844</b>
C.II.2.	Payables to credit institutions	1 761 458	994 445
C.II.3.	Short-term prepayments received	671 958	530 708
C.II.4.	Trade payables	4 987 040	4 894 210
C.II.8.	<b>Other payables</b>	<b>1 802 882</b>	<b>1 797 481</b>
C.II.8.1.	Payables to partners	45 853	45 650
C.II.8.2.	Short-term financial borrowings	15 678	16 033
C.II.8.3.	Payables to employees	487 426	487 740
C.II.8.4.	Social security and health insurance payables	198 662	186 428
C.II.8.5.	State - tax payables and subsidies	647 310	456 112
C.II.8.6.	Estimated payables	279 348	501 462
C.II.8.7.	Sundry payables	128 605	104 056
<b>D.</b>	<b>Other liabilities</b>	<b>78 442</b>	<b>98 001</b>
D.1.	Accrued expenses	44 833	80 751
D.2.	Deferred income	33 609	17 250
<b>E.</b>	<b>Minority equity</b>	<b>411 484</b>	<b>402 087</b>
E.I.1	Minority share capital	85 454	85 454
E.I.2	Minority capital funds	3 282	3 285
E.I.3	Minority funds from profit, including retained earnings and losses	294 712	295 070
E.V.	Minority profit or loss for the current period	28 036	18 278



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

(IN CZK THOUSAND)

	Year ended 31. 12. 2017	Year ended 31. 12. 2016
I. Sales of products and services	46 267 920	43 529 617
II. Sales of goods	1 096 169	637 197
A. Purchased consumables and services	<b>36 187 067</b>	<b>31 892 737</b>
A.1. Costs of goods sold	998 279	570 386
A.2. Consumed material and energy	30 120 538	26 786 770
A.3. Services	5 068 250	4 535 581
B. Change in internally produced inventory (+/-)	-833 938	-166 240
C. Own work capitalised (-)	-994 776	-710 393
D. Staff costs	<b>6 965 253</b>	<b>6 577 483</b>
D.1. Payroll costs	4 969 453	4 641 799
D.2. Social security and health insurance costs and other charges	<b>1 995 800</b>	<b>1 935 684</b>
D.2.1. Social security and health insurance costs	1 685 817	1 582 485
D.2.2. Other charges	309 983	353 199
E. Adjustments to values in operating activities	<b>1 756 204</b>	<b>2 027 434</b>
E.1. Adjustments to values of intangible and tangible fixed assets	<b>2 000 301</b>	<b>2 025 329</b>
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	1 990 400	1 956 711
E.1.2. Adjustments to values of intangible and tangible fixed assets – temporary	9 901	66 175
E.2. Adjustments to values of inventories	-106 116	75 139
E.3. Adjustments to values of receivables	-137 981	-73 034
III. Other operating income	<b>931 827</b>	<b>954 881</b>
III.1. Sales of fixed assets	21 203	39 197
III.2. Sales of material	103 152	87 793
III.3. Sundry operating income	807 472	827 891
F. Other operating expenses	<b>1 285 585</b>	<b>1 515 285</b>
F.1. Net book value of sold fixed assets	9 124	17 817
F.2. Net book value of sold material	83 684	79 626
F.3. Taxes and charges	68 558	62 176
F.4. Reserves relating to operating activities and complex deferred expenses	163 505	42 571
F.5. Sundry operating expenses	960 714	1 313 095
E.1.A. Amortisation of positive goodwill on consolidation		2 443
* <b>Operating profit or loss (+/-)</b>	<b>3 930 521</b>	<b>3 985 389</b>
IV. Income from non-current financial assets – equity investments	<b>13 327</b>	<b>2 186</b>
IV.1. Income from equity investments – controlled or controlling entity	13 303	2 162
IV.2. Other income from equity investments	24	24

THE TABLE CONTINUES ON THE NEXT PAGE ▼

G.	Costs of equity investments sold	59	
VI.	Interest income and similar income	<b>5 433</b>	<b>7 541</b>
VI.1.	Interest income and similar income – controlled or controlling entity	21	80
VI.2.	Other interest income and similar income	5 412	7 461
I.	Adjustments to values and reserves relating to financial activities	1 681	7 417
J.	Interest expenses and similar expenses	<b>40 217</b>	<b>48 347</b>
J.1.	Interest expenses and similar expenses – controlled or controlling entity	6	-1
J.2.	Other interest expenses and similar expenses	40 211	48 348
VII.	Other financial income	596 088	370 574
K.	Other financial expenses	909 507	470 309
*	<b>Financial profit or loss (+/-)</b>	<b>-336 616</b>	<b>-145 772</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>3 593 905</b>	<b>3 839 617</b>
L.	Income tax	<b>709 375</b>	<b>726 251</b>
L.1.	Due income tax	677 691	678 948
L.2.	Deferred income tax (+/-)	31 684	47 303
**	<b>Profit or loss net of tax (+/-)</b>	<b>2 884 530</b>	<b>3 113 366</b>
**	<b>Consolidated profit or loss net of share of income of associates</b>	<b>2 884 530</b>	<b>3 113 366</b>
	Consolidated profit or loss net of share of minority interests	2 856 494	3 095 088
	Minority profit or loss	28 036	18 278
**	<b>Share of profit or loss of equity accounted investments</b>	142 112	90 250
***	<b>Profit or loss for the current period (+/-)</b>	<b>3 026 642</b>	<b>3 203 616</b>
***	<b>Profit or loss for the current period net of minority interests (+/-)</b>	<b>2 998 606</b>	<b>3 185 338</b>
***	<b>Profit or loss for the current period incl. minority interests (+/-)</b>	<b>3 026 642</b>	<b>3 203 616</b>
***	<b>Profit or loss for the current period net of minority interests before tax (+/-)</b>	<b>3 707 981</b>	<b>3 911 589</b>
*	Net turnover for the current period	<b>48 910 764</b>	<b>45 501 996</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Share premium and capital funds	Funds from profit, reserve fund	Profit or loss brought forward	Other profit or loss from prior years	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
<b>Balance at 31 December 2015</b>	<b>3 157 000</b>	<b>-56 709</b>	<b>1 799 953</b>	<b>25 460 366</b>	<b>-11 236</b>	<b>4 419 142</b>	<b>654 694</b>	<b>100 691</b>	<b>35 523 901</b>
Distribution of profit or loss		88	185	2 418 869		-2 419 142	100 691	-100 691	
Dividends						-2 000 000			-2 000 000
Revaluation of assets and liabilities		-15 955					1 242		-14 713
Profit for the current period						3 095 088		90 250	3 185 338
Other – restated				-1			-416		-417
<b>Balance at 31 December 2016</b>	<b>3 157 000</b>	<b>-72 576</b>	<b>1 800 138</b>	<b>27 879 234</b>	<b>-11 236</b>	<b>3 095 088</b>	<b>756 211</b>	<b>90 250</b>	<b>36 694 109</b>
Distribution of profit or loss		1 342	5	1 093 741		-1 095 088	90 250	-90 250	
Dividends						-2 000 000			-2 000 000
Revaluation of assets and liabilities		-32 951					-15 203		-48 154
Profit for the current period						2 856 494		142 112	2 998 606
Other – restated		-25		-18 102			-483		-18 610
<b>Balance at 31 December 2017</b>	<b>3 157 000</b>	<b>-104 210</b>	<b>1 800 143</b>	<b>28 954 873</b>	<b>-11 236</b>	<b>2 856 494</b>	<b>830 775</b>	<b>142 112</b>	<b>37 625 951</b>

## CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2017	Year ended 31. 12. 2016
<b>P. Opening balance of cash and cash equivalents</b>	<b>5 754 589</b>	<b>6 044 994</b>
<b><i>Cash flows from ordinary activities (operating activities)</i></b>		
Z. Profit or loss before tax	3 593 905	3 839 617
A.1. Adjustments for non-cash transactions	1 923 505	2 115 047
A.1.1. Depreciation of fixed assets	1 990 400	1 959 154
A.1.2. Change in provisions and reserves	-69 010	118 269
A.1.3. Profit/(loss) on the sale of fixed assets	-12 079	-21 381
A.1.4. Revenues from profit shares	-13 303	-2 187
A.1.5. Interest expense and interest income	34 784	40 807
A.1.6. Adjustments for other non-cash transactions	-7 287	20 385
<b>A.* Net operating cash flow before changes in working capital</b>	<b>5 517 410</b>	<b>5 954 664</b>
A.2. Change in working capital	-986 580	-241 640
A.2.1. Change in operating receivables and other assets	126 741	-285 083
A.2.2. Change in operating payables and other liabilities	-30 978	490 271
A.2.3. Change in inventories	-1 084 443	-446 831
A.2.4. Change in current financial assets	2 100	3
<b>A.** Net cash flow from operations before tax</b>	<b>4 530 830</b>	<b>5 713 024</b>
A.3. Interest paid	-40 205	-53 099
A.4. Interest received	7 858	13 315
A.5. Income tax paid from ordinary operations	-577 079	-1 144 412
A.6. Received profit shares	64 044	40 295
<b>A.*** Net operating cash flows</b>	<b>3 985 448</b>	<b>4 569 123</b>
<b><i>Cash flows from investing activities</i></b>		
B.1. Fixed assets expenditures	-3 769 058	-2 780 769
B.2. Proceeds from fixed assets sold	23 350	38 962
B.3. Cash flows from the purchase of business or its part	-24 032	
<b>B.*** Net investment cash flows</b>	<b>-3 769 740</b>	<b>-2 741 807</b>
<b><i>Cash flow from financial activities</i></b>		
C.1. Change in payables from financing	1 262 349	-100 917
C.2. Impact of changes in equity	-2 018 372	-2 016 803
C.2.6. Profit shares paid	-2 018 372	-2 016 803
<b>C.*** Net financial cash flows</b>	<b>-756 023</b>	<b>-2 117 720</b>
<b>F. Net increase or decrease in cash and cash equivalents</b>	<b>-540 315</b>	<b>-290 405</b>
<b>R. Closing balance of cash and cash equivalents</b>	<b>5 214 274</b>	<b>5 754 589</b>

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## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

MORAVIA STEEL a.s. (henceforth the “Parent Company” or the “Company”) was formed by a Memorandum of Association as a joint stock company on 27 July 1995 and was incorporated following its registration in the Register of Companies held at the Regional Court in Brno-venkov on 23 August 1995 (File B, Insert 1680), currently registered at the Regional Court in Ostrava (File B, Insert 1297). The principal business activities of the Company include trade activities – purchase of goods for resale and sale, which represents 98.79% of the Company’s revenues. Additional business activities include domestic and international shipping services.

The Company’s registered office is located in Průmyslová 1000, Staré Město, 739 61 Třinec.

The Company’s share capital is CZK 3,157,000 thousand.

The following table shows individuals and legal entities holding an equity investment in the Company that are in a position to exercise either a significant or controlling influence and the amount of their equity investment:

Shareholder	Ownership percentage
FINITRADING, a.s., nám. Svobody 526, Třinec	100%
<b>Total</b>	<b>100%</b>

The consolidated group is primarily engaged in metallurgical production with a closed metallurgical cycle. The consolidated group is additionally involved in generating electricity and providing foundry and engineering services, and domestic as well as international shipment.

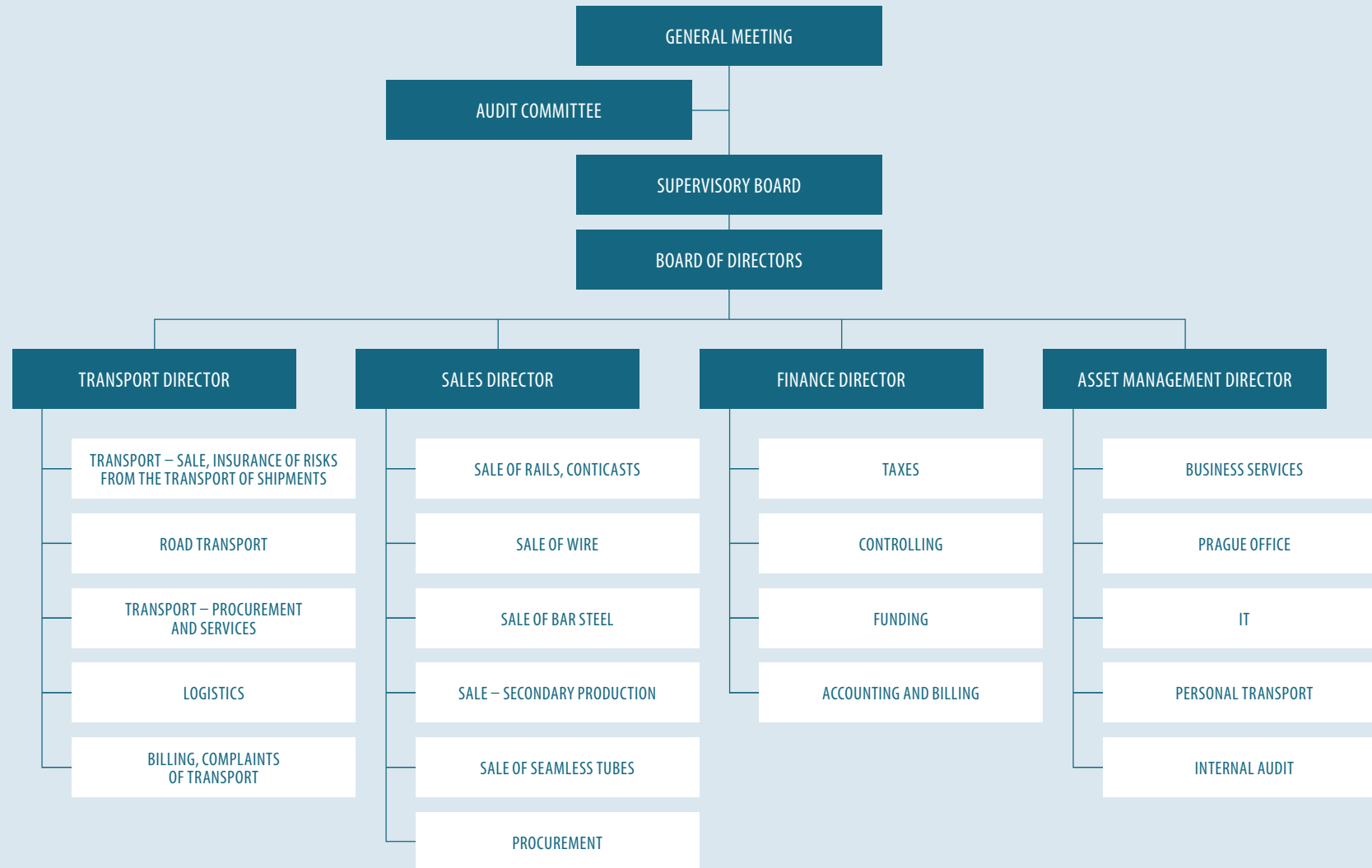
### 1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2017, two changes to the Register of Companies were made. On 28 February 2017, the change of the manner of representation of the Company’s Board of Directors changed and on 6 June 2017, the address of Ján Moder, Vice-Chairman of the Supervisory Board, changed.

### 1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS RECORDED IN THE REGISTER OF COMPANIES AS OF 31 DECEMBER 2017

	Position	Name
Board of Directors	Chairman	Petr Popelář
	Vice Chairman	Krzysztof Ruciński
	Member	Mojmír Kašpříš
	Member	Uršula Novotná
Supervisory Board	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Balko
	Member	Mária Blašková

1.4. ORGANISATIONAL STRUCTURE OF THE PARENT COMPANY





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

### 2.1. DEFINITION OF THE CONSOLIDATED GROUP

#### 2.1.1. Consolidation Method

The consolidation was performed using the proportionate consolidation method.

#### 2.1.2. Names and Registered offices of Subsidiaries and Associates included in the Consolidated Group

The consolidated group (hereinafter the "Group") included the following entities:

#### Subsidiaries

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2017	Share of share capital at 31 Dec 2016
TŘINECKÉ ŽELEZÁRNY, a. s.	Průmyslová 1000, Staré Město, 739 61 Třinec	Manufacture of metallurgical products	100.00 %	100.00 %
Barrandov Studio a.s.	Prague 5, Hlubočepy Kříženeckého nám. 322/5	Creation and production of films and other audio-visual material	99.85 %	99.85 %
MORAVIA STEEL ITALIA S.R.L.	Milan, Italy	Distribution of metallurgical products	66.00 %	66.00 %
Beskydská golfová, a.s.	Ropice 415, 739 56	Provision of sport services	100.00 %	100.00 %
Hotel Golf Ropice a.s.	Ropice 415, 739 56	Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
MS – Slovensko s.r.o.	Námestie Ľudovíta Štúra 2 811 02 Bratislava	Purchase and sale of goods in retail and wholesale, mediation services in the extent of notifiable trade	100.00 %	100.00 %
Moravskoslezský kovošrot a.s.	Božkova 936/73, Přívoz, 702 00 Ostrava	Purchase, processing and sales of metal scrap and non-ferrous metals	100.00 %	100.00 %
M Steel Projects a.s.	Průmyslová 1000, Staré Město, 739 61 Třinec	Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
Moravia Steel Deutschland GmbH	Kürten, Germany	Distribution of metallurgical products	100.00 %	100.00 %
MORAVIA STEEL UK LIMITED	Sandbach, United Kingdom	Distribution of metallurgical products	100.00 %	100.00 %
"NEOMET" Sp.z o.o.	Św. Rozalii 10,97-500 Radomsko, Poland	Trading with metal scrap and metal processing	100.00 %	100.00 %
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00 %	100.00 %
Slévárny Třinec, a.s.	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00 %	100.00 %
VÚHŽ a.s.	240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00 %	100.00 %
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00 %	100.00 %
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00 %	100.00 %
"METALURGIA" S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00 %	100.00 %
"D&D" Drótáru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	100.00 %	100.00 %

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ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00 %	100.00 %
HŽP a.s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00 %	100.00 %
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00 %	100.00 %
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00 %	51.00 %
REFRASIL, s.r.o.	Průmyslová 720, Konská, 739 61 Třinec	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00 %	51.00 %
M Steel Projects, s.r.o.	Žilina, 010 01, Vojtecha Tvrdého 793/21	Purchase of goods for sale, mediation activities, advertising Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00%
MSPProjects International s.r.o.	nám.Svobody 526,Lyžbice 739 61 Třinec	Purchase of goods for sale, mediation activities, advertising Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00%
MPS International AZ Ilc	SEYID AZIM SHIRVANI STREET,bldg. 1, apt. 115 AZ1142, BAKU city	Production, trade and services pursuant to the legislative of the Republic of Azerbaijan	95.00 %	95.00%
Moravia Mining Plc	Bole 03, Addis Ababa 5/001-405A, Ethiopia	Mining and extraction of mineral materials	76.00%	76.00%

During 2017 and 2016, no changes were made to the consolidation group.

During the year ended 31 December 2013, MORAVIA STEEL a.s. purchased 1,349,501 shares of TŘINECKÉ ŽELEZÁRNY, a.s. pursuant to the contract for the purchase of securities concluded with FINITRADING a.s. Another 53,160 of shares of TŘINECKÉ ŽELEZÁRNY, a.s. were purchased from individual minority shareholders pursuant to contracts for the transfer of securities for consideration. In addition, the Company purchased all other equity securities of TŘINECKÉ ŽELEZÁRNY, a.s. pursuant to the resolution of an extraordinary general meeting of the Company held on 31 July 2013 on the transfer of the shares owned by other shareholders to MORAVIA STEEL a.s., as the principal shareholder, pursuant to the mandate contract concluded between MORAVIA STEEL a.s., CYRRUS CORPORATE FINANCE, a.s. and TŘINECKÉ ŽELEZÁRNY, a.s. on 25 July 2013. This increased the investment by CZK 2,633,858 thousand, ie from CZK 4,290,014 thousand to CZK 6,923,872 thousand as of 31 December 2013. During 2015, 2016 and 2017, the Company continued to purchase equity securities using the allocated funds. In 2017, this increased the investment by CZK 108,277 thousand, ie from CZK 6,965,760 thousand to the current amount of CZK 7,074,037 thousand.

The purchase of the equity securities will continue in 2018 using the funds allocated by mandatories in the amount of CZK 4,197 thousand. The difference between the acquisition cost and the equity investment of CZK 1,697,058 thousand was recognised in the consolidated profit or loss in 2013.

### Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2017	Equity share at 31 Dec 2016
Kovárna VIVA a.s.	Zlín, Vavrečkova 5333, 760 01	Production of die forgings	50.00%	50.00%
Moravia Steel Middle East FZCO	Jebel Ali Free Zone, Dubai, U.A.E.	Distribution of metallurgical products	40.00%	40.00%
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 715, Konská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%	40.00%

Since the trading strategy of the associated undertaking, Kovárna VIVA, is substantially performed by a different company, the Parent Company opted to consolidate the entity using the equity method of accounting.

### **2.1.3. Balance Sheet Dates of the Companies Included in the Group**

The financial statements of the companies included in the Group were prepared as of and for the years ended 31 December 2017 and 2016. The companies included in the Group are based in the Czech Republic, with the exception of Moravia Steel Deutschland GmbH, which is based in Germany, MORAVIA STEEL ITALIA S.R.L., based in Italy, MORAVIA STEEL UK LIMITED based in the UK, "D&D" Drótáru Zrt. based in Hungary, METALURGIA S.A. and NEOMET Sp. Z o.o. based in Poland, Moravia Steel Middle East FZCO based in the United Arab Emirates, M Steel Projects, s.r.o. and MS – Slovensko s.r.o. based in Slovakia, MSP International AZ based in Azerbaijan and Moravia Mining Plc based in Ethiopia.

### **2.1.4. Companies Excluded from Consolidation**

Entities which are the Company's subsidiaries or associates, are not included in the consolidated group if:

- The share in the consolidation group is not material in terms of giving a true and fair view of the financial position and performance of the consolidation group, when:
  - The share of the recalculated assets of such subsidiary or associate in the total recalculated assets of all the group's entities is less than 1.5 percent, and the value of assets is recalculated using the percentage of the interest in the entity which is owned by MORAVIA STEEL, a. s.;
  - The share of the recalculated equity of such subsidiary or associate in the total recalculated equity of all of the group's entities is less than 1.5 percent, and the value of equity is recalculated using the percentage of the interest in the entity which is owned by MORAVIA STEEL, a. s.; and
  - The share in the recalculated net turnover (revenues of account class 6) of such subsidiary or associate in the total recalculated net turnover of all of the group's entities is less than 1.5 percent, and the value of the net turnover is recalculated using the percentage of the interest in the entity which is owned by MORAVIA STEEL, a. s.
- Long-term restrictions significantly hinder MORAVIA STEEL, a. s. in exercising its rights connected to the control of assets or management of these subsidiaries or associates, or, if the information necessary for the preparation of the consolidated financial statements cannot be obtained without inevitably incurring undue costs (that can be documented) or with inevitable but unacceptable undue delay;
- The shares or equity interests in subsidiaries and associates are held exclusively with a view to their subsequent disposal.

If the entity exceeds any individual level of materiality for the inclusion in the consolidation group, there must be a real assumption for exceeding the individual level of materiality for the following reporting period. An entity that does not meet the individual level of materiality for the inclusion in the consolidation group, has to be included in the consolidation group if there is a real assumption of exceeding the level of materiality in the following reporting period.

The entities that meet the condition set out above for non-inclusion in the consolidated group, thereby not entering into consolidation based on individual assessment, must also meet the group materiality criterion for non-inclusion. Under the group materiality criterion, these entities are taken as one whole. This whole has to have (i) the share of the recalculated assets of this whole in the total recalculated assets of all entities in the group less than 1.5 percent, while the value of assets for these purposes is recalculated using the percentage of the ownership share held by the parent company MORAVIA STEEL, a. s. (ii) the share of recalculated equity in total recalculated equity of all entities in the group less than 1.5 percent, while the value of equity for these purposes is recalculated using the percentage of the ownership share held by MORAVIA STEEL, a. s., and (iii) the share of the recalculated net turnover (revenues of account class 6) in total recalculated net turnover of all entities in the group less than 1.5 percent, while the value of the net turnover for these purposes is recalculated using the percentage of the ownership share held by MORAVIA STEEL, a. s. For calculating materiality levels, all entities in the Group with the exception of companies in liquidation or subject to bankruptcy proceedings are taken into account.

### 3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

The Group's accounting records are maintained and the consolidated financial statements were prepared in accordance with Accounting Act 563/1991 Coll., as amended; Regulation 500/2002 Coll. which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis, the accruals principle, the prudence concept and the going concern assumption.

For the purposes of preparing the consolidated financial statements of MORAVIA STEEL a.s., the accounting principles within the Group were brought into line. Significant accounting policies as adopted by individual group entities are set out below.

These consolidated financial statements are presented in thousands of Czech crowns ("CZK thousand"). The figures of MORAVIA STEEL ITALIA S.R.L., Moravia Steel Deutschland GmbH, MORAVIA STEEL UK LIMITED, Moravia Steel Middle East FZCO, "METALURGIA" S.A., "D&D" Drótáru Zrt., M Steel Projects, s.r.o., NEOMET Sp. z o.o., MS – Slovensko s.r.o., MSP International AZ and Moravia Mining Plc are translated into CZK (refer to Note 4.10.).

The consolidated financial statements of the Group for the year ended 31 December 2017 were prepared as follows:

- The balance sheet comprises comparative balances as of 31 December 2017;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2017;
- The statement of changes in equity contains comparative amounts for the year ended 31 December 2017; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2017.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

#### Valuation

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

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

Purchased tangible and intangible fixed assets are valued at acquisition costs.

Tangible and intangible fixed assets developed internally are valued at direct costs, incidental costs directly attributable to the internal production of assets, or alternatively incidental costs of an administrative character if the production period of the assets exceeds one year.

The following tangible and intangible fixed assets are stated at replacement cost: tangible and intangible fixed assets acquired through donation, intangible fixed assets internally generated if replacement cost is lower than internal costs, assets recently entered in the accounting records such as an inventory count surplus (accounted for by a corresponding entry in the relevant accumulated depreciation account) and an investment of intangible and tangible fixed assets, except for cases where the investment is valued differently pursuant to a Memorandum of Association or a Deed of Foundation.

The replacement cost is also applied to tangible fixed assets acquired under finance lease arrangements with an original cost exceeding CZK 1 million. These assets are carried at replacement cost and recorded in the statutory books as fully depreciated. Replacement cost is determined by an expert appraiser or through an estimate performed under the Group's internal regulations.

Tangible and intangible assets with an estimated useful life greater than one year and an acquisition cost equal to or lower than CZK 40 thousand and CZK 60 thousand, respectively, are not treated as fixed assets. Such tangible assets are accounted for as inventory and when brought into use they are charged to "Consumed material and energy" in the profit and loss account. Intangible assets costing CZK 60 thousand and less are expensed through the account "Services" upon acquisition.

The cost of tangible fixed assets improvements exceeding CZK 40 thousand on an individual basis in the taxation period increases the acquisition cost of the related fixed asset.

The cost of intangible s improvements exceeding CZK 60 thousand on an individual basis in the taxation period increases the acquisition cost of the related fixed asset.

The results of research and development activities, if designed for trading or resale, are recognised through the balance sheet line "Research and development". Research and development results designed for internal purposes are not classified as intangible fixed assets and are recorded off balance sheet in the valuation of own costs.

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

As of the consolidated balance sheet date, emission allowances are valued according to the EUROPEAN ENERGY EXCHANGE rate. The decrease in the valuation of emission allowances acquired on a free-of-charge basis as of the consolidated balance sheet date is recognised in the balance sheet lines "Other intangible fixed assets" and "State – tax payables and subsidies". The Company does not recognise an upward revaluation of the emission allowances. If there is a lack of allowances at the consolidated balance sheet date, the Company recognises a reserve as part of "Other reserves" and "Change in reserves and provisions relating to operating activities and complex deferred expenses". The reserve for the purchase of allowances is released in the following accounting period when the missing allowances are purchased or used from the free of charge allocation of the following period.

### Depreciation for Accounting Purposes

Depreciation of fixed assets, other than land and assets under construction, is recorded on a straight line basis over the depreciation period indicated below:

Category of assets	Depreciation period in years
Structures	2 – 77
Machinery and equipment	2 – 42
Vehicles	3 – 40
Furniture and fixtures	6 – 15
Software	3 – 7

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

If the inventory count indicates that the estimated useful life of assets has changed, the Group appropriately adjusts the depreciation period of the related asset.

The bulk of buildings and structures are depreciated over 45 – 60 years. The shorter depreciation period is applied to temporary structures and short-term structures (lighting, fencing, energy grids, pipelines, etc.). A depreciation period over 60 years is applied to structures with a long useful life such as railway and road bridges, conveying tunnels, and production and administrative buildings.

The bulk of machines and equipment are depreciated over 15 – 25 years. The shorter depreciation period is primarily applied to IT systems, management systems, devices, etc.; the longer depreciation period is applied in exceptional cases to agglomeration equipment.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the net book value of the asset at the sale date and is recognised through the profit and loss account.

### **Provisioning**

Provisions against tangible fixed assets are recognised in circumstances where the carrying value is greater than value in use, which is equal to the present value of estimated future cash flows expected to arise from the continuing use of fixed assets or anticipated income for the intended sale.

### **Impairment**

At each balance sheet date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there are any indications that those assets suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

## **4.2. NON-CURRENT FINANCIAL ASSETS**

Non-current financial assets principally consist of equity investments, securities and equity investments available for sale and long-term term deposits.

### **Valuation**

Securities and equity investments are carried at cost upon acquisition. The cost of securities or equity investments includes direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

### **At the consolidated balance sheet date, the Group records:**

Equity investments at cost less any provisions against equity investments.

Available-for-sale securities are valued pursuant to the Accounting Act (Section 27) at fair value, determined by reference to the market value or a reasonable estimate. If the determination of fair value is not practicable, the securities are valued at cost.

At the consolidated balance sheet date, changes in the fair value of available-for-sale securities are recorded on the balance sheet as “Other non-current securities and equity investments” and “Gains and losses from the revaluation of assets”. A deferred tax liability is determined in respect of the revaluation difference where the value of available-for-sale securities increases, and is recorded through the lines “Gains and losses from the revaluation of assets” and “Deferred tax liability”.

Upon sale or any other disposal, securities of the same type are valued at the weighted average cost.

Investments in enterprises in which the entities consolidated using the full consolidation method have the power to govern the financial and operating policies so as to obtain benefits from their activities are treated as "Equity investments in subsidiaries".

Investments in enterprises in which the entities consolidated using the full consolidation method are in a position to exercise significant influence over their financial and operating policies so as to obtain benefits from their activities are treated as "Equity investments in associates".

### **Provisioning against Equity Investments**

Investments are provisioned if there is a risk that the fair value of an unconsolidated equity investment is lower than its carrying value.

In charging provisions against equity securities that are not fair valued, the Group refers to its detailed knowledge of the relevant entity, its anticipated future cash flows and the results of its operations and reflects its interest in the entity's equity.

### **4.3. DERIVATIVE FINANCIAL TRANSACTIONS**

The Company designates derivative financial instruments as either trading or hedging. The Company's criteria for a derivative instrument to be accounted for as a hedge are as follows:

- In line with the financial risk management strategy, at the inception of the hedge, a decision was made regarding the hedged items and hedging instruments, the risks subject to hedging, the approach to calculating and documenting whether the hedge is effective;
- The hedge is highly effective (that is, within a range of 80% to 125%); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis, the Company assesses effectiveness at the derivative trade date and at the balance sheet date.

If derivative instruments do not meet the criteria for hedge accounting referred to above, they are treated as trading derivatives.

Derivative transactions are concluded for an agreed trade volume. At the consolidated balance sheet date, derivatives are reported at fair value. The market value is used as a fair value measure.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a legally enforceable contract, a forecasted future transaction, groups of assets, groups of liabilities, legally enforceable contracts or forecasted future transactions with similar characteristics where the same type and category of risk is the subject of the hedge. Gains or losses arising over the term of the hedge from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to the hedged risks are retained on the balance sheet. The gains or losses are taken to income or expenses in the same period in which the income or expenses associated with the hedged item are recognised. Gains or losses arising from changes in fair values of hedging derivatives contracted under cash flow hedging that are attributable to unhedged risks are recorded as expenses or income from derivative transactions at the measurement date.

### **4.4. CURRENT FINANCIAL ASSETS**

Current financial assets solely include cash at hand and cash at bank, short-term debt securities maturing within one year and other securities available for sale.

Current financial assets are carried at cost upon acquisition.

## 4.5. INVENTORY

### Valuation

Purchased inventory is valued at acquisition costs. Acquisition costs include the purchase cost and indirect acquisition costs such as customs fees, freight costs and storage fees during transportation, commissions and insurance charges.

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

Internally produced inventory is valued at cost using a costing formula in which the pure charge is valued at the actual cost and processing costs are valued at planned rates of the particular year.

At the consolidated balance sheet date, the Company assesses the actual costs of the charge and the difference between the actual costs of the charge and the valuation of the charge from the prior month is reflected only in the financial accounting records. In respect of processing costs, the difference between the value of processing costs of the planned operations valued at planned rates of the particular year and the value of the actually completed operations valued at planned rates of the particular year is reflected in the financial accounting accounts.

### Provisioning

Provisions against inventory of material are made in respect of inventory with low or no movement and a very low likelihood for processing following an individual analysis.

Provisions against the inventory of finished products and semi-finished products are charged based on the analysis of movements, selling prices and realisability.

## 4.6. RECEIVABLES

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

### Provisioning

The Group recognises provisions against receivables, the recoverability of which is doubtful. Tax deductible provisions against receivables are made pursuant to the Income Taxes Act and the Provisioning Act.

Non-tax deductible provisions (other than intercompany) are created as follows:

- a) Receivables past due for 1 year and more are provisioned in full; and
- b) Receivables past due over 180 days but less than 365 days are provisioned at 50%.

In addition, provisions are recognised against specific receivables following an individual assessment of their collectability.

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



#### 4.7. PAYABLES

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

#### 4.8. LOANS AND BORROWINGS

Loans are reported at nominal value. The portion of long-term loans maturing within one year from the consolidated balance sheet date and revolving loans which are regularly rolled over to the following period are included in short-term loans.

#### 4.9. RESERVES

Other reserves are created to provide for future risks known at the balance sheet date. In addition, a reserve is recorded for the restoration and maintenance of a dump site and clean-up after termination of the operation of the site in accordance with Regulation of No. 294/2005 Coll. on Conditions for Storing Waste in Dump Sites.

#### 4.10. FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies conducted during the year are translated using the exchange rate of the Czech National Bank prevailing on the date preceding the transaction date.

Financial assets denominated in foreign currencies (foreign currency cash) are translated into Czech crowns using the fixed monthly exchange rate as notified by the Czech National Bank as of the first day of the month in which they were recorded.

At the consolidated balance sheet date, the relevant assets and liabilities are translated at the Czech National Bank's exchange rate prevailing as of that date.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into CZK using exchange rates prevailing at the end of the reporting period. Equity items carried at historical cost in foreign currencies are not translated. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in capital funds (attributed to the minority capital funds as appropriate).

#### 4.11. FINANCE LEASES

A finance lease is the acquisition of a tangible fixed asset such that, over or after the contractual lease term, ownership title to the asset transfers from the lessor to the lessee; pending the transfer of title, the lessee makes lease payments to the lessor for the asset that are charged to expenses.

The initial lump-sum payment related to assets acquired under finance leases are amortised and expensed over the lease period.

#### 4.12. TAXATION

##### 4.12.1. Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/1992 Coll., on Income Taxes, with the exception of assets used by TŘINECKÉ ŽELEZÁRNY, a. s. in the Tube Rolling Mill (the VT operation), VZ – Sochorová válcovna plant and the Univerzální trať plant and the Track Fastenings Plant and assets used by Slévárny Třinec, a.s. and ŽDB DRÁTOVNA a.s. which are depreciated using both the straight line and accelerated methods for tax purposes. HŽP a.s. and SV servisní, s.r.o. use the straight line method for the calculation of depreciation for tax purposes.

#### **4.12.2. Current Tax Payable**

The tax currently payable is based on taxable profit for the reporting period. The taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the consolidated balance sheet date.

#### **4.12.3. Deferred Tax**

Deferred tax is accounted for using the balance sheet liability method.

Under the liability method, deferred tax is calculated at the income tax rate that is expected to apply in the period when the tax liability is settled.

The balance sheet liability method focuses on temporary differences which are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount that will be deductible for tax purposes in the future.

Deferred tax is charged or credited to the profit and loss account, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

The deferred tax asset/liability reported by the Group is the sum of deferred tax assets/liabilities of individual companies of the consolidation group that are reported by companies in their separate financial statements.

#### **4.13. BORROWING COSTS**

Borrowing costs arising from loans are expensed irrespective of the purpose for which they were drawn.

#### **4.14. COSTS RELATING TO EMPLOYEES HIRED THROUGH AN EMPLOYMENT AGENCY**

The staff costs of employees hired through an employment agency who are temporarily assigned to perform work under an agreement with the employment agency (the "agency employees") are reported as part of social costs which include the actually paid salaries including social security and health insurance costs. The costs of other aids and protective drinks for agency employees are reported under 'Consumed material and energy'. Other payments for the services of the employment agency, such as mediation fees or the employment agency's overheads, are reported under 'Services'.

#### **4.15. REVENUE RECOGNITION**

Revenues are recognised when goods are delivered and accepted by the customer or when services are rendered and are reported net of discounts and VAT.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Dividend income is recognised when the shareholders' rights to receive payment have been declared.

#### **4.16. USE OF ESTIMATES**

The presentation of the consolidated financial statements requires the entities included in the consolidated group to make estimates and assumptions that affect the reported amounts of assets and liabilities at the consolidated balance sheet date and the reported amounts of revenues and expenses during the reporting period. Each of the consolidated entities has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

#### 4.17. RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure is capitalised as part of cost and posted to the acquisition of tangible or intangible fixed assets if the research and development projects result in fixed assets (tangible or intangible). The output of a research project is capitalised on the basis of the results of opponent proceedings. A detailed analysis of the projects in progress is undertaken at the consolidated balance sheet date and the costs incurred are charged to expenses or recognised as complex deferred expenses in the event that there is doubt over the completion or future utilisation of the project.

#### 4.18. GRANTS

Operating subsidies received are credited to income on an accruals basis.

Subsidies for the acquisition of fixed assets reduce the cost of assets.

#### 4.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

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

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Cash at hand	8 274	9 067
Current accounts	5 186 375	5 726 585
Term deposits	0	0
Short-term securities	46 840	50 752
<b>Total current financial assets</b>	<b>5 241 489</b>	<b>5 786 404</b>
Cash and cash equivalents not included in the cash flow	-14 667	-16 767
Provision against short-term securities and investments	-12 548	-15 048
<b>Total cash and cash equivalents</b>	<b>5 214 274</b>	<b>5 754 589</b>

#### Comments on the Cash Flow Statement:

The difference between cash and cash equivalents as of 31 December 2017 and 2016 in the cash flows statement in comparison with the current financial assets in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

#### 4.20. CONSOLIDATION RULES

The individual items of the balance sheets and the profit and loss accounts of subsidiaries consolidated under the full consolidation method were added up in total amounts with the balance sheet and the profit and loss account of the parent company. Furthermore, financial investments of the parent company were eliminated against acquired equity, inter-company supplies, receivables and payables, including profits from the sale of the fixed assets realised among the consolidated group companies, and profit margins relating to inventories not yet consumed.

Under the equity consolidation method, financial investments of the parent company were eliminated from the balance sheet against acquired equity. The assets in the consolidated balance sheet included the item *"Securities and equity investments under equity accounting"*, the balance of which is calculated as the share in the equity of associates. This item was adjusted by a portion of the profit margin, reflecting the share in the equity of an associate, on intercompany supplies of inventories not yet consumed. Liabilities of the consolidated balance sheet included the item *"Share in the profit/ (loss) of equity accounted investment"* which represents the parent company's share in the current period's results, and the *"Consolidation reserve fund"* comprising an associate's accumulated profit/loss of previous years.

Goodwill arising on consolidation represents the difference between the cost of an investment in a subsidiary and its value determined on the basis of the Parent Company's interest in the fair value of equity which arises as a difference between the fair values of assets and the fair values of liabilities as of the acquisition date or as of the date of a further capital increase (a further increase of securities or equity investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated company. Since 2008, the Company has not depreciated goodwill with reference to the method of goodwill reporting applied by International Accounting Standards. The impact of this method on the Group's profit/loss in 2017 is not material due to the size of the Group.

Positive (negative) goodwill arising on consolidation is measured at cost which is adjusted by accumulated losses (accumulated profits) from the change in this value, the testing of a change in the value is performed on an annual basis.

Amortisation charges of goodwill arising on consolidation are recognised in a special consolidated profit and loss account line item 'Release of a positive consolidation difference (goodwill)' or 'Release of a negative consolidation difference (bargain purchase gain)' with a charge against expenses or a credit to income from common activities as appropriate.

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

If the investment in the share capital of an already controlled entity (an additional purchase on a non-controlling investment) is increased, the goodwill on consolidation is not calculated and the assets and liabilities are not remeasured to fair value as of the date when the investment is increased. The difference between the purchase cost of the equity securities and investments of the consolidated entity and their valuation by the equity share of the controlling or jointly-controlling entity in the equity of the consolidated entity, in carrying amount which results as equal to the difference between the carrying amount of assets and the carrying amount of liabilities as of the date when another increase in the investment (another acquisition of securities or investments) is recognised in equity (profit or loss of prior periods).

The consolidation of the financial statements was performed using the combination of the direct consolidation method and consolidation of consolidation sub-groups.

The financial statements for the years ended 31 December 2017 and 2016 prepared by the companies included in the consolidated group, as well as the financial statements of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statements date are available in the registered office of the Parent Company.

The consolidation rules for 2017 and 2016 (definition of the consolidated group, method of transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Parent Company.

## 5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

### 5.1. CONSOLIDATED PROFIT/LOSS FOR 2017

#### 5.1.1. Structure of the Consolidated Profit/Loss for 2017

(CZK THOUSAND)

Current year's profit made by MORAVIA STEEL a.s.	2 736 995
Current year's profit made by M Steel Projects a.s.	74 297
Current year's profit made by M Steel Projects s.r.o.	-25 003
Current year's profit made by MSProjects International s.r.o.	7 159
Current year's profit made by Beskydská golfová, a.s.	750
Current year's loss made by Hotel Golf Ropice a.s.	-16
Current year's loss made by Barrandov Studio a.s.	50 199
Current year's profit made by MORAVIA STEEL ITALIA S.R.L.	19 321
Current year's profit made by Moravia Steel Deutschland, GmbH	22 863
Current year's profit made by MORAVIA STEEL UK LIMITED	1 691
Current year's profit made by the TŽ, a.s. consolidation group	1 555 380
Current year's profit made by MS – Slovensko s.r.o.	6 293
Share in profit of equity accounted investments of Moravia Mining Plc	-3 743
Share in profit of equity accounted investments of MSP International AZ	4 537
Current year's profit made by Moravskoslezský kovošrot a.s.	44 636
Current year's profit made by "NEOMET" Sp.z o.o.	26 215
Share in profit of equity accounted investments	141 952
Adjustments under full consolidation (see Note 5.1.2.)	-1 665 080
Adjustments under the equity method (see Note 5.1.3.)	160
<b>Consolidated profit</b>	<b>2 998 606</b>

#### 5.1.2. Profit/(Loss) Adjustments under Full Consolidation for 2017

(CZK THOUSAND)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact and elimination of minority profit or loss	-139 800
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	52 062
Other consolidation adjustments	35 018
Elimination of dividends paid by MORAVIA STEEL ITALIA S.R.L. TŽ, a.s., Moravskoslezský kovošrot a.s., Kovárna VIVA a.s., MS UK, MSD, MSPI AZ	-1 612 360
<b>Total adjustments</b>	<b>1 665 080</b>

#### 5.1.3. Adjustments under Equity Consolidation for 2017

(CZK THOUSAND)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	160
<b>Total adjustments</b>	<b>160</b>

## 5.2. CONSOLIDATED PROFIT/LOSS FOR 2016

### 5.2.1. Structure of the Consolidated Profit/Loss for 2016

(CZK THOUSAND)

Current year's profit made by MORAVIA STEEL a.s.	2 325 700
Current year's profit made by M Steel Projects a.s.	120 795
Current year's profit made by M Steel Projects s.r.o.	101
Current year's profit made by MSProjects International s.r.o.	11 024
Current year's profit made by Beskydská golfová, a.s.	174
Current year's loss made by Hotel Golf Ropice a.s.	-11
Current year's loss made by Barrandov Studio a.s.	-15 409
Current year's profit made by MORAVIA STEEL ITALIA S.R.L.	17 824
Current year's profit made by Moravia Steel Deutschland, GmbH	29 686
Current year's profit made by MORAVIA STEEL UK LIMITED	1 546
Current year's profit made by the TŽ, a.s. consolidation group	1 836 091
Current year's profit made by MS – Slovensko s.r.o.	2 189
Share in profit of equity accounted investments of Moravia Mining Plc	-749
Share in profit of equity accounted investments of MSP International AZ	7 140
Current year's profit made by Moravskoslezský kovošrot a.s.	36 886
Current year's profit made by "NEOMET" Sp.z o.o.	22 823
Share in profit of equity accounted investments	85 261
Adjustments under full consolidation (see Note 5.1.2.)	-1 300 722
Adjustments under the equity method (see Note 5.1.3.)	4 989
<b>Consolidated profit</b>	<b>3 185 338</b>

### 5.2.2. Profit/(Loss) Adjustments under Full Consolidation for 2016

(CZK THOUSAND)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact and elimination of minority profit or loss	181 329
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	5 804
Other consolidation adjustments	-35 018
Elimination of dividends paid by MORAVIA STEEL ITALIA S.R.L. TŽ, a.s., Moravskoslezský kovošrot a.s., Kovárna VIVA a.s.	-1 452 837
<b>Total adjustments</b>	<b>-1 300 722</b>

### 5.2.3. Adjustments under Equity Consolidation for 2016

(CZK THOUSAND)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	4 989
<b>Total adjustments</b>	<b>4 989</b>

## 6. ADDITIONAL INFORMATION ON THE BALANCE SHEET

### 6.1. INTANGIBLE FIXED ASSETS

#### Cost

(CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Research and development	4 553	0	0	0	4 553
Start-up costs	93	0	93	0	0
Goodwill	370	0	0	-13	357
Software	332 551	6 672	862	12	338 373
Valuable rights	691 218	47 217	527	198	738 106
Other intangible FA	478 380	926 019	806 464	-4	597 953
Intangible FA under construction	12 186	436 989	435 658	52	13 569
Prepayments for intangible FA	38 112	65	38 123	0	54
<b>Total</b>	<b>1 557 463</b>	<b>1 416 962</b>	<b>1 281 727</b>	<b>245</b>	<b>1 692 965</b>

(CZK THOUSAND)

	Balance at 1 Jan 2017	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2017
Research and development	4 553	0	0	0	4 553
Start-up costs	0	0	0	0	0
Goodwill	357	0	0	-1	356
Software	338 373	9 782	191	-729	347 235
Valuable rights	738 106	38 779	0	-837	776 048
Other intangible FA	597 953	549 636	579 552	-73	567 964
Intangible FA under construction	13 569	121 530	125 138	0	9 961
Prepayments for intangible FA	54	2 021	2 075	0	0
<b>Total</b>	<b>1 692 965</b>	<b>721 748</b>	<b>706 956</b>	<b>-1 640</b>	<b>1 706 117</b>

**Accumulated Amortisation and Provisions**

(CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Research and development	4 553	0	0	0	4 553
Start-up costs	93	0	93	0	0
Goodwill	370	0	0	-13	357
Software	286 939	11 661	0	-1	298 599
Valuable rights	444 430	61 156	26 502	193	479 277
Other intangible FA	12 929	1 015	529	23	13 438
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>749 314</b>	<b>73 832</b>	<b>27 124</b>	<b>202</b>	<b>796 224</b>

(CZK THOUSAND)

	Balance at 1 Jan 2017	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2017
Research and development	4 553	0	0	0	4 553
Start-up costs	0	0	0	0	0
Goodwill	357	0	0	-1	356
Software	298 599	16 324	189	-632	314 102
Valuable rights	479 277	65 984	25 113	-589	519 559
Other intangible FA	13 438	884	0	14	14 336
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>796 224</b>	<b>83 192</b>	<b>25 302</b>	<b>-1 208</b>	<b>852 906</b>

**Net Book Value**

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Software	39 774	33 133
Valuable rights	258 829	256 489
Other intangible FA	584 515	553 628
Intangible FA under construction	13 569	9 961
Prepayments for intangible FA	54	0
<b>Total</b>	<b>896 741</b>	<b>853 211</b>

Additions to and disposals of other intangible fixed assets predominantly include the allocation and consumption of greenhouse emission allowances.



### Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets charged to expenses amounted to CZK 65,890 thousand and CZK 47,229 thousand for the years ended 31 December 2017 and 2016, respectively.

Other intangible assets include greenhouse gas emission allowances.

In the year ended 31 December 2017, the Company obtained 3,896,547 emission allowances for 2017 in the amount of CZK 549,524 thousand free of charge. As of the balance sheet date of 31 December 2017, the Company recognised a disposal of emission allowances for 2016 of CZK 33 thousand and a disposal of emission allowances for 2017 of CZK 579,521 thousand.

In the year ended 31 December 2016, the Company obtained 4,032,973 emission allowances for 2016 in the amount of CZK 541,694 thousand free of charge. As of the balance sheet date of 31 December 2016, the Company recognised a disposal of emission allowances for 2015 of CZK 76 thousand and a disposal of emission allowances for 2016 of CZK 805,858 thousand.

During 2016, the Company acquired 2,350,000 EUA-type emission allowances in the amount of CZK 382,809 thousand. In 2016, the Company purchased 3,441 CER credits of CZK 47 thousand and exchanged this volume of CER credits for 3,441 EUA allowances.

### Aggregate Amount of Low-Value Intangible Fixed Assets Maintained Off-Balance Sheet

The aggregate balance of low-value intangible assets not reported on the face of the balance sheet was CZK 43,220 thousand and CZK 42,925 thousand as of 31 December 2017 and 2016, respectively.

## 6.2. TANGIBLE FIXED ASSETS

### Cost

(CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Land	1 139 861	32 719	302	277	1 172 555
Structures	13 430 461	478 761	84 726	-5 199	13 819 297
Individual tangible movable assets	36 135 173	2 396 239	501 269	-9 950	38 020 193
Other tangible FA	200 609	4 202	2 806	403	202 408
Tangible FA under construction	975 118	2 900 365	2 874 924	-178	1 000 381
Prepayments	93 775	363 529	280 749	0	176 555
<b>Total</b>	<b>51 974 997</b>	<b>6 175 815</b>	<b>3 744 776</b>	<b>-14 647</b>	<b>54 391 389</b>

(CZK THOUSAND)

	Balance at 1 Jan 2017	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2017
Land	1 172 555	2 883	132	-1 771	1 173 533
Structures	13 819 297	920 363	12 127	-8 743	14 718 791
Individual tangible movable assets	38 020 193	2 578 706	437 538	-22 380	40 138 980
Other tangible FA	202 408	4 980	1 316	-1 605	204 467
Tangible FA under construction	1 000 381	3 607 148	3 495 721	-20	1 111 788
Prepayments	176 555	592 802	567 784	-239	201 334
<b>Total</b>	<b>54 391 389</b>	<b>7 706 882</b>	<b>4 514 618</b>	<b>-34 759</b>	<b>57 548 893</b>

**Accumulated Depreciation and Provisions**

(CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Structures	6 833 336	385 532	38 547	-4 375	7 175 946
Individual tangible movable assets	24 393 680	1 608 841	422 031	-8 187	25 572 303
Other tangible FA	186 235	3 668	5 073	277	185 107
Tangible FA under construction	10 756	12 721	5 740	0	17 737
<b>Total</b>	<b>31 424 007</b>	<b>2 010 762</b>	<b>471 391</b>	<b>-12 285</b>	<b>32 951 093</b>

(CZK THOUSAND)

	Balance at 1 Jan 2017	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2017
Land	0	1 277	0	0	1 277
Structures	7 175 946	363 823	18 407	-1 735	7 519 628
Individual tangible movable assets	25 572 303	1 577 130	420 525	-17 490	26 711 419
Other tangible FA	185 107	3 099	1 140	-998	186 065
Tangible FA under construction	17 737	462	2 471	0	15 728
<b>Total</b>	<b>32 951 093</b>	<b>1 945 791</b>	<b>442 543</b>	<b>-20 223</b>	<b>34 434 117</b>

**Net Book Value**

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Land	1 172 555	1 172 256
Structures	6 643 350	7 199 163
Individual tangible movable assets	12 447 891	13 427 561
Other tangible FA	17 301	18 402
Tangible FA under construction	982 644	1 096 060
Prepayments for tangible FA	176 555	201 334
<b>Total</b>	<b>21 440 296</b>	<b>23 114 776</b>

**Principal additions to tangible fixed assets for the year ended 31 December 2017 are as follows:**

(CZK THOUSAND)

Tangible FA acquired as part of the blooming mill project	650 634
Tangible FA acquired as part of the construction of a new billet cleaning plant	314 936
Tangible FA acquired as part of the reconstruction of gas treatment plants of the oxygen converter steelworks – K1, K2	206 007
Acquisition of cowper no. 64 on BF6	203 281
Annealing hood-type furnace HUGF 420-230 JET (LOI)	42 972
Annealing plant hall LOI	33 867
Technical improvement on the Candor treatment line	31 723
Single-drawing bull-block KOCH KHZ 40 000	30 297
New hall	27 943
Technical improvement of the treatment plant – CANDOR building	26 238

**Principal additions to tangible fixed assets under construction for the year ended 31 December 2017 are as follows:**

(CZK THOUSAND)

Construction of furnaces for bar annealing	149 929
Adjustment of the cont. casting device 1 for casting format 600	56 123
Desulphurisation of agglomeration no. 1	33 091
Modernisation of distribution points	15 485
Construction of the wardrobe and prop department building	14 058

**Principal additions to tangible fixed assets for the year ended 31 December 2016 are as follows:**

(CZK THOUSAND)

Acquisition of coke oven battery no. 11	601 442
Acquisition of extrusion and compacting vehicle no. 8	178 573
Acquisition of annealing furnace STC no. 4 and 5	163 072
Direct drawing bull-block S1200/8 group 56	28 469
Line for thermal processing of forgings in protective atmosphere no. 2	27 666

**Principal additions to tangible fixed assets under construction for the year ended 31 December 2016 are as follows:**

(CZK THOUSAND)

Construction of new cowper no. 64	146 470
Construction of a new billet cleaning plant	121 159
Innovation of large forgings – transfer to furan mixture	92 275
Reconstruction and modernisation of the blooming mill	41 744
Short Film buildings	25 119

### Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,924,813 thousand and CZK 1,909,482 thousand for the years ended 31 December 2017 and 2016, respectively.

### Aggregate Amount of Low-Value Tangible Assets Maintained Off-Balance Sheet

The aggregate cost of low-value tangible fixed assets not included in the balance sheet totalled CZK 842,747 thousand and CZK 799,252 thousand as of 31 December 2017 and 2016, respectively.

### Fair Value

In 2017 and 2016, no assets were revalued to fair value at any of the entities.

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

### Finance Leases

(CZK THOUSAND)

31 December 2017	Passenger cars	Machinery and equipment	Balance at 31 Dec 2017
Total estimated sum of lease instalments	4 756	64 149	68 905
Payments made as of 31 Dec 2017	799	15	814
Due in the following years	0	0	0

(CZK THOUSAND)

31 December 2016	Passenger cars	Machinery and equipment	Balance at 31 Dec 2016
Total estimated sum of lease instalments	4 756	64 149	68 905
Payments made as of 31 Dec 2016	790	10 361	11 151
Due in the following years	0	0	0

### Operating Leases

In the years ended 31 December 2017 and 2016, rental amounted to CZK 63,876 thousand and CZK 61,833 thousand, respectively.

## 6.4. FIXED ASSETS PLEDGED AS SECURITY

31 December 2017

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA	254 186	Loan from Česká spořitelna, a.s.
Land	23 663	
TFA	455 923	Loan from Česká spořitelna, a.s.
Land	344	
TFA	754 558	Loan from Česká spořitelna, a.s.
Structures	141 948	
Land	3 458	
TFA	2 601	Loan from Československá obchodní banky, a.s.
Land	39 986	
TFA	891 744	Loan from Československá obchodní banky, a.s.
TFA	917 188	Loan from Československá obchodní banky, a.s.
TFA	428 076	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	644	
TFA	507 916	Loan from HSBC Bank plc – Prague branch
Land	110 468	
TFA	106 961	Overdraft loan from Československá obchodní banky, a.s.
Land	5 264	
Technology	100 993	Raiffeisenbank a.s. – pledge for the long-term bank loan for financing the MoRe distribution point T4 – 110kV
TFA	119 298	Investment loan from ING Bank N.V
TFA*	91 710	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, collateralised with machinery up to PLN 15,000 thousand.
TFA, land	748	Investment loan from Raiffeisenbank a.s.
TFA, land	754	Investment loan from Raiffeisenbank a.s.
TFA, land	1 552	Investment loan from Raiffeisenbank a.s.
TFA, land	832	Investment loan from Raiffeisenbank a.s.
TFA, land	272	Investment loan from Raiffeisenbank a.s.
TFA, land	1 808	Investment loan from Raiffeisenbank a.s.
TFA, land	2 180	Investment loan from Raiffeisenbank a.s.
TFA, land	1 074	Investment loan from Raiffeisenbank a.s.
TFA, land	8 368	Investment loan from Raiffeisenbank a.s.
TFA, land	361	Investment loan from Raiffeisenbank a.s.
TFA, land	120	Investment loan from Raiffeisenbank a.s.
TFA, land	11 455	Investment loan from Československá obchodní banky, a.s.
Land	13 089	Loan from Citibank Europe plc.
Technology	63 182	
TFA, land	15 468	Loan from UniCredit Bank a.s.
TFA, land, buildings	138 819	Loan from Raiffeisenbank, a.s.
<b>Total</b>	<b>5 220 131</b>	

\*translated using the exchange rate promulgated by the Czech National Bank as of 31 December 2017

## 31 December 2016

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA	255 304	Loan from Česká spořitelna, a.s.
Land	23 663	
TFA	492 847	Loan from Česká spořitelna, a.s.
Land	3 444	
TFA	179 600	Loan from Československá obchodní banka, a.s.
Land	10 513	
TFA	2 706	Loan from Československá obchodní banka, a.s.
Land	39 986	
TFA	915 886	Loan from Československá obchodní banka, a.s.
TFA	464 261	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	664	
TFA	548 883	Loan from HSBC Bank plc – Prague branch
Land	110 468	
TFA	126 803	Overdraft loan from Československá obchodní banka, a.s.
Land	10 567	
Technology	114 610	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction
TFA	90 829	Loans from Česká spořitelna, a.s.
Land	5 346	
TFA	136 744	Investment loan from ING Bank N.V
TFA*	91 890	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, collateralised by machinery up to PLN 15,000 thousand
TFA, land	987	Loan from Citibank Europe plc.
TFA, land	969	Loan from Citibank Europe plc.
TFA, land	362	Loan from Citibank Europe plc.
TFA, land	12 186	Investment loan from Československá obchodní banka, a.s.
TFA, land	15	Investment loan from Československá obchodní banka, a.s.
Land	13 089	Loan from Citibank Europe plc. .
Technology	36 231	
TFA, land	15 468	Loan from UniCredit Bank a.s.
TFA, land, buildings	145 813	Loan from Raiffeisenbank, a.s.
<b>Total</b>	<b>3 850 134</b>	

\*translated using the exchange rate promulgated by the Czech National Bank as of 31 December 2016

## 6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

### 6.5.1. Summary of Unconsolidated Investments in 2017

#### Balance at 31 December 2017

(CZK THOUSAND)

Company name	Equity investments – subsidiaries						
	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	867	51,00	8 315	2 025	0	1 573
Moravia Steel Ibéria,s.a.	10 850	2 533	99,33	10 208	2 128	0	10 850
AHP HYDRAULIKA, a.s.	90 058	1 000	100,00	**)	**)	-90 058	0
Moravia Steel Israel Ltd.	605	466	100,00	**)	**)	0	605
Barrandov Productions s.r.o.	100	100	100,00	1 500	-251	0	100
Barrandov Studios Productions s.r.o.	200	200	100,00	1 057	2	0	200
FILMOVÁ NADACE *)	500	500	100,00	683	-196	0	500
<b>Total</b>	<b>103 886</b>						

\*) Balance at 31 December 2017, reporting period ended 28 February 2018

\*\*) As of the end of 2017, Moravia Steel Israel Ltd.. and AHP HYDRAULIKA, a.s. reported a deficit on equity. The companies reported a loss in 2017.

#### Summary of Unconsolidated Investments of the TŽ, a.s. Sub-Group:

(CZK THOUSAND)

Company name	Equity investments – subsidiaries						
	Nominal value	Number of securities	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100,00	51 982	1 498	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100,00	48 991	2 771	0	0
TRIALFA, s.r.o., Třinec - Kanada	100	0	100,00	19 419	500	0	0
Moravia Security, a.s., Kinská, Třinec	12 000	12	100,00	35 670	3 055	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90,00	43 200	-4 098	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	2 000	20	100,00	11 378	-1 282	-22 958	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83,18	29 521	7 635	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością,Cieszyn (POL)	48 558	0	88,00	46 146	86	-9 141	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66,00	49 679	-1 274	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	9 477	-	80	11 846	1 505	0	2 151
JuBo Jeseník s. r.o., Jeseník	2 513	-	80	3 141	1 525	0	240
Řetězárna servis s.r.o., Jeseník	2 891	-	100	2 991	2 891	0	0
IMOPRA s.r.o., Nivnice	2 000	0	100,00	94 302	4 715	0	0
<b>Total</b>						<b>-32 099</b>	<b>2 391</b>

Note: In italics – preliminary results as of 31 December 2017

\* Data were not known as of the preparation of the consolidated financial statements.

**Unconsolidated financial investments of the Moravskoslezský kovošrot, a.s. Sub-group:**

Equity investments – subsidiary							
Name of the entity	Cost	Nominal value	Share in %	Equity	Profit or loss	Provision	Net cost
MSK Polska Sp. z o.o.	48 345	48 345	84	-24 368	0	-48 345	0
<b>Total</b>	<b>48 345</b>	<b>48 345</b>			<b>0</b>	<b>-48 345</b>	<b>0</b>

In 2017 (2016) the Company held a 84% equity investment in a subsidiary in Poland called MSK Polska Sp. z o.o., which entered liquidation and bankruptcy on 21 December 2012. As of the balance sheet date 31 December 2017 (31 December 2016), the equity investment was recalculated to the amount of CZK 0.

The Group did not generate any material financial income from the unconsolidated investments in the year ended 31 December 2017.

**6.5.2. Summary of Unconsolidated Investments in 2016****Balance at 31 December 2016**

(CZK THOUSAND)

Company name	Equity investments – subsidiaries						
	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	867	51,00	6 853	1 494	0	1 573
Moravia Steel Ibéria,s.a.	10 850	2 534	99,33	19 830	1 988	0	10 850
Moravia Goel Trade, d.o.o.*)	59	59	60,00	*	*	-59	0
Moravia Steel Israel Ltd.	605	466	100,00	-10	-56	0	605
Barrandov Productions s.r.o.	100	100	100,00	1 700	-256	0	100
Barrandov Studios Productions s.r.o.	200	200	100,00	1 055	69	0	200
FILMOVÁ NADACE **)	500	500	100,00	1 933	-205	0	500
<b>Total</b>	<b>13 887</b>					<b>-59</b>	<b>13 828</b>

\*) In liquidation

\*\*) Balance at 31 December 2016, reporting period ended 28 February 2017



**Summary of Unconsolidated Investments of the TŽ, a.s. Sub-Group:**

(CZK THOUSAND)

Company name	Equity investments – subsidiaries						
	Nominal value	Number of securities	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100,00	50 484	2 384	0	0
Doprava TŽ, a.s., Třinec - Staré Město	16 000	115	100,00	46 220	2 678	0	0
TRIALFA, s.r.o., Třinec - Kanada	100	0	100,00	18 919	273	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	10 914	–	80,00	13 643	2 005	0	2 162
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90,00	47 298	–2 032	0	0
TRISIA, a.s., Třinec	9 900	990	66,00	50 875	–1 850	0	0
“ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88,00	46 166	–33	–9 124	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100,00	26 348	3 894	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83,18	21 886	3 686	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68,00	12 661	–8 316	–21 391	0
JuBo Jeseník s. r. o.	1 537	–	80,00	1 921	446	0	0
Řetězárna servis s.r.o., Jeseník	100	–	100,00	0	0	0	0
<b>Total</b>						<b>–30 515</b>	<b>2 162</b>

Note: *In italics – preliminary results as of 31 December 2017*

**Unconsolidated financial investments of the Moravskoslezský kovošrot, a.s. Sub-group:**

(CZK THOUSAND)

Equity investments – subsidiary							
Name of the entity	Cost	Nominal value	Share in %	Equity	Profit or loss	Provision	Net cost
MSK Polska Sp. z o.o.	48 345	48 345	84	–24 368	0	–48 345	0
<b>Total</b>	<b>48 345</b>	<b>48 345</b>			<b>0</b>	<b>–48 345</b>	<b>0</b>

In 2016 (2015) the Company held a 84% equity investment in a subsidiary in Poland called MSK Polska Sp. z o.o., which entered liquidation and bankruptcy on 21 December 2012. As of the balance sheet date 31 December 2016 (31 December 2015), the equity investment was recalculated to the amount of CZK 0.

The Group did not generate any material financial income from the unconsolidated investments in the year ended 31 December 2016.

## 6.6. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2017

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in equity
<b>Positive goodwill arising on consolidation</b>					
Barrandov Studio a.s.	34 362	34 362	0	0	0
HŽP a.s.	130 507	14 500	116 007	0	0
Moravia Steel UK LIMITED	1 234	0	1 234	0	0
ŽDB DRÁTOVNA a.s.	251 029	0	251 029	0	0
<b>Total</b>	<b>417 132</b>	<b>48 862</b>	<b>368 270</b>	<b>0</b>	<b>0</b>

2016

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in equity
<b>Positive goodwill arising on consolidation</b>					
Barrandov Studio a.s.	34 362	34 362	0	0	0
HŽP a.s.	130 507	14 500	116 007	0	0
Moravia Steel UK LIMITED	1 234	0	1 234	0	0
"D&D" Drótáru Zrt.	0	0	0	2 443	4 088
ŽDB DRÁTOVNA a.s.	250 967	0	250 967	0	0
<b>Total</b>	<b>417 070</b>	<b>48 862</b>	<b>368 208</b>	<b>2 443</b>	<b>4 088</b>

## 6.7. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK THOUSAND)

Securities and equity investments under equity accounting	2017	2016
VESUVIUS ČESKÁ REPUBLIKA, a.s.	136 871	152 309
Kovárna VIVA a.s.	509 190	486 591
Moravia Steel Middle East FZCO	125 862	57 314
<b>Total</b>	<b>771 923</b>	<b>696 214</b>

## 6.8. NON-CURRENT FINANCIAL ASSETS PLEDGED AS SECURITY

As of 31 December 2017, the Company records non-current financial assets pledged as security with the nominal value of CZK 130,000 thousand. As of 31 December 2016, the Company recorded non-current financial assets pledged as security with the nominal value of CZK 132,000 thousand.

## 6.9. INVENTORY

As of 31 December 2017, "METALURGIA" S.A. has pledged inventory up to PLN 13,000 thousand (CZK 79,482 thousand) with Bank BGŻ BNP Paribas S.A. in relation to the used loan. In 2016, the inventory was pledged up to PLN 13,000 thousand (CZK 79,638 thousand).

## 6.10. RECEIVABLES

### 6.10.1. Structure of Short-Term Receivables

As of 31 December 2017, gross short-term trade receivables past their due dates amounted to CZK 1,357,359 thousand (net CZK 1,101,490 thousand). As of 31 December 2016, gross short-term trade receivables past their due dates amounted to CZK 1,432,639 thousand (net CZK 1,031,783 thousand).

### Other Short-Term Receivables

Short-term prepayments made principally include prepayments for supplied services.

State – tax receivables predominantly include a receivable arising from the excessive value added tax deduction and prepayments for fees according to the Air Protection Act.

Other receivables principally include a receivable arising from a bank guarantee and a receivable arising from the indisputable entitlement for the subsidy.

Estimated receivables principally include an estimated receivable arising from anticipated insurance benefits.

Receivables typically mature within 30 days.

### 6.10.2. Receivables Pledged as Security

As of 31 December 2017, VÚHŽ a.s. records no pledged receivables. As of 31 December 2016, VÚHŽ a.s. recorded pledged receivables of CZK 10,296 thousand with Československá obchodní banka, a.s. which are used as a pledge for short-term loans (overdraft) and the Contract on Rules for Provision of Letters of Credit and Bank Guarantees.

As of 31 December 2017, "METALURGIA" S.A. records pledged receivables of PLN 3,722 thousand (CZK 22,758 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o. As of 31 December 2016, "METALURGIA" S.A. records pledged receivables of PLN 4,751 thousand (CZK 29,104 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o.

### 6.10.3. Intercompany Receivables

#### Short-Term Receivables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2017	Balance at 31 Dec 2016
DOPRAVA TŽ, a.s.	1 026	1 746
Kovárna VIVA a.s.	113 679	75 051
Moravia Security, a.s.	93	118
Security Morava, s.r.o.	11	9
TRIALFA, s.r.o.	4 005	1 920
TRISIA, a.s.	15	13
TŘINECKÁ PROJEKCE, a.s.	154	53
Třinecké gastroslužby, s.r.o.	1 330	1 201
VESUVIUS ČESKA REPUBLIKA, a.s.	4 224	4 564
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	19	30
IMOPRA s.r.o.	24 041	0
AHP Hydraulika, a.s.	7 727	1 378
JuBo Jeseník s.r.o.	3 846	4 549
DALSELV DESIGN a.s.	535	45
Reťaze Slovakia, s.r.o.	538	1 247
MINERFIN a.s.	452	451
<b>Total short-term intercompany receivables</b>	<b>163 025</b>	<b>92 375</b>
Other than intercompany receivables	8 136 031	8 654 448
<b>Total net short-term receivables</b>	<b>8 774 141</b>	<b>8 746 823</b>

#### Long-Term Receivables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Barrandov Productions, s.r.o.	0	2 290
<b>Total long-term intercompany receivables</b>	<b>0</b>	<b>2 290</b>
Other than intercompany receivables	227 471	247 682
<b>Total net long-term receivables</b>	<b>227 471</b>	<b>249 972</b>

As of 31 December 2017, the Group records long-term receivables with due dates of more than 5 years of CZK 4,814 thousand; as of 31 December 2016, the Group recorded long-term receivables with due dates of more than 5 years of CZK 2,262 thousand.

## 6.11. EQUITY AND SHARE CAPITAL

### 6.11.1. Equity

Gains and losses from revaluation comprise the gain or loss from the revaluation of available-for-sale securities net of the deferred tax liability. In addition, they comprise the impact of the deferred tax arising from the gains or losses from the revaluation of assets and liabilities at fair value.

In the year ended 31 December 2017, dividends in the amount of CZK 2,000,000 thousand were declared and paid out.

The management of Barrandov Studio a.s. has retrospectively assessed the tax deductibility of inputs for the calculation of deferred tax. In this respect, a retrospective calculation of deferred tax as of 1 January 2016 was made and the resulting difference in the deferred tax liability of CZK (11,252) thousand (CZK 11,236 thousand net of minority interests) was reported in other profit or loss from prior years.

### Proposal for the allocation of profit for 2017

In 2017, the consolidation group generated net profit after tax of CZK 2,884,530 thousand. The profit will be transferred to retained earnings brought forward and the consolidated reserve fund.

### 6.11.2. Share Capital

As of 31 December 2017, the share capital amounted to CZK 3,157,000 thousand. The Company's share capital is composed of 1,514 registered shares in book-entry form with a nominal value of CZK 500 thousand each, 100 registered shares in book-entry form with a nominal value of CZK 10,000 thousand each and 2 registered shares in book-entry form with a nominal value of CZK 700,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board.

## 6.12. RESERVES

Other reserves consist of reserves for the scrapping of equipment, employee bonuses, commitments being dealt with through the courts, losses incurred in connection with concluded long-term contracts and other threatening fines and reserves for legal disputes.

## 6.13. PAYABLES

### 6.13.1. Long-Term Payables

As of 31 December 2017 and 2016, primarily payables arising from retention fees to suppliers according to concluded contracts are reported under long-term trade payables.

### 6.13.2. Short-Term Trade Payables

As of 31 December 2017, short-term trade payables past their due dates amount to CZK 74,107 thousand (2016: CZK 154,783 thousand).

### 6.13.3. Other Payables

As of 31 December 2017 and 2016, due amounts arising from social security and state employment policy contributions and public health insurance amounted to CZK 198,662 thousand and CZK 186,428 thousand, respectively. These payables were duly settled as of the balance sheet date.

State – tax payables and subsidies predominantly include the short-term portion of payables arising from public subsidies and an income tax payable.

Estimated payables predominantly include unbilled supplies for work and services and an estimated payable for outstanding vacation days and annual bonuses including insurance payments.

Other payables predominantly include payables arising from bank guarantees, fines and contributions to employees.

### 6.13.4. Intercompany Payables

#### Short-Term Payables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Doprava TŽ, a.s.	13 529	10 899
Ocelářská unie, a.s. (former Hutnictví železa, a.s.)	37	563
Moravia Security, a.s.	13 633	11 481
TRIALFA, s.r.o.	14 404	16 221
TRISIA, a.s.	942	1 183
TŘINECKÁ PROJEKCE, a.s.	3 984	2 900
Třinecké gastroslužby, s.r.o.	10 276	10 374
VESUVIUS ČESKÁ REPUBLIKA, a.s.	33 789	35 737
Security Morava s.r.o.	1 396	1 234
ZAMECZEK BŁOGOCICE Sp. zo.o.	103	103
FINITRADING, a.s.	169 261	0
Moravia Steel Ibéria, s.a.	1 276	730
MORAVIA STEEL SLOVENIJA d.o.o.	4 578	3 647
MORAVIA STEEL MIDDLE EAST FZCO	60 512	20 463
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	2 158	1 329
HRAT, s.r.o.	37	36
DALSELV DESIGN a.s.	3 162	3 314
MINERFIN, a.s.	59 024	100 789
<b>Total short-term intercompany payables</b>	<b>392 101</b>	<b>221 003</b>
Other than intercompany payables	8 831 237	6 985 363
<b>Total short-term payables</b>	<b>9 223 338</b>	<b>7 206 366</b>

## 6.14. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET

### 6.14.1. Deferred Tax Liability

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

(CZK THOUSAND)

Deferred tax arising from	Tax rate in %	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Difference between the tax and accounting carrying values of fixed assets	19	9 746 343	9 257 760
Difference between the tax and accounting carrying values of fixed assets	9	75 023	0
Revaluation of securities available for sale	19	-58	-58
Revaluation of assets to fair value charged to equity	19	141 415	156 768
Revaluation of assets to fair value charged to equity	9	36 895	38 551
Revaluation of assets to fair value charged to consolidation goodwill	9	0	0
Revaluation of assets to fair value charged to consolidation goodwill	19	52 379	52 050
Accounting reserves	19	-408 739	-216 580
Provisions	19	-809 356	-931 769
Provisions	9	3 490	5 927
Outstanding default interest	19	-40	-714
Expenses deductible for tax purposes in the following years	19	-196 830	-159 652
Expenses deductible for tax purposes in the following years	9	-493	0
Utilisable tax loss	19	-4 089	0
Unrealised profit on the sale of inventory within the Group	19	-29 728	-28 961
Unrealised profit on the sale of tangible FA within the Group	19	-299 384	-268 673
Other	10	0	0
<b>Total temporary differences</b>		<b>8 306 827</b>	<b>8 004 683</b>
<b>Deferred tax liability</b>		<b>1 569 233</b>	<b>1 507 389</b>

(CZK THOUSAND)

<b>Analysis of movements</b>	
<b>1 Jan 2016</b>	<b>1 497 856</b>
Current changes charged to the profit and loss account	12 915
Current changes charged to equity	501
Charge against positive goodwill on consolidation	-3 883
<b>31 Dec 2016</b>	<b>1 507 389</b>
Current changes charged to the profit and loss account	65 281
Current changes charged to equity	-3 499
Charge against positive goodwill on consolidation	62
<b>31 Dec 2017</b>	<b>1 569 233</b>

**6.14.2. Deferred Tax Asset**

(CZK THOUSAND)

	<b>Tax rate (%)</b>	<b>Balance at 31 Dec 2017</b>	<b>Balance at 31 Dec 2016</b>
Difference between the tax and accounting net book value of fixed assets	19	-251	369
Accounting reserves	19	1 590	900
Provisions	19	97	184
Expenses deductible for tax purposes in the following years	19	0	0
Unrealised profit on the sale of inventory and assets within the Group	19	247 958	86 053
Deferred expenses	19	0	43 232
<b>Total temporary differences</b>		<b>249 394</b>	<b>130 738</b>
<b>Deferred tax asset</b>		<b>47 385</b>	<b>24 840</b>

(CZK THOUSAND)

<b>Analysis of movements</b>	
<b>1 Jan 2016</b>	<b>59 228</b>
Current changes charged to the profit and loss account	-34 388
<b>31 Dec 2016</b>	<b>24 840</b>
Current changes charged to the profit and loss account	22 545
Current changes charged to equity	0
<b>31 Dec 2017</b>	<b>47 385</b>



## 6.15. BANK LOANS AND BORROWINGS

## Long-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Form of collateral at 31 Dec 2017
Investment loan	CZK	748 980	0	Immovable and movable assets, securities, receivables from insurance, promissory bill of exchange
Investment loan	EUR	73 523	95 069	Hermes guarantee insurer
Investment loan	CZK	0	60 000	Securities, promissory bill of exchange
Investment loan	EUR	99 070	134 757	ODL guarantee insurer
Investment loan	CZK	0	192 500	Immovable and movable assets, securities, promissory bill of exchange
Investment loan	CZK	120 000	240 000	Immovable and movable assets, promissory bill of exchange
Investment loan	CZK	60 000	135 000	Immovable and movable assets, receivables from insurance, promissory bill of exchange
Term loan	CZK	720 000	610 319	Receivables, pledge of real estate including its parts and accessories
Investment loan	EUR	4 512	0	Pledge of real estate
Investment loan	EUR	27 464	0	Pledge of real estate
Investment loan	CZK	0	37 500	Blank bill of exchange, pledge of movable assets
Investment loan	CZK	72 200	57 400	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of immovable and movable assets, pledge of trade receivables
One-time loan	CZK	100 892	55 137	Movable and immovable assets
One-time loan	EUR	84 674	74 909	Movable and immovable assets
Investment loan	EUR	43 194	0	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of immovable and movable assets
Investment loan	CZK	0	0	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of immovable and movable assets
Investment loan	EUR	5 108	10 808	KPH 600 machine, KLM measurement system
Investment loan	EUR	7 662	0	Collateral by tangible assets
Investment loan	EUR	0	1 635	
Investment loan	PLN	16 110	22 596	Collateral by tangible assets (machines, equipment)
Investment loan	CZK	24 917	290	2x blank bill of exchange
Operating loan	EUR	3 295	3 026	Financing of cars
Raiffeisenbank a.s.	CZK	30 250	41 250	Pledge of financed asset
Raiffeisenbank a.s.	CZK	26 000	3 886	Pledge of financed asset
<b>Total</b>		<b>2 267 851</b>	<b>1 773 056</b>	

## Short-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Form of collateral at 31 Dec 2017
Investment loan	EUR	16 339	16 973	Hermes guarantee insurer
Investment loan	CZK	0	63 140	Immovable and movable assets, securities, bill of exchange
Investment loan	EUR	5 108	5 404	KEH8, KER8 line
Investment loan	EUR	3 831	0	KPH 600 machine, KLM measurement system
Investment loan	EUR	0	2 000	Collateral by tangible assets
Investment loan	EUR	1 545	3 270	
Overdraft	PLN	50 314	3 785	Pledge
Overdraft	PLN	42 757	6 348	Pledge – machines, equipment, receivables
Investment loan	PLN	23 741	0	Pledge-machinery and equipment
Investment loan	EUR	0	1 955	Pledge of real estate
One-time loan	CZK	25 223	11 905	Movable and immovable assets
Revolving loan	EUR	25 540	0	Assets and receivables
One-time loan, investment	EUR	21 168	0	Movable and immovable assets
Overdraft – credit cards	CZK	5	0	No collateral
Investment loan	CZK	240 000	152 580	Immovable and movable assets., receivables from insurance, promissory bill of exchange
Investment loan	EUR	28 306	29 946	ODL guarantee insurer
Investment loan	CZK	60 000	60 000	Securities, promissory bill of exchange
Investment loan	CZK	189 474	252 631	Immovable and movable assets, securities, receivables from insurance, promissory bill of exchange
Investment loan	CZK	120 000	120 000	Immovable and movable assets, promissory bill of exchange
Investment loan	CZK	75 000	60 000	Immovable and movable assets, receivables from insurance, promissory bill of exchange
Investment loan	CZK	187 245	0	Immovable and movable assets, receivables from insurance, promissory bill of exchange
Overdraft	CZK	257 909	0	Promissory bill of exchange
Overdraft	CZK	248 046	0	Promissory bill of exchange
Investment loan	EUR	0	2 860	Pledge of real estate
Overdraft	CZK	0	4 000	Blank bill of exchange, pledge of real estate
Investment loan	CZK	2 497	0	Pledge of real estate
Investment loan	EUR	410	0	Pledge of real estate
Passive balance of the current account (incl. accounts in foreign currencies)	CZK	1	0	Bill of exchange
Investment loan	CZK	15 200	7 600	Pledge of assets, Blank bill of exchange
Investment loan	EUR	0	3 054	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of movable and immovable assets
Investment loan	CZK	0	2 000	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of movable and immovable assets

THE TABLE CONTINUES ON THE NEXT PAGE ▼

Investment loan	EUR	13 926	0	Blank promissory bill of exchange, pledge of movable assets
Investment loan	CZK	1 812	0	No collateral
Overdraft	CZK	10 024	0	Blank promissory bill of exchange
Operating overdraft	CZK	0	45 286	Blank promissory bill of exchange
Investment loan	CZK	0	37 500	Pledge of movable assets, Blank promissory bill of exchange
Investment loan	PLN	6 443	6 456	Collateral with tangible assets (machinery, equipment)
Sweep accounts	HUF	0	8	
Overdraft	CZK	60 981	0	Pledge of real estate
Investment loan	CZK	1 780	0	2x blank bill of exchange
Overdraft	CZK	0	0	Pledge of receivables, Blank bill of exchange issued by MORAVIA STEEL a.s.
Operating loan	CZK	0	0	Pledge of receivables, Blank bill of exchange issued by MORAVIA STEEL a.s.
Operating loan	CZK	0	0	Pledge of receivables, Blank bill of exchange issued by MORAVIA STEEL a.s.
Operating loan	CZK	0	0	Pledge of receivables, Blank bill of exchange issued by MORAVIA STEEL a.s.
Current bank loan	CZK	0	582	–
Current bank loan	EUR	269	0	Credit cards
Overdraft	CZK	7 564	43 162	Pledge of real estate, bill of exchange
Operating loan	CZK	11 000	11 000	Pledge of real estate
Investment loan	CZK	8 000	6 000	Pledge of the financed object
Operating loan	CZK	0	35 000	Pledge of real estate
<b>Total</b>		<b>1 761 458</b>	<b>994 445</b>	

### Short-Term Financial Borrowings

(CZK THOUSAND)

Purpose	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Provider
Short-term	EUR	14 498	0	COMPRO
Short-term	EUR	682	15 669	Slovenská plavka a prístavy a.s.
Short-term	EUR	255	0	Loan from Michal Krnáč
Short-term	PLN	154	0	MSA Radomsko
Short-term	EUR	88	364	ANGLONA s.r.o.
<b>Total</b>		<b>15 677</b>	<b>16 033</b>	

## 6.16. OTHER OFF-BALANCE SHEET LIABILITIES

### MORAVIA STEEL a.s.

As of 31 December 2017, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 6,358 thousand.

The Regional Court in Ostrava is conducting, under file ref. no. 15 Cm 151/2013, court proceedings to review the adequacy of payment. The proceedings had been initiated based on a petition filed by 75 petitioners – former minority shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. The proceedings are being conducted against TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s., with the petitioners seeking a review of the adequacy of the payment provided by the majority shareholder, MORAVIA STEEL a.s., to minority shareholders. TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. consider the amount of the payment, which had been decided by the general meeting of shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. on 31 July 2013, to be appropriate. In 2016, the court engaged an expert institute for the proceedings, instructing it to determine the value of a single share of TŘINECKÉ ŽELEZÁRNY, a. s. and to explain differences, if any, between the valuations of shares presented in the expert opinions submitted by the participants in the proceedings. The expert institute has yet to provide the court with its expert opinion.

On 26 February 2013, the subsidiary Moravia Steel Deutschland GmbH received a legal action filed by the group entities of Deutsche Bahn (DB Netz AG and companies) with the State Court in Frankfurt am Main whereby the plaintiffs are claiming from Moravia Steel Deutschland GmbH and other entities (inter alia also MORAVIA STEEL a.s.) compensation for damage arising from unlawful cartel arrangements. The same legal action was delivered to MORAVIA STEEL a.s. on 29 March 2013 where the liability for damage is derived from one economic unit that the Company allegedly formed with Moravia Steel Deutschland GmbH.

The legal dispute is in the phase of first-instance procedures and preparation of the first verbal proceedings where the parties are presenting their written statements on the case to the court. As a next step, replies of defendants shall be presented to the court. Legal proceedings in this matter have not yet commenced.

Inasmuch as the Company's management considers the above legal actions against MORAVIA STEEL a.s. to lack merit, no reasonable estimate of the future payments, if any, in respect of these legal disputes can presently be made.

The consolidated financial statements of MORAVIA STEEL a.s. include a reserve in respect of the legal dispute referred to above.

### Moravia Steel Deutschland GmbH

On 26 February 2013, MORAVIA STEEL DEUTSCHLAND GMBH received a legal action filed by the group entities of Deutsche Bahn with the State Court in Frankfurt am Main. The Company records a reserve for this legal dispute. For more information refer to Other payables that are not recorded by MORAVIA STEEL a.s.

**TŘINECKÉ ŽELEZÁRNY, a. s.****Provided Guarantees****31 December 2017**

Type	Total amount	Balance at 31 Dec 2017
<b>Guarantees</b>		
To other entities	EUR 2,612 thousand	CZK 66,713 thousand

**31 December 2016**

Type	Total amount	Balance at 31 Dec 2016
<b>Guarantees</b>		
To other entities	EUR 2,602 thousand	CZK 70,309 thousand

**Received Guarantees****31 December 2017**

Type	Total amount	Balance at 31 Dec 2017
<b>Guarantees</b>		
From other entities	EUR 2,093 thousand CZK 77,087 thousand	CZK 53,463 thousand CZK 77,087 thousand

**31 December 2016**

Type	Total amount	Balance at 31 Dec 2016
<b>Guarantees</b>		
From other entities	EUR 2,106 thousand CZK 83,132 thousand	CZK 56,897 thousand CZK 83,132 thousand

**Legal Disputes**

Dispute initiated by certain former shareholders of the Company for reviewing the adequacy of the payments that belong to former shareholders according to the resolution of the extraordinary general meeting of the Company held on 31 July 2013, on the transfer of the shares of the Company owned by other shareholders to MORAVIA STEEL, a.s., as the majority shareholder, were filed at the Regional Court in Ostrava. The Company is referred to as another participant in the proceedings.

Dispute initiated by the insolvency trustee of the debtor VÍTKOVICE GEARWORKS a.s., regarding the ineffectiveness of the agreement on the extinguishment of mutual obligations concluded between the Company, Strojírny a stavby Třinec, a.s., and this debtor, based on which the Company's obligation to pay an amount to this debtor, the settlement of which is now being sought by the insolvency trustee, ceased to exist.

### Environmental Liabilities

The Company was subject to an environmental audit, which highlighted the Company's environmental obligations. Based upon the audit, the Company entered into an agreement with the National Property Fund of the Czech Republic for the settlement of expenses involved in removing environmental liabilities up to CZK 514 million that had arisen prior to privatisation.

As of 31 December 2017, the Company used up funds in the amount of CZK 531,971 thousand (2016: CZK 529,152 thousand).

### ENERGETIKA TŘINEC, a.s.

#### Collateral for loans

(CZK THOUSAND)

Type of liability	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Blank bills of exchange – collateral for own overdraft loans	350 000	350 000
Blank bill of exchange – collateral for own long-term loans	145 000	150 000
<b>Total</b>	<b>495 000</b>	<b>500 000</b>

### Environmental Liabilities

ENERGETIKA TŘINEC, a.s. holds the ČSN EN ISO 14001 certificate and it does not anticipate extraordinary environmental expenses in the following years.

### VÚHŽ a.s.

#### Easements

Land and buildings of VÚHŽ a.s. are under an easement in favour of Jindřich Rašner and Jaroslav Vaníček – easement of walking and riding, access for the purpose of repairs and maintenance, entry to the building.

Other easements consist of the ground sewerage piping, water service pipe, telephone line and electricity connection, entry to them, maintenance, repairs and other necessary activities.

### Environmental Liabilities

VÚHŽ a.s. performs no environmental audit. Management of VÚHŽ a.s. is therefore unable to anticipate future liabilities related to the damage resulting from past activities or liabilities related to the prevention of potential future damage.

### ŽDB DRÁTOVNA a.s.

#### Environmental Liabilities

ŽDB DRÁTOVNA a.s. concluded no environmental contract with the Ministry of Finance (or former National Property Fund) for the removal of legacy environmental burdens.

The conditions of the Integrated authorisations for Pickling plants, galvanizing and patent-galvanizing lines indicate obligations for the operators of the equipment to carry out a clean-up of the rock environment in respect of the permanent discontinuation of the operation of the equipment or partial technology units where the operator secures their safe removal in accordance with the summary

clean-up and reclamation plan and the relating implementation projects and in line with applicable legal regulations.

The conditions of the Integrated authorisations for the patent-brass plating thermo-diffusion line indicate the obligation for the facility operator to provide a “Plan for the Termination of Operations” to the regional authority three months before the termination of operations of the facility or partial technology units. If the activities are terminated due to an unrepairable breakdown and other unpredictable event, the operator is obliged to provide the plan to the regional authority within 30 days after the breakdown or other unpredictable event.

There is currently no official resolution that would impose any clean-ups of the contaminated rock environment on the grounds of ŽDB DRÁTOVNA a.s.

Additionally, ŽDB DRÁTOVNA a.s. does not plan any discontinuation of the operation of the equipment or partial technological units that condition the clean-up and decontamination of the rock environment.

## **HŽP a.s.**

### **Liabilities related to construction and acquisition of assets**

As of the consolidated balance sheet date, HŽP a.s. records future payables arising from capital costs resulting from concluded contracts of CZK 49,118 thousand (of which CZK 21,918 thousand and EUR 1,065 thousand).

### **Environmental Liabilities**

In April 2017, a recertification audit Bureau Veritas Certification according to the ISO 14001 standard was performed. During the audit, no defects were found and it was confirmed that the environmental management system of HŽP a.s. complies with the requirements of the ISO 14001:2004 standard in the field of certification, ie draft, development and manufacturing of screw, leaf and parabolic springs. The authorisation is valid until 15 September 2018.

## **Strojírny a stavby Třinec, a.s.**

### **Legal Disputes**

As of 31 December 2017, Strojírny a stavby Třinec, a.s. was involved in the legal disputes as follows:

- Recovery of a trade receivable; and
- Recovery of a receivable which represents the claim for compensation of damage incurred on the assets of the company.

## **Řetězárna a.s.**

### **Derivatives**

As of 31 December 2017, Řetězárna a.s. has concluded contracts on currency derivatives to hedge the risk of exchange rate changes until February 2019. Řetězárna a.s. does not maintain hedge accounting and the change in fair value is therefore reported in the profit and loss account as of the balance sheet date.

## 7. ADDITIONAL INFORMATION ON THE PROFIT AND LOSS ACCOUNT

### 7.1. INCOME FROM CURRENT ACTIVITIES OF THE GROUP

2017			
	Inland	Cross-Border	Total
Metallurgic production	12 061 819	27 761 778	39 823 597
Other production	1 706 314	2 241 779	3 948 093
Sale of goods	380 029	716 140	1 096 169
Services	2 272 423	223 807	2 496 230
<b>Total</b>	<b>16 420 585</b>	<b>30 943 504</b>	<b>47 364 089</b>

(CZK THOUSAND)

2016			
Activities	Inland	Cross-Border	Total
Metallurgic production	9 321 224	28 622 539	37 943 763
Other production	1 417 520	2 075 695	3 493 215
Sale of goods	184 490	452 707	637 197
Services	1 864 560	228 079	2 092 639
<b>Total</b>	<b>12 787 794</b>	<b>31 379 020</b>	<b>44 166 814</b>

(CZK THOUSAND)

### 7.2. OTHER INCOME AND EXPENSES

Costs of advisory, consulting and audit activities amounted to CZK 117,724 thousand and CZK 199,459 thousand as of 31 December 2017 and 2016, respectively.

Other operating income as of 31 December 2017 and 2016 predominantly included the use of the grant for greenhouse gas emission allowances in the amounts of CZK 470,578 thousand and CZK 493,617 thousand, respectively.

Other operating expenses as of 31 December 2017 and 2016 predominantly included the use of greenhouse gas emission allowances in the amounts of CZK 579,554 thousand and CZK 805,934 thousand, respectively.

Other financial income and expenses in the years ended 31 December 2017 and 2016 predominantly included foreign exchange rate gains and losses.

### 7.3. GRANTS AND SUBSIDIES

In the year ended 31 December 2017, TŘINECKÉ ŽELEZÁRNY, a. s. drew a subsidy for the acquisition of environmental investments of CZK 18,736 thousand. In the year ended 31 December 2017, TŘINECKÉ ŽELEZÁRNY, a. s. returned a subsidy for the acquisition of environmental investments of CZK 354 thousand.

In the year ended 31 December 2016, TŘINECKÉ ŽELEZÁRNY, a. s. returned a subsidy for the acquisition of environmental investments of CZK 1,842 thousand, recognised an estimated payable of CZK 354 thousand arising from returning the subsidy for the acquisition of environmental investments and made a correction in the recognition of a subsidy for 2015 in the amount of CZK 2,427 thousand, affecting the profit and loss account and the Company's fixed assets.

Subsidies for operating purposes of CZK 22,903 thousand utilised for the year ended 31 December 2017 include subsidies for research and development, a subsidy for museum operations, grants from the labour office for designating a socially useful job position, environmental projects and education. Other grants included grants for co-recipients, which amounted to CZK 1,385 thousand in 2017.

Subsidies for operating purposes of CZK 11,064 thousand utilised for the year ended 31 December 2016 include subsidies for research and development, a subsidy for museum operations, environmental projects and education. Other grants included grants for co-recipients, which amounted to CZK 3,065 thousand in 2016. In 2016, TŘINECKÉ ŽELEZÁRNY, a. s., returned a subsidy for an environmental project of CZK 10 thousand.



**7.4. AGGREGATE RESEARCH AND DEVELOPMENT EXPENDITURE**

(CZK THOUSAND)

	31 Dec 2017	31 Dec 2016
Research and development expenditure (net of grants)	104 895	95 197

**7.5. RELATED PARTY TRANSACTIONS****7.5.1. Income Generated with Related Parties**

"Relation to the Company" is given from the perspective of MORAVIA STEEL a.s.

**2017**

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	16 984	8	486	0	17 478
JuBo Jeseník s.r.o.	Controlled entity	0	6 973	1	0	0	6 974
Řetězárna servis, s.r.o.	Controlled entity	0	0	93	0	0	93
Doprava TŽ, a.s.	Controlled entity	0	21 864	4 300	5	0	26 169
TRIALFA, s.r.o.	Controlled entity	0	26 175	3 981	8	0	30 164
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	343	958	3	0	1 304
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 009	6 249	500	0	10 758
Security Morava, s.r.o.	Controlled entity	0	0	62	0	0	62
TRISIA, a.s.	Controlled entity	0	5	192	0	0	197
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	19 006	8 112	92	0	27 210
Moravia Security, a.s.	Controlled entity	0	238	1 467	2	0	1 707
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	293	321	3	9	617
DALSELV DESIGN a.s.	Controlled entity	0	535	0	2	0	537
IMOPRA, s.r.o.	Controlled entity	262	0	245	3	0	519
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	1 815	0	0	0	1 815
Kovárna VIVA a.s.	Fellow subsidiary	0	424 472	930	597	0	425 999
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	36 817	0	0	0	36 817
MINERFIN, a.s.	Group entity	0	15 594	153	0	0	15 747
Barrandov Productions, s.r.o.	Controlled entity	0	0	140	0	0	140
Barrandov Studios Productions.r.o.	Controlled entity	0	0	1 374	0	0	1 374
<b>Total</b>		<b>262</b>	<b>575 123</b>	<b>30 725</b>	<b>1 701</b>	<b>9</b>	<b>607 820</b>

2016

(CZK THOUSAND)

Entity	Relation to the Company	Goods and Products	Services	Other income	Financial income	Total
AHP HYDRAULIKA, a.s.	Associate.	22 394	0	0	0	22 394
Barrandov Productions, s.r.o.	Controlled entity	–	0	–	69	69
Barrandov Studios Productions.r.o.	Controlled entity	0	0	974	0	974
DALSELV DESIGN a.s.	Controlled entity	20 569	0	0	0	20 569
Doprava TŽ, a.s.	Controlled entity	22 034	4 337	15	0	26 526
FILMOVÁ NADACE	Controlled entity	0	0	409	0	409
JuBo Jeseník s.r.o.	Controlled entity	5 904	3	0	0	5 907
Kovárna VIVA a.s.	Associate	324 373	1 060	416	0	325 849
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	73	415	0	0	488
MINERFIN, a.s.	Group entity	1 777	382	0	0	2 159
Moravia Security, a.s.	Controlled entity	243	3 323	20	0	3 587
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	3	0	3
MORAVIA STEEL SLOVENIJA d.o.o.	Controlled entity	172	0	0	0	172
R.F.G., a.s. – v likvidaci	Group entity	0	8	0	0	8
Reťaze Slovakia s.r.o.	Controlled entity	19 540	26	411	0	19 977
Security Morava, s.r.o.	Controlled entity	0	55	0	0	55
TRIALFA, s.r.o.	Controlled entity	21 789	4 202	22	0	26 013
TRISIA, a.s.	Controlled entity	6	194	0	0	200
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	357	654	2	0	1 013
Třinecké gastroslužby, s.r.o.	Controlled entity	4 078	5 393	546	6	10 023
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate.	7 956	19 518	51	0	27 525
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	393	0	0	393
<b>Total</b>		<b>451 265</b>	<b>39 955</b>	<b>2 870</b>	<b>75</b>	<b>496 813</b>

**7.5.2. Costs Incurred with Related Parties**

“Relation to the Company” is given from the perspective of MORAVIA STEEL a.s.

**2017**

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory	Services	Other expenses	Total
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	52 320	0	0	52 320
Barrandov Studios Productions.r.o.	Controlled entity	0	0	617	0	617
DALSELV DESIGN a.s.	Controlled entity	35 967	4 726	631	0	41 324
Doprava TŽ, a.s.	Controlled entity	408	22 791	66 168	76	89 443
FINITRADING, a.s.	Controlling entity	0	2 675 593	0	0	2 675 593
HRAT, s.r.o.	Associate.	0	0	123	0	123
JuBo Jeseník s.r.o.	Controlled entity	0	336	0	0	336
Kovárna VIVA a.s.	Associate	0	527	0	0	527
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	6	1 637	7 363	0	9 006
MINERFIN, a.s.	Group entity	0	549 759	0	0	549 759
Moravia Security, a.s.	Controlled entity	772	225	93 117	1 130	95 244
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	12 152	0	12 152
MORAVIA STEEL MIDDLE EAST. Ltd	Associate	0	0	0	0	0
MORAVIA STEEL MIDDLE EAST.FZCO	Associate	0	233 431	0	0	233 431
Moravia Steel Slovenija, d.o.o.	Controlled entity	0	0	17 544	0	17 554
Ocelářská unie, a.s.	Associate	0	0	2 820	138	2 958
Reťaze Slovakia, s.r.o.	Controlled entity	0	680	883	0	1 563
Řetězárna servis, s.r.o.	Controlled entity	0	0	8 380	0	8 380
Security Morava, s.r.o.	Controlled entity	0	0	13 609	0	13 609
Střední odborná škola TŽ	Associate	0	0	10	0	10
TRIALFA, s.r.o.	Controlled entity	0	6 000	19 008	50 166	75 174
TRISIA, a.s.	Controlled entity	0	9	13 129	294	13 432
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	42 738	139	11 244	0	54 121
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 710	11 190	97 055	125 955
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate.	150	114 197	78 633	0	192 980
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 246	0	1 246
<b>Total</b>		<b>80 041</b>	<b>3 680 080</b>	<b>357 867</b>	<b>148 859</b>	<b>4 266 857</b>

2016

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory	Services	Other expenses	Total
Barrandov Studios Productions.r.o.	Controlled entity	0	0	15	0	15
DALSELV DESIGN a.s.	Controlled entity	144 215	69	3 810	0	148 094
Doprava TŽ, a.s.	Controlled entity	5	23 601	71 576	17	95 199
FINITRADING, a.s.	Controlling entity	0	1 741 484	0	0	1 741 484
HRAT, s.r.o.	Associate	127	0	120	0	247
Hutnictví železa, a.s.	Associate	0	0	5 784	132	5 916
JuBo Jeseník s.r.o.	Controlled entity	0	784	0	0	784
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	5	5 611	0	5 616
MINERFIN a.s.	Group entity	0	748 784	0	0	748 784
Moravia Security, a.s.	Controlled entity	2 635	58	89 347	326	92 366
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	11 061	0	11 061
MORAVIA STEEL MIDDLE EAST.FZCO	Associate	0	196 169	0	0	196 169
Moravia Steel Slovenija, d.o.o.	Controlled entity	0	0	13 466	0	13 466
Reťaze Slovakia, s.r.o.	Controlled entity	0	507	1 140	0	1 647
Security Morava, s.r.o.	Controlled entity	0	0	8 630	0	8 630
TRIALFA, s.r.o.	Controlled entity	0	6 961	22 972	60 698	90 631
TRISIA, a.s.	Controlled entity	0	74	17 431	180	17 685
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	40 471	0	13 625	0	54 096
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 547	10 920	95 010	123 477
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	122 747	81 787	0	204 534
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 247	0	1 247
<b>Total</b>		<b>187 453</b>	<b>2 858 790</b>	<b>358 542</b>	<b>156 363</b>	<b>3 561 148</b>

## 8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

#### 8.1.1. Staff Costs and Number of Employees for 2016

The number of employees as of 31 December 2017 was 12,760, of which 108 managers. The number of employees as of 31 December 2016 was 12,724, of which 105 managers.

The staff costs of employees in the year ended 31 December 2017 amounted to CZK 6,965,253 thousand, of which staff costs of managers amounted to CZK 410,686 thousand. The staff costs of employees in the year ended 31 December 2016 amounted to CZK 6,577,483 thousand, of which staff costs of managers amounted to CZK 319,647 thousand. The remuneration to members of the Supervisory Board in the years ended 31 December 2017 and 2016 amounted to CZK 49,179 thousand and CZK 49,179 thousand, respectively.

The number of employees is based on the average recalculated headcount.

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

Amount of other supplies provided to managers, Supervisory Boards and Audit Committee:

(CZK THOUSAND)

	2017	2016
Use of management cars (the figure increases the tax base of employees)	8 776	8 378
Contribution for life insurance	2 288	2 132
Liability insurance	2 449	2 047
<b>Total</b>	<b>13 513</b>	<b>12 557</b>

## 9. POST BALANCE SHEET EVENTS

#### TŘINECKÉ ŽELEZÁRNY, a. s.

The company has concluded a contract based on which the company will acquire a 100% equity investment in Brück AM spol. s r.o., Corporate ID: 49685643 subject to the fulfilment of conditions precedent. The contract was realized on 29 March 2018.

#### MORAVIA STEEL a.s.

On 26 April 2018, a contract of 5 December 2017 was realised, based on which the Company will acquire, in addition to the 50% of shares it already owns, another 16% investment in Kovárna VIVA a.s. with its registered office at Zlín, Vavrečkova 5333, 760 01, corporate ID 469 78 496, with the objective of increasing its current investment in the company's share capital to the amount of 66%.

#### M STEEL PROJECTS a.s.

On 27 February 2018, M Steel Projects a.s. decided to decrease the share capital of M Steel Projects s.r.o. from EUR 5,005 thousand (i.e. CZK 128,224 thousand) to EUR 4,291 thousand (i.e. CZK 109,592 thousand).

# X

## REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 31 DECEMBER 2017

**MORAVIA STEEL a.s.**, with its registered office at Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 63474808, recorded in the Register of Companies maintained at the Regional Court in Ostrava, Section B, File 1297, (hereinafter the “Company”) was the controlled entity in the below defined reporting period in accordance with Section 74 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations). For this reason, it is obliged to prepare a report on relations between the controlling entity and the controlled entity and entities controlled by the same controlling entity (hereinafter the “Report on Related Party Transactions”) in accordance with Section 82 of the Act on Business Corporations.

This report on related party transactions has been prepared for the reporting period from 1 January 2017 to 31 December 2017 (hereinafter the “reporting period”).

### I. STRUCTURE OF RELATIONS IN THE BUSINESS GROUP, ROLE OF THE CONTROLLED ENTITY, METHOD AND MEANS OF CONTROL

#### A. CONTROLLING ENTITY

**FINITRADING, a.s.**, with its registered office at nám. Svobody 526, Lyžbice, 739 61, Třinec, corporate ID: 61974692

Relation: Throughout the reporting period, FINITRADING, a.s., as the sole shareholder, pursuant to Sections 73 (1) and 74 (3) of the Act on Business Corporations, acted as the Controlling Entity towards the Company. As the majority shareholder holding a 100% share in the share capital and voting rights, it controlled the Company by making decisions of the sole owner acting in the capacity of the General Meeting and, thus, the Company was subject to its direct control.

Throughout the reporting period, the shareholder of FINITRADING, a.s. was MINERFIN, a.s., with its registered office at Námestie Ľudovíta Štúra 2, 811 02 Bratislava, Slovakia, corporate ID: 31401333, holding a 48.57% share in the share capital and voting rights. MINERFIN, a.s., has the presumed legal status of the controlling entity towards FINITRADING a.s. under Section 75 (2) of the Act on Business Corporations; however, MINERFIN, a.s. did not effectively exercise its direct or indirect controlling influence on the management of FINITRADING, a.s., or the management of MORAVIA STEEL a.s.

#### B. ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

**R.F.G., a.s., “in liquidation”**, with its registered office at nám. Svobody 526, 739 61 Třinec, corporate ID 63079658

Relation: entity controlled by FINITRADING, a.s., as the sole shareholder pursuant to Sections 73 and 74 (3) of the Act on Business Corporations, holding a 100% share in the share capital and voting rights; subsidiary of the controlling entity. Subsequent to the completion of the liquidation, the company dissolved on 11 January 2017 following its removal from the Register of Companies.

## C. ENTITIES CONTROLLED BY THE COMPANY

**TŘINECKÉ ŽELEZÁRNY, a.s.** with its registered office at Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 18050646, (100% share)

Relation: subsidiary of the Company

**Moravskoslezský kovošrot, a.s.**, with its registered office at Božkova 936/73, Přívoz, 702 00 Ostrava, corporate ID 26855097 (100% share)

Relation: subsidiary of the Company

**M Steel Projects a.s.**, with its registered office at Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 286 02 331 (100% share)

Relation: subsidiary of the Company

**Barrandov Studio a.s.** with its registered office at Křiženeckého nám. 322/5, Prague 5 - Hlubočepy, 152 00, corporate ID 28172469 (99.85% share)

Relation: subsidiary of the Company

**Beskydská golfová, a.s.** with its registered office at Ropice 415, 739 61, corporate ID 25352920 (100% share)

Relation: subsidiary of the Company

**MS – Slovensko s.r.o.** with its registered office at Námestie Ľudovíta Štúra 2, Bratislava 811 02, Slovakia, corporate ID: 35900601, (100% share)

Relation: subsidiary of the Company

**MORAVIA STEEL IBÉRIA, S.A.** with its registered office at Campo Grande, 35 – 9. A, P-1700 Lisboa, Portugal, (99.33% share)

Relation: subsidiary of the Company

**MORAVIA STEEL ITALIA s.r.l.** with its registered office at Corso Sempione 39, 20145 Milan, Italy (66% share)

Relation: subsidiary

**MORAVIA STEEL SLOVENIJA d.o.o.** with its registered office at Valvazorjeva 14, 3000 Celje, Slovenia (51% share)

Relation: subsidiary of the Company

**Moravia Steel Deutschland GmbH** with its registered office at Cliev 19, 51515 Kürten-Herweg, Germany (100% share)

Relation: subsidiary of the Company

**MORAVIA STEEL UK LIMITED** with its registered office at 5 Bradwall Court, Bradwall Road, Sandbach, Cheshire, CW11 1 GE, UK (100% share)

Relation: subsidiary of the Company

**MORAVIA STEEL ISRAEL Ltd.** with its registered office at 23 Efal St., Petach Tikva 49 511, P.O.B. 3286, Israel (100% share)

Relation: subsidiary of the Company

**Moravia Steel Middle East FZCO**, with its registered office at Jebel Ali Free Zone, Jafza 17, office # 325, P.O.B.: 263224 Dubai, U.A.E. (40% share)

Relation: entity controlled by the Company as the majority owner under Section 75 (2) of the Act on Business Corporations, subsidiary of the Company

**“NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**, with its registered office at ŚWIĘTEJ ROZALII 10/12, 97-500 Radomsko, Poland (100% share)

Relation: subsidiary of the Company

**MORAVIA MINING PLC**, with its registered office at Addis Ababa, Bole 03, 5/001 – 405 A, Ethiopia (76% share)

Relation: subsidiary of the Company

MORAVIA STEEL a.s. controls the above entities as the majority owner as per Sections 73 and 74 (3) of the Business Corporations Act and it has the position of the parent company, with the exception of Moravia Steel Middle East FZCO, where it has the presumption of control in line with Section 75 (2) of the Business Corporations Act.

Furthermore, during the reporting period, MORAVIA STEEL a.s. held a 50% share in **Kovárna VIVA a.s.**, with its registered office at Vavrečkova 5333, 760 01 Zlín, corporate ID 469 78 496. During the whole reporting period, the Company was not in the position of a controlling entity. On 5 December 2017, MORAVIA STEEL a.s. concluded a share purchase agreement with the existing shareholder of Kovárna VIVA a.s., based on which it is supposed to acquire the shares of Kovárna VIVA a.s. in the amount of 16%, thereby increasing its existing share in the company's share capital to 66%. As of 31 December 2017, the share purchase agreement had yet to become effective and, as a result, it was not settled and the 16% of shares were not transferred to MORAVIA STEEL a.s. during the period.

#### **D. ROLE OF THE COMPANY IN THE BUSINESS GROUP, METHOD AND MEANS OF CONTROL**

The Company acts as a standalone business company in the business group. Its principal activities include the sale of metallurgical products on the local and foreign markets. In addition, its business activities include the purchase and sale of raw materials necessary for the metallurgical production and intrastate and international transport.

In the reporting period, the Company was directly controlled by FINITRADING, a.s., which controlled the Company as the sole owner, by making decisions of the sole owner acting in the capacity of the general meeting.



## II. DESCRIPTION OF RELATIONS

### A. LIST OF MUTUAL CONTRACTS BETWEEN THE COMPANY AND THE CONTROLLING ENTITY – FINITRADING, A.S. AND DESCRIPTION OF RELATIONS OF THE COMPANY TO THE CONTROLLING ENTITY

#### A. 1. Sales

In the reporting period, there were no sales of goods or services between the Company, as the seller, and the controlling entity, as the purchaser.

#### A. 2. Purchases

##### A. 2.1. Purchase of Zaporizhia aglo-ore

On 30 December 2016, the Company concluded Master Purchase Contract No. S-160007 with FINITRADING, a.s., for the period from 1 January 2017 to 31 December 2017, the subject matter of which is the controlling entity's obligation to provide supplies of Zaporizhia aglo-ore for the Company. During 2017, the purchase prices were regulated by amendments to the contract, namely Amendment 1 of 28 February 2017, Amendment 2 of 28 April 2017, Amendment 3 of 30 May 2017, Amendment 4 of 30 June 2017, Amendment 5 of 27 July 2017, Amendment 6 of 28 August 2017 and Amendment 7 of 30 October 2017.

##### A. 2.2. Purchase of Krivbas aglo-ore

On 30 December 2016, the Company concluded Master Purchase Contract No. S-160008 with FINITRADING, a.s., for the period from 1 January 2017 to 31 December 2017, the subject matter of which is the controlling entity's obligation to provide supplies of Krivbas aglo-ore for the Company. During 2017, the purchase prices were regulated by amendments to the contract, namely Amendment 1 of 28 February 2017, Amendment 2 of 28 April 2017, Amendment 3 of 30 May 2017, Amendment 4 of 30 June 2017, Amendment 5 of 27 July 2017, Amendment 6 of 28 August 2017 and Amendment 7 of 30 October 2017.

#### A. 3. List of Acts at the Initiative or in the Interest of the Controlling Entity

In the reporting period, the Company made no significant acts (primarily unilateral) at the initiative or in the interest of the controlling entity, FINITRADING, a.s., under Section 82 (2) d) of the Act on Business Corporations. The Company concluded only contracts based on the mutual benefits principle with the controlling entity.

#### A.4. Assessment of Detriment

The Report on Related Party Transactions lists all contracts concluded in the reporting period between the Company and the controlling entity (FINITRADING, a.s.). The contracts were concluded on the mutual benefits principle and all supplies were provided under the arm's length principle. Prices of goods and services are standard prices based on prices achieved on the market.

The Company incurred no detriment from its relations with the controlling entity.

## B. LIST OF MUTUAL CONTRACTS OF THE COMPANY AND R.F.G., A.S. "IN LIQUIDATION", (THE ENTITY CONTROLLED BY THE SAME CONTROLLING ENTITY) AND THE DESCRIPTION OF RELATIONS OF THE COMPANY TO THIS ENTITY

### B. 1. List of Mutual Contracts

In the reporting entity, the Company did not conclude any contracts with R.F.G., a.s. "in liquidation". No mutual purchases of goods or services were recorded in the reporting period.

### B. 2. List of Acts at the Initiative or in the Interest of the Controlling Entity

In the reporting period, the Company recorded no acts at the initiative or in the interest of R.F.G., a.s. "in liquidation" under Section 82 (2) d) of the Act on Business Corporations.

### B. 3. Assessment of Detriment

As no contracts were concluded between the Company and R.F.G., a.s. "in liquidation" in the reporting period and the Company made no acts at the initiative or in the interest of R.F.G., a.s. "in liquidation", the Company incurred no detriment from relations with R.F.G., a.s. "in liquidation".

## III. ASSESSMENT OF RELATIONS BETWEEN ENTITIES IN THE BUSINESS GROUP ACCORDING TO SECTION 82 (4) OF THE ACT ON BUSINESS CORPORATIONS

In the Report on Related Party Transactions, the Company described in detail the relations between entities forming the group. In addition, it assessed whether the Company as the Controlled Entity in these relations and legal acts had incurred detriment from these relations and legal acts in accordance with Section 82 (2) f) of the Act on Business Corporations, and concluded that it had not incurred any detriment. The Company is a part of a significant and economically strong group, which has a positive impact on its position and business activities.

It can be concluded that the Company's participation in the above group results only in significant advantages, also in terms of the future, and the Company is not aware of any significant risks arising from the participation in the above group.

In Třinec on 21 February 2018

Board of Directors of MORAVIA STEEL a.s.



.....  
**Petr Popelář**

Chairman of the Board of Directors



.....  
**Krzysztof Ruciński**

Vice-Chairman of the Board of Directors