

2018

Annual  
Report



MORAVIA STEEL

# Obsah

<b>01. Opening Statement of the Chairman of the Supervisory Board</b>	<b>04</b>	<b>06. Report of the Audit Committee</b>	<b>23</b>
<b>02. Company Profile</b>	<b>06</b>	<b>07. Auditor's Report</b>	<b>27</b>
<b>03. Statutory Bodies and Management of the Company</b>	<b>07</b>	<b>08. Financial Part I. – Financial Statements</b>	<b>30</b>
<b>04. Report of the Board of Directors</b>	<b>09</b>	Full Balance Sheet Full Version – Assets	31
Development in the Industry	09	Full Balance Sheet Full Version – Liabilities and Equity	33
Development of the Company	11	Profit and Loss Account	34
Logistics, Freight Transportation	18	Statement of Changes in Equity	36
Management System, Human Resources	20	Cash Flow Statement	37
<b>05. Report of the Supervisory Board</b>	<b>22</b>	Notes to the Financial Statements	40
		<b>09. Financial Part II. – Consolidated Financial Statements</b>	<b>65</b>
		Consolidated Balance Sheet Full Version – Assets	66
		Consolidated Balance Sheet Full Version – Liabilities and Equity	68
		Consolidated Profit and Loss Account	70
		Consolidated Statement of Changes in Equity	72
		Consolidated Cash Flow Statement	73
		Notes to the Consolidated Financial Statements	76
		<b>10. Report on Related Party Transactions for the Year Ended 31 December 2018</b>	<b>128</b>



General  
Section

# 01

## Opening Statement of the Chairman of the Supervisory Board

TO SHAREHOLDERS, BUSINESS PARTNERS  
AND EMPLOYEES

2018 WAS ONCE AGAIN A VERY FAVOURABLE YEAR FOR OUR COMPANY. OUR SUCCESSFUL ACTIVITIES ON STEEL MARKETS ARE SUPPORTED NOT JUST BY THE BASIC ECONOMIC INDICATORS OF MORAVIA STEEL A.S., BUT ALSO BY THE VOLUMES OF REALISED DOMESTIC AND CROSS-BORDER SALES.

However, many risk factors that we have had to deal with on the market will persist in the coming period – protectionist measures in the USA and several other countries, increase in protectionism, uncertainty regarding the resolution of the United Kingdom's exit from the EU or further development in the steel industry itself. Another potential risk is the anticipated stagnation of the European and by extension the German economy, which is a key export country for us and a long-term business partner.

In addition, there are other potential problems within the Czech economy, such as the development of the labour market, continuing pressure on salary growth or the expected significant structural changes in the automotive industry.

Nevertheless, the 2018 results of MORAVIA STEEL a.s. confirm that the long-term strategy of the MS/TŽ group has been well selected, focusing on products with a higher level of processing and the creation of product chains.

In the 2018 reporting period, MORAVIA STEEL a.s. generated a profit of almost CZK 2.8 billion. In terms of sales, we recorded a year-on-year growth from CZK 57.2 billion to more than CZK 64 billion. The volume of production sold reached almost 2,368 kt.



The results of our joint-stock company in 2018 fill me with conviction that we will overcome all the obstacles that may be expected on the Czech, European and global market – and that we will continue the positive trend in the following period.

Yours sincerely,

**Tomáš Chrenek**

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

## 02

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.

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.

The key economic indicators of MORAVIA STEEL a.s. between 2014 and 2018 prove the Company's ability to cope with less favourable periods in global economic development and in the metallurgical and steel industry.

**ECONOMIC INDICATORS BETWEEN 2014 – 2018 (IN CZK MILLION)**

INDICATOR	2014	2015	2016	2017	2018
Sales of goods	59 479	56 903	49 845	57 202	64 012
Sales of own products and services	685	639	611	584	626
Operating profit or loss	1 385	1 588	1 167	1 675	1 866
Financial profit or loss	-23	1 484	1 386	1 344	1 280
Profit or loss for the reporting period	1 105	2 776	2 326	2 737	2 773
Total assets	20 941	19 388	19 966	20 553	22 392
Fixed assets	8 481	8 643	8 619	8 694	8 743
Equity	13 753	14 529	14 854	15 591	16 366
Share of liabilities including accrued expenses (%)	34,33%	25,06%	25,60%	24,14%	26,91%
EBITDA	1 403	1 612	1 196	1 703	1 895

## 03

Statutory Bodies  
and Management  
of the CompanySUPERVISORY BOARD OF THE COMPANY  
AS OF 31 DECEMBER 2018

TITLE	NAME
Chairman	Tomáš Chrenek
Vice-Chairman	Evžen Balko
Vice-Chairman	Ján Moder
Member	Mária Blašková



Tomáš Chrenek



Ján Moder



Evžen Balko



Mária Blašková

BOARD OF DIRECTORS OF THE COMPANY  
AS OF 31 DECEMBER 2018

TITLE	NAME
Chairman	Petr Popelář
Vice-Chairman	Krzysztof Roch Ruciński
Member	Mojmír Kašpříšín
Member	Uršula Novotná



Petr Popelář



Krzysztof Roch Ruciński

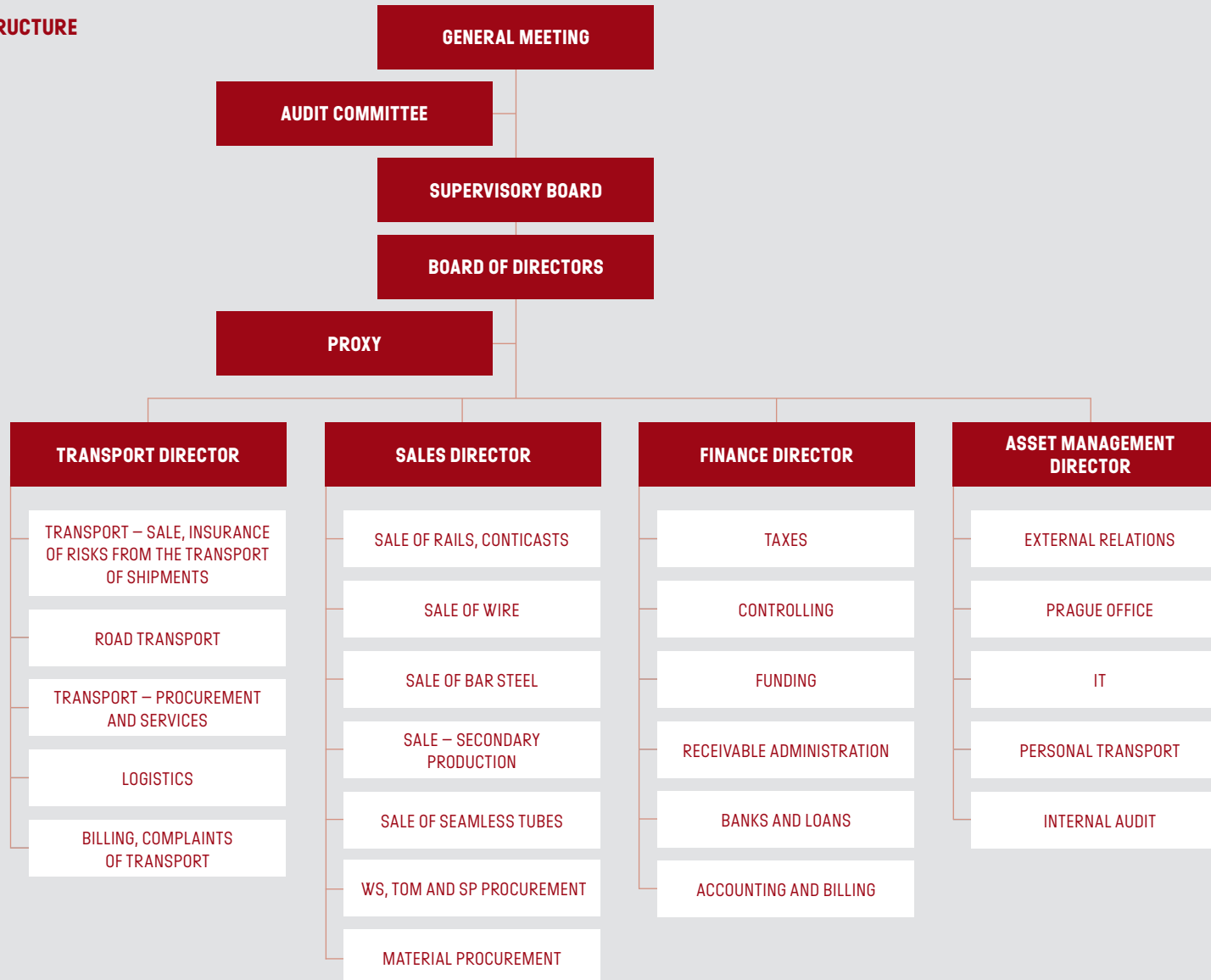


Mojmír Kašpříšín



Uršula Novotná

**ORGANISATIONAL STRUCTURE**





# 04

## Report of the Board of Directors

### DEVELOPMENT OF THE INDUSTRY

The production of raw steel in the Czech Republic increased by a tenth to almost five million tons. TŘINECKÉ ŽELEZÁRNY, a. s., which is our subsidiary, produced 2.583 million tons of steel and thus retained its position as the largest domestic producer.

Czech export of steel grew by 5.6% year-on-year to 4.89 million tons and thanks to a focus on more sophisticated products its value reached a record value of CZK 108 billion. Steel export from the Czech Republic grew primarily thanks to the export of tubes, drawn wires and bar steel.

The volume of steel imported to the Czech Republic grew by 3.9% to 7.52 million tons, which is a record amount. The resulting figures of 2018 according to the Steel Union (association of major Czech and Slovak steel companies) show that the value of export keeps increasing and that the imports for the Czech Republic and Europe have reached a record level due to the persisting excessive production capacity in China and other developing countries.

Europe remains a key market for Czech steel products, representing 89% of export. The largest customer is Germany, which was the destination of almost a quarter of exports. This country is also the largest supplier to the Czech Republic, representing 21% of the total volume of exports.



Global production of raw steel recorded a 4.6% increase in 2018 compared to the previous year and it reached 1,808.6 million tonnes. China confirmed its position of the largest producer worldwide with 928 million tons, i.e. more than a half of the global production and 100 million tons more than last year. Production in EU countries amounted to 168 million tons, which is less than in 2017 but still more than American and Russian production combined – 87 and 72 million tons, respectively.

The Steel Union's assessment of industry results for 2018 also pointed out that in February the EU introduced protective measures as a reaction to the tariffs imposed by the USA, to be valid until the end of June 2021. The plan of the European Commission anticipates, among other things, quotas set at the level of the average import for the last three years with an increase of 5%. After their fulfilment, a tariff of 25% will be applied on imports. In order to prevent accumulation of stock,

the quotas will always apply for a three-month period. They can be increased by 5% every year.

### 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 2018, the Company reported a profit for the year of CZK 2.773 billion, with sales of goods of CZK 64.012 billion. In 2017, it generated a profit of CZK 2.737 billion, with sales exceeding CZK 57 billion.

The Company's total assets recorded a year-on-year increase from CZK 20.553 billion to CZK 22.392 billion.

The Company's fixed assets also increased from CZK 8.694 billion to CZK 8.743 billion.

The Company's equity grew year-on-year to CZK 16.366 billion. In the previous year, it amounted to CZK 15.591 billion.

In 2018, MORAVIA STEEL a.s. sold metallurgical products in the total volume of almost 2,368 kt, with more than 1,617 kt of products exported and 751 kt sold domestically.

## IN 2018, MORAVIA STEEL a.s. GENERATED A PROFIT OF CZK 2.773 BILLION AND SALES OF GOODS OVER CZK 64 BILLION

In the long-term, the Company's key export territory is the EU. The American markets are also important for the Company.

Germany remained the Company's key customer among the individual EU countries, accounting for more than 28% of export to the EU. Italy received 16.4%, Slovakia 16.2% and Poland almost 14% of our total EU export. Important customers in terms of the EU also include Hungary (7.2%) and the United Kingdom (4.7%).

The 2018 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 2014 – 2018, MORAVIA STEEL A.S.**

<b>SUPPLIES IN TONNES</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Export	1479 673	1592 029	1616 696	1553 141	1616 550
Domestic	753 529	774 651	744 822	748 337	751 150
<b>TOTAL</b>	<b>2 233 201</b>	<b>2 366 680</b>	<b>2 361 518</b>	<b>2 301 478</b>	<b>2 367 700</b>

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

<b>STRUCTURE OF EXPORTS IN %</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
European Union	75,8	75,7	75,7	75,6	75,6
Other European countries	1,1	0,6	0,7	0,4	0,5
Africa	0,0	0,0	0,0	0,1	0,1
Asia	0,2	1,6	2,7	1,7	1,4
America	11,0	9,2	7,4	6,9	7,8
Australia	0,0	0,0	0,0	0,0	0,0
Slovakia	11,9	12,9	13,5	15,3	14,6
<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.**

<b>SALES IN TONNES</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Rolled wire (including drawn, annealed, phosphated wire in coils)	819 540	944 588	981 702	997 418	982 156
Billets and continuous castings	297 578	274 855	276 517	259 762	277 194
Reinforcing steel	9 070	3 957	0	0	0
Rails	247 094	253 560	216 900	169 503	245 880
Products of the Kladno factory	282 728	298 741	276 273	286 109	275 158
UT Bohumín	44 688	45 863	47 831	37 958	43 672
Products of VF – operations	78 622	81 650	86 985	92 200	92 300
Other (bars, sections, etc)	338 311	354 147	368 716	350 445	335 725
Pipes – VT TŽ Ostrava	96 768	91 663	95 492	94 808	98 907
Rail fastenings	18 802	17 656	11 102	13 275	16 708
<b>TOTAL</b>	<b>2 233 201</b>	<b>2 366 680</b>	<b>2 361 518</b>	<b>2 301 478</b>	<b>2 367 700</b>

Accounting for 41.5% of the total production, **rolled wire** has been the most significant item of TŽ's production programme in the long term.

In 2018, the Company sold over 975 kt of rolled wire, of which approx. 852.2 kt were produced at the Wire Rolling Mill (KDT) and approx. 123 kt at the Continuous Fine Rolling Mill (KJT). This represents a year-on-year decrease of approximately 17.5 kt

at the KDT and an increase of 2.5 kt at the KJT. However, given the good situation on the market it actually represents an increase in sales of 10.5% at the KDT and 12.7% 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 58.4%, i.e. almost the same percentage as in 2017. With 17%,

the second biggest item is low-carbon steel, similarly as in 2017. The share of electrode steel remained the same level at around 10%. The share of screw types of steel increases and in 2018 it amounted to 8.24%. The remaining 6% is attributed to other types – spring, chain, bearing and alloy steel.

The most significant commodity of the KJT are screw-type wires with a share of 43.2%



(+5.5% year-on-year), followed by carbon steel with 18.5% (year-on-year decrease of 5.5%), low-carbon with a little less than 18% (no year-on-year change), free-cutting with 11.3% (+1.8%) and spring-type with 7%. 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 2018 amounted to 612 kt, which represents a minor year-on-year decrease in volume of approximately 4%. However, thanks to the higher exercise prices of bar steel, sales grew by 11% to CZK 13.2 billion. In terms of the structure of bar sales by individual rolling mills, the Medium Rolling Mill sold 8.1 kt in 2018 (a year-on-year increase of 0.5 kt), the Continuous Fine Rolling Mill 328.7 kt (-15 kt) and the Kladno plant 275.2 kt (-10.9 kt).

In the first half of 2018, demand for bar steel was very strong, which had a positive effect on the realisation prices throughout the year. In mid-2018, the situation started deteriorating. There was a decrease in orders from the automotive industry and the effect of the introduction of USA tariffs became apparent in lower sales in that market, but especially in the re-direction of competitors' sale to the European market. 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.

**IN 2018, MORAVIA STEEL a.s.  
SOLD METALLURGICAL  
PRODUCTS IN THE TOTAL  
VOLUME OF 2,368 KT**

The sale of **wide and flat steel from the Universal Rolling Mill in Bohumín** amounted to almost 44 kt in 2018, which is approximately 6kt more than in 2017, when the volume was, however, significantly affected by the limited operation of the blooming mill. In early 2018, we had to deal with backlog deliveries from the blooming mill, but the situation stabilised in March and the rolling mill operated as standard. The engagement portfolio in 2018 was dominated by construction steel types and the German market was key, but given the positive market situation across Europe, we were able to contract less efficient but profitable product range throughout the year and thus achieve profit. The sales increased by approximately CZK 148 million year-on-year, i.e. 19%. We plan sales of 43 kt in 2019.

A continuously interesting added value in the MS/TŽ Group is **drawn steel**, for which reason we endeavoured to continue increasing its sale. In 2018, sales of drawn steel amounted to 92.3 kt, recording a year-on-year increase of 0.1 kt. Unfortunately, not even the high demand was able to increase our sales year-on-year, since it was physically impossible to sell available stock from the warehouse. It was prevented by the construction of a storage retrieval machine on the premises of the former warehouse, which fundamentally complicated not just production but also shipping. Despite this fact, the MS/TŽ group was able to strengthen its position on the European market thanks to the quality of the drawn bars produced in Staré Město.

Sales of drawn, annealed and phosphatised wire in coils amounted to 6.91 kt. This amount was 0.27 kt lower than the previous year and it was primarily directed at automotive customers and bearing producers.

The lower sales were the result particularly of the higher number of operations with double drawing. The drawing line was fully utilised during the year.

## THE DOMINANT CUSTOMER OF MORAVIA STEEL a.s. IN THE EU HAS BEEN GERMANY, ACCOUNTING FOR 28% OF THE TOTAL UNION EXPORT

The volume of **seamless tubes** supplied by the Company to the market amounted to almost 99 kt in 2018. The decisive factor was the continuing demand for tubes in the OCTG sector as well as for mechanical tubes especially for engineering. Regarding the range of products, the Company continued increasing the volume of sales of materials with higher added value (Q+T).





**Rails** recorded a gradual production growth in 2018 after the reconstruction of the blooming mill and reached the usual volume. Despite that, the need for supplies exceeded the capacities of production and this required reviews and adjustments of the timetable for the fulfilment of certain contracts. The expected increase in investments and consumption of rail material was confirmed. Rails thus realised approximately 245 kt. Supplies were headed primarily to Germany based on a newly concluded contract with DB, we also continued fulfilling contracts concluded with the local company SŽDC, both in terms of maintenance as well as investments in the construction and reconstruction of primary railway junctions in the Czech Republic. We also continued the contracted supplies to Hungary, Canada, Israel and other European countries.

The consumption of rails in the North American territory is becoming more strongly focused on materials with higher hardness parameters, i.e. hardened rails,

and this trend is also apparent in Europe, where there is a higher level of use of hot-processed R350HT rails, including the length of 120 m.

The production capacities for 2019 are full within the stable customer portfolio and realisation is limited only by the regular medium-extent repair of the rolling mill.

The sale of **rail fastenings** continues the increased needs of 2017, especially for the Polish and Czech markets. Other European countries also recorded an increased need for conventional types of rail fastenings and supplies were therefore directed primarily to our traditional markets – Poland, the Czech Republic, Hungary, Slovakia, Switzerland and other European countries.

The total volume of sale of **continuous castings and billets** in 2018 amounted to over 279 kt. This increase was due primarily to the gradual reaching of full production capacity of rolled semi-finished products after the reconstruction of the blooming





mill and the increased demand from the manufactures of rail wheelsets and wheels. The segment of wind power and precision engineering also recorded a slight increase. The portfolio of primary customers is continuously stable and unchanging. The primary territories for the consumption of semi-finished products include local companies and key producers of wheelsets and railway wheels in the Czech Republic and the EU. Other key customers include the producers of rings for wind turbines in Germany and other EU countries.

Since 2018, the MS/TŽ group has become a member and key supplier for wind power producers thanks to the new acquisition of Brück (now Bohemia Rings). This plan was supported by the launch of casting of a new size of continuous castings, 600 mm, which should allow the production of ring sizes for stronger performance wind turbines.

For 2019, the Company plans to stabilise the production of the 600 mm size and preparing its casting on all casting streams. The volume of realisation is expected to be at the level of 2018.

### THE MOST SIGNIFICANT ITEM IN TERMS OF VOLUME IS ROLLED WIRE, WHICH WAS SOLD IN THE AMOUNT OF OVER 975 KT IN 2018

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.

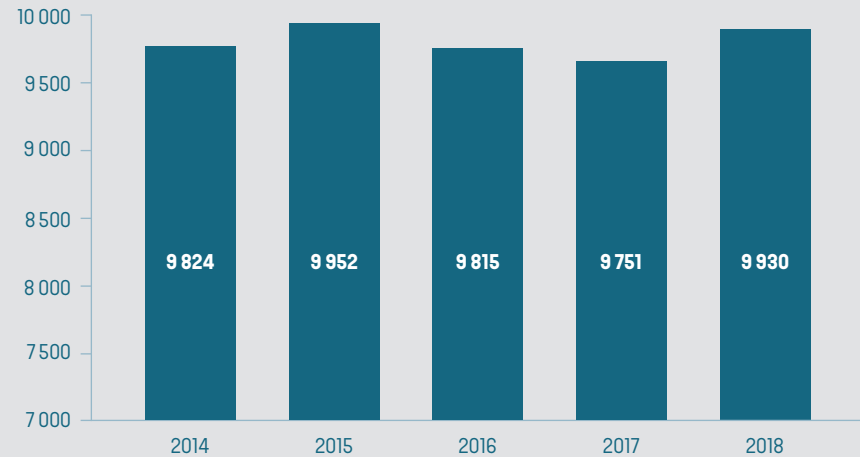
MORAVIA STEEL a.s. procures the essential raw materials with respect to availability, required quality and optimum acquisition costs.

## LOGISTICS, FREIGHT TRANSPORTATION

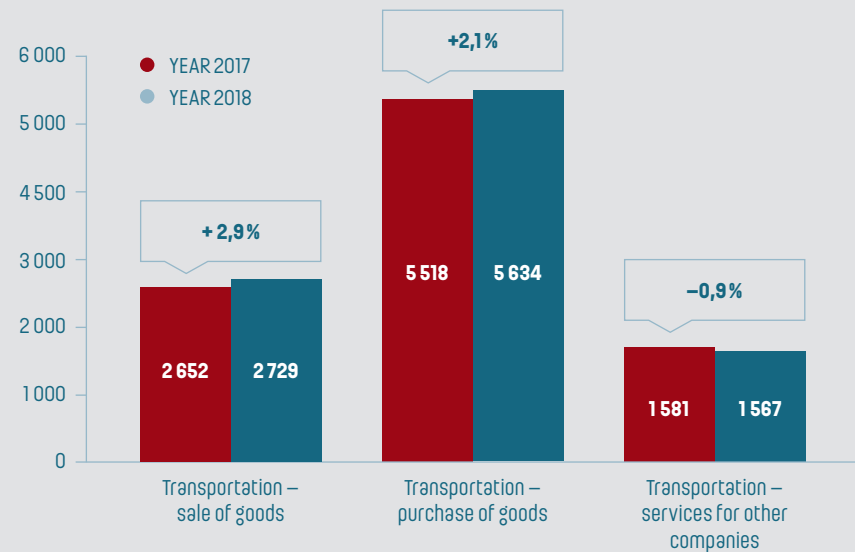
Logistics and the transport of goods represent an important part of the product portfolio of MORAVIA STEEL a.s.

The logistics in 2018 showed the constantly growing importance of innovation. Future development focuses on the customer, sustainability, technology and qualified human resources.

## DEVELOPMENT OF THE TOTAL TRANSPORTATION VOLUME OF MORAVIA STEEL A.S. (kt)



## TRANSPORTATION VOLUME STRUCTURE (kt)



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

**Process and capacity optimisation**

- Storage – automation, robotics, control systems;
- Material preparation – preparation and assembly operations;
- Road transportation of goods – infrastructure for the movement of road vehicles in manipulation areas, assessment of trends in the use of autonomous vehicles;
- Railway transportation – railway siding operation;
- Logistics of the “last mile” – method and time of final delivery of shipments;
- Modernisation of carrier technology – compatibility of information systems;
- Real-time information on the position of shipments – distribution planning; and
- Administration of documents related to shipments – computerisation of service billing and accompanying documents.

**Increase in logistics performance**

- Reorganisation of infrastructure – transportation with respect to future capacity needs of manufacturers, use of elements critical for capacity in the infrastructure on railways and at stations;
- Business optimisation with the use of digital technology;
- Railway logistics – continuing in the trend of innovative cargo units and handling systems (European economic programme Horizon, ITECCO project);
- Shortening of supply cycles – intermediate warehouses; and
- Reverse product logistics.

**Risk management**

- Elimination of risks of long-term supplier chain failures;
- Higher segmentation and differentiation of supply chains;
- Elimination of the impacts of extensive investments in harbour and transport infrastructure;
- Availability, order of railway vehicles;
- Cyber risks, transport fraud; and
- US import tariff policy; Brexit.

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

During 2018, intensive cooperation continued with manufacturers of the MS/TŽ Group in the following strategic areas:

- Monitoring and preparation of reports on the implementation of EU legislation;
- Progressive sector studies;
- Professional advisory, education support.



## MANAGEMENT SYSTEM, HUMAN RESOURCES

The Company's approach towards employees is based on openness and mutual respect. During 2018, no significant changes were made in the HR strategy, where there is an ongoing process of improvement and increasing efficiency in the area of HR management.

The Company 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 benefits, e.g. in the form of contribution for company catering, or the provision of elective employee benefits, which it endeavours to continuously expand.





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 Conduct of MORAVIA STEEL a.s.", with which all employees have been made duly familiar.

In relation to the new EU personal data protection regulation, the Company completed the implementation of all 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.

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 organisational branch abroad.

The following events occurred subsequent to the date of preparation of the Annual Report:

Based on the ruling of the Constitutional Court of 30 April 2019, ref. no. II.ÚS 1403/18, the Company is obliged to make an additional payment of the value of the land that has been included in the share capital of Barrandov Lands a.s. and that has been returned to the church as part of church restitutions. The relevant amount is CZK 45,650,143.

The Company is preparing a merger by amalgamation with FINITRADING a.s. in 2019 with the effective date set to 1 January 2019 and the anticipated entry in the Register of Companies in December 2019. FINITRADING a.s. will cease to exist when the merger is recorded in the Register of Companies and MORAVIA STEEL a.s. will become the successor company.

## 05

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 2018 BASED ON THE PRESENTED DOCUMENTS DISCUSSED BY THE BOARD OF DIRECTORS OF MORAVIA STEEL A.S. AND DISCUSSED THE PROPOSED ALLOCATION OF PROFIT FOR 2018.

Based on the audit of the consolidated annual report of MORAVIA STEEL a.s. as of 31 December 2018 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 2018, be approved by the general meeting.

The Supervisory Board also reviewed the Report on Relations for the year ended 31 December 2018 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.

# 06

## Report of the Audit Committee

### INTRODUCTION

The Audit Committee of MORAVIA STEEL a.s. (the “Committee”) has three members in compliance with the Company's Articles of Association (Dana Trezziová, Ján Moder and Tomáš Chrenek). 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 2018 and MS's consolidated financial statements for the year ended 31 December 2018 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 2018, of MS's financial statements for the year ended 31 December 2018 and MS's consolidated financial statements for the year ended 31 December 2018;

- 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 2018;
- IX. Familiarising itself with information about the impacts of the external economic environment on the economic activities of MS and MS's groups;
- 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.

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 2018, MS's consolidated financial statements for the year ended 31 December 2018 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 2018 and MS's consolidated financial statements for the year ended 31 December 2018 complied with Czech as well as international accounting standards, and the financial statements have been audited. 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.

In line with its scope of authority pursuant to Section 44a of Act No. 93/2009 Coll., on Auditors, as amended, the Audit Committee discussed and recommended to MS's Supervisory Board (including suitable justification) that it propose to the General Meeting appointing Deloitte Audit, s.r.o., with its registered office at Italská 2581/67, Vinohrady, 120 00 Prague 2, Czech Republic, corporate ID 49620592,

recorded in the Register of Companies kept by the Municipal Court in Prague, Section C, File 24349, which is a member of an international network of advisory companies providing audit services, as the auditor for performing the statutory audit for the reporting periods of 2019–2021. Deloitte Audit, s.r.o., performed the audit of MS in previous years and it duly carried out all the functions of the statutory auditor, complied with the requirements for the independence of the statutory auditor, it has sufficient experience in the area of audit of metallurgical and engineering companies, and as a result, the appointment of Deloitte Audit, s.r.o., as the Company's auditor for 2019–2021 will ensure the continued proper performance of the audit of MS's financial statements and consolidated financial statements.

### **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 2018. The Committee monitored the efficiency and effectiveness of MS's internal audit and assessed its functional independence. In 2018, three audits were performed. The Committee regularly discussed 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 2019. 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 ad-

ressed on an ongoing basis in connection with the deliverables of the activities performed by the internal audit department, and the execution of remedial measures from the performed audits is at a very good level.

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 and general legal regulations, i.e. monitoring the procedure used in preparing the financial statements and the consolidated finan-

cial 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, recommendation of an auditor to the Supervisory Board for the performance of the statutory audit, 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 2018 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.

**Dana Trezziová**

CHAIRWOMAN OF THE AUDIT COMMITTEE

07

Auditor's Report



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Czech Republic

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www.deloitte.cz

Registered by the Municipal Court  
in Prague, Section C, File 24349  
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







Financial  
Section

08

## Financial Part I. Financial Statements

### FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

<b>NAME OF THE COMPANY</b>	MORAVIA STEEL a.s.
<b>REGISTERED OFFICE</b>	Průmyslová 1000, Staré Město, 739 61 Třinec
<b>LEGAL STATUS</b>	joint-stock company
<b>CORPORATE ID</b>	63474808
<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


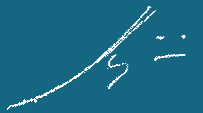
Profit and Loss Account Structured by the Nature of Expense Method

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 22 March 2019.

STATUTORY BODY OF THE REPORTING ENTITY	SIGNATURE
<b>Petr Popelář</b> Chairman of the Board of Directors	
<b>Mojmír Kašpříš</b> Member of the Board of Directors	

## BALANCE SHEET FULL VERSION

(IN CZK THOUSAND)

	31. 12. 2018			31. 12. 2017
	Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>	<b>23 249 836</b>	<b>857 953</b>	<b>22 391 883</b>	<b>20 553 179</b>
<b>B. Fixed assets</b>	<b>9 359 529</b>	<b>616 636</b>	<b>8 742 893</b>	<b>8 693 593</b>
<i>B.I. Intangible fixed assets</i>	<b>185 054</b>	<b>66 207</b>	<b>118 847</b>	<b>127 909</b>
B.I.1. Development	72	72		
B.I.2. Valuable rights	184 282	65 435	118 847	127 843
B.I.2.1. Software	1 678	1 623	55	157
B.I.2.2. Other valuable rights	182 604	63 812	118 792	127 686
B.I.4. Other intangible fixed assets	700	700		66
<i>B.II. Tangible fixed assets</i>	<b>89 212</b>	<b>65 937</b>	<b>23 275</b>	<b>23 680</b>
B.II.2. Tangible movable assets and sets of tangible movable assets	89 212	65 937	23 275	23 680
<i>B.III. Non-current financial assets</i>	<b>9 085 263</b>	<b>484 492</b>	<b>8 600 771</b>	<b>8 542 004</b>
B.III.1. Equity investments – controlled or controlling entity	9 080 139	484 492	8 595 647	8 235 410
B.III.3. Equity investments in associates	2 886		2 886	178 197
B.III.7. Other non-current financial assets	2 238		2 238	128 397
B.III.7.2. Prepayments for non-current financial assets	2 238		2 238	128 397
<b>C. Current assets</b>	<b>13 890 307</b>	<b>241 317</b>	<b>13 648 990</b>	<b>11 859 586</b>
<i>C.I. Inventories</i>	<b>809 347</b>		<b>809 347</b>	<b>325 092</b>
C.I.1. Material	1 751		1 751	1 474
C.I.3. Products and goods	807 596		807 596	323 618
C.I.3.2. Goods	807 596		807 596	323 618
<i>C.II. Receivables</i>	<b>9 963 013</b>	<b>241 317</b>	<b>9 721 696</b>	<b>8 192 846</b>
C.II.1. Long-term receivables	<b>3</b>		<b>3</b>	<b>100 100</b>
C.II.1.5. Receivables – other	3		3	100 100
C.II.1.5.2. Long-term prepayments made	3		3	3
C.II.1.5.4. Sundry receivables				100 097

THE TABLE CONTINUES ON THE NEXT PAGE 

## BALANCE SHEET FULL VERSION

(IN CZK THOUSAND)

<b>C.II.2.</b>	<b>Short-term receivables</b>	<b>9 947 196</b>	<b>241 317</b>	<b>9 705 879</b>	<b>8 079 576</b>
C.II.2.1.	Trade receivables	9 510 793	226 634	9 284 159	7 763 525
C.II.2.2.	Receivables – controlled or controlling entity	71 693	12 693	59 000	71 029
C.II.2.4.	<i>Receivables – other</i>	364 710	1 990	362 720	245 022
C.II.2.4.3.	State – tax receivables	70 974		70 974	94 028
C.II.2.4.4.	Short-term prepayments made	10 305		10 305	13 318
C.II.2.4.5.	Estimated receivables	123 308		123 308	65 661
C.II.2.4.6.	Sundry receivables	160 123	1 990	158 133	72 015
<b>C.II.3.</b>	<b>Other assets</b>	<b>15 814</b>		<b>15 814</b>	<b>13 170</b>
C.II.3.1.	Deferred expenses	7 459		7 459	2 254
C.II.3.3.	Accrued income	8 355		8 355	10 916
<b>C.IV.</b>	<b>Cash</b>	<b>3 117 947</b>		<b>3 117 947</b>	<b>3 341 648</b>
C.IV.1.	Cash on hand	617		617	350
C.IV.2.	Cash at bank	3 117 330		3 117 330	3 341 298



**BALANCE SHEET FULL VERSION**

(IN CZK THOUSAND)

	<b>31. 12. 2018</b>	<b>31. 12. 2017</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>22 391 883</b>	<b>20 553 179</b>
<b>A. Equity</b>	<b>16 366 478</b>	<b>15 591 240</b>
A.I. <b>Share capital</b>	<b>3 159 000</b>	<b>3 157 000</b>
A.I.1. Share capital	3 159 000	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>9 802 840</b>	<b>9 065 845</b>
A.IV.1. Accumulated profits or losses brought forward (+/-)	9 802 840	9 065 845
A.V. <b>Profit or loss for the current period (+/-)</b>	<b>2 773 238</b>	<b>2 736 995</b>
<b>B.+C. Liabilities</b>	<b>6 025 405</b>	<b>4 961 939</b>
<b>B. Reserves</b>	<b>968</b>	<b>956</b>
B.IV. Other reserves	968	956
<b>C. Payables</b>	<b>6 024 437</b>	<b>4 960 983</b>
C.I. <b>Long-term payables</b>	<b>550</b>	<b>630</b>
C.I.8. Deferred tax liability	550	630
C.II. <b>Short-term payables</b>	<b>5 998 137</b>	<b>4 925 733</b>
C.II.3. Short-term prepayments received	210 764	425 645
C.II.4. Trade payables	5 496 745	4 256 710
C.II.8. <b>Other payables</b>	<b>290 628</b>	<b>243 378</b>
C.II.8.1. Payables to partners	45 650	45 650
C.II.8.3. Payables to employees	10 061	9 716
C.II.8.4. Social security and health insurance payables	4 732	4 561
C.II.8.5. State – tax payables and subsidies	119 245	20 608
C.II.8.6. Estimated payables	110 873	64 949
C.II.8.7. Sundry payables	67	97 894
C.III. <b>Other liabilities</b>	<b>25 750</b>	<b>34 620</b>
C.III.1. Accrued expenses	25 102	34 620
C.III.2. Deferred income	648	

## PROFIT AND LOSS ACCOUNT

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
I. Sales of products and services	625 832	584 280
II. Sales of goods	64 012 446	57 202 343
A. Purchased consumables and services	<b>62 409 255</b>	<b>55 738 574</b>
A.1. Costs of goods sold	61 018 503	54 630 870
A.2. Consumed material and energy	9 097	7 570
A.3. Services	1 381 655	1 100 134
D. Staff costs	<b>361 124</b>	<b>322 673</b>
D.1. Payroll costs	283 183	252 082
D.2. Social security and health insurance costs and other charges	<b>77 941</b>	<b>70 591</b>
D.2.1. Social security and health insurance costs	74 988	67 898
D.2.2. Other charges	2 953	2 693
E. Adjustments to values in operating activities	<b>112 017</b>	<b>-96 535</b>
E.1. Adjustments to values of intangible and tangible fixed assets	28 685	28 332
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	28 685	28 332
E.3. Adjustments to values of receivables	83 332	-124 867
III. Other operating income	<b>177 152</b>	<b>38 938</b>
III.1. Sales of fixed assets	1 081	1 782
III.2. Sales of material	2 768	1 656
III.3. Sundry operating income	173 303	35 500
F. Other operating expenses	<b>67 125</b>	<b>186 026</b>
F.1. Net book value of sold fixed assets		552
F.2. Material sold	2 530	1 677
F.3. Taxes and charges	546	598
F.4. Reserves relating to operating activities and complex deferred expenses	12	131
F.5. Sundry operating expenses	64 037	183 068
<b>* Operating profit or loss (+/-)</b>	<b>1 865 909</b>	<b>1 674 823</b>
IV. Income from non-current financial assets – equity investments	1 353 566	1 618 797
IV.1. Income from equity investments – controlled or controlling entity	1 353 566	1 618 797

THE TABLE CONTINUES ON THE NEXT PAGE



## PROFIT AND LOSS ACCOUNT

(IN CZK THOUSAND)

G.	Costs of equity investments sold		59
VI.	Interest income and similar income	8 223	5 868
VI.1.	Interest income and similar income – controlled or controlling entity	2 438	1 436
VI.2.	Other interest income and similar income	5 785	4 432
I.	Adjustments to values and reserves relating to financial activities	68 632	47 787
VII.	Other financial income	462 761	411 700
K.	Other financial expenses	476 008	644 730
*	<b>Financial profit or loss (+/-)</b>	<b>1 279 910</b>	<b>1 343 789</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>3 145 819</b>	<b>3 018 612</b>
L.	Income tax	372 581	281 617
L.1.	Due income tax	372 661	280 987
L.2.	Deferred income tax (+/-)	-80	630
**	<b>Profit or loss net of tax (+/-)</b>	<b>2 773 238</b>	<b>2 736 995</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>2 773 238</b>	<b>2 736 995</b>
*	Net turnover for the current period	66 639 980	59 861 926

## STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits or losses brought forward	Profit or loss for the current period	TOTAL EQUITY
<b>Balance at 31 December 2016</b>	<b>3 157 000</b>	<b>0</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	0	0	0	325 700	-325 700	0
Profit shares paid	0	0	0	0	-2 000 000	-2 000 000
Profit or loss for the current period	0	0	0	0	2 736 995	2 736 995
<b>Balance at 31 December 2017</b>	<b>3 157 000</b>	<b>0</b>	<b>631 400</b>	<b>9 065 845</b>	<b>2 736 995</b>	<b>15 591 240</b>
Distribution of profit or loss	0	0	0	736 995	-736 995	0
Change in share capital	2 000	0	0	0	0	2 000
Profit shares paid	0	0	0	0	-2 000 000	-2 000 000
Profit or loss for the current period	0	0	0	0	2 773 238	2 773 238
<b>Balance at 31 December 2018</b>	<b>3 159 000</b>	<b>0</b>	<b>631 400</b>	<b>9 802 840</b>	<b>2 773 238</b>	<b>16 366 478</b>

**CASH FLOW STATEMENT**

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
<b>P. Opening balance of cash and cash equivalents</b>	<b>3 341 648</b>	<b>3 599 858</b>
Z. Profit or loss before tax	3 145 819	3 018 612
A.1. Adjustments for non-cash transactions	<b>-1 170 534</b>	<b>-1 664 786</b>
A.1.1. Depreciation of fixed assets	28 685	28 332
A.1.2. Change in provisions and reserves	151 976	-77 021
A.1.3. Profit/(loss) on the sale of fixed assets	-1 081	-1 230
A.1.4. Revenues from profit shares	-1 353 566	-1 618 797
A.1.5. Interest expense and interest income	-8 223	-5 868
A.1.6. Adjustments for other non-cash transactions	11 675	9 798
<b>A.* Net operating cash flow before changes in working capital</b>	<b>1 975 285</b>	<b>1 353 826</b>
A.2. Change in working capital	-1 143 120	-976 514
A.2.1. Change in operating receivables and other assets	-1 650 581	-504 525
A.2.2. Change in operating payables and other liabilities	991 716	-260 501
A.2.3. Change in inventories	-484 255	-211 488
<b>A.** Net cash flow from operations before tax</b>	<b>832 165</b>	<b>377 312</b>
A.4. Interest received	8 223	5 868
A.5. Income tax paid from ordinary operations	-274 119	-214 136
A.6. Received profit shares	1 353 566	1 618 797
<b>A.*** Net operating cash flows</b>	<b>1 919 835</b>	<b>1 787 841</b>
B.1. Fixed assets expenditures	-146 617	-35 804
B.2. Proceeds from fixed assets sold	1 081	1 782
B.3. Loans and borrowings to related parties		-12 029
<b>B.*** Net investment cash flows</b>	<b>-145 536</b>	<b>-46 051</b>
C.2. Impact of changes in equity	-1 998 000	-2 000 000
C.2.1. Cash increase in share capital	2 000	
C.2.6. Profit shares paid	-2 000 000	-2 000 000
<b>C.*** Net financial cash flows</b>	<b>-1 998 000</b>	<b>-2 000 000</b>
<b>F. Net increase or decrease in cash and cash equivalents</b>	<b>-223 701</b>	<b>-258 210</b>
<b>R. Closing balance of cash and cash equivalents</b>	<b>3 117 947</b>	<b>3 341 648</b>

## Table of contents

<b>1.</b>	<b>GENERAL INFORMATION</b>	<b>40</b>		
1.1.	Incorporation and Description of the Business	40		
1.2.	Changes and Amendments to the Register of Companies	40		
1.3.	Board of Directors and Supervisory Board as of 31 December 2018	40		
1.4.	Organisational Structure of the Company as of 31 December 2018	41		
<b>2.</b>	<b>BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES</b>	<b>42</b>		
<b>3.</b>	<b>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>	<b>42</b>		
3.1.	Tangible Fixed Assets	42		
3.2.	Intangible Fixed Assets	43		
3.3.	Non-Current Financial Assets	43		
3.4.	Inventory	44		
3.5.	Current Financial Assets	44		
3.6.	Receivables	44		
3.7.	Trade Payables	45		
3.8.	Loans	45		
3.9.	Foreign Currency Translation	45		
3.10.	Reserves	45		
3.11.	Finance Leases	45		
3.12.	Taxation	46		
3.12.1.	<i>Tax Depreciation of Fixed Assets</i>		46	
3.12.2.	<i>Current Tax Payable</i>		46	
3.12.3.	<i>Deferred Tax</i>		46	
3.13.	Impairment		46	
3.14.	Use of Estimates		47	
3.15.	Revenue Recognition		47	
3.16.	Cash Flow Statement		47	
3.17.	Year-on-Year Changes in the Classification and Designation of Balance Sheet and Profit and Loss Account Items and their Substance		47	
<b>4.</b>	<b>ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT</b>	<b>48</b>		
4.1.	Fixed Assets		48	
4.1.1.	<i>Intangible Fixed Assets</i>		48	
4.1.2.	<i>Tangible Fixed Assets</i>		49	
4.2.	Non-Current Financial Assets		50	
4.2.1.	<i>Equity Investments – Controlled or Controlling Entities</i>		50	
4.2.2.	<i>Equity Investments – Associates</i>		51	
4.2.3.	<i>Pledged Non-Current Financial Assets and Current Equity Securities</i>		52	
4.3.	Inventory		52	

4.4.	Receivables	52	4.6.12.	<i>Deferred Taxation</i>	56
4.4.1.	Long-Term Receivables	52	4.7.	Income Tax on Ordinary and Extraordinary Activities	57
4.4.2.	<i>Trade Receivables</i>	52	4.8.	Details of Income	57
4.4.3.	<i>Aging of Receivables from Customers</i>	52	4.9.	Costs of Goods Sold	57
4.4.4.	<i>Intercompany Trade Receivables</i>	53	4.10.	Services	58
4.4.5.	<i>State – Tax Receivables</i>	53	4.11.	Change in Reserves and Provisions Relating to Operating Activities and Complex Deferred Expenses	58
4.5.	Shareholders' Equity	54	4.12.	Other Operating Expenses and Income	58
4.5.1.	<i>Share Capital</i>	54	4.13.	Other Financial Expenses and Income	58
4.5.2.	<i>Changes in Equity</i>	54	4.14.	Related Party Transactions	59
4.6.	Payables	54	4.14.1.	<i>Income Generated with Related Parties</i>	59
4.6.1.	<i>Long-Term Payables</i>	54	4.14.2.	<i>Purchases</i>	61
4.6.2.	<i>Aging of Payables to Suppliers</i>	54	<b>5.</b>	<b>EMPLOYEES, MANAGEMENT AND STATUTORY BODIES</b>	<b>62</b>
4.6.3.	<i>Intercompany Payables</i>	55	5.1.	Staff Costs and Number of Employees	62
4.6.4.	<i>Collateralised Payables or Otherwise Covered</i>	55	5.2.	Loans, Borrowings and Other Benefits Provided	63
4.6.5.	<i>Payables to Partners and Association Members</i>	55	<b>6.</b>	<b>CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS AND LEGAL DISPUTES</b>	<b>64</b>
4.6.6.	<i>Estimated Payables</i>	55	<b>7.</b>	<b>POST BALANCE EVENTS</b>	<b>64</b>
4.6.7.	<i>Due Amounts from Social Security and Health Insurance</i>	56			
4.6.8.	<i>State – Tax Payables</i>	56			
4.6.9.	<i>Short-term Bank Loans</i>	56			
4.6.10.	<i>Short-Term Prepayments Received</i>	56			
4.6.11.	<i>Accrued Expenses</i>	56			

## 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 2018, the Company's issued share capital is CZK 3,159,000 thousand.

The Company's financial statements have been prepared as of and for the year ended 31 December 2018.

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 99.03 % 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

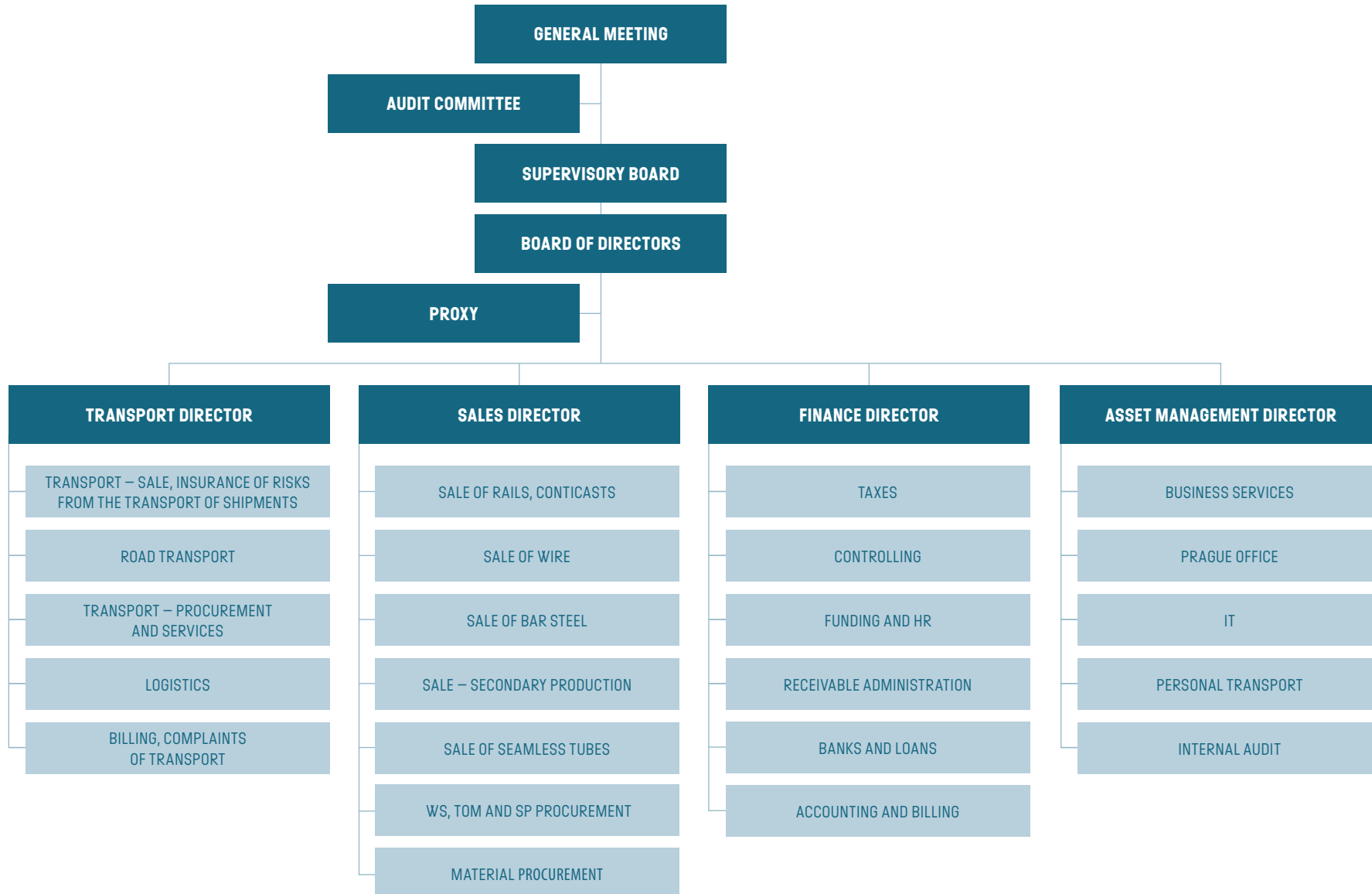
During the year ended 31 December 2018, the Company's share capital was increased by CZK 2,000 thousand in the form of four shares in the nominal value of CZK 500 thousand each.

### 1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2018

	Position	Name
<b>Board of Directors</b>	Chairman	Petr Popelář
	Vice Chairman	Krzysztof Roch Ruciński
	Member	Mojmír Kašpříš
	Member	Uršula Novotná
<b>Supervisory Board</b>	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 2018



## 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 2018.

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 2018.

### 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 2018.

### 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)	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Cash on hand	617	350
Cash at bank and cash in transit	3 117 330	3 341 298
<b>Total current financial assets</b>	<b>3 117 947</b>	<b>3 341 648</b>
<b>Total cash and cash equivalents</b>	<b>3 117 947</b>	<b>3 341 648</b>

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

### 3.17. YEAR-ON-YEAR CHANGES IN THE CLASSIFICATION AND DESIGNATION OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT ITEMS AND THEIR SUBSTANCE

In preparing the financial statements the Company proceeded in line with the amendment to Regulation No. 500/2000 Coll., for reporting periods beginning in 2018, and assessed the presentation of deferred expenses and accrued income in item C.II.3. and accrued expenses and deferred income in item C.III. of the balance sheet. The information for the comparative period is classified in part C of the balance sheet as well.

## 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 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Development	72	0	0	72	0	0	72
Software	1 679	0	1	1 678	0	0	1 678
Valuable rights	172 604	0	0	172 604	10 000	0	182 604
Other intangible FA	926	0	0	926	0	226	700
Intangible FA under construction	0	0	0	0	10 000	10 000	0
Prepayments and advances for intangible FA	0	2 021	2 021	0	0	0	0
<b>Total</b>	<b>175 281</b>	<b>2 021</b>	<b>2 022</b>	<b>175 280</b>	<b>20 000</b>	<b>10 226</b>	<b>185 054</b>

##### Accumulated Amortisation

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Development	72	0	0	72	0	0	72
Software	1 419	102	0	1 521	102	0	1 623
Valuable rights	27 691	17 227	0	44 918	18 894	0	63 812
Other intangible FA	838	22	0	860	66	226	700
<b>Total</b>	<b>30 020</b>	<b>17 351</b>	<b>0</b>	<b>47 371</b>	<b>19 062</b>	<b>226</b>	<b>66 207</b>

##### Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Development	0	0
Software	157	55
Valuable rights	127 686	118 792
Other intangible FA	66	0
Intangible FA under construction	0	0
Prepayments and advances for intangible FA	0	0
<b>Total</b>	<b>127 909</b>	<b>118 847</b>

Amortisation of intangible fixed assets was CZK 19,062 thousand and CZK 17,352 thousand as of 31 December 2018 and 31 December 2017, respectively.



#### 4.1.2. Tangible Fixed Assets

##### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Tangible movable assets	97 317	7 040	13 502	90 855	9 218	10 861	89 212
– <i>Machines and equipment</i>	13 874	346	392	13 828	0	926	12 902
– <i>Vehicles</i>	76 808	6 694	12 308	71 194	9 218	8 159	72 253
– <i>Furniture and fixtures</i>	6 635	0	802	5 833	0	1 776	4 057
Tangible FA under construction	0	6 855	6 855	0	8 525	8 525	0
Prepayments for tangible FA	0	8 068	8 068	0	0	0	0
<b>Total</b>	<b>97 317</b>	<b>21 963</b>	<b>28 425</b>	<b>90 855</b>	<b>17 743</b>	<b>19 386</b>	<b>89 212</b>

##### Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Tangible movable assets	69 145	10 980	12 950	67 175	9 623	10 861	65 937
– <i>Machines and equipment</i>	12 962	582	392	13 152	388	926	12 614
– <i>Vehicles</i>	49 633	10 381	11 756	48 258	9 221	8 159	49 320
– <i>Furniture and fixtures</i>	6 550	17	802	5 765	14	1 776	4 003
<b>Total</b>	<b>69 145</b>	<b>10 980</b>	<b>12 950</b>	<b>67 175</b>	<b>9 623</b>	<b>10 861</b>	<b>65 937</b>

##### Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Tangible movable assets	23 680	23 275
– <i>Machines and equipment</i>	676	288
– <i>Vehicles</i>	22 936	22 933
– <i>Furniture and fixtures</i>	68	54
Tangible FA under construction	0	0
Prepayments for tangible FA	0	0
<b>Total</b>	<b>23 680</b>	<b>23 275</b>

The Company principally acquired cars in 2017 and 2018.

The Company acquired tangible assets that were charged directly to expenses in the amounts of CZK 3,696 thousand and CZK 2,218 thousand for the years ended 31 December 2018 and 2017, 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 9,623 thousand and CZK 10,980 thousand as of 31 December 2018 and 31 December 2017, respectively.

## 4.2. NON-CURRENT FINANCIAL ASSETS

### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Equity investments – controlled or controlling entities	8 525 322	108 592	373	8 633 541	417 767	0	9 051 308
Equity investments – associates	178 197	0	0	178 197	0	175 311	2 886
Acquisition of non-current financial assets *)	0	225 832	208 103	17 729	371 935	360 833	28 831
Prepayments for non-current financial assets	110 209	124 515	106 327	128 397	0	126 159	2 238
<b>Total</b>	<b>8 813 728</b>	<b>458 939</b>	<b>314 803</b>	<b>8 957 864</b>	<b>789 702</b>	<b>662 303</b>	<b>9 085 263</b>

\*) A provision against this item was recognised in the amount of CZK 11,328 thousand as of 31 December 2018.

Based on the share transfer agreement of 5 December 2017, the Company purchased an additional 16% of shares of Kovárna VIVA a.s. and thus increased its 50% ownership interest to 66%.

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

#### 2018

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.*)	Třinec	7 091 640	8 109 863	100	27 890 159	3 334 039	0	1 200 000
Barrandov Studio a.s.	Prague	746 439	197 112	99,85	880 892	77 461	150 000	0
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	10 814	2 431	0	0
Moravia Steel Italia, srl	Milano	2 580	2 075	66	64 715	24 940	0	16 925
Moravia Steel Ibéria, s.a.	Lisbon	10 850	2 533	99,33	11 223	2 227	0	1 285
MS – Slovensko s.r.o.	Bratislava	161	160	100	15 013	5 927	0	0
Moravia Steel Israel Ltd	Petach Tikva	605	466	100	0	0	0	0
Beskydská golfová, a.s.	Ropice	254 342	230 000	100	201 837	-9 018	100 000	0
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	236 573	32 787	120 011	40 000
M Steel Projects a.s.	Třinec	218 875	10 000	100	352 454	17 236	100 000	0
Moravia Steel UK Ltd.	Cheshire	1 449	728	100	25 997	5 980	0	14 496
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	41 485	22 247	0	51 160
NEOMET Sp. z o.o.	Radomsko	4 127	4 856	100	128 666	17 313	0	0
Moravia Mining Plc**)	Addis Ababa	3 153	3 157	76	-2 773	-1 579	3 153	0
Kovárna VIVA a.s.	Zlín	417 667	33 000	66	959 817	140 384	0	29 700
<b>Total</b>		<b>9 068 810</b>	<b>8 598 442</b>		<b>30 816 872</b>	<b>3 672 375</b>	<b>473 164</b>	<b>1 353 566</b>

\*) During 2018, the investment increased by CZK 100 thousand consisting of secondary costs related to acquisition, such as legal and mediation services. The amount also includes CZK 17,503 thousand related to securities included in the ongoing legal dispute on the correct valuation of the shares of TŘINECKÉ ŽELEZÁRNY, a.s.

\*\*\*) As of the end of 2018, Moravia Mining Plc. reported a deficit on equity. The company incurred a loss in 2018.

## 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 incurred a loss in 2017.

## 4.2.2. Equity Investments – Associates

## 2018

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
Moravia Steel Middle East FZO*)	Dubai	2 886	2 841	40	346 784	-1 827	0	0
<b>Total</b>		<b>2 886</b>	<b>2 841</b>		<b>346 784</b>	<b>-1 827</b>	<b>0</b>	<b>0</b>

## 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>

### 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 2018 and 2017.

### 4.3. INVENTORY

(CZK THOUSAND)

	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Material	1 751	1 474
Inventory – raw material	204 212	12 003
Inventory – metallurgical products	603 384	311 615
<b>Total</b>	<b>809 347</b>	<b>325 092</b>

In the year ended 31 December 2018, 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 2018, the Company reports long-term receivables of CZK 3 thousand.

As of 31 December 2018 and 2017, the Company records no long-term receivables with maturity exceeding 5 years.

#### 4.4.2. Trade Receivables

(CZK THOUSAND)

	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Short-term		
– Customers	9 507 449	7 916 205
– Bills of exchange to be collected	3 344	3 344
– Provisions – customers	–223 290	–152 680
– Provisions – bills of exchange to be collected	–3 344	–3 344
<b>Total</b>	<b>9 284 159</b>	<b>7 763 525</b>

#### 4.4.3. Aging of Receivables from Customers

(CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2018	Gross	8 258 041	1 249 408	9 507 449
	Provisions	386	222 904	223 290
31 Dec 2017	Gross	7 067 778	848 427	7 916 205
	<b>Provisions</b>	<b>0</b>	<b>152 680</b>	<b>152 680</b>

Receivables typically mature within 30 days.

**Past due receivables:**

(CZK THOUSAND)

Year ended	Local	Cross-border	Total
31 Dec 2018	232 731	1 016 677	<b>1 249 408</b>
31 Dec 2017	125 525	722 902	<b>848 427</b>

**4.4.4. Intercompany Trade Receivables**

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2018	Balance at 31 Dec 2017
<b>Short-term trade receivables</b>		
TŘINECKÉ ŽELEZÁRNY, a.s.	2 137 570	1 567 333
Strojírny a stavby Třinec, a.s.	53	125
ENERGETIKA TŘINEC, a.s.	16 894	46 963
Slévárny Třinec, a.s.	45 049	31 327
Moravia Steel Deutschland GmbH, Germany	-44	-1 360
Řetězárna a.s.	23 059	16 807
HŽP a.s.	34 662	43 458
Moravia Steel UK Ltd	1	0
DOPRAVA TŽ, a.s.	0	0
Beskydská golfová, a.s.	60	61
VÚHŽ, a.s.	7 575	7 462
Šroubárna Kyjov spol. s r.o.	43 007	14 586
Kovárna VIVA a.s.	111 594	113 673
M STEEL PROJECTS a.s.	107 442	242
ŽDB DRÁTOVNA a.s.	278 677	319 966
"NEOMET" sp.z o.o.	142	575
<b>Total short-term intercompany receivables</b>	<b>2 805 741</b>	<b>2 161 218</b>
Receivables outside the Group	6 705 052	5 758 331
<b>Receivables outside the Group</b>	<b>9 510 793</b>	<b>7 919 549</b>

**4.4.5. State – Tax Receivables**

State – tax receivables principally comprise a receivable arising from VAT of CZK 70,974 thousand as of 31 December 2018 (2017: a receivable arising from VAT of CZK 94,028 thousand).

## 4.5. SHAREHOLDERS' EQUITY

### 4.5.1. Share Capital

The Company's share capital in the aggregate amount of CZK 3,159,000 thousand as of 31 December 2018 is composed of 315,900 registered shares in book-entry form with a nominal value of CZK 10,000 each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's General Meeting.

### 4.5.2. Changes in Equity

Based on the decision of the General Meeting of Shareholders held on 27 June 2018, the profit of CZK 2,736,995 thousand for the year ended 31 December 2017 was allocated as follows:

- CZK 736,995 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 2,773,238 thousand for the year ended 31 December 2018 will be distributed as follows: CZK 2,000,000 thousand will be used for the payment of dividends and CZK 773,238 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 2018.

### 4.6.2. Aging of Payables to Suppliers

(CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2018	Short-term	5 495 484	1 261	<b>5 496 745</b>
31 Dec 2017	Short-term	4 254 319	2 391	<b>4 256 710</b>

Payables typically mature within 45 days.

### 4.6.3. Intercompany Payables

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2018	Balance at 31 Dec 2017
<b>Short-term trade payables</b>		
TŘINECKÉ ŽELEZÁRNY, a.s.	1 871 637	1 798 888
Strojírny a stavby Třinec, a.s.	17	5
Řetězárna a.s.	0	0
REFRASIL, s.r.o.	12 184	10 934
FINITRADING, a.s.	167 374	169 261
Moravia Steel Italia, srl	18 733	16 677
Moravia Steel Ibéria, s.a.	0	1 276
Moravia Steel Slovenija, d.o.o.	4 411	4 212
DOPRAVA TŽ, a.s.	20	18
VESUVIUS ČESKÁ REPUBLIKA, a.s.	25 452	25 291
ŽDB DRÁTOVNA a.s.	0	0
Beskydská golfová a.s.	0	0
Třinecké gastroslužby, s.r.o.	290	274
Minerfin a.s.	228 397	54 814
Moravia Steel Deutschland GmbH	26 654	0
Moravia Steel UK Ltd	15 200	11 575
<b>Total intercompany short-term payables</b>	<b>2 370 369</b>	<b>2 093 225</b>
Payables to other than Group companies	3 126 376	2 163 485
<b>Total short-term trade payables</b>	<b>5 496 745</b>	<b>4 256 710</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 Note 4.6.9.).

### 4.6.5. Payables to Partners and Association Members

As of 31 December 2018, 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 52,144 thousand (2017: CZK 20,854 thousand), unbilled supplies of work and services amounting to CZK 53,476 thousand (2017: CZK 38,171 thousand) and an estimated payable for staff costs in the amount of CZK 5,253 thousand (2017: CZK 5,924 thousand).

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

As of 31 December 2018, the aggregate amount of due amounts related to social security, state employment policy and health insurance contributions was CZK 4,732 thousand (2017: CZK 4,561 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 2018 amounting to CZK 119,245 thousand as of 31 December 2018 (2017: a payable arising from corporate income tax net of the anticipated income tax for 2017 of CZK 18,837 thousand).

#### 4.6.9. Short-term Bank Loans

During the years ended 31 December 2018 and 2017, the Company used no bank loans.

#### 4.6.10. Short-Term Prepayments Received

In the year ended 31 December 2018, the Company recorded short-term prepayments received of CZK 210,764 thousand (2017: CZK 425,645 thousand).

#### 4.6.11. Accrued Expenses

Accrued expenses largely comprise costs related to the year ended 31 December 2018 for transportation and other services paid in 2019 in the amount of CZK 25,099 thousand (2017: CZK 34,615 thousand) and banking fees and bank interest payable on short-term and long-term operating loan facilities in the amount of CZK 3 thousand (2017: CZK 5 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 2018	Balance at 31 Dec 2017
Accumulated depreciation and amortisation of fixed assets	-8 649	-6 457
Estimated payable arising from outstanding vacation days	998	1 126
Unpaid penalties	760	0
Provisions – receivables	6 879	5 226
Unpaid (un-received) penalty	-538	-525
<b>Total recognised tax asset (+) / liability (-)</b>	<b>-550</b>	<b>-630</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:

	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Profit before tax	3 145 819	3 018 613
Tax at the domestic income tax rate of 19%	597 706	573 536
Tax effect of permanent differences	-225 386	-291 272
Deferred tax liability	80	-630
Additional taxes of prior years	181	-17
<b>Total income tax on ordinary activities</b>	<b>372 581</b>	<b>281 617</b>

(CZK THOUSAND)

#### 4.8. DETAILS OF INCOME

	2018			2017		
	Local	Cross-border	Total	Local	Cross-border	Total
Goods – raw material	20 835 027	0	20 835 027	19 385 631	0	19 385 631
Goods – metallurgical products	13 503 057	29 674 362	43 177 419	12 937 405	24 879 307	37 816 712
<b>Sales of goods</b>	<b>34 338 084</b>	<b>29 674 362</b>	<b>64 012 446</b>	<b>32 323 036</b>	<b>24 879 307</b>	<b>57 202 343</b>
Sales of services	531 037	94 795	625 832	510 215	74 065	584 280
<b>Total sales of own products and services</b>	<b>531 037</b>	<b>94 795</b>	<b>625 832</b>	<b>510 215</b>	<b>74 065</b>	<b>584 280</b>

(CZK THOUSAND)

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 491,685 thousand for the year ended 31 December 2018 (2017: CZK 464,619 thousand). The sales of services also comprise revenues arising from remuneration and commissions based on mandatory contracts.

#### 4.9. COSTS OF GOODS SOLD

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Purchase of goods – raw materials	20 213 974	18 726 699
Purchase of goods – metallurgical products	39 058 602	34 207 022
Costs for transport of goods – metallurgical products	1 745 927	1 697 149
<b>Total costs of goods sold</b>	<b>61 018 503</b>	<b>54 630 870</b>

(CZK THOUSAND)

**4.10. SERVICES**

(CZK THOUSAND)

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Transportation costs – services	540 384	434 341
Lease of trademark	123 000	123 000
Commissions	311 433	245 523
Advertising	125 693	128 853
Rental fees	7 984	9 641
Telecommunications	11 388	11 542
Legal advisory and auditing activities	34 005	22 856
Other services	227 768	124 378
<b>Total</b>	<b>1 381 655</b>	<b>1 100 134</b>

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

(CZK THOUSAND)

	Year ended 31 Dec 2018	Year ended 31 Dec 2017
Settlement of complex deferred expenses	0	72
Change in reserves	12	59
<b>Reserves relating to operating activities and complex deferred expenses</b>	<b>12</b>	<b>131</b>
Changes in provisions under special legislation	74 628	-110 494
– provisions against receivables	74 628	-110 494
Changes in tax non-deductible provisions:	8 704	-14 373
– provisions against receivables	8 704	-14 373
<b>Changes in receivables</b>	<b>83 332</b>	<b>124 867</b>
<b>Total</b>	<b>83 344</b>	<b>-124 736</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 3,701 thousand (2017: CZK 87,314 thousand) and the costs of insurance of supplies and other insurance in the aggregate amount of CZK 46,596 thousand (2017: CZK 46,631 thousand). Other operating income primarily includes discounts and rebates of CZK 19 thousand (2017: CZK 15,029 thousand) and supplies of insurance companies arising from insurance of receivables of CZK 168,588 thousand (2017: CZK 17,319 thousand).

**4.13. OTHER FINANCIAL EXPENSES AND INCOME**

Other financial income is composed of foreign exchange rate gains of CZK 462,761 thousand (2017: CZK 411,700 thousand).

Other financial expenses principally comprise foreign exchange rate losses of CZK 471,389 thousand (2017: CZK 620,347 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 4,619 thousand (2017: CZK 24,383 thousand).

## 4.14. RELATED PARTY TRANSACTIONS

### 4.14.1. Income Generated with Related Parties

2018

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Services	Other income	Fin. income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	20 193 544	355 404	6 477	915	20 556 340
Barrandov Studio a.s.	Subsidiary	0	0	10	1 184	1 194
Beskydská golfová, a.s.	Subsidiary	0	600	0	0	600
Hanácké železářny a pérovny, a.s.	Subsidiary of a subsidiary	313 437	7 177	13	0	320 627
Moravia Steel Italia s.r.l.	Subsidiary	0	0	140	0	140
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	0	0	0
Moravia Steel UK Ltd	Subsidiary	0	0	39	0	39
Kovárna VIVA a.s.	Subsidiary	561 251	954	6	0	562 211
M STEEL PROJECTS a.s.	Subsidiary	436 950	3 843	0	0	440 793
Strojírny a stavby Třinec, a.s.	Subsidiary of a subsidiary		496	0	0	496
ENERGETIKA TŘINEC, a.s.	Subsidiary of a subsidiary	473 158	2 140	0	0	475 298
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	168 839	10 058	-21	0	178 876
REFRASIL, s.r.o.	Subsidiary of a subsidiary	0	0	0	0	0
Řetězárna a.s.	Subsidiary of a subsidiary	233 809	0	0	0	233 809
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary	-1 162	1 143	92	0	73
VÚHŽ, a.s.	Subsidiary of a subsidiary	0	0	0	0	0
Šroubárna Kyjov, spol. s r.o.	Subsidiary of a subsidiary	403 703	8 723	128	0	412 554
ŽDB DRÁTOVNA a.s.	Subsidiary of a subsidiary	1 909 379	105 269	69	0	2 014 717
FINITRADING, a.s.	Controlling entity	0	0	0	0	0
NEOMET Sp. Z o.o.	Subsidiary	0	6 708	0	0	6 708
Minerfin a.s.	Group entity	0	1 330	0	0	1 330
"Metalurgja" Spółka akcyjna	Subsidiary of a subsidiary	53 579	0	0	0	53 579
"D&D" Drótaru	Subsidiary of a subsidiary	972 110	0	93	0	972 203
Moravskoslezský kovošrot, a.s.	Subsidiary	0	3 139	0	0	3 139
Moravia Mining	Subsidiary	0	0	0	338	338
<b>Total</b>		<b>25 718 597</b>	<b>506 984</b>	<b>7 046</b>	<b>2 437</b>	<b>26 235 064</b>

## 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
Hanácké železářny a pérovny, 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" Drótaru	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>

## 4.14.2. Purchases

2018

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	38 787 375	138	168 529	368	0	38 956 410
Moravia Steel Italia, s.r.l.	Subsidiary	0	0	84 610	0	0	84 610
Moravia Steel Ibéria, s.á.	Subsidiary	0	0	13 879	0	0	13 879
Moravia Steel Slovenija, d.o.o.	Subsidiary	0	0	15 725	0	0	15 725
Barrandov Studio, a.s.	Subsidiary	0	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary	0	0	161 863	0	0	161 863
Moravia Steel UK Ltd	Subsidiary	0	0	38 446	0	0	38 446
Beskydská golfová, a.s.	Subsidiary	0	0	6 969	3	0	6 972
HŽP, a.s.	Subsidiary of a subsidiary	0	0	0	0	0	0
Strojírny a stavby Třinec, a.s.	Subsidiary of a subsidiary	19	0	88	0	0	107
REFRASIL, s.r.o.	Subsidiary of a subsidiary	82 972	0	0	0	0	82 972
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	176	0	4	0	0	180
TRISIA, a.s.	Subsidiary of a subsidiary	0	0	6 137	461	0	6 598
Třinecké gastroslužby, s.r.o.	Subsidiary of a subsidiary	0	0	690	3 574	0	4 264
FINITRADING, a.s.	Controlling entity	2 030 161	0	0	0	0	2 030 161
VESUVIUS ČESKÁ REPUBLIKA, a.s.	–	115 795	0	0	0	0	115 795
Minerfin a.s.	Group entity	1 309 912	0	0	0	0	1 309 912
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	0	0	0	0	0	0
<b>Total</b>		<b>42 326 410</b>	<b>138</b>	<b>496 940</b>	<b>4 406</b>	<b>0</b>	<b>42 827 894</b>

## 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>

## 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 2018 and 2017 are as follows:

## 2018

(CZK THOUSAND)

	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Employees	273	146 758	37 782	2 953	187 493
Management	33	136 425	37 206	0	173 631
<b>Total</b>	<b>306</b>	<b>283 183</b>	<b>74 988</b>	<b>2 953</b>	<b>361 124</b>

2017

(CZK THOUSAND)

	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Employees	274	134 430	44 888	2 693	182 011
Management	32	117 652	23 010	0	140 662
<b>Total</b>	<b>306</b>	<b>252 082</b>	<b>67 898</b>	<b>2 693</b>	<b>322 673</b>

The number of employees is based on the average recalculated headcount. As of 31 December 2018, 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, Raw Material Procurement Director, PS, TRM and SP 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, two Supervisory Board Vice Chairmen, Supervisory Board member, two proxies and Transportation Deputy Directors, Head of Transportation – sale, shipment transportation risk insurance, Head of Road Transportation, Head of Transportation – procurement and services, Head of Logistics, Head of Billing and Transport Complaints, Head of Taxes, Head of Controlling, Head of Funding and HR, Head of Accounting and Billing, Head of Receivable Administration, Head – Banks and Loans, Head of External Relations, Head of IT, Head of Passenger Transportation, Head of Internal Audit.

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, Supervisory Board and management bodies 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)

	2018	2017
Board of Directors	1 160	1 146
Supervisory Board	190	390
Members of management bodies	2 409	2 284
<b>Total</b>	<b>3 759</b>	<b>3 820</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 2018 for all members of the Board of Directors and the Supervisory Board totalled CZK 1,051 thousand (2017: CZK 1,034 thousand).

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

As of 31 December 2018, the Company was involved in no legal dispute, the outcome of which would significantly impact the Company.

As of 31 December 2018, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 56,714 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 only the first court hearing has taken place so far, where the court focused on procedural matters. No decision in the case has been made as of the balance sheet date.

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

Based on the ruling of the Constitutional Court of 30 April 2019, ref. no. II.ÚS 1403/18, the Company is obliged to make an additional payment of the value of the land that has been included in the share capital of Barrandov Lands a.s. and that has been returned to the church as part of church restitutions. The relevant amount is CZK 45,650,143.

The Company is preparing a merger by amalgamation with FINITRADING a.s. in 2019 with the effective date set to 1 January 2019 and the anticipated entry in the Register of Companies in December 2019. FINITRADING a.s. will cease to exist when the merger is recorded in the Register of Companies and MORAVIA STEEL a.s. will become the successor company.



## 09

Financial Part II.  
Consolidated  
Financial  
Statements**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31. DECEMBER 2018**

<b>NAME OF THE COMPANY</b>	MORAVIA STEEL a.s.
<b>REGISTERED OFFICE</b>	Průmyslová 1000, Staré Město, 739 61 Třinec
<b>LEGAL STATUS</b>	joint-stock company
<b>CORPORATE ID</b>	63474808
<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 Consolidated Financial Statements:**

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

These consolidated financial statements were prepared on 8. April 2019.

STATUTORY BODY OF THE REPORTING ENTITY	SIGNATURE
<b>Petr Popelář</b> Chairman of the Board of Directors	
<b>Mojmír Kašpříš</b> Member of the Board of Directors	

## CONSOLIDATED BALANCE SHEET

(IN CZK THOUSAND)

	31. 12. 2018			31. 12. 2017
	Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>	<b>98 334 492</b>	<b>40 284 145</b>	<b>58 050 347</b>	<b>51 942 362</b>
<b>B. Fixed assets</b>	<b>67 118 214</b>	<b>39 119 660</b>	<b>27 998 554</b>	<b>25 617 354</b>
<b>B.I. Intangible fixed assets</b>	<b>2 119 111</b>	<b>928 731</b>	<b>1 190 380</b>	<b>853 211</b>
B.I.1. Research and development	6 405	6 385	20	0
B.I.2. Valuable rights	1 178 096	907 002	271 094	289 622
B.I.2.1. Software	376 734	347 448	29 286	33 133
B.I.2.2. Other valuable rights	801 362	559 554	241 808	256 489
B.I.3. Goodwill	24 812	349	24 463	0
B.I.4. Other intangible fixed assets	898 783	14 995	883 788	553 628
B.I.5. Prepayments for intangible fixed assets and intangible fixed assets under construction	11 015	0	11 015	9 961
B.I.5.2. Intangible fixed assets under construction	11 015	0	11 015	9 961
<b>B.II. Tangible fixed assets</b>	<b>63 520 949</b>	<b>37 960 574</b>	<b>25 560 375</b>	<b>23 114 776</b>
B.II.1. Land and structures	17 474 250	8 163 430	9 310 820	8 371 419
B.II.1.1. Land	1 288 464	1 286	1 287 178	1 172 256
B.II.1.2. Structures	16 185 786	8 162 144	8 023 642	7 199 163
B.II.2. Tangible movable assets and sets of tangible movable assets	44 155 605	29 566 576	14 589 029	13 427 561
B.II.4. Other tangible fixed assets	240 260	207 992	32 268	18 402
B.II.4.3. Other tangible fixed assets	240 260	207 992	32 268	18 402
B.II.5. Prepayments for tangible fixed assets and tangible fixed assets under construction	1 650 834	22 576	1 628 258	1 297 394
B.II.5.1. Prepayments for tangible fixed assets	237 533	0	237 533	201 334
B.II.5.2. Tangible fixed assets under construction	1 413 301	22 576	1 390 725	1 096 060
<b>B.III. Non-current financial assets</b>	<b>507 985</b>	<b>153 571</b>	<b>354 414</b>	<b>509 174</b>
B.III.1. Equity investments – controlled or controlling entity	478 038	137 115	340 923	374 829
B.III.3. Equity investments in associates	27 936	16 456	11 480	8 144
B.III.5. Other non-current securities and investments	2 011	0	2 011	2 001
B.III.7. Other non-current financial assets	0	0	0	124 200
B.III.7.2. Prepayments for non-current financial assets	0	0	0	124 200
<b>B.IV. Goodwill on consolidation</b>	<b>681 202</b>	<b>76 784</b>	<b>604 418</b>	<b>368 270</b>
B.IV.I. Positive goodwill on consolidation	695 768	77 027	618 741	368 270
B.IV.II. Negative goodwill on consolidation	-14 566	-243	-14 323	0
<b>B.V. Securities and equity investments under equity accounting</b>	<b>288 967</b>	<b>0</b>	<b>288 967</b>	<b>771 923</b>

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<b>C.</b>	<b>Current assets</b>	<b>31 216 278</b>	<b>1 164 485</b>	<b>30 051 793</b>	<b>26 325 008</b>
C.I.	<b>Inventories</b>	<b>15 213 177</b>	<b>717 629</b>	<b>14 495 548</b>	<b>11 900 442</b>
C.I.1.	Material	6 581 224	421 075	6 160 149	5 032 830
C.I.2.	Work in progress and semifinished goods	4 744 597	242 882	4 501 715	3 978 510
C.I.3.	<i>Products and goods</i>	3 870 326	53 672	3 816 654	2 872 605
C.I.3.1.	Products	3 809 254	51 678	3 757 576	2 837 641
C.I.3.2.	Goods	61 072	1 994	59 078	34 964
C.I.5.	Prepayments for inventories	17 030	0	17 030	16 497
C.II.	<b>Receivables</b>	<b>10 715 538</b>	<b>434 308</b>	<b>10 281 230</b>	<b>9 195 625</b>
C.II.1.	Long-term receivables	150 283	0	150 283	227 471
C.II.1.1.	Trade receivables	23 842	0	23 842	24 923
C.II.1.4.	Deferred tax asset	105 186	0	105 186	47 385
C.II.1.5.	<i>Receivables – other</i>	21 255	0	21 255	155 163
C.II.1.5.2.	Long-term prepayments made	7 019	0	7 019	43 970
C.II.1.5.4.	Sundry receivables	14 236	0	14 236	111 193
C.II.2.	<b>Short-term receivables</b>	<b>10 931 685</b>	<b>434 308</b>	<b>9 897 377</b>	<b>8 774 141</b>
C.II.2.1.	Trade receivables	9 288 284	346 007	8 942 277	7 609 656
C.II.2.2.	Receivables – controlled or controlling entity	59 991	38 904	21 087	24 040
C.II.2.4.	<i>Receivables – other</i>	983 410	49 397	934 013	1 140 445
C.II.2.4.3.	State – tax receivables	557 751	0	557 751	825 062
C.II.2.4.4.	Short-term prepayments made	66 960	26 194	40 766	97 105
C.II.2.4.5.	Estimated receivables	156 528	0	156 528	155 016
C.II.2.4.6.	Sundry receivables	202 171	23 203	178 968	63 262
<b>C.II.3</b>	<b>Other assets</b>	<b>233 570</b>	<b>0</b>	<b>233 570</b>	<b>194 013</b>
C.II.3.1.	Deferred expenses	85 567	0	85 567	73 249
C.II.3.2.	Complex deferred expenses	136 299	0	136 299	118 847
C.II.3.3.	Accrued income	11 704	0	11 704	1 917
C.III.	<b>Current financial assets</b>	<b>40 770</b>	<b>12 548</b>	<b>28 222</b>	<b>34 292</b>
C.III.2.	Other current financial assets	40 770	12 548	28 222	34 292
C.IV.	<b>Cash</b>	<b>5 246 793</b>	<b>0</b>	<b>5 246 793</b>	<b>5 194 649</b>
C.IV.1.	Cash on hand	8 117	0	8 117	8 274
C.IV.2.	Cash at bank	5 238 676	0	5 238 676	5 186 375

**CONSOLIDATED BALANCE SHEET**

(IN CZK THOUSAND)

	<b>31. 12. 2018</b>	<b>31. 12. 2017</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>58 050 347</b>	<b>51 942 362</b>
<b>A. Equity</b>	<b>40 783 569</b>	<b>37 625 951</b>
A.I. <b>Share capital</b>	<b>3 159 000</b>	<b>3 157 000</b>
A.I.1. Share capital	3 159 000	3 157 000
A.II. <b>Share premium and capital funds</b>	<b>-110 309</b>	<b>-104 210</b>
A.II.2. <i>Capital funds</i>	-110 309	-104 210
A.II.2.1. Other capital funds	19 324	17 767
A.II.2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	-129 633	-121 977
A.III. <b>Funds from profit</b>	<b>1 800 333</b>	<b>1 800 143</b>
A.III.1. Other reserve funds	1 800 143	1 800 143
A.III.2. Statutory and other funds	190	0
A.IV. <b>Retained earnings (+/-)</b>	<b>30 199 093</b>	<b>28 943 637</b>
A.IV.1. Accumulated profits brought forward	30 210 329	28 954 873
A.IV.2. Other profit or loss from prior years (+/-)	-11 236	-11 236
A.V. <b>Profit or loss for the current period, net of minority interests</b>	<b>5 155 857</b>	<b>2 998 606</b>
A.V.1. Profit or loss for the period (+/-)	5 093 506	2 856 494
A.V.2. Share in the profit/(loss) of equity accounted investments	62 351	142 112
VII. <b>Consolidation reserve fund</b>	<b>579 595</b>	<b>830 775</b>
<b>B.+C. Liabilities</b>	<b>16 631 317</b>	<b>13 904 927</b>
<b>B. Reserves</b>	<b>877 300</b>	<b>713 803</b>
B.I. Reserve for pensions and similar liabilities	9 938	9 869
B.III. Reserves under special legislation	9 928	11 610
B.IV. Other reserves	857 434	692 324
<b>C. Payables</b>	<b>15 754 017</b>	<b>13 191 124</b>
C.I. <b>Long-term payables</b>	<b>4 436 288</b>	<b>3 889 344</b>
C.I.2. Payables to credit institutions	2 653 037	2 267 851
C.I.4. Trade payables	38 752	51 997
C.I.8. Deferred tax liability	1 744 364	1 569 233
C.I.9. Payables – other	135	263
C.I.9.3. Sundry payables	135	263

THE TABLE CONTINUES ON THE NEXT PAGE 

<b>C.II.</b>	<b>Short-term payables</b>	<b>11 224 014</b>	<b>9 223 338</b>
C.II.2.	Payables to credit institutions	1 719 136	1 761 458
C.II.3.	Short-term prepayments received	298 636	671 958
C.II.4.	Trade payables	6 231 300	4 987 040
C.II.8.	<i>Other payables</i>	2 974 942	1 802 882
C.II.8.1.	Payables to partners	46 350	45 853
C.II.8.2.	Short-term financial borrowings	15 608	15 678
C.II.8.3.	Payables to employees	552 873	487 426
C.II.8.4.	Social security and health insurance payables	237 570	198 662
C.II.8.5.	State – tax payables and subsidies	1 582 203	647 310
C.II.8.6.	Estimated payables	509 099	279 348
C.II.8.7.	Sundry payables	31 239	128 605
<b>C.III.</b>	<b>Other liabilities</b>	<b>93 715</b>	<b>78 442</b>
C.III.1.	Accrued expenses	62 143	44 833
C.III.2.	Deferred income	31 572	33 609
<b>E.</b>	<b>Minority equity</b>	<b>635 461</b>	<b>411 484</b>
E.I.1	Minority share capital	76 957	85 454
E.I.2	Minority capital funds	4 530	3 282
E.I.3	Minority funds from profit, including retained earnings and losses	465 818	294 712
E.IV.	Minority profit or loss before acquisition	29 045	0
E.V.	Minority profit or loss for the current period	59 111	28 036

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

(IN CZK THOUSAND)

	Year ended 12/31/2018	Year ended 12/31/2017
I. Sales of products and services	53 820 655	46 267 920
II. Sales of goods	892 174	1 096 169
A. Purchased consumables and services	<b>39 526 432</b>	<b>36 187 067</b>
A.1. Costs of goods sold	801 101	998 279
A.2. Consumed material and energy	33 453 385	30 120 538
A.3. Services	5 271 946	5 068 250
B. Change in internally produced inventory (+/-)	-1 186 585	-833 938
C. Own work capitalised (-)	-1 075 197	-994 776
D. Staff costs	<b>8 176 852</b>	<b>6 965 253</b>
D.1. Payroll costs	5 863 418	4 969 453
D.2. Social security and health insurance costs and other charges	<b>2 313 434</b>	<b>1 995 800</b>
D.2.1. Social security and health insurance costs	2 018 202	1 685 817
D.2.2. Other charges	295 232	309 983
E. Adjustments to values in operating activities	<b>2 395 709</b>	<b>1 756 204</b>
E.1. Adjustments to values of intangible and tangible fixed assets	2 313 382	2 000 301
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	2 284 750	1 990 400
E.1.A. Amortisation of positive goodwill on consolidation	28 165	0
E.1.B. Amortisation of negative goodwill on consolidation	-243	0
E.1.2. Adjustments to values of intangible and tangible fixed assets – temporary	710	9 901
E.2. Adjustments to values of inventories	-4 593	-106 116
E.3. Adjustments to values of receivables	86 920	-137 981
III. Other operating income	<b>1 213 674</b>	<b>931 827</b>
III.1. Sales of fixed assets	73 447	21 203
III.2. Sales of material	187 152	103 152
III.3. Sundry operating income	953 075	807 472
F. Other operating expenses	<b>1 440 527</b>	<b>1 285 585</b>
F.1. Net book value of sold fixed assets	30 784	9 124
F.2. Net book value of sold material	168 301	83 684
F.3. Taxes and charges	73 504	68 558
F.4. Reserves relating to operating activities and complex deferred expenses	91 792	163 505
F.5. Sundry operating expenses	1 076 146	960 714
* <b>Operating profit or loss (+/-)</b>	<b>6 648 765</b>	<b>3 930 521</b>

THE TABLE CONTINUES ON THE NEXT PAGE 

IV.	Income from non-current financial assets – equity investments	5 799	13 327
IV.1.	Income from equity investments – controlled or controlling entity	5 714	13 303
IV.2.	Other income from equity investments	85	24
G.	Costs of equity investments sold	0	59
VI.	Interest income and similar income	8 411	5 433
VI.1.	Interest income and similar income – controlled or controlling entity	695	21
VI.2.	Other interest income and similar income	7 716	5 412
I.	Adjustments to values and reserves relating to financial activities	51 671	1 681
J.	Interest expenses and similar expenses	67 656	40 217
J.1.	Interest expenses and similar expenses - controlled or controlling entity	0	6
J.2.	Other interest expenses and similar expenses	67 656	40 211
VII.	Other financial income	591 021	596 088
K.	Other financial expenses	685 912	909 507
*	<b>Financial profit or loss (+/-)</b>	<b>-200 008</b>	<b>-336 616</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>6 448 757</b>	<b>3 593 905</b>
L.	Income tax	1 286 143	709 375
L.1.	Due income tax	1 288 986	677 691
L.2.	Deferred income tax (+/-)	7 157	31 684
**	<b>Profit or loss net of tax (+/-)</b>	<b>5 152 614</b>	<b>2 884 530</b>
**	<b>Consolidated profit or loss net of share of income of associates</b>	<b>5 152 614</b>	<b>2 884 530</b>
	Consolidated profit or loss net of share of minority interests	5 093 503	2 856 494
	Minority profit or loss	59 111	28 036
**	<b>Share of profit or loss of equity accounted investments</b>	<b>62 354</b>	<b>142 112</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>5 214 968</b>	<b>3 026 642</b>
***	<b>Profit or loss for the current period net of minority interests (+/-)</b>	<b>5 155 857</b>	<b>2 998 606</b>
***	<b>Profit or loss for the current period incl. minority interests (+/-)</b>	<b>5 214 968</b>	<b>3 026 642</b>
***	<b>Profit or loss for the current period net of minority interests before tax (+/-)</b>	<b>6 452 000</b>	<b>3 707 981</b>
*	Net turnover for the current period	56 531 734	48 910 764



**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(IN CZK THOUSAND)

	Share capital	Share premium and capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Other profit or loss from prior years	Accumulated losses brought forward	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
<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	0	1 342	5	1 093 741	0	-1 095 088	90 250	-90 250	0
Dividends	0	0	0	0	0	-2 000 000	0	0	-2 000 000
Revaluation of assets and liabilities	0	-32 951	0	0	0	0	-15 203	0	-48 154
Profit for the period	0	0	0	0	0	2 856 494	0	142 112	2 998 606
Other – restated	0	-25	0	-18 102	0	0	-483	0	-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>
Distribution of profit or loss	0	4 951	0	851 543	0	-856 494	142 112	-142 112	0
Change in share capital	2 000	0	0	0	0	0	0	0	0
Dividends	0	0	0	0	0	-2 000 000	0	0	-2 000 000
Change in the consolidation method	0	0	0	402 352	0	0	-402 352	0	0
Impact of changes in the consolidation group	0	453	0	2 025	0	0	0	0	2 478
Revaluation of assets and liabilities	0	-11 503	0	0	0	0	9 166	0	-2 337
Payments from the social fund	0	0	-351	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	5 093 506	0	62 351	5 155 857
Other	0	0	541	-464	0	0	-106	0	-29
<b>Balance at 31 December 2018</b>	<b>3 159 000</b>	<b>-110 309</b>	<b>1 800 333</b>	<b>30 210 329</b>	<b>-11 236</b>	<b>5 093 506</b>	<b>579 595</b>	<b>62 351</b>	<b>40 781 920</b>

## CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
<b>P. Opening balance of cash and cash equivalents</b>	<b>5 214 274</b>	<b>5 754 589</b>
<b>Cash flows from ordinary activities (operating activities)</b>		
Z. Profit or loss before tax	6 448 757	3 593 905
A.1. Adjustments for non-cash transactions	<b>2 579 131</b>	<b>1 923 505</b>
A.1.1. Depreciation of fixed assets	2 312 672	1 990 400
A.1.2. Change in provisions and reserves	226 500	-69 010
A.1.3. Profit/(loss) on the sale of fixed assets	-42 664	-12 079
A.1.4. Revenues from profit shares	-5 799	-13 303
A.1.5. Interest expense and interest income	59 245	34 784
A.1.6. Adjustments for other non-cash transactions	29 177	-7 287
<b>A.* Net operating cash flow before changes in working capital</b>	<b>9 027 888</b>	<b>5 517 410</b>
A.2. Change in working capital	-1 871 763	-986 580
A.2.1. Change in operating receivables and other assets	-659 474	126 741
A.2.2. Change in operating payables and other liabilities	689 087	-30 978
A.2.3. Change in inventories	-1 901 272	-1 084 443
A.2.4. Change in current financial assets	-104	2 100
<b>A.** Net cash flow from operations before tax</b>	<b>7 156 125</b>	<b>4 530 830</b>
A.3. Interest paid	-69 885	-40 205
A.4. Interest received	10 392	7 858
A.5. Income tax paid from ordinary operations	-507 743	-577 079
A.6. Received profit shares	11 077	64 044
<b>A.*** Net operating cash flows</b>	<b>6 599 966</b>	<b>3 985 448</b>
<b>Cash flows from investing activities</b>		
B.1. Fixed assets expenditures	-3 036 630	-3 769 058
B.2. Proceeds from fixed assets sold	75 313	23 350
B.3. Loans and borrowings to related parties	3 032	-24 032
B.4. Cash flows from the purchase of business or its part	-1 311 702	
<b>B.*** Net investment cash flows</b>	<b>-4 269 987</b>	<b>-3 769 740</b>
<b>Cash flow from financial activities</b>		
C.1. Change in payables from financing	-247 788	1 262 349
C.2. Impact of changes in equity	-2 036 141	-2 018 372
C.2.1. Cash increase in share capital	2 000	0
C.2.5. Payments from capital funds	-534	0
C.2.6. Profit shares paid	-2 037 607	-2 018 372
<b>C.*** Net financial cash flows</b>	<b>-2 283 929</b>	<b>-756 023</b>
<b>F. Net increase or decrease in cash and cash equivalents</b>	<b>46 050</b>	<b>-540 315</b>
<b>R. Closing balance of cash and cash equivalents</b>	<b>5 260 324</b>	<b>5 214 274</b>

## Table of contents

<b>1.</b>	<b>GENERAL INFORMATION</b>	<b>76</b>	4.9.	Reserves	87
1.1.	Incorporation and Description of the Business	76	4.10.	Foreign Currency Translation	87
1.2.	Changes and Amendments to the Register of Companies	76	4.11.	Finance Leases	88
1.3.	Board of Directors and Supervisory Board as Recorded in the Register of Companies as of 31 December 2018	76	4.12.	Taxation	88
1.4.	Organisational Structure of the Parent Company	77	4.12.1.	<i>Depreciation of Fixed Assets for Tax Purposes</i>	88
			4.12.2.	<i>Current Tax Payable</i>	88
			4.12.3.	<i>Deferred Tax</i>	88
<b>2.</b>	<b>DEFINITION OF THE CONSOLIDATED GROUP, CONSOLIDATION SYSTEM AND METHODS</b>	<b>78</b>	4.13.	Borrowing Costs	89
2.1.	Definition of the Consolidated Group	78	4.14.	Costs Relating to Employees Hired through an Employment Agency	89
2.1.1.	Consolidation Method	78	4.15.	Revenue Recognition	89
2.1.2.	<i>Names and Registered offices of Subsidiaries and Associates included in the Consolidated Group</i>	78	4.16.	Use of Estimates	89
2.1.3.	<i>Balance Sheet Dates of the Companies Included in the Group</i>	80	4.17.	Research and Development Expenditure	89
2.1.4.	<i>Companies Excluded from Consolidation</i>	80	4.18.	Grants	89
			4.19.	Cash Flow Statement	90
<b>3.</b>	<b>BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES</b>	<b>81</b>	4.20.	Consolidation Rules	90
<b>4.</b>	<b>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</b>	<b>82</b>	<b>5.</b>	<b>ANALYSIS OF IMPACTS ON PROFIT/LOSS</b>	<b>92</b>
4.1.	Tangible and Intangible Fixed Assets	82	5.1.	Consolidated Profit/Loss for 2018	92
4.2.	Non-Current Financial Assets	84	5.1.1.	<i>Structure of the Consolidated Profit/Loss for 2018</i>	92
4.3.	Derivative Financial Transactions	85	5.1.2.	<i>Profit/(Loss) Adjustments under Full Consolidation for 2018</i>	92
4.4.	Current Financial Assets	85	5.1.3.	<i>Adjustments under Equity Consolidation for 2018</i>	92
4.5.	Inventory	86	5.2.	Consolidated Profit/Loss for 2017	93
4.6.	Receivables	86	5.2.1.	<i>Structure of the Consolidated Profit/Loss for 2017</i>	93
4.7.	Payables	87	5.2.2.	<i>Profit/(Loss) Adjustments under Full Consolidation for 2017</i>	93
4.8.	Loans and Borrowings	87	5.2.3.	<i>Adjustments under Equity Consolidation for 2017</i>	93

<b>6.</b>	<b>ADDITIONAL INFORMATION ON THE BALANCE SHEET</b>	<b>94</b>		
6.1.	Intangible Fixed Assets	94	6.14.	Deferred Tax Liability and Deferred Tax Asset
6.2.	Tangible Fixed Assets	96	6.14.1.	<i>Deferred Tax Liability</i>
6.3.	Assets Held under Finance and Operating Lease Agreements	99	6.14.2.	<i>Deferred Tax Asset</i>
6.4.	Fixed Assets Pledged as Security	100	6.15.	Bank Loans and Borrowings
6.5.	Summary of Unconsolidated investments	102	6.16.	Other Off-Balance Sheet Liabilities, Legal Disputes
6.5.1.	<i>Summary of Unconsolidated Investments in 2018</i>	102		
6.5.2.	<i>Summary of Unconsolidated Investments in 2017</i>	103	<b>7.</b>	<b>ADDITIONAL INFORMATION ON THE PROFIT AND LOSS ACCOUNT</b>
6.6.	Accounting for Goodwill Arising on Consolidation	105	7.1.	Income from Current Activities of the Group
6.7.	Securities and Equity Investments under Equity Accounting	106	7.2.	Other Income and Expenses
6.8.	Non-Current Financial Assets Pledged as Security	106	7.3.	Grants and Subsidies
6.9.	Inventory	106	7.4.	Aggregate Research and Development Expenditure
6.10.	Receivables	106	7.5.	Related Party Transactions
6.10.1.	<i>Structure of Short-Term Receivables</i>	106	7.5.1.	<i>Income Generated with Related Parties</i>
6.10.2.	<i>Receivables Pledged as Security</i>	107	7.5.2.	<i>Costs Incurred with Related Parties</i>
6.10.3.	<i>Intercompany Receivables</i>	107		
6.11.	Equity and Share Capital	108	<b>8.</b>	<b>EMPLOYEES, MANAGEMENT AND STATUTORY BODIES</b>
6.11.1.	Equity	108	8.1.	Staff Costs and Number of Employees
6.11.2.	Share Capital	108	8.1.1.	Staff Costs and Number of Employees for 2018
6.12.	Reserves	109	8.2.	Loans, Borrowings, and Other Benefits Provided
6.13.	Payables	109		
6.13.1.	<i>Long-Term Payables</i>	109	<b>9.</b>	<b>POST BALANCE SHEET EVENTS</b>
6.13.2.	<i>Short-Term Trade Payables</i>	109		
6.13.3.	<i>Other Payables</i>	109		
6.13.4.	<i>Intercompany Payables</i>	110		

## 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 99.03 % 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 3,159,000 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.

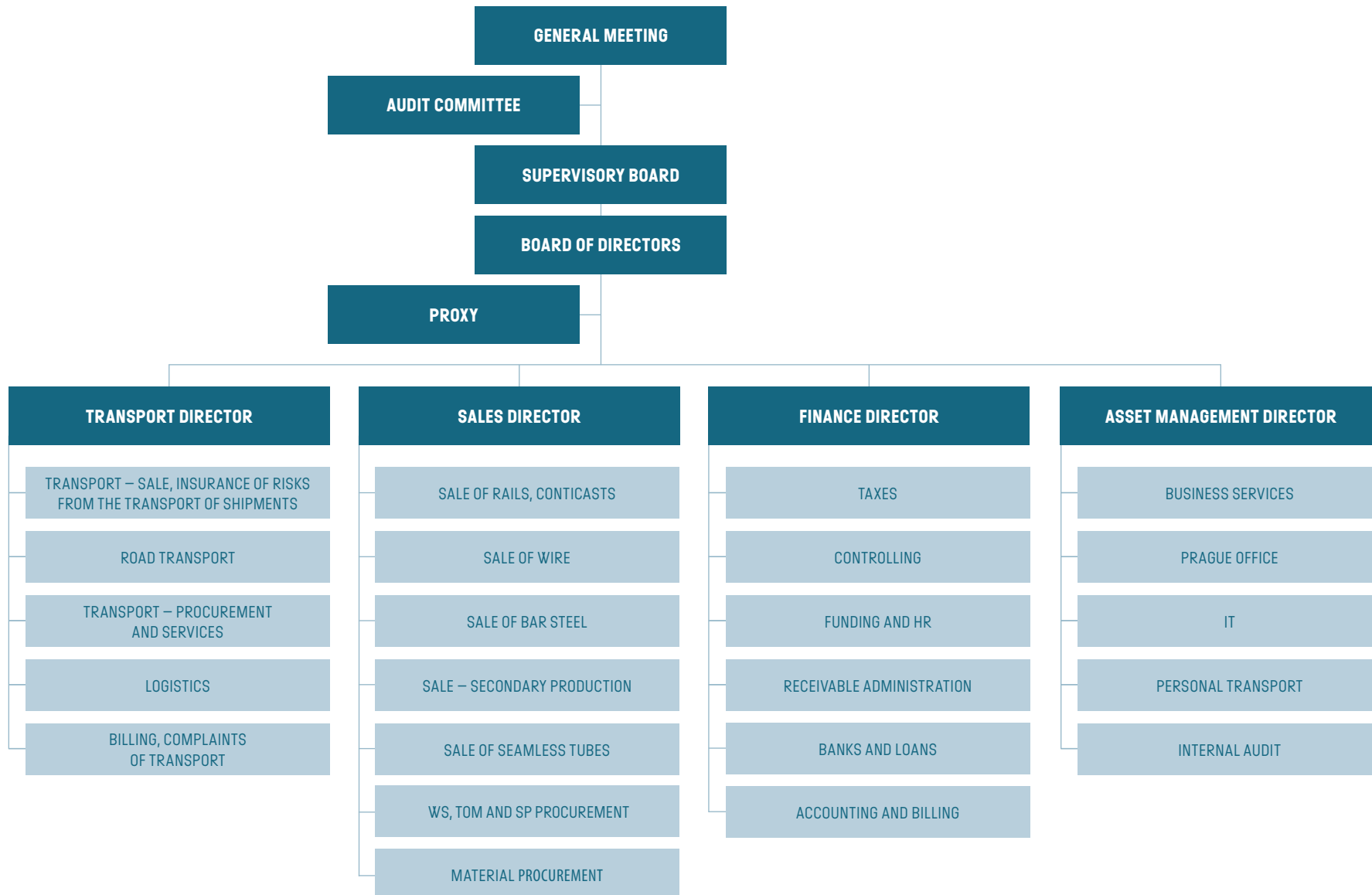
### 1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2018, the Company's share capital was increased by CZK 2,000 thousand in the form of four shares in the nominal value of CZK 500 thousand each.

### 1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS RECORDED IN THE REGISTER OF COMPANIES AS OF 31 DECEMBER 2018

	Position	Name
<b>Board of Directors</b>	Chairman	Petr Popelář
	Vice Chairman	Krzysztof Roch Ruciński
	Member	Mojmír Kašpříš
	Member	Uršula Novotná
<b>Supervisory Board</b>	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Bálko
	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 2018	Share of share capital at 31 Dec 2017
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 %
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 %
BOHEMIA RINGS s.r.o.**	no. 10, 565 43 Zámorsk	Blacksmithing and machining	100.00 %	
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	100.00 %	51.00 %
REFRASIL, s.r.o.	Průmyslová 720, Kónská, 739 65 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 Tvrdeho 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 llc	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 %
Kovárna VIVA a.s.**)	Zlín, Vavrečkova 5333, 76001	Blacksmithing, farriering, machining, bookkeeping, tax record keeping	66.00 %	50.00 %
ALPER a.s.**)	Prostějov, Vrahovická 4530, 796 01	Blacksmithing, farriering, locksmithing, tool-making, machining,	66.00 %	50.00 %

\*) Deconsolidation as of 1 July 2018.

\*\*\*) Included in the consolidation group since 1 May 2018.

During 2018, the investment in TŘINECKÉ ŽELEZÁRNY, a.s. increased by CZK 100 thousand consisting of secondary costs related to acquisition, such as legal and mediation services. The amount also includes CZK 17,503 thousand related to securities included in the ongoing legal dispute on the correct valuation of the shares of TŘINECKÉ ŽELEZÁRNY, a.s.

Based on the share transfer agreement of 5 December 2017, the Company purchased an additional 16% of shares of Kovárna VIVA a.s. and thus increased its 50% ownership interest to 66%.

Moravia Mining Plc was deconsolidated as of 1 July 2018.

In 2018, the consolidation group of TŘINECKÉ ŽELEZÁRNY, a.s. was extended to include BOHEMIA RINGS s.r.o. as a result of acquiring a 100% equity investment in the entity. The entity was incorporated in the consolidation group as of 29 March 2018.

Owing to TŘINECKÉ ŽELEZÁRNY, a.s.'s acquisition of a 49% equity investment in REFRASIL, s.r.o., which increased the company's equity investment to the current value of 100%, the minority share in the entity's profit or loss will be reported in minority equity only until the date of acquiring the 49% equity investment, ie until 10 August 2018.

## Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2018	Equity share at 31 Dec 2017
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, Kónská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00 %	40.00 %

\*) Consolidated in full since 1 May 2018



### 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 2018 and 2017. 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 2018 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 2018	Balance at 31 Dec 2017
Cash at hand	8 117	8 274
Current accounts	5 238 676	5 186 375
Term deposits	0	0
Short-term securities	40 770	46 840
<b>Total current financial assets</b>	<b>5 287 563</b>	<b>5 241 489</b>
Cash and cash equivalents not included in the cash flow	-14 771	-14 667
Provision against short-term securities and investments	-12 548	-12 548
<b>Total cash and cash equivalents</b>	<b>5 260 244</b>	<b>5 214 274</b>

#### Comments on the Cash Flow Statement:

The difference between cash and cash equivalents as of 31 December 2018 and 2017 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 invest-

ment” 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 the consolidated entity and its value determined on the basis of the 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 in securities or investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated entity.

From the reporting period beginning on 1 January 2018 onwards, the Company has amortised goodwill arising on consolidation reported in the financial statements as of 31 December 2017 over 20 years on a straight-line basis in compliance with Czech Accounting Standard No. 20.

Previously, positive (negative) goodwill arising on consolidation was measured at cost which was adjusted by accumulated losses (accumulated profits) from the change in this value, with the testing of the change in the value performed on an annual basis. The method of reporting goodwill arising on consolidation was based on International Accounting Standards and did not have a material impact on the Group's profits or losses.

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 2018 and 2017 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 2018 and 2017 (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 2018

#### 5.1.1. Structure of the Consolidated Profit/Loss for 2018

	(CZK THOUSAND)
Current year's profit made by MORAVIA STEEL a.s.	2 773 238
Current year's profit made by M Steel Projects a.s.	17 236
Current year's profit made by M Steel Projects s.r.o.	200
Current year's profit made by MSProjects International s.r.o.	10 376
Current year's profit made by Beskydská golfová, a.s.	-9 018
Current year's profit made by Hotel Golf Ropice a.s.	-14
Share in current year's profit made by Barrandov Studio a.s.	58 592
Share in current year's profit made by MORAVIA STEEL ITALIA S.R.L.	24 476
Current year's profit made by Moravia Steel Deutschland, GmbH	22 247
Current year's profit made by MORAVIA STEEL UK LIMITED	5 980
Share in current year's profit made by Kovárna VIVA a.s.	140 384
Current year's profit made by ALPER a.s.	15 310
Current year's profit made by the consolidation group of TŽ, a.s.	3 642 702
Current year's profit made by MS – Slovensko s.r.o.	5 927
Share in current year's profit made by MSP International AZ	5 688
Current year's profit made by Moravskoslezský kovošrot a.s.	32 789
Current year's profit made by "NEOMET" Sp.z o.o.	16 623
Share in profit of equity accounted investments	58 682
Adjustments under full consolidation (see Note 5.1.2.)	-1 669 230
Adjustments under the equity method (see Note 5.1.3.)	3 669
<b>Consolidated profit</b>	<b>5 155 857</b>

#### 5.1.2. Profit/(Loss) Adjustments under Full Consolidation for 2018

	(CZK THOUSAND)
Elimination of profit from unrealised intercompany inventory, including the deferred tax impact and elimination of minority profit or loss	-300 189
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	56 805
Other consolidation adjustments	-68 876
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	-1 356 968
<b>Total adjustments</b>	<b>-1 669 228</b>

#### 5.1.3. Adjustments under Equity Consolidation for 2018

	(CZK THOUSAND)
Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	3 669
<b>Total adjustments</b>	<b>3 669</b>

## 5.2. CONSOLIDATED PROFIT/LOSS FOR 2017

### 5.2.1. 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>

### 5.2.2. 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>

### 5.2.3. 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>

## 6. ADDITIONAL INFORMATION ON THE BALANCE SHEET

### 6.1. INTANGIBLE FIXED ASSETS

#### Cost

(CZK THOUSAND)

	Balance at 1 Jan 2017	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2017
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>

(CZK THOUSAND)

	Balance at 1 Jan 2018	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2018
Development	4 553	1 780	72	0	0	6 405
Start-up costs	0	0	0	0	0	0
Goodwill	356	0	24 463	0	-7	24 812
Software	347 235	29 214	8 464	8 115	-64	376 734
Valuable rights	776 048	1 295	24 389	0	-370	801 362
Other intangible FA	567 964	0	1 403 772	1 072 961	8	898 783
Intangible FA under construction	9 961	2 192	453 758	454 896	0	11 015
Prepayments for intangible FA	0	0	0	0	0	0
<b>Total</b>	<b>1 706 117</b>	<b>34 481</b>	<b>1 914 918</b>	<b>1 535 972</b>	<b>-433</b>	<b>2 119 111</b>

**Accumulated Amortisation and Provisions**

(CZK THOUSAND)

	Balance at 1 Jan 2017	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2017
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>

(CZK THOUSAND)

	Balance at 1 Jan 2018	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2018
Development	4 553	1 733	99	0	0	6 385
Start-up costs	0	0	0	0	0	0
Goodwill	356	0	0	0	-7	349
Software	314 102	22 042	19 485	8 115	-66	347 448
Valuable rights	519 559	585	59 580	19 904	-266	559 554
Other intangible FA	14 336	0	914	298	43	14 995
Intangible FA under construction	0	0	0	0	0	0
<b>Total</b>	<b>852 906</b>	<b>24 360</b>	<b>80 078</b>	<b>28 317</b>	<b>-296</b>	<b>928 731</b>

**Net Book Value**

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Development	0	20
Software	33 133	29 286
Valuable rights	256 489	241 808
Goodwill	0	24 463
Other intangible FA	553 628	883 788
Intangible FA under construction	9 961	11 015
Prepayments for intangible FA	0	0
<b>Total</b>	<b>853 211</b>	<b>1 190 380</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 58,733 thousand and CZK 65,890 thousand for the years ended 31 December 2018 and 2017, respectively.

Other intangible assets include greenhouse gas emission allowances.

In the year ended 31 December 2018, the Company acquired 3,737,010 emission allowances for 2018 in the amount of CZK 980,583 thousand free of charge. As of the balance sheet date of 31 December 2018, the Company recognised a disposal of emission allowances for 2018 of CZK 765,990 thousand. In 2018, the disposal of emission allowances for 2017 was adjusted by CZK (494) thousand.

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.

### 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 41,577 thousand and CZK 43,220 thousand as of 31 December 2018 and 2017, respectively.

## 6.2. TANGIBLE FIXED ASSETS

### Cost

(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	-1 773	1 173 533
Structures	13 819 297	920 363	12 127	-8 742	14 718 791
Individual tangible movable assets	38 020 193	2 578 706	437 538	-22 381	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>-34 760</b>	<b>57 548 893</b>

(CZK THOUSAND)

	Balance at 1 Jan 2018	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2018
Land	1 173 533	101 320	33 197	19 208	-378	1 288 464
Structures	14 718 791	996 247	546 842	69 016	-7 078	16 185 786
Individual tangible movable assets	40 138 980	2 270 134	2 174 071	406 590	-20 990	44 155 605
Other tangible FA	204 467	29 971	9 828	3 493	-513	240 260
Tangible FA under construction	1 111 788	25 613	2 875 308	2 599 292	-116	1 413 301
Prepayments	201 334	26 362	828 312	818 475	0	237 533
<b>Total</b>	<b>57 548 893</b>	<b>3 449 647</b>	<b>6 467 558</b>	<b>3 916 074</b>	<b>-29 075</b>	<b>63 520 949</b>

### Accumulated Depreciation and Provisions

(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	-1 734	7 519 628
Individual tangible movable assets	25 572 303	1 577 130	420 525	-17 489	26 711 419
Other tangible FA	185 107	3 099	1 140	-1001	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>-20 224</b>	<b>34 434 117</b>

(CZK THOUSAND)

	Balance at 1 Jan 2018	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2018
Land	1 277	0	0	0	9	1 286
Structures	7 519 628	276 924	423 063	54 207	-3 264	8 162 144
Individual tangible movable assets	26 711 419	1 426 404	1 847 552	403 082	-15 717	29 566 576
Other tangible FA	186 065	16 670	8 888	3 224	-407	207 992
Tangible FA under construction	15 728	0	7 171	323	0	22 576
<b>Total</b>	<b>34 434 117</b>	<b>1 719 998</b>	<b>2 286 674</b>	<b>460 836</b>	<b>-19 379</b>	<b>37 960 574</b>

### Net Book Value

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	1 172 256	1 287 178
Structures	7 199 163	8 023 642
Individual tangible movable assets	13 427 561	14 589 029
Other tangible FA	18 402	32 268
Tangible FA under construction	1 096 060	1 390 725
Prepayments for tangible FA	201 334	237 533
<b>Total</b>	<b>23 114 776</b>	<b>25 560 375</b>

**Principal additions to tangible fixed assets for the year ended 31 December 2018 were as follows:**

	(CZK THOUSAND)
Hatebur 1 forging line	70 693
Long and short single-line tank pickling lines	67 270
Acquisition of combustion products desulphurisation	60 223
Acquisition of a grinding line	54 154
Acquisition of annealing furnaces	53 069
Hsw300 horizontal boring machine	52 686
DUO 1100 rolling mill	38 014
TZ pickling lines	34 757
TZ pickling lines with drying furnaces	31 497
Drilling and sawing machine	24 524
BBS 16 bar grinder	24 141
Chamber filter press	22 779

**Principal additions to tangible fixed assets under construction for the year ended 31 December 2018 were as follows:**

	(CZK THOUSAND)
"Development of the VF Operation – Steel Drawing Mill" investment project	150 604
Reconstruction of the directorate's building	97 718
Adjustment of ZPO 1 for casting format no. 600	71 747
Innovation of steel casting production from the manual moulding shop	26 255
Innovation of castings for railway transport – annealing furnace	26 197

**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	20 328
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

**Depreciation of Tangible Fixed Assets Charged to Expenses**

Depreciation of tangible fixed assets amounted to CZK 2,226,017 thousand and CZK 1,924,813 thousand for the years ended 31 December 2018 and 2017, 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 891,073 thousand and CZK 842,747 thousand as of 31 December 2018 and 2017, respectively.

**Fair Value**

In 2018 and 2017, 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)

<b>31 December 2018</b>	<b>Passenger cars</b>	<b>Machinery and equipment</b>	<b>Balance at 31 Dec 2018</b>
Total estimated sum of lease instalments	4 756	85 886	90 642
Payments made as of 31 Dec 2017	310	84 044	84 354
Due in the following years	0	1 569	1 569

(CZK THOUSAND)

<b>31 December 2017</b>	<b>Passenger cars</b>	<b>Machinery and equipment</b>	<b>Balance at 31 Dec 2017</b>
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

**Operating Leases**

In the years ended 31 December 2018 and 2017, rental amounted to CZK 65,076 thousand and CZK 63,876 thousand, respectively.

## 6.4. FIXED ASSETS PLEDGED AS SECURITY

## 31 December 2018

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA	241 996	Loan from Česká spořitelna, a.s.
Land	23 663	
TFA	427 398	Loan from Česká spořitelna, a.s.
Land	3 444	
TFA	664 946	Loan from Česká spořitelna, a.s.
Structures	132 389	
Land	3 458	
TFA	39 986	Loan from Československá obchodní banka, a.s.
Land	2 465	
TFA	828 197	Loan from Československá obchodní banka, a.s.
Land	870 673	
TFA	404 219	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	662	
Land	56 249	Loan from Bank BGŻ BNP Paribas S.A., secured with machinery up to PLN 9,406 thousand.
TFA	87 971	Raiffeisenbank a.s. – pledge for the long-term bank loan for financing the MoRe distribution point T4 – 110kV
Land	87 376	
TFA	36 662	Investment loan from ING Bank N.V.
TFA*	510	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, collateralised with machinery up to PLN 15,000 thousand.
TFA	89 700	
Technology	98 742	
TFA, Land	707	Investment loan from Raiffeisenbank a.s.
TFA, Land	1 478	Investment loan from Raiffeisenbank a.s.
TFA, Land	696	Investment loan from Raiffeisenbank a.s.
TFA, Land	13 276	Investment loan from Raiffeisenbank a.s.
TFA, Land	1 724	Investment loan from Raiffeisenbank a.s.
TFA, Land	1 916	Investment loan from Raiffeisenbank a.s.
TFA, Land	991	Investment loan from Raiffeisenbank a.s.
TFA, Land	9 736	Investment loan from Raiffeisenbank a.s.
TFA, Land	513	Investment loan from Raiffeisenbank a.s.
TFA, Land	3 474	Investment loan from Raiffeisenbank a.s.
TFA	131 187	Investment and overdraft loan from Raiffeisenbank a.s.
TFA, Land	170 467	Loan from Citibank Europe plc.
Land	4 871	Loan from UniCredit Bank a.s.
Technology	187 734	
TFA, Land	15 468	Loan from Raiffeisenbank, a.s.
TFA, Land, buildings	131 825	Loan from Citibank Europe plc.
<b>Total</b>	<b>4 776 769</b>	

\* translated using the exchange rate promulgated by the Czech National Bank as of 31 December 2018

**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	3 444	
TFA	754 558	Loan from Česká spořitelna, a.s.
Structures	141 948	
Land	3 458	
TFA	2 601	Loan from Československá obchodní banka, a.s.
Land	39 986	
TFA	891 744	Loan from Československá obchodní banka, a.s.
TFA	917 188	Loan from Československá obchodní banka, a.s.
TFA	428 076	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	664	
TFA	507 916	Loan from HSBC Bank plc – Prague branch
Land	110 468	
TFA	106 961	Overdraft loan from Československá obchodní banka, 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

## 6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

### 6.5.1. Summary of Unconsolidated Investments in 2018

#### Balance at 31 December 2018

(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	10 814	2 431	0	1 573
Moravia Steel Ibéria,s.a.	10 850	2 533	99.33	11 223	2 223	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	1 349	-101	0	100
Barrandov Studios Productions s.r.o.	200	200	100.00	1 006	-51	0	200
FILMOVÁ NADACE *)	500	500	100.00	1 422	-84	0	500
SwissCentrum Engineering s.r.o.	10 000	10 000	100.00	7 462	571	-118	9 882
<b>Total</b>	<b>113 886</b>	<b>15 666</b>				<b>-90 176</b>	<b>23 710</b>

\*) Balance at 31 December 2018, reporting period ended 28 February 2019

\*\*) As of the end of 2018, Moravia Steel Israel Ltd. and AHP HYDRAULIKA, a.s. reported a deficit on equity. The companies reported a loss in 2018.

#### 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	54 803	2 822	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	49 198	207	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	19 605	195	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	39 313	3 643	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	45 025	1 821	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava*	2 000	20	100.00	4 030	-7 286	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 790	186	84.54	33 617	4 097	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	45 482	362	-9 725	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	48 000	-1 600	0	0
Refaze Slovakia s.r.o., Skálica (SK)	9 465	0	80.00	11 831	1 957	0	1 631
JuBo Jeseník s. r.o., Jeseník	2 325	0	80.00	2 907	766	0	800
Řetězárna servis s.r.o., Jeseník	4 469	0	100.00	4 569	3 578	0	2 000
IMOPRA s.r.o., Nivnice	2 000	0	100.00	105 811	13 534	-64 446	0
<b>Total</b>						<b>-74 171</b>	<b>4 431</b>

Note: In italics – preliminary results as of 31 December 2018

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

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

Company name	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
MSK Polska Sp.x.o.o	48 345	48 345	84.00	-24 368	0	-48 345	0
<b>Total</b>	<b>48 345</b>	<b>48 345</b>		<b>0</b>	<b>0</b>	<b>-48 345</b>	<b>0</b>

In 2018 (2017) 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 2018 (31 December 2017), 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 2018.

**6.5.2. 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 Iberia,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>					<b>-90 058</b>	<b>13 828</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., Kanská, 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	0	80.00	11 846	1 505	0	2 151
JuBo Jeseník s. r.o., Jeseník	2 513	0	80.00	3 141	1 525	0	240
Řetězárna servis s.r.o., Jeseník	2 891	0	100.00	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>180 181</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:**

Company name	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
MSK Polska Sp.x.o.o	48 345	48 345	84.00	-24 368	0	-48 345	0
<b>Total</b>	<b>48 345</b>	<b>48 345</b>		<b>0</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.

## 6.6. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2018

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in income	Recognition in equity
<i>Positive goodwill arising on consolidation</i>						
ŽDB DRÁTOVNA a.s.	250 199	-12 510	237 688	12 510	0	0
Kovárna VIVA	164 908	-5 497	159 411	5 497	0	0
BOHEMIA RINGS s.r.o.	114 559	-4 296	110 263	4 296	0	0
HŽP a.s.	130 506	-20 300	110 207	5 800	0	0
Moravia Steel UK LIMITED	1 234	-62	1 172	62	0	0
Barrandov Studio a.s.	34 362	-34 362	0	0	0	0
<b>Total</b>	<b>695 768</b>	<b>-77 027</b>	<b>618 742</b>	<b>28 165</b>	<b>0</b>	<b>0</b>
<i>Negative goodwill arising on consolidation</i>						
REFRASIL, s.r.o.	-14 566	243	-14 323	0	243	0
<b>Total</b>	<b>681 202</b>	<b>-76 784</b>	<b>604 418</b>	<b>28 165</b>	<b>243</b>	<b>0</b>

The gross value of the positive goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 250,199 thousand as of 31 December 2018. The positive goodwill arising on consolidation includes the deferred tax arising from the difference from the revaluation of assets and liabilities. In 2018, the Company recognised a year-on-year change in this deferred tax of CZK 830 thousand. Total deferred tax in 2018 amounts to CZK 9,122 thousand.

In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. of CZK 12,510 thousand.

The gross value of the positive goodwill arising on consolidation of BOHEMIA RINGS s.r.o. amounts to CZK 114,559 thousand as of 31 December 2018. The positive goodwill arising on consolidation includes the deferred tax arising from the difference from the revaluation of assets and liabilities. As of 31 December 2018, the total deferred tax amounts to CZK 40,006 thousand.

In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of BOHEMIA RINGS s.r.o. of CZK 4,296 thousand.

As of 31 December 2018, the gross amount of the negative goodwill arising on consolidation of REFRASIL, s.r.o. amounts to CZK 14,566 thousand.

In 2018, the Company recognised a write-off of the negative goodwill arising on consolidation of REFRASIL, s.r.o. of CZK 243 thousand.

The gross value of the positive goodwill arising on consolidation of Moravia Steel UK LIMITED amounts to CZK 1,234 thousand as of 31 December 2018. In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of Moravia Steel UK LIMITED of CZK 62 thousand.

The gross value of the positive goodwill arising on consolidation of HŽP a.s. amounts to CZK 130,506 thousand as of 31 December 2018. In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of HŽP a.s. of CZK 5,800 thousand.

The gross value of the positive goodwill arising on consolidation of Kovárna VIVA a.s. amounts to CZK 164,908 thousand as of 31 December 2018. In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of Kovárna VIVA a.s. of CZK 5,497 thousand.

**2017**

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in equity
<i>Positive goodwill arising on consolidation</i>					
Barrandov Studio a.s.	34 362	34 362	0	0	0
Hanácké železářny a pérovny 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>

**6.7. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING**

(CZK THOUSAND)

Securities and equity investments under equity accounting	2018	2017
VESUVIUS ČESKÁ REPUBLIKA, a.s.	154 669	136 871
Kovárna VIVA a.s. *)	0	509 190
Moravia Steel Middle East FZCO	134 298	125 862
<b>Total</b>	<b>288 967</b>	<b>771 923</b>

\*) Consolidated using the direct method since 1 May 2018.

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

As of 31 December 2018, the Company records non-current financial assets pledged as security with the nominal value of CZK 1,144,302 thousand. As of 31 December 2017, the Company recorded non-current financial assets pledged as security with the nominal value of CZK 130,000 thousand.

**6.9. INVENTORY**

As of 31 December 2018, "METALURGIA" S.A. has pledged inventory up to PLN 13,000 thousand (CZK 77,740 thousand) with Bank BGŻ BNP Paribas S.A. in relation to the used loan. In 2017, the inventory was pledged up to PLN 13,000 thousand (CZK 79,482 thousand).

**6.10. RECEIVABLES****6.10.1. Structure of Short-Term Receivables**

As of 31 December 2018, gross short-term trade receivables past their due dates amounted to CZK 1,854,179 thousand (net CZK 1,523,112 thousand). 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).

### 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 2018, “METALURGIA” S.A. records pledged receivables of PLN 4,080 thousand (CZK 24,398 thousand) with BGŽ BNP Paribas Faktoring Sp. z o. o. and pledged receivables of PLN 2,328 thousand (CZK 13,919 thousand) with Pekao Faktoring Sp. z o.o. As of 31 December 2017, “METALURGIA” S.A. records pledged receivables of PLN 3,722 thousand (CZK 22,758 thousand) with BGŽ BNP Paribas Faktoring Sp. z o. o.

### 6.10.3. Intercompany Receivables

#### Short-Term Receivables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2018	Balance at 31 Dec 2017
DOPRAVA TŽ, a.s.	0	1 026
Kovárna VIVA a.s.	0	113 679
Moravia Security, a.s.	162	93
Security Morava, s.r.o.	12	11
TRIALFA, s.r.o.	3 419	4 005
TRISIA, a.s.	1 219	15
TŘINECKÁ PROJEKCE, a.s.	121	154
Třinecké gastroslužby, s.r.o.	1 286	1 330
VESUVIUS ČESKA REPUBLIKA, a.s.	5 211	4 224
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	18	19
IMOPRA s.r.o.	21 088	24 041
AHP Hydraulika, a.s.	18	7 727
Južo Jeseník s.r.o.	5 945	3 846
DALSELV DESIGN a.s.	0	535
Retaze Slovakia, s.r.o.	1 812	538
MINERFIN a.s.	2 050	452
<b>Total short-term intercompany receivables</b>	<b>42 361</b>	<b>161 695</b>
Other than intercompany receivables	9 245 923	8 612 446
<b>Total short-term receivables</b>	<b>9 288 284</b>	<b>8 774 141</b>

**Long-Term Receivables**

(CZK THOUSAND)

Entity	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Třinecké železářny, a.s.	23 842	0
<b>Total long-term intercompany receivables</b>	<b>23 842</b>	<b>0</b>
Other than intercompany receivables	126 441	227 471
<b>Total long-term receivables</b>	<b>150 283</b>	<b>227 471</b>

As of 31 December 2018, the Group records long-term receivables with due dates of more than 5 years of CZK 1,713 thousand; as of 31 December 2017, the Group recorded long-term receivables with due dates of more than 5 years of CZK 4,814 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 2018, 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. The Company keeps this account in 2018 as well.

**Proposal for the allocation of profit for 2018**

In 2018, the consolidation group generated net profit after tax of CZK 5,152,614 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 2018, the share capital amounted to CZK 3,159,000 thousand. The Company's share capital is composed of 1,518 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.

The form of the shares changed following the record in the Register of Companies on 19 February 2019. The Company's share capital is composed of 315,900 registered shares in book-entry form with a nominal value of CZK 10,000 each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's General Meeting.

### 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 2018 and 2017, 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 2018, short-term trade payables past their due dates amount to CZK 162,511 thousand (2017: CZK 74,107 thousand).

#### 6.13.3. Other Payables

As of 31 December 2018 and 2017, due amounts arising from social security and state employment policy contributions and public health insurance amounted to CZK 237,570 thousand and CZK 198,662 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 2018	Balance at 31 Dec 2017
Doprava TŽ, a.s.	20	13 529
Ocelářská unie, a.s. (former Hutnictví železa, a.s.)	0	37
Moravia Security, a.s.	3 575	13 633
TRIALFA, s.r.o.	0	14 404
TRISIA, a.s.	0	942
TŘINECKÁ PROJEKCE, a.s.	0	3 984
Třinecké gastroslužby, s.r.o.	290	10 276
VESUVIUS ČESKÁ REPUBLIKA, a.s.	25 452	33 789
Security Morava s.r.o.	0	1 396
ZAMECZEK BŁOGOCICE Sp. zo.o.	0	103
FINITRADING, a.s.	167 374	169 261
Moravia Steel Ibéria, s.a.	0	1 276
MORAVIA STEEL SLOVENIJA d.o.o.	4 411	4 578
MORAVIA STEEL MIDDLE EAST FZCO	0	60 512
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	0	2 158
HRAT, s.r.o.	0	37
DALSELV DESIGN a.s.	0	3 162
MINERFIN, a.s.	228 397	59 024
<b>Total short-term intercompany payables</b>	<b>429 519</b>	<b>392 101</b>
Other than intercompany payables	10 794 495	8 831 237
<b>Total short-term payables</b>	<b>11 224 014</b>	<b>9 223 338</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 2018	Balance at 31 Dec 2017
Difference between the tax and accounting carrying values of fixed assets	19	10 667 736	9 746 343
Difference between the tax and accounting carrying values of fixed assets	9	110 786	75 023
Revaluation of securities available for sale	19	-54	-58
Revaluation of assets to fair value charged to equity	19	124 410	141 415
Revaluation of assets to fair value charged to equity	9	35 256	36 895
Revaluation of assets to fair value charged to consolidation goodwill	9	0	0
Revaluation of assets to fair value charged to consolidation goodwill	19	258 563	52 379
Accounting reserves	19	-553 363	-408 739
Provisions	19	-775 544	-809 356
Provisions	10	0	0
Provisions	9	3 523	3 490
Outstanding default interest	19	222	-40
Expenses deductible for tax purposes in the following years	19	-397 167	-196 830
Expenses deductible for tax purposes in the following years	9	0	-493
Utilisable tax loss	19	-6 528	-4 089
Unrealised profit on the sale of inventory within the Group	19	-31 091	-29 728
Unrealised profit on the sale of tangible FA within the Group	19	-177 731	-299 384
Other	10	0	0
<b>Total temporary differences</b>		<b>9 259 018</b>	<b>8 306 828</b>
<b>Deferred tax liability</b>		<b>1 744 364</b>	<b>1 569 233</b>



(CZK THOUSAND)

**Analysis of movements**

<b>1 Jan 2017</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>
Current changes charged to the profit and loss account	139 555
Current changes charged to equity	-3 598
Charge against positive goodwill on consolidation	-1
<b>31 Dec 2018</b>	<b>1 744 364</b>

**6.14.2. Deferred Tax Asset**

(CZK THOUSAND)

	<b>Tax rate (%)</b>	<b>Balance at 31 Dec 2018</b>	<b>Balance at 31 Dec 2017</b>
Difference between the tax and accounting net book value of fixed assets	19	-255	-251
Accounting reserves	19	1 800	1 590
Provisions	19	169	97
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	551 895	247 958
Deferred expenses	19	0	0
<b>Total temporary differences</b>		<b>553 609</b>	<b>249 394</b>
<b>Deferred tax asset</b>		<b>105 186</b>	<b>47 385</b>

(CZK THOUSAND)

**Analysis of movements**

<b>1 Jan 2017</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>
Current changes charged to the profit and loss account	57 801
Current changes charged to equity	0
<b>31 Dec 2018</b>	<b>105 186</b>

## 6.15. BANK LOANS AND BORROWINGS

## Long-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Form of collateral at 31 Dec 2018
Investment loan	CZK	720 000	748 980	Immovable and movable assets, securities, promissory note
Investment loan	EUR	57 599	73 523	Hermes guarantee insurer
Investment loan	EUR	71 277	99 070	ODL guarantee insurer
Investment loan	CZK	0	120 000	Immovable and movable assets, promissory note
Investment loan	CZK	0	60 000	Immovable and movable assets, insurance receivables, promissory note
Term loan	CZK	480 000	720 000	Immovable and movable assets, insurance receivables, promissory note
Acquisition loan	EUR	643 125	0	Securities, promissory note
Investment loan	EUR	11 189	4 512	Pledge of real estate
Investment loan	EUR	40 226	27 464	Pledge of real estate
Investment loan	CZK	118 562	0	Blank promissory note, pledge of movable assets,
Investment loan	CZK	57 000	72 200	Pledge of assets, blank promissory note
One-time investment loan	CZK	75 669	100 892	Movable and immovable assets
One-time investment loan	EUR	63 965	84 674	Movable and immovable assets
Investment loan	EUR	38 574	43 194	Blank promissory note, pledge of movable assets
Investment loan	EUR	0	5 108	KPH 600 machine, KLM measuring system
Investment loan	EUR	3 859	7 662	Secured with tangible assets
Investment loan	PLN	0	16 110	Secured with tangible assets (machinery, equipment) and insurance
Investment loan	CZK	58 087	24 917	Two blank promissory notes
Investment loan	EUR	46 794	0	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	14 148	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	14 700	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Operating loan	EUR	3 670	3 295	Financing of cars
Raiffeisenbank a.s.	CZK	19 250	30 250	Pledge of financed asset
Raiffeisenbank a.s.	CZK	18 000	26 000	Pledge of financed asset
Investment loan	EUR	81 343	0	Real estate, production equipment
Investment loan	CZK	16 000	0	Real estate, production equipment
<b>Total</b>		<b>2 653 037</b>	<b>2 267 851</b>	

**Short-Term Bank Loans**

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Form of collateral at 31 Dec 2018
Investment loan	EUR	16 457	16 339	Hermes guarantee insurer
Investment loan	EUR	5 145	5 108	KEH8, KER8 line
Investment loan	EUR	3 859	3 831	KPH 600 machine, KLM measurement system
Investment loan	EUR	0	1 545	
Overdraft loan	PLN	52 851	50 314	Pledge
Investment loan	PLN	15 756	6 443	Secured with tangible assets (machinery, equipment) and insurance
Overdraft loan	PLN	39 806	42 757	Pledge – machinery, equipment and receivables
Investment loan	PLN	17 121	23 741	Pledge – machinery
One-time loan	CZK	25 223	25 223	Movable and immovable assets
Revolving loan	EUR	0	25 540	Receivables
One-time investment loan	EUR	21 322	21 168	Movable and immovable assets
Overdraft	EUR	4 134	0	Receivables
Overdraft – credit cards	CZK	125	5	Not secured
Investment loan	CZK	240 000	240 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	28 511	28 306	ODL guarantee insurer
Investment loan	CZK	0	60 000	Securities, promissory note
Investment loan	CZK	0	189 474	Immovable and movable assets, securities, insurance receivables, promissory note
Investment loan	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment loan	CZK	60 000	75 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	240 000	187 245	Immovable and movable assets, insurance receivables, promissory note
Acquisition loan	EUR	171 500	0	Securities, promissory note
Overdraft loan	CZK	0	257 909	Promissory note
Overdraft loan	CZK	0	248 046	Promissory note
Investment loan	EUR	2 645	410	Pledge of real estate
Investment loan	CZK	9 508	2 497	Pledge of real estate
Passive balance of a current account (including accounts in foreign currency)	CZK	0	1	Promissory note
Investment loan	CZK	15 200	15 200	Pledge of assets, blank promissory note
Investment loan	CZK	19 773	0	Blank promissory note, pledge of movable assets
Investment loan	EUR	14 027	13 926	Promissory note, pledge of movable assets
Investment loan	CZK	12 153	1 812	Not secured
Overdraft loan	CZK	8 165	10 024	Blank promissory note
Overdraft loan	CZK/EUR	62 468	0	Blank promissory note
Overdraft loan	CZK	31 552	0	Blank promissory note, pledge of real estate

Overdraft loan	CZK	0	60 981	Pledge of real estate
Investment loan	CZK	15 842	1 780	Two promissory notes
Operating loan	CZK	145 329	0	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Operating loan	EUR	33 076	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	26 857	0	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	3 858	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	3 675	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Current bank loan	EUR	480	269	Credit cards
Overdraft	CZK	1 704	7 564	Pledge of real estate, bill of exchange
Operating loan	CZK	11 000	11 000	Pledge of real estate
Investment loan	CZK	8 000	8 000	Pledge of the financed object
Investment loan	EUR	28 941	0	Real estate, production machinery
Investment loan	CZK	24 000	0	Real estate, production machinery
Operating loan	EUR	70 818	0	Receivables
Operating loan	CZK	44 388	0	Receivables
Overdraft	PLN	63 867	0	Pledge of receivables
<b>Total</b>		<b>1 719 136</b>	<b>1 761 458</b>	

### Short-Term Financial Borrowings

(CZK THOUSAND)

Purpose	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Provider
Short-term	EUR	15 028	14 498	COMPRO
Short-term	EUR	0	682	Slovenská plavka a prístavy a.s.
Short-term	EUR	88	88	ANGLONA s.r.o.
Short-term	EUR	390	255	Loan from Michal Krnáč
Short-term	PLN	102	155	MSA Radomsko
<b>Total</b>		<b>15 608</b>	<b>15 678</b>	

## 6.16. OTHER OFF-BALANCE SHEET LIABILITIES, LEGAL DISPUTES

### MORAVIA STEEL a.s.

As of 31 December 2018, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 56,714 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 only the first court hearing has taken place so far, where the court focused on procedural matters. No decision in the case has been made as of the balance sheet date.

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 2018**

Type	Total amount	Balance at 31 Dec 2018
<b>Guarantees</b>		
To other entities	EUR 2 652 thousand	CZK 68 218 thousand

**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

**Received Guarantees****31 December 2018**

Type	Total amount	Balance at 31 Dec 2018
<b>Guarantees</b>		
From other entities	EUR 3 789 thousand CZK 119 876 thousand	CZK 97 462 thousand CZK 119 876 thousand

**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

**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. Through its ruling of 8 June 2018, the Regional Court in Ostrava has so far ineffectively determined that the amount of an adequate payment

per each share with the nominal value of CZK 1,000 thousand issued by the Company is CZK 2,284. The dispute is ongoing and is subject to appellate proceedings with the Head Court in Olomouc.

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. Through its resolution of 23 May 2018, the Head Court in Olomouc revoked the ruling of the Regional Court in Ostrava and referred the matter back to the court for additional proceedings. Following the completion of the debtor's restructuring, the dispute is ongoing after the insolvency trustee of VÍTKOVICE POWER ENGINEERING a.s. became the new plaintiff.

### 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.

Under the amendment to this contract concluded on 3 November 2008 with the Czech Republic – the Ministry of Finance, the guarantee of the Ministry of Finance is capped at CZK 843.6 million. This guarantee covers environmental liabilities of the Company. For this reason, the Company does not create a reserve for environmental burdens.

As of 31 December 2018, the Company used up funds in the amount of CZK 534,964 thousand (2017: CZK 531,971 thousand).

### ENERGETIKA TŘINEC, a.s.

#### Collateral for loans

(CZK THOUSAND)

Type of liability	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Blank bills of exchange – collateral for own overdraft loans	350 000	350 000
Blank bills of exchange – collateral for own long-term loans	145 000	145 000
<b>Total</b>	<b>495 000</b>	<b>495 000</b>

### Environmental Liabilities

ENERGETIKA TŘINEC, a.s. has the ČSN ISO 14001 certification and anticipates no extraordinary environmental expenses in the forthcoming reporting periods.

## 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.

### Legal Disputes

As of 31 December 2018, the company was involved in a labour-law dispute with a former employee regarding the compensation of damage to health of CZK 251 thousand. VÚHŽ a.s. recognised a reserve for this amount.

### 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.**

### **Potential material losses**

HŽP a.s. recognised provisions and reserves for all known and material potential losses.

### **Liabilities related to construction and to the 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 11,913 thousand.

### **Environmental Liabilities**

The re-certification audit “Bureau Veritas Certification” under ISO 14001 was accomplished in April 2018. No defects were identified during the audit and it was confirmed that HŽP a.s.'s environmental management system is in compliance with the requirements of ISO 14001:2015 in the area of certification – design, development and manufacturing of screw, leaf and parabolic springs. The certificate is valid until 13 May 2020.

## **SV servisní, s.r.o.**

### **Legal disputes**

Payment command and distraint relating to outstanding receivables of SV servisní, s.r.o.

## **Řetězárna a.s.**

### **Derivatives**

As of 31 December 2018, Řetězárna a.s. has concluded contracts on currency derivatives to hedge against the risks arising from exchange rate changes until December 2020. Řetězárna a.s. does not maintain hedge accounting; as a result, changes in fair values are recorded 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

#### 2018

(CZK THOUSAND)

Activities	Inland	Cross-Border	Total
Metallurgic production	12 858 750	32 076 985	44 935 735
Energy production	1 754 490	3 216 646	4 971 136
Sale of goods	298 557	593 617	892 174
Services	3 397 327	516 457	3 913 784
<b>Total</b>	<b>18 309 124</b>	<b>36 403 705</b>	<b>54 712 829</b>

#### 2017

(CZK THOUSAND)

Activities	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>

### 7.2. OTHER INCOME AND EXPENSES

Costs of advisory, consulting and audit activities amounted to CZK 61,469 thousand and CZK 117,724 thousand as of 31 December 2018 and 2017, respectively.

Other operating income as of 31 December 2018 and 2017 predominantly included the use of the grant for greenhouse gas emission allowances in the amounts of CZK 638,005 thousand and CZK 470,578 thousand, respectively.

Other operating expenses as of 31 December 2018 and 2017 predominantly included the use of greenhouse gas emission allowances in the amounts of CZK 765,496 thousand and CZK 579,554 thousand, respectively.

Other financial income and expenses in the years ended 31 December 2018 and 2017 predominantly included foreign exchange rate gains and losses.

### 7.3. GRANTS AND SUBSIDIES

In the year ended 31 December 2018, the Company drew a subsidy for the acquisition of environmental investments of CZK 33,663 thousand.

In the year ended 31 December 2018, Šroubárna Kyjov, spol. s r.o. received subsidies for the acquisition of tangible fixed assets (a new Hatebur forging line) of CZK 22,504 thousand and for a Reduction of Energy Intensiveness of CZK 5,652 thousand.

In the year ended 31 December 2018, BOHEMIA RINGS s.r.o. received a subsidy for a new FPPCT 500/2 machining centre with a travelling crosspiece of CZK 6,135 thousand.

Subsidies for operating purposes of CZK 7,447 thousand utilised for the year ended 31 December 2018 include subsidies for development, a subsidy for implementing the “Werkperspektiva” project, a subsidy for museum operations, and subsidies for environmental projects.

Subsidies for operating purposes of CZK 22,903 thousand utilised for the year ended 31 December 2017 include subsidies for development, a subsidy for museum operations, subsidies from the Labour Office for socially useful employment, a subsidy to ensure educational activities of employees, subsidies for an environmental project and education. Other subsidies include subsidies for co-recipients and amount to CZK 1,385 thousand in the year ended 31 December 2017.

### 7.4. AGGREGATE RESEARCH AND DEVELOPMENT EXPENDITURE

(CZK THOUSAND)

	31 Dec 2018	31 Dec 2017
Research and development expenditure (net of grants)	91 266	104 895

### 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.

#### 2018

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Other income	Financial income	Total
Refaze Slovakia s.r.o.	Controlled entity	0	17 792	21	491	0	18 304
JuBo Jeseník s.r.o.	Controlled entity	17	8 402	31	378	0	8 828
Doprava TŽ, a.s.	Controlled entity	0	23 412	4 292	2	0	27 706
TRIALFA, s.r.o.	Controlled entity	0	28 707	3 946	31	0	32 684
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	316	1 028	0	0	1 344
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 131	7 656	498	0	12 285
Security Morava, s.r.o.	Controlled entity	0	0	73	0	0	73
TRISIA, a.s.	Controlled entity	0	5	186	0	0	191

VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	25 451	8 378	98	0	33 927
Moravia Security, a.s.	Controlled entity	0	275	2 534	2	0	2 811
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	328	277	2	0	607
DALSELV DESIGN a.s.	Controlled entity	0	31	0	2	0	33
IMOPRA, s.r.o.	Controlled entity	0	0	40	0	312	352
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	628	0	0	0	628
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	2 782	0	0	0	2 782
MINERFIN, a.s.	Group entity	0	20 142	1 330	0	0	21 472
Barrandov Productions, s.r.o.	Controlled entity	0	0	47	0	0	47
Barrandov Studios Production s.r.o.	Controlled entity	0	0	183	0	0	183
FILMOVÁ NADACE	Controlled entity	0	0	0	43	0	43
"Metalurgia" Spółka akcyjna	Subsidiary of a subsidiary	0	53 579	0	0	0	53 579
Moravia Mining	Subsidiary	0	0	0	0	338	338
<b>Total</b>		<b>17</b>	<b>185 981</b>	<b>30 022</b>	<b>1 547</b>	<b>650</b>	<b>218 217</b>

**2017**

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Other income	Financial income	Total
Refaze 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	6 998	500	0	11 507
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	2 857	2	0	3 097
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 Production s.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>

## 7.5.2. Costs Incurred with Related Parties

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

2018

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory	Services	Other expenses	Total
AHP HYDRAULIKA, a.s	Fellow subsidiary	0	7 668	0	0	7 668
Barrandov Studios Productions.r.o.	Controlled entity	0	0	20	0	20
DALSELV DESIGN a.s.	Controlled entity	598	1 744	741	0	3 083
Doprava TŽ, a.s.	Controlled entity	9	91 507	7 420	19	98 955
FINITRADING, a.s.	Controlling entity	0	2 030 161	0	0	2 030 161
HRAT, s.r.o.	Associate	0	0	120	0	120
JuBo Jeseník s.r.o.	Controlled entity	0	532	0	0	532
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	2 598	5 828	0	8 426
MINERFIN, a.s.	Group entity	0	1 314 277	0	0	1 314 277
Moravia Security, a.s.	Controlled entity	5 065	180	103 277	1 567	110 089
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	14 357	0	14 357
MORAVIA STEEL MIDDLE EAST.FZCO	Associate	0	67 787	0	0	67 787
Moravia Steel Slovenija, d.o.o.	Controlled entity	0	0	17 022	0	17 022
Ocelářská unie, a.s.	Associate	0	0	2 726	140	2 866
Refaze Slovakia, s.r.o.	Controlled entity	0	579	967	0	1 546
Řetězárna servis, s.r.o.	Controlled entity	0	0	9 498	0	9 498
Security Morava, s.r.o.	Controlled entity	0	0	15 123	0	15 123
Střední odborná škola TŽ	Associate	0	0	4	0	4
TRIALFA, s.r.o.	Controlled entity	0	7 399	19 187	73 547	100 133
TRISIA, a.s.	Controlled entity	0	10	18 300	677	18 987
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	38 292	0	13 335	0	51 627
Třinecké gastroslužby, s.r.o.	Controlled entity	7	18 022	11 934	107 892	137 855
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	2 381	115 795	85 605	0	203 781
“ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 213	0	1 213
<b>Total</b>		<b>46 352</b>	<b>3 658 259</b>	<b>326 673</b>	<b>183 842</b>	<b>4 215 130</b>

## 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
Retaze 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>

## 8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

#### 8.1.1. Staff Costs and Number of Employees for 2018

The number of employees as of 31 December 2018 was 13,692, of which 171 managers. The number of employees as of 31 December 2017 was 12,760, of which 108 managers.

The staff costs of employees in the year ended 31 December 2018 amounted to CZK 8,176,852 thousand, of which staff costs of managers amounted to CZK 571,544 thousand. 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 remuneration to members of the Board of Directors and Supervisory Board in the years ended 31 December 2018 and 2017 amounted to CZK 74,518 thousand and CZK 49,179 thousand, respectively.

The number of employees is based on the average headcount.

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

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

	(CZK THOUSAND)	
	<b>2018</b>	<b>2017</b>
Use of management cars (the figure increases the tax base of employees)	12 366	8 776
Contribution for life insurance	4 698	2 288
Liability insurance	3 848	2 449
<b>Total</b>	<b>20 912</b>	<b>13 513</b>

## 9. POST BALANCE SHEET EVENTS

### TŘINECKÉ ŽELEZÁRNY, a. s.

With effect from 1 January 2019, the following change was made to the composition of the Supervisory Board:

Position	Original member	New member	Date of change
Member	František Ligocki	–	31 Dec 2018
Member	–	Jana Kantorová	1 Jan 2019

### FINITRADING a.s. merger

The Company is preparing a merger by amalgamation with FINITRADING a.s. in 2019 with the effective date set to 1 January 2019 and the anticipated entry in the Register of Companies in December 2019. FINITRADING a.s. will cease to exist when the merger is recorded in the Register of Companies and MORAVIA STEEL a.s. will become the successor company.

### Barrandov Studio a.s.

Based on the ruling of the Constitutional Court of 30 April 2019, ref. no. II. ÚS 1403/18, Barrandov Studio a.s. is obliged to pay to the company a part of the purchase price for the land that has been returned to the church as part of church restitutions. The relevant amount is CZK 59,000,000. The appeal against the resolution of the Constitutional Court shall be inadmissible.

### MORAVIA STEEL a.s.

Based on the ruling of the Constitutional Court of 30 April 2019, ref. no. II. ÚS 1403/18, the Company is obliged to make an additional payment of the value of the land that has been included in the share capital of Barrandov Lands a.s. and that has been returned to the church as part of church restitutions. The relevant amount is CZK 45,650,143.



# 10

## Report on Related Party Transactions for the Year Ended 31 December 2018

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 2018 to 31 December 2018 (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. The company did not control either MORAVIA STEEL a.s. or FINITRADING, a.s.

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

In the reporting period, FINITRADING, a.s. was solely controlled by MORAVIA STEEL a.s.

### 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 Kříženeckého 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 56, corporate ID 25352920 (100% share)

Relation: subsidiary of the Company

**Kovárna VIVA a.s.** with its registered office at Vavrečkova 5333, 760 01 Zlín, corporate ID 46978496 (66% share)

Relation: subsidiary of the Company; the company became controlled entity on 25 April 2018, when MORAVIA STEEL a.s. increased its share from 50% to 66%

**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.

#### **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 28 December 2017, the Company concluded Master Purchase Contract No. S-170008 with FINITRADING, a.s., for the period from 1 January 2018 to 31 December 2018, the subject matter of which is the controlling entity's obligation to provide supplies of Zaporizhia aglo-ore for the Company. During 2018, the purchase prices were regulated by amendments to the contract, namely Amendment 1 of 31 January 2018, Amendment 2 of 27 February 2018, Amendment 3 of 29 March 2018, Amendment 4 of 27 April 2018, Amendment 5 of 2 May 2018 (in which terms of delivery were amended), Amendment 6 of 31 May 2018, Amendment 7 of 28 June 2018, Amendment 8 of 31 July 2018, Amendment 9 of 29 August 2018, Amendment 10 of 27 September 2018, Amendment 11 of 31 October 2018 and Amendment 12 of 29 November 2018.

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

On 28 December 2017, the Company concluded Master Purchase Contract No. S-170009 with FINITRADING, a.s., for the period from 1 January 2018 to 31 December 2018, the subject matter of which is the controlling entity's obligation to provide supplies of Krivbas aglo-ore for the Company. During 2018, the purchase prices were regulated by amendments to the contract, namely Amendment 1 of 31 January 2018, Amendment 2 of 27 February 2018, Amendment 3 of 29 March 2018, Amendment 4 of 27 April 2018, Amendment 5 of 31 May 2018, Amendment 6 of 28 June 2018, Amendment 7 of 31 July 2018, Amendment 8 of 29 August 2018, Amendment 9 of 27 September 2018, Amendment 10 of 31 October 2018 and Amendment 11 of 29 November 2018.

#### 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.

### 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 25 February 2019

Board of Directors of MORAVIA STEEL a.s.



**Petr Popelář**

Chairman of the Board of Directors



**Krzysztof Roch Ruciński**

Vice-Chairman of the Board of Directors