

# ANNUAL REPORT 2013





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# COMPANY PROFILE

**T**ŘINECKÉ ŽELEZÁRNY, a. s. is a successor of a long tradition of steelmaking in Těšín Silesia. The Třinec Iron and Steel Works was established by the Chamber of Těšín of the archduke Karl von Hapsburg in 1839. At present, TŘINECKÉ ŽELEZÁRNY, a. s. is the largest Czech steel company with local capital and the most significant subsidiary of MORAVIA STEEL a.s. These two companies together create one of the most

**TO DATE, WE  
HAVE PRODUCED  
175 MILLION  
TONNES OF STEEL**

considerable industrial groups in the Czech Republic. The strategy of TŘINECKÉ ŽELEZÁRNY, a. s. is a dynamic increase in the growth of the share of long products with higher added value and its control within the up- and downstream product chains. A gradual diversification of the product portfolio increases our resilience to market volatility.

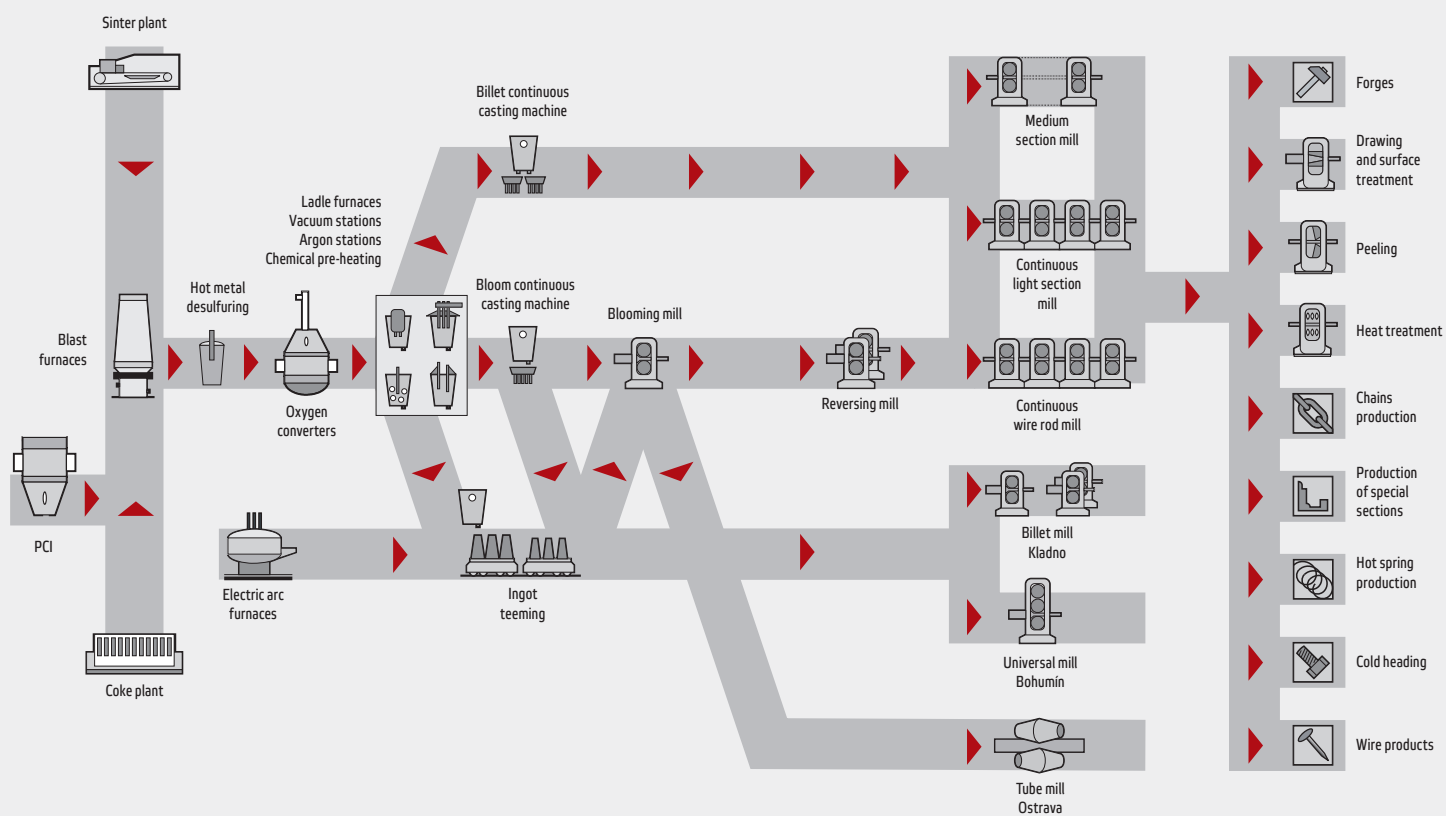


TŘINECKÉ ŽELEZÁRNY, a. s. produces approximately 2.5 million tonnes of steel annually in an integrated metallurgical cycle. This represents almost a half of the current total production of steel in the Czech Republic. The main product portfolio consists of long rolled products – wire rod, sections, special bar steel, drawn steel, rails, wide steel, seamless tubes and semis. Additional products include coke and by-products resulting from production, further artificial compact aggregates and granulated slag.

Our production plants comprise the comprehensive cycle from coke production to the final hot rolled steel product. The coke-chemical production plant includes two coke-oven batteries. Produced coke is used in the own blast furnaces together with the sinter charge prepared in two sinter plants. Since 2013, part of the blast furnace coke consumption has been substituted by the pulverized coal injection (PCI) into the blast furnace hearth. Produced pig iron is further processed in the BOF converter plant, which is equipped with complete ladle metallurgy and two machines for the continuous casting of blooms and billets. Steel is also produced in the EAF steel plant. Blooms, billets and ingots from steel plants form a charge for the rolling mill plants in Třinec – a rolling mill of blooms and heavy profiles, medium section mill, rolling mill of wire rod and light sections – as well as for the tube mill in Ostrava and for the universal strip rolling mill in Bohumín. The semis are delivered for further processing to the billet mill located in Kladno. The accompanying products resulting from metallurgical production are processed into artificial normal weight aggregate and further construction material at the secondary raw material plant.



## MATERIAL FLOWS AND TECHNOLOGY



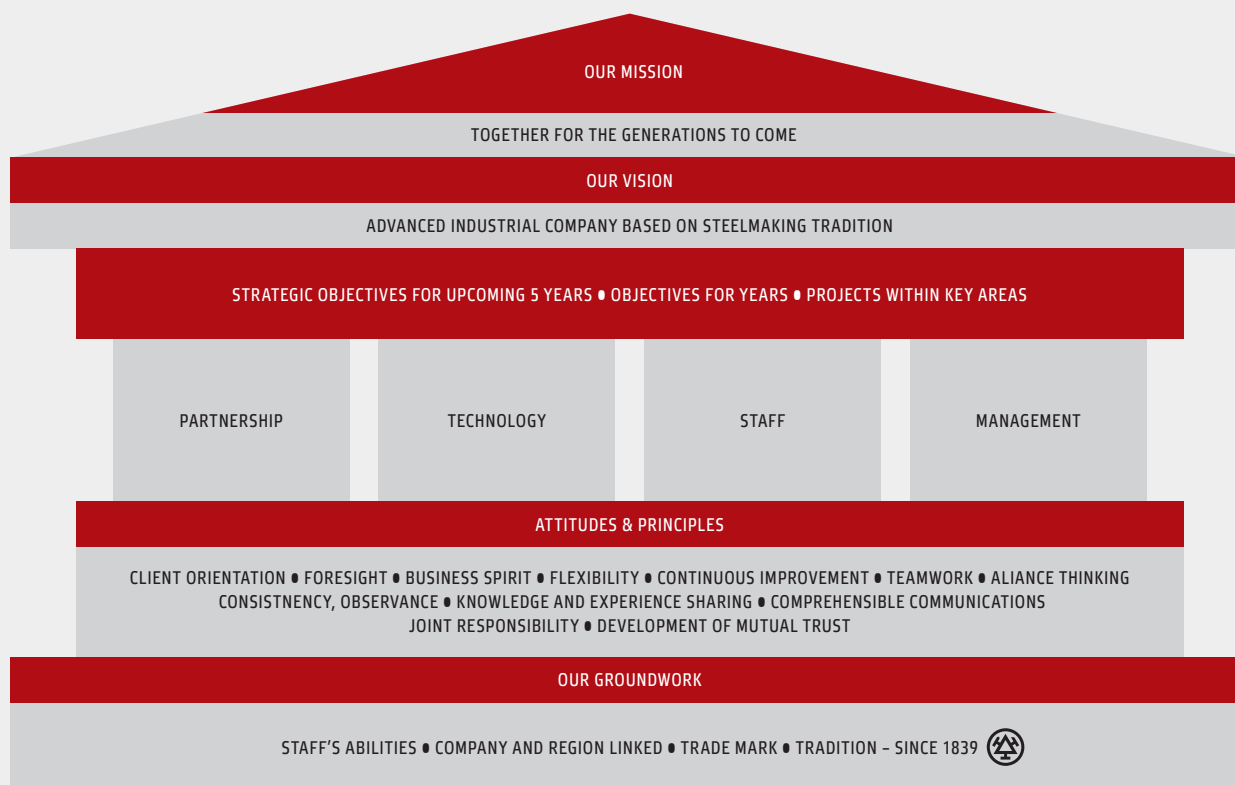
## COMPANY PROFILE

The Group also includes companies that are part of the product chains of TŘINECKÉ ŽELEZÁRNY, a. s. or that provide other services. TŘINECKÉ ŽELEZÁRNY, a. s. has a capital share in 28 companies.

The production facilities included in the Group are located in Třinec, Kladno, Staré Město u Uher-  
ského Hradiště, Bohumín, Česká Ves u Jeseníku, Ostrava, Dobrá u Frýdku-Místku, Kyjov, Prostějov, Radomsko (Poland), and Miskolc (Hungary).

To date, TŘINECKÉ ŽELEZÁRNY, a. s. has produced 175 million tonnes of steel, especially long rolled products, which have been placed on the domestic market as well as bought by customers all over the world. More than half of the annual production of high-quality steel products bearing the trademark of three hammers in a circle has been directed to customers in more than 60 countries worldwide.

The corporate mission of TŘINECKÉ ŽELEZÁRNY, a. s. "Together for the Generations to Come" highlights the role of a historically-dominant industrial company that influences a region with approximately 100,000 citizens. Responsibility for the further development of the surrounding region is included in the corporate mission.





# SELECTED ECONOMIC INDICATORS 2009 – 2013

## SELECTED ECONOMIC INDICATORS 2009 – 2013

Indicator	Unit	2009	2010	2011	2012	2013
Pig iron production	kt	1 810	2 043	2 029	2 005	2 068
Crude steel production	kt	2 213	2 498	2 480	2 493	2 553
Of which continuous castings	kt	2 137	2 370	2 360	2 389	2 440
Sales of rolled products including steel	kt	2 088	2 338	2 302	2 332	2 405
Total revenues	CZK mil.	25 627	34 672	41 327	38 425	37 765
Income from sales of products, goods and services	CZK mil.	24 316	32 459	38 897	37 111	36 701
Export share	%	56,1	55,8	56,7	56,9	58,4
Total costs excluding income tax	CZK mil.	26 581	35 581	39 641	37 421	36 378
Net profit or loss	CZK mil.	-732	-632	1 377	793	1 082
Consolidated profit or loss	CZK mil.	-1 006	-1 047	1 376	1 055	1 376
Net total assets	CZK mil.	23 037	25 458	26 914	26 967	30 378
Tangible fixed assets	CZK mil.	24 690	26 940	27 816	28 388	29 934
Adjustments	CZK mil.	15 854	16 717	17 639	18 370	19 204
Equity	CZK mil.	18 483	18 111	19 361	20 155	21 264
Capital investments	CZK mil.	613	1 307	545	655	1 653*
Other capital including other liabilities	CZK mil.	4 554	7 347	7 552	6 812	9 115
Employees (average adjusted total)	persons	5 319	5 905	5 943	5 962	6 099
Average monthly wage	CZK/person	24 213	24 201	27 402	27 500	27 750

\* without subsidies

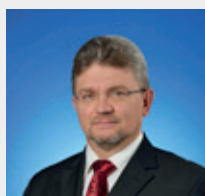




# SUPERVISORY BOARD AND BOARD OF DIRECTORS



Tomáš Chrenek



Ján Moder



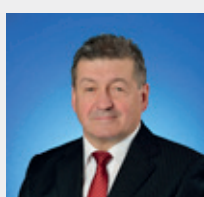
Evžen Balko



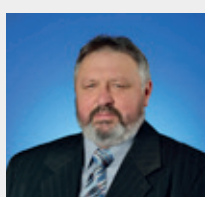
Pablo Alarcón Espinoza



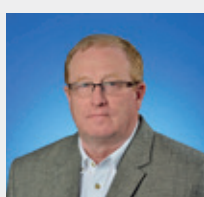
Jozef Blaško



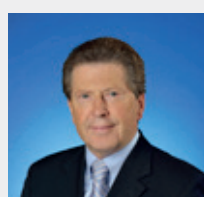
Jiří Cieňciała



Vladislav Heczeko



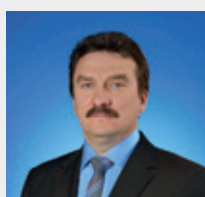
František Ligocki



Hanns Kurt Zöllner



Jan Czudek



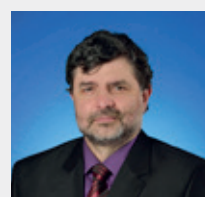
Česlav Marek



Petr Popelář



Henryk Huczala



Ivo Žižka

## SUPERVISORY BOARD

Title	Name	Residence	Changes
Chairman	Tomáš Chrenek	Praha 9, Koloděje, Podzámecká 1, Postcode 190 16	
1st Vice-Chairman	Ján Moder	Bystřice 1241, Postcode 739 95	
2nd Vice-Chairman	Evžen Balko	Bystřice 1241, Postcode 739 95	
Member	Pablo Alarcón Espinoza	Madrid, Serrano Galvache 42, Kingdom of Spain	till 31 .12. 2013
Member	Hanns Kurt Zöllner	6314 Unterägeri, Zimmelstrasse 68, Switzerland	till 31 .12. 2013
Member	Jozef Blaško	Košice, Československého odboja 74, Slovak Republic, Postcode 04 001	
Member	František Ligocki	Jablunkov 311, Postcode 739 91	
Member	Vladislav Heczeko	Návsi 316, Postcode 739 92	till 31.12.2013
Member	Jiří Cieňciała	Vendryně 902, Postcode 739 94	

## BOARD OF DIRECTORS

Title	Name	Residence	Changes
Chairman	Jan Czudek	Jablunkov 373, Postcode 739 91	
1st Vice-Chairman	Česlav Marek	Třinec, Oldřichovice 202, Postcode 739 61	
2nd Vice-Chairman	Petr Popelář	Ostrava-Dubina, Václava Košaře 86/21, Postcode 700 30	
Member	Henryk Huczala	Komorní Lhotka 223, Postcode 739 53	
Member	Ivo Žižka	Třinec, Oldřichovice 873, Postcode 739 61	





WE ACHIEVED  
SUCCESS EVEN IN  
DIFFICULT ECONOMIC  
SITUATION





# INTRODUCTORY WORD

## OF THE CHAIRMAN OF THE SUPERVISORY BOARD

### TO OUR CUSTOMERS, PARTNERS, AND EMPLOYEES.

The slightly improving situation in the Eurozone positively influenced the rise of the industrial production in our country, especially in the second half of 2013. The Czech economy seems to break out the recession at last. The forecasters even predict the growth of the industrial production by 5 to 8 % in 2014. So, we can expect also the growing consumption of steel products. The fact that steel consumption will be covered in domestic production to a greater extent, will be influenced not only by the competitiveness of metallurgical products, but also by many other factors that make the position of Czech long steel producers in the markets for these products more complicated in free competition.

If we take a look at the distribution of the steel producers 10 years ago and nowadays, it is clear that the position of the EU steel industry significantly weakened. Providing that the countries that form the present-day EU produced 200 million tonnes of steel representing 20 % of the global steel production; the share of the EU is just 10 % nowadays. It is not caused just by the 650 million tonnes growth of the global steel



production, but also by an absolute drop of steel production within the EU by ca 35 million tonnes during that period. Ten years ago, three European producers were among the World top ten, whilst today just one remains, moreover this producer is a global corporation. In addition to all of these changes within the European steel industry we should consider further pressure on decreasing the production capacities by another 30 million tonnes. If we add the strict environmental legislation, which has been introduced within the EU together with the high prices of the energies, where the Czech companies pay the most excessive sums, the business environment is really complicated for our industry.

The gradual loss of positions and threats of the European steel industry led to the creation of so called Action Plan for a competitive and sustainable steel industry in Europe accepted by the European Parliament this February. The declaration of the European Parliament requires an assessment of new feasible technical and economical objectives for the European steel industry requiring the positive change of the business environment within such energetically demanding industry. Nevertheless, the question is, whether those administrative procedures meet the outcomes, which would positively influence its competitiveness.

Although we, the stakeholders of Třinecké železářny, worked in complicated business conditions, we succeeded to keep on the successful results from the previous years. Regarding the production figures, we approached the record production of hot metal, steel as well as rolled goods we had achieved in 2007; and thus utilized our production capacities almost to the maximum. We continued holding the position of the biggest steel producer in the Czech Republic, as nearly every other tonne of steel is produced in Třinecké železářny.



Compared to 2012, the average sales price of our products slightly decreased; this influenced our revenues, which dropped by 1.1 % despite increased production of the rolled material.

On the other hand, the profit was better year on year, as it reached the amount of CZK 1 082 million. The good financial results of the companies within our Group also contributed to our consolidated profit.

In the past fiscal year, we commenced the key environmental investment projects, such as secondary de-dusting of the BOF hall, de-dusting of the teeming halls at both blast furnaces as well as about twenty lesser projects. These environmental projects with the state aid up to 90 % of eligible costs will help us to decrease the emissions of solid particles by another 30 %. At the end of 2013, we commenced the pilot operation of the pulverized coal injection facility, which was the most significant investment project in 2013. This new technological facility enables us to substitute a part of our coke consumption; it also contributes to the blast furnace charge costs saving. The next significant investment project we have commenced is the peeling and treating line; the new hall has been already built and we install the facilities now. This project will be finished in the second half of 2014.

The total amount we invested into the technological projects in 2013 is almost CZK 1.78 billion. We increased our share in Sochorová válcovna TŽ, a. s. and purchased Hanácké železářny a pérovny, a. s.

We will invest CZK 3.8 billion in 2014; this is going to be the biggest amount we have ever invested into our joint stock company within one year. Besides above mentioned environmental projects together with the de-dusting of the sinter plant and peeling and treating line, the most significant project will be the modernisation of the continuous wire rod mill; this project will put us back to the world top of the wire rod producers.

The year 2013 marked a turning for our company regarding the structure of our shareholders. The joint stock company Moravia Steel, the majority shareholder of Třinecké železářny owns shares with the total value of more than 90 % of equity, asked for calling the extraordinary General Meeting on 31st July 2013. This General Meeting decided on the squeeze out of minority shareholders, transfer of their shares to Moravia Steel and amount of payoff to that minority shareholder. After the expiration of the statutory period the ownership rights passed to Moravia Steel, which has become the sole owner of Třinecké železářny as of 22nd September 2013.

Dear customers, partners and employees. On behalf of our Supervisory Board and Board of Directors I would like to express our gratitude for high-quality co-operation, full assignment, invention and loyalty as well as for support, which we received from all of you during the previous year.

This year, we commemorate the 175th anniversary of Třinecké železářny establishment. Despite that venerable age, present Třinecké železářny is the most up-to-date and successful Czech steel company. At the occasion of that anniversary, I wish all employees lots of success, luck and happiness.

**Tomáš Chrenek**

Chairman of the Supervisory Board





EVERY OTHER  
TONNE OF CZECH  
STEEL IS PRODUCED  
IN TŘINEC



# V BOARD OF DIRECTORS' REPORT

## DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

Since 2008, the situation in the steel industry has not been characterised by typical cyclic alternation of crisis and boom any longer. Today's steel industry reflects the actual structural changes based on the needs and structure of the industry. As the apparent as well as real consumption of steel products slightly decreased in both the European Union and the Czech Republic in the past two years, it is possible to predict an increase of consumption indicators in the range of 1.5-3 % in 2014. Positive forecast for the Czech steel industry is based on the expected growth in steel consumption in mechanical engineering, metalworking, automotive together with the stagnation in construction, as those industries are involved in the sales of steel products with more than 80 %.

The evidence that the steel industry is the barometer of the economic performance is shown in the development of Gross Domestic Product. The biggest GDP drop year-on-year was focused to the first two quarters of 2013. On the other hand, the last quarter showed the GDP growth by 1.3 % year-on-year. Nevertheless, the total GDP of 2013 dropped by 0.9 % year-on-year, mainly due to the first half. The added value also dropped by 0.8 % year-on-year. Contribution of key sectors of the manufacturing industry was neutral, as the growth in the last quarter was only enough to compensate the negative development of the first and partially the second quarter.

Performance of the Czech economy reflects the results of the domestic steel industry. The table below shows production of crude steel and rolled products including the projections of future development.

The fact, that the situation of the EU industry is not easy, is indicated by the endeavour for the support of investments, research, and development stated within the Action Plan of the European Commission. The objective of this strategic document is to increase the share of industry in EU 28 from today's 15.7 % to 20 % in 2020. The possible success of these plans will depend on other factors as well, such as climate-energetic strategic concept. The future of the Czech steel industry will also depend on the amount of levies for renewable sources of energy, which recently disqualify domestic producers not only towards the global ones, but also towards the European competitors.

DEVELOPMENT OF STEEL PRODUCTION

(thousand t)

	2012	2013	Index 2013/2012	Project 2010	Index 2014/2013
Crude steel	5088.1	5171.3	101.6	5410	104.6
Rolled goods	4688.7	4828.7	103.0	5080	105.2



### PRODUCTION AND POSITION ON THE MARKET

According to worldsteel, the global steel production achieved the level of 1 607.2 million tonnes. The production of crude steel thus grew by 3.5 % compared to 2012, especially thanks to the Asian region. The production also grew at the markets of Middle East and Africa, but dropped in all other regions.

Production of steel in Asia grew by 6 % and reached the level of 1 080.9 million tonnes. China exceeded the previous forecasts and increased the steel production by 7.5 % to 779 million tonnes. Its share in the global steel production grew by 1.8 % to 48.5 %. The steel production in North America was 119.3 million tonnes that is a 1.9 % drop. The steel production in South America was 46 million tonnes.

In Europe, the steel production in the EU 28 countries dropped by 1.8 % year-on-year to 165.6 million tonnes. Germany produced 42.6 million tonnes of steel in 2013, which is comparable to the result of 2012. Italy suffered the biggest decrease of steel production by 11.7 % to 24.1 million tonnes. The countries of the CIS also recorded a decrease in the steel production by 1.8 % to 108.9 million tonnes. The steel production in the other

### WE PLACED 2 405 TONNES OF LONG ROLLED GOODS AT THE MARKETS

European countries dropped by 3.3 % to 38.6 million tonnes. The share of the EU in the global steel production decreased to 10 %.

Both significant crude steel producers in the Czech Republic increased the production year-on-year. The total production reached 5.2 million tonnes and recorded a growth by 1.6 % compared to 2012. Also the domestic production of the rolled goods was higher by 3 % year-on-year and reached 4.8 million tonnes.

The European association EUROFER, which associates EU steel producers, estimates a drop of the real consumption of steel in the EU countries by 1.9 %. EUROFER forecasts improvement of the economic situation in the EU in 2014; this can be projected in the growth of the real consumption of steel by 1.9 %. Slightly positive prospects are based on the premise, that after the drop in 2013, the European consumption

of tubes will grow as well as consumption in the machine engineering, automotive industry, and the construction industry.

The average utilisation rate of the steel producing capacities in 65 countries was 78.1 % in 2013. The capacity utilisation reached its maximum in February at the level of 81.1 %. IN the end of the year, the utilisation dropped to 74.2 %.



High prices of the raw materials and energies as well as legal burden regarding the environmental protection put a pressure to the margins and investments worsen the competitiveness of European steel industry. The natural gas prices are three times higher and prices of electricity are double in EU comparing to the other significant economies.

According the Eurometal Association, the level of the growth of the steel consumption in all regions will be slightly decreasing to 2020.



In Europe, the growth will be just 1 % year-on-year to 2020, in the North America, there will be a 4 % growth to 2016, and then it will drop to 1 %. The demand for steel in Asia is estimated at the level of a billion tonnes in 2014. The steel consumption in China will be steadily growing by 4 % by 2016; the growth will slow down then to 2 % to 2020. Nevertheless, the growth of consumption in India will be over 5 %.

Třinecké železářny is the biggest crude steel producer in the Czech Republic. In 2013, we produced 2.55 million tonnes of steel and our share on domestic production remained on the level 49 % as in 2012.

In 2013, Třinecké železářny successfully placed 2404.9 thousand tonnes of rolled goods at the mar-

kets through the sales networks of Moravia Steel, which is by 3.1 % more than in 2012.

Regarding the volume of production, the most significant product is wire rod. In 2013, we succeeded to increase the sales of wire rod by 32 thousand tonnes to the total of 954 thousand tonnes; of this 87.9 % were produced at the continuous wire rod mill and 11.4 % from the Garret coilers at the continuous light section mill. The rest is the drawn wire. We increased the share of high carbon and cord wire rod year-on-year.

The direct sales of semis reached an amount of 286 thousand tonnes, which is a growth of 2.4 % year-on-year. The share of semis produced at the bloom CCM was 86.2 % followed by the rolled

blooms with the share of 13.4 %. The sales of semis were completed by small batches of slabs, billets and ingots. The domestic sales of semis dropped by 9 thousand tonnes to 140 thousand tonnes. We succeeded to increase the export volumes for our customers from Spain and Germany.

Other semis were directed to the companies within the Třinecké železářny – Moravia Steel Group. There were mainly the deliveries of round blooms for the company Sochorová válcovna TŽ. In 2013, we delivered a total of 318 thousand tonnes of semis within our Group, which is 4 % more than in 2012.

Almost 30 % of profiles and bars from the continuous light section mill and medium section mill underwent finalising oper-

## SALES IN 2011-2013

(tonnes)

Sales in tons	Domestic			Export			Total		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Wire rod	316 861	317 879	342 828	600 413	604 825	611 580	917 274	922 704	954 408
Semis	428 839	454 968	458 059	143 305	130 235	146 156	572 144	585 203	604 215
Profiles and bars	168 903	163 499	157 010	162 460	181 486	190 052	331 363	344 985	347 062
Rails	25 025	22 504	22 049*	244 072	245 958	261 370*	269 097	268 462	283 419*
Tubes	13 995	13 310	11 413	84 972	82 379	83 772	98 967	95 689	95 185
Wide steel	5 758	6 323	6 454	41 648	41 886	40 911	47 406	48 209	47 365
Drawn bars	25 998	24 028	23 535	39 915	42 727	49 692	65 913	66 755	73 227
<b>TOTAL</b>	<b>985 379</b>	<b>1 002 511</b>	<b>1 021 348</b>	<b>1 316 785</b>	<b>1 329 496</b>	<b>1 383 533</b>	<b>2 302 164</b>	<b>2 332 007</b>	<b>2 404 881</b>

\*including the sales of railway accessories

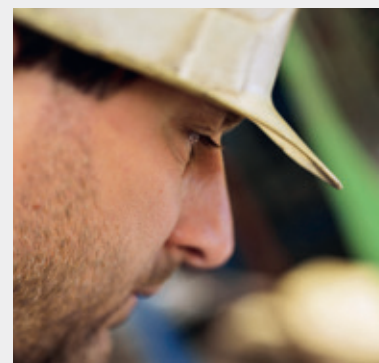
## BOARD OF DIRECTORS' REPORT

ations, such as heat treatment and peeling. The share of finalised steel thus increased by 4 % year-on-year. Round bars for the final treatment, carbon and construction steel formed the biggest part of this portfolio. These products are directed to car manufacturers, forges, screw producers, and Bering producers. We sold just 17 thousand tonnes of rebars; this represents 40 % of volume sold in 2010. The drop in rebar production reflects the recession of the civil engineering.

Regarding the supply of rails and accessories, we achieved the total volume of 283 thousand tonnes in 2013. The range of railway accessories, i.e. base plates, fishplates and clips are manufactured in the railway accessories plant. This plant was incorporated into the organisational structure of TŽ in 2013. The sales of railway accessories for the year 2013 amounted to 16.6 thousand tonnes. In 2013, total imports of rails increased again on the domestic market, this is the reason for continuing decreased sales of our rails by about 3 thousand tonnes. The permanent export areas include the USA, Canada, Germany, Poland, Hungary and Israel. An increased volume in 2013 succeeded in supply of rails to Egypt and Serbia.

The tube rolling plant went on in the steady production in 2013. The drop of deliveries to the domestic market by 14 % year-on-year is reflecting the downturn in the construction industry. On the other hand, we succeeded to increase deliveries to Germany, Italy, Poland and the USA. The seamless tubes are used especially in the construction industry, machine engineering, oil and energetic industry.

The volume of sales of wide steel produced in the universal strip mill in Bohumín was steady as well. The predominant deliveries are to the construction steel grades for the civil engineering. We succeeded to increase the deliveries to Denmark and Slovakia.



Regarding the portfolio of drawn bars, we increased the sales by 9.7 % year-on-year, especially for export. Larger volumes were exported to Germany, Poland, Hungary and Slovakia. Drawn bars, especially of the construction, free cutting, and carbon steel grades are produced in our drawing plant in Staré Město u Uherského Hradiště.

### EXPORT TERRITORIES OF TŘINECKÉ ŽELEZÁRNY

Export structure in %	2011	2012	2013
EU	84.2	88.1	89.2
- Germany	21.0	26.2	26.6
- Slovakia	12.6	13.3	13.5
- Italy	13.7	13.0	12.9
- Poland	14.0	13.1	12.3
Rest of Europe	2.1	1.3	1.6
America	9.4	9.1	7.7
Africa	0.2	0.4	1.1
Asia	4.2	1.2	0.5
TOTAL	100.0	100.0	100.0



## INVESTMENTS AND MODERNISATIONS

The technical development projects plan for 2013 is a part of the five-year business plan and fully corresponds with our commercial-production strategy defined as "Increasing growth in the share of long products with higher added value and its control within the product chains". Our investment projects were aimed at the modernization, environmental projects resulting from the conclusions of the integrated permits, projects to cut the costs, as well as project of renewal of current facilities.

**PULVERIZED COAL INJECTION TO THE BLAST FURNACES IS OUR THE MOST SIGNIFICANT INVESTMENT PROJECT IN 2013**

We invested CZK 1 781 million, the state aid to the commenced environmental projects provided by the State Environmental Fund was CZK 143 million.

In 2013, 35 running projects were going on. The most significant of them are:

- Pulverized coal injection to the blast furnaces No. 4 and 6 (the facility was put into the pilot operation at the end of 2013); and
- Acquirement of the new drawing machine KTS 5 to 15 mm at the Steel drawing plant.

A total of 27 modernization projects were commenced. The most significant of them are:

- Peeling and heat treatment line of steel bars;
- Reconstruction of the ammonia station;
- Implementation of the new control model for the converter K1; and
- Modernisation of the continuous wire rod mill.

In 2013, the implementation of significant environmental projects with 90 % of state aid:

- Reconstruction of the de-dusting of the blast furnace teeming halls; and
- Secondary de-dusting of the BOF hall.

The most significant projects of 2014 are modernization of the continuous wire rod mill and putting the peeling and heat treatment line of steel bars into operation.

Besides that, the plan lists the start of other 28 projects, such as:

- Threading of pipes and nozzles;
- Exchange of crane No. 9 at the continuous wire rod mill; and
- Renewal of equipment of the Schmitz press at the continuous wire rod mill.



In 2014, another 14 environmental projects will start, they will be implemented with the state and EU aid. The most significant of them is de-dusting of fumes and nodes at sinter plant No. 2. Implementation of this project will result in a further decrease of the solid emissions by 130 tons.



## BOARD OF DIRECTORS' REPORT

### TECHNOLOGY AND RESEARCH

The objective of the technological activities is to achieve the strategic aims of the company in accordance with the continuous improvement of qualitative parameters of the manufactured semis and reducing the costs of production. One of the main technological activities is the constant quality control of production

in conjunction with customer requirements through 13 key production programs, which are the following:

- Steel grades for the Kladno billet mill;
- Bars from the continuous light section rolling mill and medium section mill for the automotive industry;
- Waste and by-product management;
- Spring steel;
- Drawn steel;
- Screw steel;
- Corrosion-proof and tool steel;
- Chain steel;
- Wire rod from continuous wire rod rolling mill;
- Bearing steel;
- Continuously-cast semis for direct deliveries and axle steel;
- Tube production; and
- Rails.



The field of technology in Třinecké železářny is aimed at managing this process in the production material flow from pig iron and steel production to final treatment operations in particular rolling mills. We put emphasis on product quality control and hot or mechanical treatment of the products, and their drawing where needed, according to customer demands contained in particular orders. Technological regulations and measures are used as a tool of technology and quality control management. These regulations are closely connected with research and development activities, eventually with innovation technology. Customer requirements and demands play a significant role in verifying and implementing new technologies or products. The "Quality Plans" and "Programme of Continual Improvement" as a part of the "Quality Objectives" were created for the most significant customers. All of these documents have been gradually updated since 2004.

Research and development (R&D) is carried out by the Company's own R & D department, in active collaboration with universities, research organizations well as other specialised firms. The main objective is competitive products with a higher added value at the lowest production costs and meeting all the occupational safety and health requirements as well as environmental rules.

R&D is solved as research projects aimed at development and application of new technological procedures in accordance with the strategic investment objectives, innovations and improving quality indicators of selected grades of steel, i.e. projects both with state aid and EU financing or internal projects. These are solved in close collaboration with subsidiaries and coordinated by a managing team of research projects. The managing team is defining the priorities of the Třinecké železářny – Moravia Steel Group in order to achieve the synergic effects at solving the R&D projects.

We pay attention to the research activities related to the key production programs. 29 research projects were managed in 2013.



## ENVIRONMENT

### AIR PROTECTION

Compared to 2012, no significant change of emission occurred in the course of 2013. The slight growth is recorded for solid emission, sulphur dioxide, and carbon monoxide. On the other hand, we registered a slight decrease of emissions of nitrogen oxides and other emissions. The growth of emissions corresponds to the higher volume of production in 2013.

### EMISSIONS OF GREENHOUSE GASES

The amount of greenhouse gases emission in 2012 was 2 700 070 tonnes, the specific emissions reached the value of 1.083 tonnes per tonne of produced steel.

In 2013, the greenhouse gases emission increased to 2 735 869 tonnes. The year-on-year growth by 1.32 % was caused by increased production, assignment of carbon monoxide as the carbon dioxide equivalent and by change of reporting of some source flows. The specific emissions dropped to 1.050 tonnes of carbon dioxide to the tonne of produced steel. This drop caused the increase of calorific value and decrease of emission factor for the blast furnace gas.

### EMISSIONS FROM 2011 TO 2013

Year	Solid pollutants (t/year)	Sulphur dioxide (t/year)	Nitrogen oxides (t/year)	Carbon monoxide (t/year)	Other emissions (t/year)
2011	670	2 640	1 449	59 827	70
2012	581	2 323	1 453	59 769	66
2013	594	2 425	1 410	60 698	56

### WATER PROTECTION

The amount of industrial waste water discharged into the Olše River watercourse and the pollution of water has not recorded any significant change in 2013 compared to 2012. This corresponds to the long-term stabilised state of our water management. The quality of wastewater is achieving a sustainable level with respect to compliance with specified limits of pollution.

Also, in terms of the production of waste water per tonne of steel produced, the situation of 2013 is virtually comparable to the situation of 2012, as it ranged from 1.75 to 1.8 cubic metres per tonne of steel produced.

During 2013, there was no instance of emergency that would result in the deterioration of, or threat to, the quality of groundwater or surface water.

### POLLUTION DISCHARGED INTO WATER FLOWS FROM 2011 TO 2013

Year	Volume of waste-water (m3/year)	Undissolved substance (t/year)	Non-polar extracted substance (t/year)	Dissolved inorganic salts (t/year)	Chemical oxygen consumption using dichromatic method (t/year)	Total iron (t/year)
2011	4 323 082	47.1	0.96	2 309	52.6	4.2
2012	4 370 584	42.0	0.80	2 142	73.6	4.6
2013	4 618 752	44.5	0.65	2 143	77.3	4.2

## BOARD OF DIRECTORS' REPORT

### WASTE MANAGEMENT

The year of 2013 can be characterised as year of further restriction of occurrence of hazardous waste in Třinecké železářny. From the beginning of the year, the dust from the furnace gases as well as blast furnace sludge are treated in the regime of the by-product; they had been reported as hazardous waste before. Therefore the production of hazardous waste significantly dropped. The occurrence of 8 thousand tonnes of hazardous waste was produced, which is 66.9 thousand tonnes less than in 2012.

On the other hand, the category of "other waste" recorded a growth of amount, which was caused by higher production as well as by passing the slag from the deposits of the past years to other persons in order to utilize or dispose of. In 2013, we carried away 131.8 thousand tonnes more slag than in 2012.

Increased occurrence of waste slag influenced the total amount of waste – 281 279 tonnes.

The composition of the wastes produced in Třinecké železářny was comparable with previous years.

### ENVIRONMENTAL PROJECTS

In 2013, the implementation of below stated environmental projects commenced or continued:

- Ongoing reduction of dust at homogenisation heaps;
- De-dusting of fumes and nodes at sinter plant No. 2;
- Reconstruction of emission exhausts at teeming halls of the blast furnaces;
- Secondary de-dusting of the BOF hall,
- De-dusting of the workplace for flame cutting the ingots;
- Decrease of emissions at the facility for production the blast furnace charge;
- Processing the oily scales;
- De-dusting of multi-functional facility for production of steel plant sinter;
- De-dusting of tipplers No. 3 and 4;
- De-dusting of the iron ore pellet sorting line;
- Mobile de-dusting equipment;
- De-dusting of the coal unloading pit;
- Multi-purpose de-dusting units;
- Decreasing the fugitive emissions at the crushing lines and slag handling;
- Decreasing the fugitive emissions at the slag mill;
- Purchase of the universal spray-sweeper car;



- Decreasing the fugitive emissions at the iron ore belt conveyor – mist visor; and
- Decreasing the fugitive emissions at the mobile industrial vacuum cleaners.

In 2013, a total of CZK 287.71 million was invested into environmental projects. Several reconstructions covered by the operation resources have also positive influence to the environment.

### THE ENVIRONMENTAL AIMS FOR 2014

According to the 2014 Technical Development Plan, we will implement 19 environmental investment projects including the events with state aid, which were commenced in 2013 or this year. Those projects will be finished in 2014 or in 2015.





WE WILL IMPLEMENT  
19 ENVIRONMENTAL  
INVESTMENT  
PROJECTS IN 2014



## BOARD OF DIRECTORS' REPORT

### EMPLOYEES

The key manners of behaviour of the employees of our company including abiding by the principles of corporate social responsibility are defined by the Conditions of employment and Code of Ethics. The essential benefits of the employees are codified in the Corporate Collective Agreement and related Social Code. These documents are then elaborated in the related internal regulations.

In 2013, attention within the human resources was paid to acquiring technically educated graduates of high schools and universities in order to ensure the generation exchange and ordinary fluctuation, and to maintaining and further development of qualification of employees with respect to the maximum cost savings.

The principal part of the generation exchange is composed of the graduates of the technical fields of the Střední odborná škola Třineckých železáren. The 13th round of the training centre for the university graduates was fulfilled and co-operation with the schools of all grades went on. An example of the successful human resource work is manning the smooth start up of the investment project of pulverized coal injection to the blast furnaces.



The education and training of employees reflected the organisational and personnel changes in order to ensure the qualification standard of employees within the whole range of professions. The education events focused especially on the professional preparation of employees and education regarding quality. The language courses as well as management training went on, workshops for adopting the specialist knowledge were organised. Within the project Corporate academy, the application was created, this will be an instrument for internal education and shared learning.

Besides other funding, the sources of the European Social Fund were used for education and namely for the project "Education – way to the development of FERRO-MORAVIA".

Following the previous years, attention was paid to the premium health care of the employees. Using the financial support of Czech Industrial Health Insurance company, the wellness stays in spas as well as outpatient remedial were organised for increased amount of staff. As part of the anti-flu measures, preventive vaccination has been offered to employees as well as the provision of vitamins. The traditional Health Days were enhanced by the training of first aid and life saving.

A total of 11 work accidents was recorded in Třinecké železářny, which matches the historical minimum in 2012. The level of the accident rate for 2013 is 0.18 per 100 employees of Třinecké železářny. No fatal or serious accident occurred.



These results are proof of our correct Occupational Safety and Health (OSH) policy as well as system and operative measures in the process of OSH conditions improvement. The results are binding considering the amount and size of existing risks as well as the number of employees; their maintenance will be demanding. It will require the everyday active approach of all our employees to these issues, including continued motivation as well as the active approach of the specialists of our supplier of the OSH services – the ENVIFORM company.

In 2013, Třinecké železářny obtained the prize Safe Company, awarded by the State authority of labour safety after an extensive audit. Following fields were inspected within this audit: labour conditions, productive facilities, hazardous matters and accidents, civil engineering, road and rail transport and reserved technical equipment. The audit was focused on the system documents as well as abiding the OSH regulations at selected workplaces.

Other OSH activities in 2013 included:

- Organising OSH Days at the Třinecké železářny plants;
- OSH co-ordination while carrying out repairs of facilities; and
- Testing the managers of the OSH issues.

Within the personnel work and motivation, all efforts were focused at maintaining the high volume of production, full utilisation of facilities while maintaining the high standard of quality, manning the start up of pulverized coal injection into the blast furnaces and extension of the department of automation systems.

Fulfilment and exceeding the financial results enabled the achievement of average salary in amount of CZK 27 750, which represents higher growth of salary than it was concluded in the collective agreement as well as a slight increase compared to 2012. All other obligations contained in the collective agreement and social code were met. Then, high standards of care for employees and provision of employee benefits were enhanced.

Long-term targeted endeavour for responsible behaviour towards the environment and inhabitants of the region went on in 2013 in form of activities such as cleaning the Olše river flow, aid of our employees to the non profit organizations or participation in the social responsibility contest organised by the governor of the Moravian Silesian region.

The personnel strategy and its objectives incorporated into the Business plan for 2014 – 2018 was updated.

**WE HAVE  
OBTAINED  
THE PRIZE SAFE  
COMPANY**

In 2013, the average adjusted headcount grew to 6 099 employees. The increased number of employees was caused by the split of the company Strojírny Třinec, when the part marked "Drobné kolejivo" (Railway accessories), including all rights was merged with Třinecké železářny as the acquiring company as of 1 January 2013.

## BOARD OF DIRECTORS' REPORT

### MANAGEMENT SYSTEM

The company management system is instrumental in implementing the business strategy with the aim of gradually increasing the proportion of high-grade steel products, creating and developing product chains and intensively using assets while increasing the return on sales. All employees of the company make an effort to increase the added value of long rolled products, which form a crucial part of production.

The basic principles of the management include the linear organisational structure as well as process and project management. None of the principles are applied in isolation; management is based on their well-considered combination. To obtain necessary feedback to identify and monitor the implementation of strategic objectives, a system of indicators for performance management Balanced Scorecard (BSC) and a system of regular reporting are set up.

During 2013, a series of measures were adopted to support the strategic objectives in all strategic areas (Partnership, Technology, Staff, and Management).



The management system, including the information systems, did not change in 2013. The information platform still consists of SAP and Lotus Notes. At the end of 2013, the modifications of the control system, related to the recodification of the private law and, above all, legal changes of the Code of business corporations, were commenced.

TŘINECKÉ ŽELEZÁRNY, a. s. has a share in 28 companies, with either controlling, significant or minority interest. Most subsidiaries are focused on activities directly or indirectly related to the business in the steel sector and this focus matches the long-term business strategy of the company.

The management of capital shares of TŘINECKÉ ŽELEZÁRNY, a. s. is ensured by our representatives in the administrative authorities of these companies. They are principally focused on creating strategic objectives, coordinating the business plans, creating investment, financial, and commercial strategies, as well as unifying the main processes. The aim is to increase the value of the subsidiaries. Their contribution to the Group is regularly monitored and evaluated through analyses and reporting.

**THE AIM OF THE  
COMPANY MANAGEMENT  
SYSTEM IN OUR GROUP  
IS TO INCREASE  
THE VALUE OF THE  
SUBSIDIARIES**

TŘINECKÉ ŽELEZÁRNY, a. s. has no organisational branch abroad.



## FINANCIAL INFORMATION

In 2013 the pre-tax profit amounted to CZK 1,387 million, which represents a growth by CZK 383 million year-on-year.

In the course of 2013, because of division in the form of split merger of the company Strojírny Třinec, a part of the company marked "Drobné kolejivo" (Railway accessories), including all rights was merged with Třinecké železářny as the acquiring company.

Compared to 2012, the amount of profit before taxation was positively influenced by higher volume of sold rolled products and steel together with the favourable price trends at the markets of the input materials.

The production of the company reached the level of CZK 37,108 million, which represents a drop of CZK 429 million year-on-year. This drop was caused mainly by lower market prices of rolled products and steel.)

The purchased consumables were lower by CZK 1,325 million compared to 2012. The most significant influence on the year-on-year decline was the consumption of the raw materials in relation to the decreasing prices of the decisive input commodities.

Regarding the year-on-year growth of the transformation costs, the largest influencing elements were the staff costs, consumption of energy as well as services, maintenance and depreciation. Nevertheless, the planned amount of costs was not exceeded.

The added value amounted to CZK 5,687 million in 2013, which is CZK 896 million more than in 2012. The year-on-year increase in the added value was influenced by higher production and sales of rolled products and steel as well as favourable price trends of input materials. The labour productivity from the added value was CZK 932 thousand per employee in 2013 (CZK 804 thousand in 2012).

The operating profit grew by CZK 506 million year-on-year.

The financial loss grew by CZK 122 million compared to 2012. Its increase year-on-year was influenced by the increase of the provisions and long-term financial investments.

### DEVELOPMENT OF REVENUES

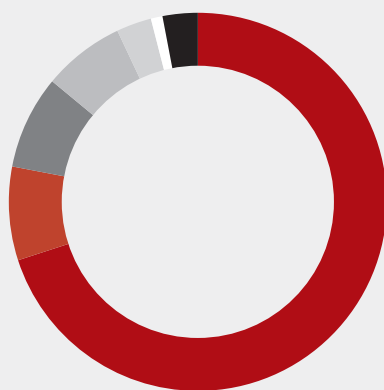
(in CZK thousands)

Indicator	2012	2013
Rolled goods incl. steel	35 666	35 272
Other products	1 020	1 003
Sales of own products	36 685	36 275
Revenues from services	415	424
Sales of goods purchased for resale	10	2
Sale of own production, services and goods	37 111	36 701



## BOARD OF DIRECTORS' REPORT

### COST STRUCTURE IN 2013



- Material costs 70%
- Energies 8%
- Staff costs 8%
- Services 7%
- Other costs 3%
- Financial 1%
- Depreciation 3%

As of 31 December 2013, the company reported total assets of CZK 30,378 million, which is CZK 3,411 million more than as of 31 December 2012.

The year-on-year increase was influenced by the growth of fixed assets by CZK 2,980 million, while the current assets and accruals grew by CZK 431 million.

Compared to 2012, tangible and intangible fixed assets increased by CZK 669 million (investments were higher than depreciation).

In 2013, non-current financial assets grew by CZK 2,311 million, especially because of the equity increase in the company Sochorová válcovna TŽ and purchase of share in the company Hanácké železářny a pérovny.

The increase in inventories was affected by the growing volume of the material inventories, especially iron ores, and increasing amount of finished products in stock at the end of 2012; this was caused by the above mentioned transfer of the part of Strojírny Třinec equity called "railway accessories" to Tři-necké železářny as the acquiring company.



Short-term receivables increased year-on-year mainly due to the increase in the trade receivables.

Within liabilities, the share of own resources in the total resources of the company grew by CZK 1,109 million year-on-year thanks to the achieved profit after taxation.

External resources including the other liabilities grew by CZK 2,302 million, especially due to higher bank loans related to financing the acquisitions of Sochorová válcovna TŽ and Hanácké železářny a pérovny. The reserves, long-term liabilities, especially deferred tax liability as well as short-term liabilities especially the trade payables also grew.



## STRATEGIC OBJECTIVES

The expected trends in the global economy, which influence also the condition of the European economy, are different regarding the territorial distribution. The growth of Asian economies is expected, despite slight slowdown especially in China, to continue in coming years. This will be reflected in local production and consumption of steel, which will continue to stimulate demand for raw materials for the steel industry. Other countries that will contribute to an increase in global steel consumption, will include Russia and Brazil.

The industry is showing signs of a slight recovery, noticeable especially in engineering, automobile and energy industries, which supports economic growth and hence the demand for steel. On the other hand, the construction industry, which is characterized by a certain inertia of cyclical changes, will return to growth trend after some time. In total, the European steel production is declining and the downward trend will probably dominate also in the future.

**WE ARE RANKED  
AMONG THE  
PRODUCERS WITH  
HIGHER ADDED  
VALUE**

Considering this somewhat unfavourable market situation, only producers of steel with higher added value can succeed; this includes our company. Therefore, we can fully exploit the opportunity to participate in the production chains for prospective industries that are demanding sophisticated inputs. The technical development plan for the years of 2014 to 2018 includes a number of significant investment projects aimed at continuous improvement of the quality of our products, renewal of our equipment and reduction of the production impact on the environment, which is a prerequisite for strengthening the TŽ position as a leading and reliable supplier of steel. Consideration of the economics of these activities while respecting environmental standards and, last but not least, social responsibility of our company as regionally significant business to the society are obvious.

The joint stock companies Třinecké železářny and Sochorová válcovna TŽ intend to merge in the form of a merger, so that Sochorová válcovna TŽ will be dissolved after a transfer of equity of the company to the acquiring company Třinecké železářny with the effective date of the merger on 1 January 2014 and the expected completion of the merger on 31 July 2014.







WE MATCHED  
THE HISTORICAL  
MINIMUM OF WORK  
ACCIDENTS



# VI // REPORT OF THE SUPERVISORY BOARD

The Supervisory Board regularly checked the compliance of the business activities with legal regulations, the Articles of Association, and resolutions of the General Meeting and the Supervisory Board. During the course of 2013, the Board of Directors informed it of the current economic situation of the Company, on the continuous results of the crisis management as well as on fulfilling the Business Plan.

At its meetings, the Supervisory Board dealt with the most significant strategic intentions and projects, placing emphasis on meeting the long-term strategy of TŘINECKÉ ŽELEZÁRNY, a.s.



At its meeting on 28 April 2014, the Supervisory Board reviewed the regular financial statements and the regular consolidated financial statements of the Company for 2013, the proposal for the distribution of profit generated in 2013, and the report of the Board of Directors on the business activity and the assets of the Company.

Based on the audit of the unconsolidated financial statements and consolidated financial statements as of 31 December 2013 by Deloitte Audit s.r.o. and their opinions, which were unqualified, the Supervisory Board recommends that the General Meeting of the shareholders of TŘINECKÉ ŽELEZÁRNY, a.s. approve the above-mentioned documents.

The Supervisory Board also reviewed the Report on Relations for the 2013 accounting period and, considering Deloitte Audit s.r.o.'s opinion, it concluded that it was prepared in conformity with the Commercial Code and the actual state of relations between the affiliated entities.

**Tomáš Chrenek**

Chairman of the Supervisory Board



# VIII / REPORT OF THE AUDIT COMMITTEE

The Audit Committee of TRINECKÉ ŽELEZÁRNY, a. s. (hereinafter "TŽ") monitored the procedure of preparing TŽ's financial statements and the consolidated financial statements of the TŽ Group for 2013 in accordance with the schedule of the Audit Committee. The Audit Committee also monitored the course of the statutory audit of individual regular financial statements of individual companies within the TŽ Group in 2013 and the consolidated financial statements of TŽ for 2013. The procedure of preparing the individual and consolidated financial statements of TŽ and the TŽ Group for 2013 took place in accordance with Czech and International Accounting Standards; these financial statements are audited.

**OUR PRODUCTS  
ARE DIRECTED TO  
CUSTOMERS IN MORE  
THAN 60 COUNTRIES  
WORLDWIDE**

Within its activities, the Audit Committee also obtained feedback related to the auditing activities and reviewed the efficiency of the statutory audit. The Audit Committee was involved in the communication between the auditor and the company's management and assessed how the company's management followed the recommendations that the auditor had provided. The Audit Committee also monitored the integrity of financial information provided by the company, including reviewing the consistency and appropriateness of the accounting methods used within TŽ.

The Audit Committee evaluated the independence and objectivity of the auditor, co-operated with the auditor and obtained feedback information as to what could endanger the auditor's independence, reviewed the nature and extent of the complementary services provided by the auditor.

Moreover, the Audit Committee discussed at its meetings the information on risk management and ways of their ensuring as well as the plan of activities for the internal audit for 2014.

Regarding the key activities assigned by applicable laws and regulations as well and the corporate Articles (i.e. monitoring the preparation of the financial statements including the consolidated financial statements, monitoring the process of statutory audit of the financial statements and consolidated financial statements, assessing the effectiveness of internal control system and assessment of independence of the external auditor), the Audit Committee did not find in the course of 2013 or in the existing part of 2014 until the General Meeting any significant facts on the company's activities, about which the General Meeting of shareholders should be informed.



**Dana Trezziová**

Audit Committee Chairwoman

# VIII / AUDITOR'S REPORT

**Deloitte.**

## **INDEPENDENT AUDITOR'S REPORT** To the Shareholders of TRINECKÉ ŽELEZÁRNY, a. s.

Having its registered office at: Průmyslová 1000, Staré Město, 739 61 Třinec  
Identification number: 180 50 646

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Registered at the Municipal Court in  
Prague, Section C, File 24349  
Id. Nr.: 49620592  
Tax Id. Nr.: CZ49620592

### **Report on the Financial Statements**

Based upon our audit, we issued the following audit report dated 5 March 2014 on the financial statements which are included in this annual report in Section IX.:

"We have audited the accompanying financial statements of TRINECKÉ ŽELEZÁRNY, a. s., which comprise the balance sheet as of 31 December 2013, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Statutory Body's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of TRINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

### **Report on the Consolidated Financial Statements**

Based upon our audit, we issued the following audit report dated 1 April 2014 on the consolidated financial statements which are included in this annual report in Section X.:

"We have audited the accompanying consolidated financial statements of TRINECKÉ ŽELEZÁRNY, a. s., which comprise the balance sheet as of 31 December 2013, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Statutory Body's Responsibility for the Financial Statements**

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

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see [www.deloitte.com/cz/about](http://www.deloitte.com/cz/about) for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the TRINECKÉ ŽELEZÁRNY, a. s. consolidation group as of 31 December 2013, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic."

#### Report on the Related Party Transactions Report

We have also reviewed the factual accuracy of the information included in the related party transactions report of TRINECKÉ ŽELEZÁRNY, a. s. for the year ended 31 December 2013 which is included in this annual report in Section XI. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of TRINECKÉ ŽELEZÁRNY, a. s. for the year ended 31 December 2013 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts citing business secrecy restrictions. Our opinion is not modified in respect of this matter.

#### Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2013 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company is consistent, in all material respects, with the financial statements referred to above.

In Prague on 28 April 2014

Audit firm:

Deloitte Audit s.r.o.  
certificate no. 79



Statutory auditor:

Pavel Raštica  
certificate no. 2180



# IX / FINANCIAL PART I. FINANCIAL STATEMENTS



## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Name of the Company:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Průmyslová 1000, Staré Město, 739 61 Třinec
Legal Status:	Joint Stock Company
Corporate ID:	180 50 646

### Components of the Financial Statements:

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

These financial statements were prepared on 5 March 2014.

Statutory body of the reporting entity:	Signature
<b>Jan Czudek</b> Chairman of the Board of Directors	
<b>Petr Popelář</b> Second Vice-Chairman of the Board of Directors	



# BALANCE SHEET FULL VERSION

(in CZK thousand)

		31.12.2013			31.12.2012
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>50 805 991</b>	<b>-20 427 927</b>	<b>30 378 064</b>	<b>26 967 170</b>
<b>B.</b>	<b>Fixed assets</b>	<b>39 483 840</b>	<b>-19 902 616</b>	<b>19 581 224</b>	<b>16 601 373</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<i>240 692</i>	<i>-194 900</i>	<i>45 792</i>	<i>92 283</i>
B.I.2.	Research and development	4 553	-4 553		683
B.I.3.	Software	177 099	-161 102	15 997	9 948
B.I.4.	Valuable rights	51 257	-29 245	22 012	1 121
B.I.6.	Other intangible fixed assets				75 038
B.I.7.	Intangible fixed assets under construction	7 783		7 783	5 493
<i>B.II.</i>	<i>Tangible fixed assets</i>	<i>29 934 310</i>	<i>-19 246 899</i>	<i>10 687 411</i>	<i>9 971 739</i>
B.II.1.	Land	351 475		351 475	349 949
B.II.2.	Structures	7 333 223	-4 016 369	3 316 854	3 187 423
B.II.3.	Individual movable assets and sets of movable assets	21 449 612	-15 200 777	6 248 835	5 947 432
B.II.6.	Other tangible fixed assets	1 499		1 499	1 499
B.II.7.	Tangible fixed assets under construction	549 636	-29 753	519 883	429 161
B.II.8.	Prepayments for tangible fixed assets	248 865		248 865	56 275
<i>B.III.</i>	<i>Non-current financial assets</i>	<i>9 308 838</i>	<i>-460 817</i>	<i>8 848 021</i>	<i>6 537 351</i>
B.III.1.	Equity investments – subsidiary (controlled entity)	9 255 843	-442 770	8 813 073	6 432 073
B.III.2.	Equity investments in associates	50 995	-18 047	32 948	105 278
B.III.3.	Other securities and investments	2 000		2 000	
<b>C.</b>	<b>Current assets</b>	<b>11 266 371</b>	<b>-525 311</b>	<b>10 741 060</b>	<b>10 334 156</b>
<i>C.I.</i>	<i>Inventories</i>	<i>7 500 039</i>	<i>-468 880</i>	<i>7 031 159</i>	<i>6 642 593</i>
C.I.1.	Material	3 081 901	-247 788	2 834 113	2 533 910
C.I.2.	Work in progress and semifinished goods	2 591 850	-175 859	2 415 991	2 436 331
C.I.3.	Products	1 821 204	-45 233	1 775 971	1 668 876
C.I.5.	Goods	2 225		2 225	2 069
C.I.6.	Prepayments for inventory	2 859		2 859	1 407
<i>C.II.</i>	<i>Long-term receivables</i>	<i>5 860</i>		<i>5 860</i>	<i>6 261</i>
C.II.1.	Trade receivables	888		888	1 775
C.II.5.	Long-term prepayments made	640		640	640
C.II.7.	Other receivables	4 332		4 332	3 846
<i>C.III.</i>	<i>Short-term receivables</i>	<i>3 377 062</i>	<i>-41 383</i>	<i>3 335 679</i>	<i>3 096 922</i>
C.III.1.	Trade receivables	2 889 278	-29 174	2 860 104	2 733 680
C.III.2.	Receivables – controlled or controlling entity	309 448		309 448	285 951
C.III.6.	State – tax receivables	92 671		92 671	45 352
C.III.7.	Short-term prepayments made	799		799	1 227
C.III.8.	Estimated receivables	7 879		7 879	12 880
C.III.9.	Other receivables	76 987	-12 209	64 778	17 832
<i>C.IV.</i>	<i>Current financial assets</i>	<i>383 410</i>	<i>-15 048</i>	<i>368 362</i>	<i>588 380</i>
C.IV.1.	Cash on hand	914		914	1 312
C.IV.2.	Cash at bank	367 379		367 379	586 675
C.IV.3.	Short-term securities and investments	15 117	-15 048	69	393
<b>D. I.</b>	<b>Other assets</b>	<b>55 780</b>		<b>55 780</b>	<b>31 641</b>
D.I.1.	Deferred expenses	15 441		15 441	27 360
D.I.2.	Complex deferred expenses	40 300		40 300	4 258
D.I.3.	Accrued income	39		39	23

(in CZK thousand)

		31.12.2013	31.12.2012
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>30 378 064</b>	<b>26 967 170</b>
<b>A.</b>	<b>Equity</b>	<b>21 263 521</b>	<b>20 154 924</b>
A.I.	<b>Share capital</b>	<b>8 109 863</b>	<b>8 109 863</b>
A.I.1.	Share capital	8 109 863	8 109 863
A.II.	<b>Capital funds</b>	<b>103 743</b>	<b>103 770</b>
A.II.2.	Other capital funds	103 787	103 786
A.II.3.	Gains or losses from the revaluation of assets and liabilities	-44	-16
A.III.	<b>Statutory funds</b>	<b>2 858 219</b>	<b>2 818 546</b>
A.III.1.	Statutory reserve fund/Indivisible fund	873 952	834 279
A.III.2.	Statutory and other funds	1 984 267	1 984 267
A.IV.	<b>Retained earnings</b>	<b>9 109 639</b>	<b>8 329 286</b>
A.IV.1.	Accumulated profits brought forward	9 109 639	8 384 399
A.IV.2.	Accumulated losses brought forward		-55 113
A.V.	<b>Profit or loss for the current period (+/-)</b>	<b>1 082 057</b>	<b>793 459</b>
<b>B.</b>	<b>Liabilities</b>	<b>9 108 628</b>	<b>6 803 204</b>
B.I.	<b>Reserves</b>	<b>132 862</b>	<b>114 882</b>
B.I.1.	Reserves under special legislation	1 942	1 922
B.I.4.	Other reserves	130 920	112 960
B.II.	<b>Long-term liabilities</b>	<b>782 407</b>	<b>483 903</b>
B.II.1.	Trade payables	16 826	16 786
B.II.9.	Other payables	10 000	5 000
B.II.10.	Deferred tax liability	755 581	462 117
B.III.	<b>Short-term liabilities</b>	<b>4 376 385</b>	<b>3 747 672</b>
B.III.1.	Trade payables	3 784 165	3 204 139
B.III.5.	Payables to employees	299 553	284 378
B.III.6.	Social security and health insurance payables	84 863	79 641
B.III.7.	State – tax payables and subsidies	117 552	98 627
B.III.10.	Estimated payables	77 147	70 977
B.III.11.	Other payables	13 105	9 910
B.IV.	<b>Bank loans and borrowings</b>	<b>3 816 974</b>	<b>2 456 747</b>
B.IV.1.	Long-term bank loans	2 316 150	1 486 052
B.IV.2.	Short-term bank loans	1 500 824	970 695
<b>C. I.</b>	<b>Other liabilities</b>	<b>5 915</b>	<b>9 042</b>
C.I.1.	Accrued expenses	5 233	7 969
C.I.2.	Deferred income	682	1 073

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

(in CZK thousand)

		Year ended 31.12.2013	Year ended 31.12.2012
I.	Sales of goods	2 402	10 451
A.	Costs of goods sold	2 356	10 241
<b>+</b>	<b>Gross margin</b>	<b>46</b>	<b>210</b>
II.	Production	37 108 324	37 537 031
II.1.	Sales of own products and services	36 699 065	37 100 709
II.2.	Change in internally produced inventory	-28 194	-193 789
II.3.	Own work capitalised	437 453	630 111
B.	Purchased consumables and services	31 421 638	32 746 380
B.1.	Consumed material and energy	28 744 214	30 194 973
B.2.	Services	2 677 424	2 551 407
<b>+</b>	<b>Added value</b>	<b>5 686 732</b>	<b>4 790 861</b>
C.	Staff costs	3 016 731	2 863 155
C.1.	Payroll costs	2 059 433	1 954 510
C.2.	Remuneration to members of statutory bodies	9 402	9 590
C.3.	Social security and health insurance costs	733 796	687 337
C.4.	Social costs	214 100	211 718
D.	Taxes and charges	30 267	22 946
E.	Depreciation of intangible and tangible fixed assets	943 817	900 092
III.	Sales of fixed assets and material	106 100	111 277
III.1.	Sales of fixed assets	6 604	9 469
III.2.	Sales of material	99 496	101 808
F.	Net book value of fixed assets and material sold	99 059	96 468
F.1.	Net book value of sold fixed assets	2 763	963
F.2.	Book value of sold material	96 296	95 505
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-23 570	-223 752
IV.	Other operating income	393 545	682 279
H.	Other operating expenses	518 866	829 872
<b>*</b>	<b>Operating profit or loss</b>	<b>1 601 207</b>	<b>1 095 636</b>
VI.	Proceeds from the sale of securities and investments	1 725	
J.	Cost of securities and investments sold	100	
VII.	Income from non-current financial assets	112 400	37 059
VII.1.	Income from equity investments in subsidiaries and associates	112 400	36 850
VII.3.	Income from other non-current financial assets		209
IX.	Income from the revaluation of securities and derivatives	503	925
M.	Change in reserves and provisions relating to financial activities	265 505	98 910
X.	Interest income	7 071	11 033
N.	Interest expenses	50 744	48 944
XI.	Other financial income	32 926	34 449
O.	Other financial expenses	52 968	27 955
<b>*</b>	<b>Financial profit or loss</b>	<b>-214 692</b>	<b>-92 343</b>
Q.	Income tax on ordinary activities	304 458	209 834
Q 1.	- due	18 281	
Q 2.	- deferred	286 177	209 834
<b>**</b>	<b>Profit or loss from ordinary activities</b>	<b>1 082 057</b>	<b>793 459</b>
<b>***</b>	<b>Profit or loss for the current period (+/-)</b>	<b>1 082 057</b>	<b>793 459</b>
<b>****</b>	<b>Profit or loss before tax</b>	<b>1 386 515</b>	<b>1 003 293</b>



# STATEMENT OF CHANGES IN EQUITY

(in CZK thousand)

	Share capital	Capital funds	Statutory reserve fund/ Indivisible fund	Statutory and other funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
<b>Balance at 31 December 2011</b>	<b>8 109 863</b>	<b>103 771</b>	<b>765 408</b>	<b>1 984 267</b>	<b>8 384 399</b>	<b>-1 363 653</b>	<b>1 377 411</b>	<b>19 361 466</b>
Profit or loss for the current period							793 459	793 459
Distribution of profit or loss			68 871			1 308 540	-1 377 411	
Other		-1						-1
<b>Balance at 31 December 2012</b>	<b>8 109 863</b>	<b>103 770</b>	<b>834 279</b>	<b>1 984 267</b>	<b>8 384 399</b>	<b>-55 113</b>	<b>793 459</b>	<b>20 154 924</b>
<b>Impact of transformation at 1 January 2013</b>					<b>26 567</b>			<b>26 567</b>
<b>Balance at 1 January 2013</b>	<b>8 109 863</b>	<b>103 770</b>	<b>834 279</b>	<b>1 984 267</b>	<b>8 410 966</b>	<b>-55 113</b>	<b>793 459</b>	<b>20 181 491</b>
Profit or loss for the current period							1 082 057	1 082 057
Distribution of profit or loss			39 673		698 673	55 113	-793 459	
Change in the revaluation of securities		-28						-28
Other		1						1
<b>Balance at 31 December 2013</b>	<b>8 109 863</b>	<b>103 743</b>	<b>873 952</b>	<b>1 984 267</b>	<b>9 109 639</b>		<b>1 082 057</b>	<b>21 263 521</b>

# CASH FLOW STATEMENT

(in CZK thousand)

P.		Year ended 31.12.2013	Year ended 31.12.2012
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>588 380</b>	<b>516 479</b>
	<b>Cash flows from ordinary activities</b>		
Z.	Profit or loss from ordinary activities before tax	1 386 515	1 003 293
A.1.	Adjustments for non-cash transactions	1 144 456	767 469
A.1.1.	Depreciation of fixed assets	943 817	900 092
A.1.2.	Change in provisions and reserves and complex deferred expenses	246 125	-124 842
A.1.3.	Profit/(loss) on the sale of fixed assets	-5 466	-8 506
A.1.4.	Revenues from dividends and profit shares	-112 400	-37 059
A.1.5.	Interest expense and interest income	43 673	37 911
A.1.6.	Adjustments for other non-cash transactions	32 898	-127
A.1.7.	Adjustments for non-cash transactions – transformation	-4 191	
<b>A.*</b>	<b>Net operating cash flow before changes in working capital</b>	<b>2 530 971</b>	<b>1 770 762</b>
A.2.	Change in working capital	101 575	289 478
A.2.1.	Change in operating receivables and other assets	-221 687	560 398
A.2.2.	Change in operating payables and other liabilities	610 748	-1 055 001
A.2.3.	Change in inventories	-262 045	784 081
A.2.4.	Change in current financial assets	-25 441	
<b>A.**</b>	<b>Net cash flow from operations before tax and extraordinary items</b>	<b>2 632 546</b>	<b>2 060 240</b>
A.3.	Interest paid	-53 497	-43 339
A.4.	Interest received	7 561	11 112
A.7.	Received dividends and profit shares	112 400	37 059
<b>A.***</b>	<b>Net operating cash flows</b>	<b>2 699 010</b>	<b>2 065 072</b>
	<b>Cash flows from investing activities</b>		
B.1.	Fixed assets expenditures	-4 260 824	-2 245 605
B.2.	Proceeds from fixed assets sold	8 294	9 492
B.3.	Loans provided to related parties	-24 000	116 000
B.5.	Increase in cash – transformation	766	
<b>B.***</b>	<b>Net investment cash flows</b>	<b>-4 275 764</b>	<b>-2 120 113</b>
	<b>Cash flow from financial activities</b>		
C.1.	Change in payables from financing	1 331 295	126 942
<b>C.***</b>	<b>Net financial cash flows</b>	<b>1 331 295</b>	<b>126 942</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>-245 459</b>	<b>71 901</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>342 921</b>	<b>588 380</b>

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter the “Company”) was formed by the National Property Fund of the Czech Republic on the basis of a Deed of Foundation as a joint stock company registered in Třinec, Czech Republic, and was incorporated following its registration in the Register of Companies of the Regional Court in Ostrava on 21 March 1991. The Company is primarily engaged in metallurgy with a closed metallurgical cycle. In addition to the production of coke, pig iron and steel, the range of principal products provided by the Company involves the products of rolling mills, namely blooms, slabs, billets, rods, reinforcing bars and thin, medium and heavy sections, rails including the production of plates, clamps and jumpers for rails, steel tubes and drawing-quality steel.

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

The Company’s issued share capital is CZK 8,109,863 thousand.

Since 22 September 2013, MORAVIA STEEL a.s. has been the sole shareholder of the Company.

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

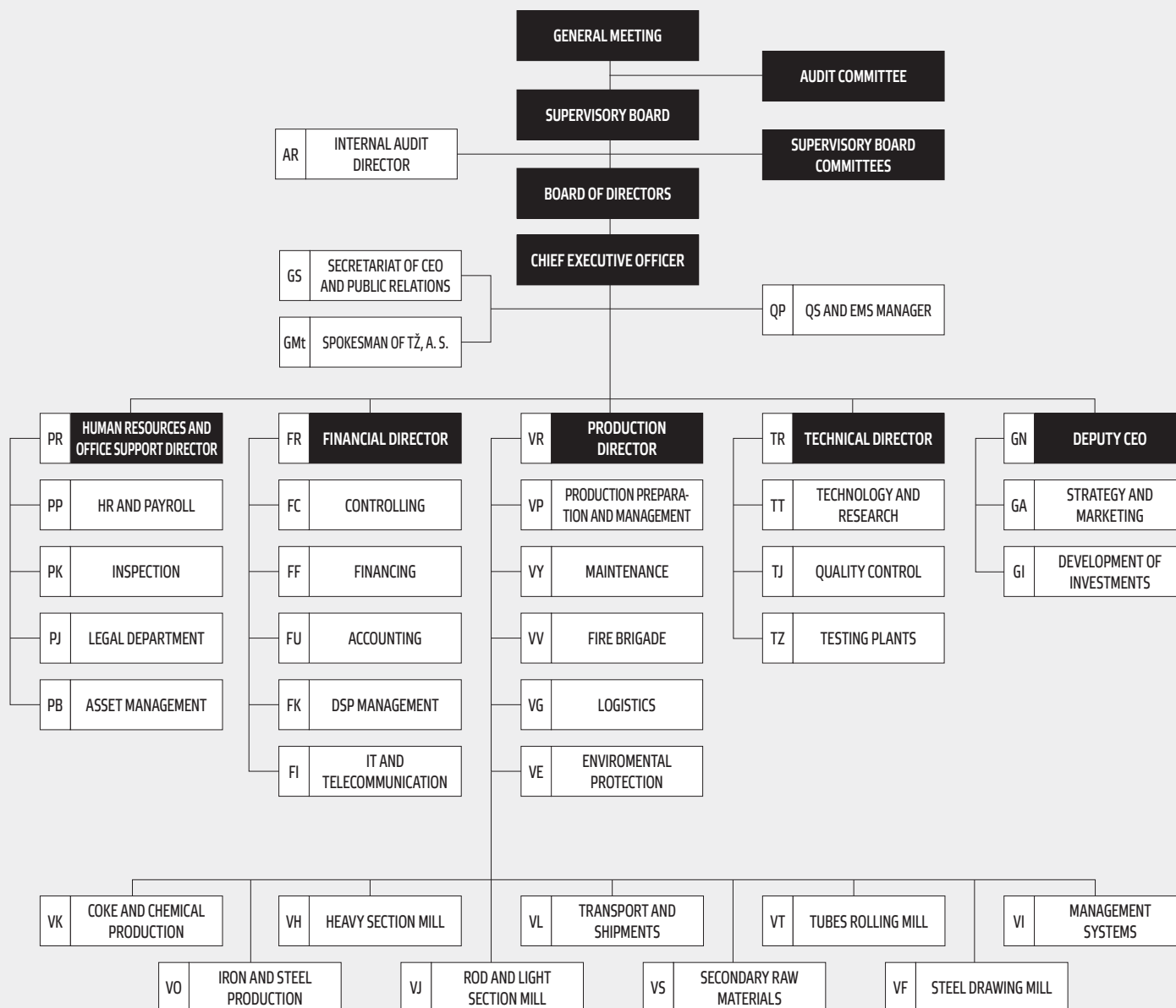
During the year ended 31 December 2013, a change was recorded in the Register of Companies relating to the change in the sole shareholder of the Company. The extraordinary general meeting decided to transfer the shares issued by the Company and owned by other shareholders to the principal shareholder MORAVIA STEEL a.s. In addition, a change relating to the replacement of ordinary bearer shares with the nominal value of CZK 1,000 by ordinary registered shares with the identical nominal value, and a change relating to the take-over of part of the net assets of the dissolving company Strojírny Třinec, a.s. that was dissolved as a result of the demerger by split-up through amalgamation (refer to Note 2.1.) were recorded in the Register of Companies.

### 1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

Bodies of the Company are as follows:

- General Meeting;
- Board of Directors;
- Supervisory Board; and
- Audit Committee.

The basic organisational structure of the Company effective as of 31 December 2013:



**During the year ended 31 December 2013, the following changes were made in the organisational structure of the Company:**

- Cancellation of the AP division – company centres of TŽ managed by AR – Internal Audit Director.
- Cancellation of the GA division – Strategy of TŽ, a.s. and GG division – Marketing managed by GR – Chief Executive Officer and their joining into GA – Strategy and Marketing managed by GR – Chief Executive Officer.
- Renaming of the VL plant – Dispatch Offices and Transportation managed by VR – Production Director to VL – Transportation and Dispatch.
- Change in the name of the GRn division – Deputy CEO managed by the CEO to GN – Deputy CEO.

#### 1.4. GROUP IDENTIFICATION

According to Section 66a (3) of Act No. 513/1991 Coll., the Commercial Code, the Company was controlled by MORAVIA STEEL a.s. in the year ended 31 December 2013. MORAVIA STEEL a.s. was controlled by FINITRADING a.s. and R.F.G., a.s., acting in concert.



## 1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2013

	Position	Name
<b>Board of Directors</b>	Chairman	Jan Czudek
	1st Vice Chairman	Česlav Marek
	2nd Vice Chairman	Petr Popelář
	Member	Ivo Žižka
	Member	Henryk Huczala
<b>Supervisory Board</b>	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Evžen Balko
	Member	František Ligocki
	Member	Hanns Kurt Zöllner
	Member	Jiří Cieñciała
	Member	Vladislav Heczko
	Member	Jozef Blaško
	Member	Pablo Alarcón Espinosa

During the year ended 31 December 2013, no changes were made in the composition of the Company's Board of Directors and Supervisory Board.

## 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").

### 2.1. REPORTING PERIOD

With effect from 31 August 2013, the dissolving Strojírny Třinec, a.s. was demerged by split-up through amalgamation with the effective demerger date of 1 January 2013 into two successor companies. Part of the net assets of the dissolving company entitled the "Track Fastenings Plant", was transferred to the successor company TŘINECKÉ ŽELEZÁRNY, a. s. and the second part of the net assets entitled "Engineering Plants without the Track Fastenings Plant" was transferred to the successor company D 5, akciová společnost, Třinec (now Strojírny a stavby Třinec, a.s.).

Given the demerger by split-up through amalgamation, the financial statements of the Company as of 31 December 2013 are prepared as follows:

- The balance sheet contains comparative balances as of 31 December 2012 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2012;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2012 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2012;
- The statement of changes in equity contains comparative amounts for the year ended 31 December 2012 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2012. The effect of the demerger by split-up through amalgamation on equity accounts is apparent from this statement; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2012 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2012. The effect of the demerger by split-up through amalgamation on cash flow is provided separately in this statement.

Where the effect of the demerger by split-up through amalgamation was material for individual groups of assets and liabilities, it is disclosed in the relevant notes to the financial statements.

Opening balance sheet as of 1 January 2013

(CZK thousand)

	Gross	Adjustment	Net
<b>TOTAL ASSETS</b>	<b>46 500 220</b>	<b>-19 487 106</b>	<b>27 013 114</b>
<b>Fixed assets</b>	<b>35 467 022</b>	<b>-18 924 724</b>	<b>16 542 298</b>
<i>Intangible fixed assets</i>	<i>280 775</i>	<i>-188 492</i>	<i>92 283</i>
Research and development	4 553	-3 870	683
Software	166 395	-156 447	9 948
Valuable rights	29 296	-28 175	1 121
Other intangible fixed assets	75 038	0	75 038
Intangible fixed assets under construction	5 493	0	5 493
<i>Tangible fixed assets</i>	<i>28 568 936</i>	<i>-18 540 305</i>	<i>10 028 631</i>
Land	349 949	0	349 949
Structures	7 087 723	-3 887 140	3 200 583
Individual movable assets and sets of movable assets	20 608 599	-14 621 651	5 986 948
Other tangible fixed assets	1 499	0	1 499
Tangible fixed assets under construction	463 035	-31 514	431 521
Prepayments for tangible fixed assets	58 131	0	58 131
<i>Non-current financial assets</i>	<i>6 617 311</i>	<i>-195 927</i>	<i>6 421 384</i>
Equity investments in subsidiaries	6 494 128	-178 022	6 316 106
Equity investments in associates	123 183	-17 905	105 278
<b>Current assets</b>	<b>11 001 557</b>	<b>-562 382</b>	<b>10 439 175</b>
<i>Inventories</i>	<i>7 237 825</i>	<i>-503 353</i>	<i>6 734 472</i>
Material	2 863 433	-254 312	2 609 121
Work in progress and semi-finished goods	2 638 434	-195 646	2 442 788
Products	1 732 482	-53 395	1 679 087
Goods	2 069	0	2 069
Prepayments for inventory	1 407	0	1 407
<i>Long-term receivables</i>	<i>6 315</i>	<i>0</i>	<i>6 315</i>
Trade receivables	1 775	0	1 775
Long-term prepayments made	640	0	640
Other receivables	3 900	0	3 900
<i>Short-term receivables</i>	<i>3 153 837</i>	<i>-44 595</i>	<i>3 109 242</i>
Trade receivables	2 778 754	-32 755	2 745 999
Receivables – controlled or controlling entity	285 951	0	285 951
State – tax receivables	45 353	0	45 353
Short-term prepayments made	1 227	0	1 227
Estimated receivables	12 880	0	12 880
Other receivables	29 672	-11 840	17 832
<i>Current financial assets</i>	<i>603 580</i>	<i>-14 434</i>	<i>589 146</i>
Cash on hand	1 353	0	1 353
Cash at bank	587 400	0	587 400
Short-term securities and investments	14 827	-14 434	393
<b>Other assets</b>	<b>31 641</b>	<b>0</b>	<b>31 641</b>
Deferred expenses	27 360	0	27 360
Complex deferred expenses	4 258	0	4 258
Accrued income	23	0	23

(CZK thousand)

	<b>Net</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>27 013 114</b>
<b>Equity</b>	<b>20 181 491</b>
<b>Share capital</b>	<b>8 109 863</b>
Share capital	8 109 863
<b>Capital funds</b>	<b>103 770</b>
Other capital funds	103 786
Gains or losses from the revaluation of assets and liabilities	-16
<b>Statutory funds</b>	<b>2 818 546</b>
Statutory reserve fund / Indivisible fund	834 279
Statutory and other funds	1 984 267
<b>Retained earnings</b>	<b>9 149 312</b>
Accumulated profits brought forward	9 204 425
Accumulated losses brought forward	-55 113
<b>Liabilities</b>	<b>6 822 581</b>
<b>Reserves</b>	<b>115 106</b>
Reserves under special legislation	1 922
Other reserves	113 184
<b>Long-term liabilities</b>	<b>491 197</b>
Trade payables	16 786
Other payables	5 000
Deferred tax liability	469 411
<b>Short-term liabilities</b>	<b>3 759 531</b>
Trade payables	3 211 582
Payables to employees	287 000
Social security and health insurance payables	80 643
State – tax payables and subsidies	98 805
Estimated payables	71 417
Other payables	10 084
<b>Bank loans and borrowings</b>	<b>2 456 747</b>
Long-term bank loans	1 486 052
Short-term bank loans	970 695
<b>Other liabilities</b>	<b>9 042</b>
Accrued expenses	7 969
Deferred income	1 073

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

##### Valuation

Tangible fixed assets include assets with a 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, and research and development) with a 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 cost. 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 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 Foundation Deed.

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 books as fully depreciated. Replacement cost is determined by an expert appraiser or through an estimate performed under the Company's internal regulations.

Tangible and intangible assets with an estimated useful life greater than one year and a 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 a fixed asset improvements exceeding CZK 40 thousand increases the acquisition cost of the related fixed asset for the taxation period.

The results of the Company's 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 for financial reporting purposes and are held in off balance sheet records at internal costs of production.

Greenhouse emission allowances (hereinafter the "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 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 recorded as a component of 'Other operating income'.

As of the 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 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 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 Company 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 machinery and equipment is 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 their 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/expected proceeds from the intended sale.

## **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).

## **3.2. 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 balance sheet date, the Company records:**

Equity investments are measured at cost less any provisions.

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

Upon sale or any other disposal, securities of the same type are valued on the basis of the weighted average of acquisition costs.

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 – subsidiary (controlled 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'.

## **Provisioning against Equity Investments**

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 entity's anticipated cash flows and the results of the entity's operations and reflects its interest in the entity's equity.

## **3.3. CURRENT FINANCIAL ASSETS**

Current financial assets principally consist of cash on hand and cash at bank and short-term debt securities with a maturity of less than one year and other securities available for sale.

Current financial assets are carried at cost upon acquisition.

## **3.4. 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.

The revaluation of internally developed inventory is performed as of 1 January for processing costs by reference to the calculations made based on the approved financial plan.

At the 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 the 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 valuation, movement, selling prices and realisability.

## **3.5. RECEIVABLES**

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

### **Provisioning**

The Company 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 360 days and more are provisioned in full; and
- b) Receivables past due over 180 days but less than 360 days are provisioned at 50%.

In addition, provisions are recognised against receivables based on an individual assessment of their collectability.

The Company 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.

## **3.6. PAYABLES**

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

## **3.7. LOANS AND BORROWINGS**

### **Valuation**

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

## **3.8. RESERVES**

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

### **3.9. FOREIGN CURRENCY TRANSLATIONS**

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

During the period, 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 the assets were recorded.

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

### **3.10. TAXATION**

#### **3.10.1. 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 in the Tube Rolling Mill (the VT operation), the Univerzální trať plant and the Track Fastenings Plant which are depreciated using the straight line and accelerated methods.

#### **3.10.2. 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 Company's liability for current tax is calculated using the tax rate that has been enacted by the balance sheet date.

#### **3.10.3. 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.

### **3.11. BORROWING COSTS**

Borrowing costs arising from loans are directly expensed regardless of the purpose for which the loans were drawn.

### **3.12. 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'.

### **3.13. 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.

### 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 as of 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. RESEARCH AND DEVELOPMENT EXPENDITURE

Research and development expenditure is capitalised as part of the cost and posted to the acquisition of tangible or intangible fixed assets if the research and development projects result in fixed assets (tangible and intangible). The output of a research and development project is capitalised on the basis of the results of opponent proceedings. A detailed analysis of the projects in progress is undertaken at the 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.

### 3.16. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES

Starting from 2013, the Company has changed the policy of reporting equity investments in companies that are not part of the business group in terms of Section 66a of the Commercial Code. The equity investment in Střední odborná škola Třineckých železáren with the acquisition cost of CZK 2,000 thousand that was reported in 'Equity investments – subsidiary (controlled entity)' and the equity investment in Kvalifikační a personální agentura, o.p.s. with the acquisition cost of CZK 34 thousand that was reported in 'Equity investments in associates' are currently reported in 'Other non-current securities and investments'.

Starting from 2013, the Company has not reported the fee for air pollution in the amount of CZK 7,003 thousand (for 2012 in the amount of CZK 39,286 thousand) in the profit and loss account as part of 'Other operating costs' but in the line 'Taxes and charges'.

Starting from 2012, the Company has newly determined the costs of certifying products up to CZK 60 thousand to be immaterial when their charge through expenses without accounting for a deferral does not impact the purpose of accrual accounting. Prior to 2012, the Company deferred the costs of the certification of products in all cases. Regularly repeating product certificates are not deferred.

### 3.17. SUBSIDIES

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

Subsidies to fund the acquisition of fixed assets reduce the cost of the related assets.

### 3.18. 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 at 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:

	31 Dec 2013	Impact of the transformation as of 1 Jan 2013	31 Dec 2012
Cash on hand	914	41	1 312
Current accounts	367 379	725	586 675
Short-term securities and equity investments	15 117	0	14 827
Provisions against short-term securities and equity investments	-15 048	0	-14 434
<b>Total current financial assets</b>	<b>368 362</b>	<b>766</b>	<b>588 380</b>
Cash and cash equivalents not included in the cash flow	-25 441	0	0
<b>Total cash and cash equivalents</b>	<b>342 921</b>	<b>766</b>	<b>588 380</b>

(CZK thousand)

The difference between cash and cash equivalents as of 31 December 2013 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. 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 2011	Additions	Disposals	Balance at 31 Dec 2012	Additions	Disposals	Balance at 31 Dec 2013
Research and development	4 553	0	0	4 553	0	0	4 553
Software	164 919	1 672	196	166 395	10 705	1	177 099
Valuable rights	28 954	342	0	29 296	23 658	1 697	51 257
Other intangible FA	41 658	619 768	586 388	75 038	0	75 038	0
Intangible FA under construction	0	7 507	2 014	5 493	36 653	34 363	7 783
<b>Total</b>	<b>240 084</b>	<b>629 289</b>	<b>588 598</b>	<b>280 775</b>	<b>71 016</b>	<b>111 099</b>	<b>240 692</b>

##### Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 31 Dec 2011	Additions	Disposals	Balance at 31 Dec 2012	Additions	Disposals	Balance at 31 Dec 2013
Research and development	2 959	911	0	3 870	683	0	4 553
Software	152 767	3 877	197	156 447	4 655	0	161 102
Valuable rights	27 899	329	53	28 175	2 768	1 698	29 245
<b>Total</b>	<b>183 625</b>	<b>5 117</b>	<b>250</b>	<b>188 492</b>	<b>8 106</b>	<b>1 698</b>	<b>194 900</b>

##### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2012	Balance at 31 Dec 2013
Research and development	683	0
Software	9 948	15 997
Valuable rights	1 121	22 012
Other intangible FA	75 038	0
Intangible FA under construction	5 493	7 783
<b>Total</b>	<b>92 283</b>	<b>45 792</b>

#### Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 8,106 thousand and CZK 5,117 thousand as of 31 December 2013 and 2012, respectively.

Other intangible fixed assets include allowances.

As of the financial statements date, the Company was allocated the emission allowances for 2013. For the year ended 31 December 2013, the Company recognised the use of emission allowances in the amount of CZK 381,730 thousand to the debit and credit of account 347 – Subsidies for emission allowances with a corresponding entry to the expense and income account. For 2013, the Company anticipates the allocation of 3,839,675 emission allowances that will fully cover the use of emission allowances in 2013. For this reason, the Company recognised no reserve for emission allowances.

During 2012, the Company obtained 2,832,985 allowances in the amount of CZK 633,010 thousand free of charge. As of the balance sheet date of 31 December 2012, the Company recognised used allowances of CZK 586,388 thousand and the revaluation of emission allowances of CZK 27,096 thousand. During 2012, the Company exchanged 426,628 EUA allowances for 511,954 CER allowances. The effect of the exchange to the CER allowances amounted to CZK 13,854 thousand.

#### Aggregate Balance of Low Value Intangible Assets not Reported on the Balance Sheet

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 25,504 thousand and CZK 24,957 thousand as of 31 December 2013 and 2012, respectively.

## 4.1.2. Tangible Fixed Assets

### Cost

(CZK thousand)

	Balance at 31 Dec 2011	Additions	Disposals	Balance at 31 Dec 2012	Impact of the transformation at 1 Jan 2013	Additions	Disposals	Balance at 31 Dec 2013
Land	350 117	0	168	349 949	0	1 776	250	351 475
Structures	6 922 925	164 085	14 908	7 072 102	15 621	258 792	13 292	7 333 223
Individual movable assets	20 288 598	309 823	150 896	20 447 525	161 074	1 056 893	215 880	21 449 612
Other tangible FA	1 499	0	0	1 499	0	0	0	1 499
Tangible FA under construction	242 821	691 095	473 241	460 675	2 360	1 403 305	1 316 704	549 636
Prepayments for tangible FA	10 523	62 687	16 935	56 275	1 856	308 998	118 264	248 865
<b>Total</b>	<b>27 816 483</b>	<b>1 227 690</b>	<b>656 148</b>	<b>28 388 025</b>	<b>180 911</b>	<b>3 029 764</b>	<b>1 664 390</b>	<b>29 934 310</b>

### Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 31 Dec 2011	Additions	Disposals	Balance at 31 Dec 2012	Impact of the transformation at 1 Jan 2013	Additions	Disposals	Balance at 31 Dec 2013
Structures	3 758 099	155 275	28 695	3 884 679	2 461	165 989	36 760	4 016 369
Individual movable assets	13 899 873	756 068	155 848	14 500 093	121 558	799 841	220 715	15 200 777
Tangible FA under construction	32 433	27 684	28 603	31 514	0	563	2 324	29 753
<b>Total</b>	<b>17 690 405</b>	<b>939 027</b>	<b>213 146</b>	<b>18 416 286</b>	<b>124 019</b>	<b>966 393</b>	<b>259 799</b>	<b>19 246 899</b>

### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2012	Impact of the transformation at 1 Jan 2013	Balance at 31 Dec 2013
Land	349 949	0	351 475
Structures	3 187 423	13 159	3 316 854
Individual movable assets	5 947 432	39 516	6 248 835
Other tangible FA	1 499	0	1 499
Tangible FA under construction	429 161	2 360	519 883
Prepayments for tangible FA	56 275	1 857	248 865
<b>Total</b>	<b>9 971 739</b>	<b>56 892</b>	<b>10 687 411</b>

Principal additions to tangible fixed assets for the year ended 31 December 2013 were as follows:

(CZK thousand)

Acquisition of a new technology – injection of powdered coal in furnaces nos.4 and 6	578 803
Extension of the equipment for the continuous casting of steel ZPO 1	60 391
Acquisition of a combined towbar	55 692

Principal additions to tangible fixed assets under construction for the year ended 31 December 2013 were as follows:

(CZK thousand)

Acquisition of new technology – peeling and refining line	188 655
Modernisation of the continuous wire rod mill	55 995
Acquisition of new technology – secondary removal of dust from the KKO hall	28 572

During the year ended 31 December 2013, assets with an aggregate net book value of CZK 9,185 thousand were removed from tangible fixed assets. Major disposals principally comprised the liquidation of technically obsolete equipment for measuring of sizes of hot rolled rails, liquidation of technically obsolete equipment for the indication of weights Circograph and partial liquidation of obsolete automated system for ZPO 2 management.

### Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 935,711 thousand and CZK 894,975 thousand as of 31 December 2013 and 2012, respectively.

## Aggregate Balance of Low Value Tangible Assets not Reported on the Balance Sheet

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 466,778 thousand and CZK 465,221 thousand as of 31 December 2013 and 2012, respectively.

### 4.1.3. Assets Held under Operating Lease Agreements

In the years ended 31 December 2013 and 2012, the Company made lease payments of CZK 31,874 thousand and CZK 33,538 thousand, respectively.

### 4.1.4. Pledged Fixed Assets

#### 31 December 2013

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	570 957	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc- Prague branch and CITIBANK Europe plc
Land	40 732	
Tangible FA	749 541	Loan from Česká spořitelna, a.s.
Land	26 630	
Tangible FA	482 337	Loan from Česká spořitelna, a.s.
Tangible FA	199 503	Loan from Československá obchodní banka, a.s.
Land	10 640	
Land	699	Loan from UniCredit bank
<b>Total</b>	<b>2 081 039</b>	

#### 31 December 2012

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	605 624	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc- Prague branch and CITIBANK Europe plc
Land	40 732	
Tangible FA	569 757	Loan from Česká spořitelna, a.s.
Tangible FA	280 787	Loan from CITIBANK Europe plc
Tangible FA	202 371	Loan from Československá obchodní banka, a.s.
Land	10 640	
<b>Total</b>	<b>1 709 911</b>	

## 4.2. NON-CURRENT FINANCIAL ASSETS

### Cost

(CZK thousand)

	Balance at 31 Dec 2011	Additions	Disposals	Balance at 31 Dec 2012
Equity investments in subsidiaries	5 019 688	1 590 406	0	6 610 094
Equity investments in associates	125 693	0	2 510	123 183
Other non-current securities and equity investments	100	0	100	0
Other non-current financial assets	19 350	0	19 350	0
Acquired non-current financial assets	0	1 589 657	1 589 657	0
<b>Total</b>	<b>5 164 831</b>	<b>3 180 063</b>	<b>1 611 617</b>	<b>6 733 277</b>

(CZK thousand)

	Impact of the transformati- on at 1 Jan 2013	Additions	Disposals	Revaluation	Balance at 31 Dec 2013
Equity investments in subsidiaries	-115 967	2 769 108	7 392	0	9 255 843
Equity investments in associates	0	26	72 214	0	50 995
Other non-current securities and equity investments	0	2 134	100	-34	2 000
Acquired non-current financial assets	0	2 696 954	2 696 954	0	0
<b>Total</b>	<b>-115 967</b>	<b>5 468 222</b>	<b>2 776 660</b>	<b>-34</b>	<b>9 308 838</b>

Major additions to non-current financial assets as of 31 December 2013 are as follows:

- Increase in the equity investment in Sochorová válcovna TŽ, a.s., from 18% to 100%;
- Acquisition of the 100% equity investment in Hanácké železářny a pérovny, a.s.;
- Increase in the equity investment in MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o. from 89.11% to 90.01%; and
- Increase in the equity investment in Hutnictví železa, a.s. from 38.71% to 38.78%.

Given the change in the reporting of equity investments in companies that are not part of the business group in terms of Section 66a of the Commercial Code 513/1991 Coll., the equity investments in Střední odborná škola Tříneckých železáren and Kvalifikační a personální agentura, o.p.s. are reported in 'Other non-current securities and investments'.

Major additions to non-current financial assets in the year ended 31 December 2012 included:

- Increase in the equity investment in TŘINECKÁ PROJEKCE, a.s., from 34.09% to 83.18%;
- Acquisition of the 100% equity investment in ŽDB DRÁTOVNA a.s.; and
- Acquisition of the 68% equity investment in DALSELV DESIGN a.s.

#### 4.2.1. Shares and Equity Investments in Subsidiaries

31 December 2013

(CZK thousand)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Financial income
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 437 053	63 096	0	0
Slévárny Třinec, a.s., Třinec-Staré Město	550 000	514	100.00	543 934	2 202	0	0
„D&D“ Drótaru Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100.00	75 634	10 000	-393 960	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	519 899	86 693	0	0
ŽDB DRÁTOVNA a.s. Bohumín-Pudlov	2 000	2	100.00	1 469 493	142 576	0	0
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	633 937	40 457	0	80 000
Třínecké gastroslužby, s.r.o., Třinec-Staré Město	25 800	0	100.00	44 057	2 575	0	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	117	100.00	1 240	-161	-17 825	0
„METALURGIA“ Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100.00	238 441	8 573	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	36 298	1 863	0	0
Moravia Security, a.s., Třinec-Konšská	12 000	12	100.00	17 770	1 665	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	269 189	22 433	0	12 000
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 100	219	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	48 519	1 727	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	50 494	484	-5 315	0
TRISIA, a.s., Třinec	9 900	990	66.00	59 544	-1 466	0	0
Řetězárna a.s., Česká Ves	61 200	515	51.00	509 263	22 954	0	12 750
REFRASIL, s.r.o., Třinec-Konšská	25 500	0	51.00	225 562	22 674	0	7 650
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	2 745	183	83.18	13 637	2 423	0	0
DALSELV DESIGN a.s. Ostrava-Mariánské Hory	1 360	12	68.00	1 264	-13 633	-25 670	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	401 000	518	100.00	2 524 256	248 099	0	0
Hanácké železářny a pérovny, a.s., Prostějov	130 000	130 000	100.00	439 403	39 101	0	0
<b>TOTAL</b>						<b>-442 770</b>	<b>112 400</b>

Note: *italics - preliminary results as of 31 December 2013*



## 31 December 2012

(CZK thousand)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Financial revenue
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 680 000	276	100,00	2 373 958	35 003	0	0
Strojírny Třinec, a.s., Třinec-Staré Město	565 000	600	100,00	664 906	48 833	0	7 000
Slévárny Třinec, a.s., Třinec-Staré Město	550 000	514	100,00	541 733	1 443	0	0
„D&D“ Dróťárů Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100,00	60 619	21 650	-160 415	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100,00	433 206	5 301	0	0
ŽDB DRÁTOVNA a.s. Bohumín-Pudlov	2 000	2	100,00	1 327 251	76 325	0	0
D 5, akciová společnost, Třinec, Třinec-Staré Město	60 000	4 661	100,00	151 108	19 973	0	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 800	0	100,00	41 482	1 788	0	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	117	100,00	1 401	-108	-17 606	0
„METALURGIJA“ Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100,00	214 418	13 649	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100,00	34 435	1 460	0	0
Moravia Security, a.s., Třinec-Konská	12 000	12	100,00	16 105	1 371	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100,00	258 756	15 668	0	12 000
Střední odborná škola Třineckých železáren, Třinec-Kanada *	2 000	0	100,00	79 710	-3 492	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100,00	18 100	230	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	45 738	0	89,11	47 256	2 041	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88,00	46 714	326	0	0
TRISIA, a.s., Třinec	9 900	990	66,00	58 885	-1 650	0	0
Řetězárna a.s., Česká Ves	61 200	515	51,00	511 326	58 507	0	7 650
REFRASIL, s.r.o., Třinec-Konská	25 500	0	51,00	217 887	29 676	0	10 200
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	2 745	183	83,18	11 214	476	0	0
DALSELV DESIGN a.s. Ostrava-Mariánské Hory	1 360	12	68,00	20 001	-9 559	0	0
<b>TOTAL</b>						<b>-178 021</b>	<b>36 850</b>

Note: \* TŘINECKÉ ŽELEZÁRNY, a. s., is the founder in accordance with Act No. 561/2004 Coll., Education Act

## 4.2.2. Shares and Equity Investments in Associates

## 31 December 2013

(CZK thousand)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	40,00	385 972	56 990	0	0
Hutnictví železa, a.s., Prague 10	16 221	27 036	38,78	40 400	-34	-18 047	0
HRAT, s.r.o., Třinec*	100	0	23,26	1 317	0	0	0
<b>Total</b>						<b>-18 047</b>	<b>0</b>

Note: *italics* - preliminary results of operation as of 31 December 2013

\* preliminary results for the period from 1 April 2013 – 31 March 2014

**31 December 2012**

(CZK thousand)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	40.00	328 982	64 231	0	0
Hutnictví železa, a.s., Praha 10	16 191	26 985	38.71	41 640	-2 885	-17 871	0
Kvalifikační a personální agentura, o.p.s., Třinec- Staré Město	34	0	33.33	6 521	460	-34	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 164	-671	0	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	72 180	180	18.00	2 276 157	255 115	0	0
<b>Total</b>						<b>-17 905</b>	<b>0</b>

Note: \*results for the period from 1 April 2012 – 31 March 2013

**4.2.3. Other Non-Current Securities and Equity Investments****31 December 2013**

(CZK thousand)

Name of the entity	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Valuation difference	Fair value	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Prague 1 – Nové Město	20	-	2,08	1 144	318	-20	0	0
Kvalifikační a personální agentura, o.p.s., Třinec- Staré Město	34	0	33,33	11 667	36 033	-34	0	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100,00	81 729	54 305	0	2 000	0
<b>Total</b>						<b>-54</b>	<b>2 000</b>	<b>0</b>

Note: \* *italics* – preliminary results of operations as of 31 December 2013

**31 December 2012**

(CZK thousand)

Name of the entity	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Valuation difference	Fair value	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Prague 1 – Nové Město	20	-	2,08	826	-263	-20	0	0
<b>Total</b>						<b>-20</b>	<b>0</b>	<b>0</b>

**4.2.4. Non-Current Financial Assets Pledged as Collateral**

As of 31 December 2013 and 2012, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 533,000 thousand and CZK 2,000 thousand, respectively.

**4.3. INVENTORY**

As a result of the transformation, the inventory was increased in the net amount of CZK 91,879 thousand as of 1 January 2013.

**4.4. RECEIVABLES****4.4.1. Short-Term Receivables**

As of 31 December 2013 and 2012, the Company records short-term trade receivables past their due dates in the gross amount of CZK 29,695 thousand and CZK 125,587 thousand (net CZK 1,550 thousand and CZK 94,162 thousand), respectively.

## Other Short-Term Receivables

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

State – tax receivables predominantly include the value added tax and prepayments for fees according to the Air Protection Act.

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

Estimated receivables principally include amounts due from anticipated insurance proceeds.

Receivables typically mature within 30 days.

## 4.4.2. Intercompany and Other than Intercompany Receivables

### Short-Term Receivables

(CZK thousand)

Company name	Balance at 31 Dec 2013	Balance at 31 Dec 2012
● Trade receivables		
Doprava TŽ, a.s.	1 722	1 401
ENERGETIKA TŘINEC, a.s.	22 813	378
Šroubárna Kyjov, spol. s r.o.	797	867
Strojírny a stavby Třinec, a.s.	3 237	3 177
MORAVIA STEEL a.s.	2 288 707	2 120 667
REFRASIL, s.r.o.	578	565
Řetězárna, a.s.	103	7
Slévárny Třinec, a.s.	38 667	39 880
TRIALFA, s.r.o.	4 266	2 500
TŘINECKÁ PROJEKCE, a.s.	270	68
Třinecké gastroslužby, s.r.o.	555	775
Strojírny Třinec, a.s.	0	9 493
Sochorová válcovna TŽ, a.s.	389 157	366 869
Steel Consortium Partners, a.s.	22	1
Kvalifikační a personální agentura, o.p.s.	3	3
TRISIA, a.s.	8	7
VESUVIUS ČESKÁ REPUBLIKA, a.s.	659	646
Beskydská golfová, a.s.	40	36
VÚHŽ a.s.	297	1 478
Moravia Security, a.s.	65	104
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	15	22
Střední odborná škola Třineckých železáren*	177	176
Moravskoslezský kovošrot, a.s., „METALURGIA“ Spółka Akcyjna	773	223
Hanácké železářny a pérovny, a.s.	640	636
M Steel Projects a.s.	485	453
HRAT, s.r.o.	12	33
FINITRADING, a.s.	0	3
Kovárna „Viva“	0	2
„NEOMET“ Sp. z o.o.	0	11
„NEOMET“ Sp. z o.o.	43	0
ŽDB DRÁTOVNA a.s.	3 195	7 247
<b>Total</b>	<b>2 757 306</b>	<b>2 557 728</b>
● Receivables – controlled or controlling entity		
„D&D“ Drótáru Zrt.	273 383	285 951
„NEOMET“ Sp. z o.o.	36 065	0
<b>Total</b>	<b>309 448</b>	<b>285 951</b>
● Other receivables		
SILESIALSLAG, a.s. “in liquidation”**	0	1 255
<b>Total</b>	<b>0</b>	<b>1 255</b>
<b>Total short-term intercompany receivables</b>	<b>3 066 754</b>	<b>2 844 934</b>
Other than intercompany receivables	268 925	251 988
<b>Total short-term receivables</b>	<b>3 335 679</b>	<b>3 096 922</b>

\* TŘINECKÉ ŽELEZÁŘNY, a. s., is the founder in accordance with Act No. 561/2004 Coll., Education Act

\*\* SILESIALSLAG, a.s. “in liquidation”, entered liquidation as of 1 January 2012; the company’s extraordinary General Meeting approved the distribution of the liquidation balance on 17 December 2012 and the company ceased to exist after the removal from the Register of Companies after the completion of the liquidation on 4 December 2013

As of the balance sheet date, the Company records no long-term payables past their due dates by more than 5 years.



#### 4.5. SHAREHOLDERS' EQUITY

Allocations to the statutory reserve fund are made at 5% of net profits until the fund reaches 20% of the Company's share capital, that is, the level required by law.

Gains and losses from revaluation comprise the gain or loss from the revaluation of available-for-sale securities, net of the deferred tax liability.

As a result of the transformation, the equity was increased by CZK 26,567 thousand.

##### 4.5.1. Share Capital

The Company's share capital is composed of 8,109,863 ordinary registered shares in the certificate form, fully subscribed and paid up, with a nominal value of CZK 1 thousand per share.

#### 4.6. RESERVES

Other reserves principally consist of reserves for the scrapping of equipment, employee bonuses, and losses incurred in connection with concluded long-term contracts.

#### 4.7. PAYABLES

##### 4.7.1. Long-Term Payables

Long-term trade payables as of 31 December 2013 include payables arising from retentions from suppliers under concluded contracts.

The Company records no long-term trade payables with maturities exceeding 5 years as of 31 December 2013 (2012: CZK 620 thousand).

##### 4.7.2. Deferred Income Tax

The deferred tax liability is analysed as follows:

(CZK thousand)

Deferred tax arising from	Balance at 31 Dec 2013	Impact of the transformation as of 1 Jan 2013	Balance at 31 Dec 2012
Difference between tax and accounting carrying value of fixed assets	-4 841 431	-41 711	-4 584 385
Revaluation of available-for-sale securities	54	0	20
Accounting reserves	130 920	224	112 960
Provisions	487 319	2 638	521 062
Expenses that are tax deductible in the following periods	108 268	461	89 557
Utilisable tax losses carried forward	138 128	0	1 428 591
<b>Total</b>	<b>-3 976 742</b>	<b>-38 388</b>	<b>-2 432 195</b>
Tax rate (in %)	19	19	19
<b>Deferred tax liability</b>	<b>-755 581</b>	<b>-7 294</b>	<b>-462 117</b>

(CZK thousand)

Analysis of movements	
<b>31 Dec 2012</b>	<b>-462 117</b>
<b>Impact of the transformation as of 1 Jan 2013</b>	<b>-7 294</b>
Current changes charged against the profit and loss account	-286 177
Current changes charged against equity	6
Other	1
<b>31 Dec 2013</b>	<b>-755 581</b>

##### 4.7.3. Income Tax on Ordinary and Extraordinary Activities

(CZK thousand)

	Balance at 31 Dec 2013	Balance at 31 Dec 2012
Profit before tax	1 386 515	1 003 293
Tax at the domestic income tax rate of 19% (19%)	263 438	190 626
Tax effect of expenses that are not deductible in determining taxable profit	41 020	19 208
<b>Total income tax on ordinary and extraordinary activities</b>	<b>304 458</b>	<b>209 834</b>
<b>- recognised in deferred tax and income tax payable</b>		

#### 4.7.4. Short-Term Payables

As of 31 December 2013 and 2012, the Company records short-term trade payables past their due dates of CZK 280,924 thousand and CZK 14,212 thousand, respectively.

Payables typically fall due for settlement within 30 days.

#### Other Payables

As of 31 December 2013, payables arising from social security and the state employment policy contribution amounted to CZK 57,092 thousand (2012: CZK 53,788 thousand), health insurance payables totalled CZK 25,204 thousand (2012: CZK 23,273 thousand), and pension insurance payables totalled CZK 2,567 thousand (2012: CZK 2,580 thousand). The Company has no past due social security or health insurance payables.

The category "State – tax payables and subsidies" principally comprises environmental subsidies and payable arising from personal and corporate income taxes.

Estimated payables mainly consist an estimated payable for outstanding vacation days and annual bonuses including insurance and estimated payable arising from unbilled inventory including services.

Other payables primarily comprise payables arising from deductions from employee salaries.

#### 4.7.5. Intercompany Payables

##### Short-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2013	Balance at 31 Dec 2012
● Trade payables		
Doprava TŽ, a.s.	12 047	10 901
ENERGETIKA TŘINEC, a.s.	563 235	358 000
Hutnictví železa, a.s.	593	613
Šroubárna Kyjov, spol. s r.o.	2 182	1 072
MORAVIA STEEL a.s.	1 503 831	1 376 220
REFRASIL, s.r.o.	21 204	28 657
Řetězárna, a.s.	620	630
Slévárny Třinec, a.s.	11 349	0
TRIALFA, s.r.o.	14 717	14 152
TRISIA, a.s.	788	433
TŘINECKÁ PROJEKCE, a.s.	2 847	3 174
Třinecké gastroslužby, s.r.o.	10 698	5 264
Strojírny Třinec, a.s.	0	89 916
Sochorová válcovna TŽ, a.s.	9 608	12 687
VESUVIUS ČESKÁ REPUBLIKA, a.s.	10 945	8 689
Beskydská golfová, a.s.	3 025	2 400
Strojírny a stavby Třinec, a.s.	227 790	74 297
VÚHŽ a.s.	270	887
Moravia Security, a.s.	6 218	5 462
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	1 467	102
Moravskoslezský kovošrot, a.s.	147 649	158 017
Střední odborná škola Třineckých železáren*	2 823	2 391
„METALURGIA“ Spółka Akcyjna	300	492
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	111	104
Kvalifikační a personální agentura, o.p.s.	10	10
HRAT, s.r.o.	36	36
ŽDB DRÁTOVNA a.s.	435	13
D&D Drotáru zrt.	2 189	2 359
DALSELV DESIGN a.s.	7 612	10 091
„NEOMET“ Sp. z o.o.	20 724	0
<b>Total short-term intercompany payables</b>	<b>2 585 323</b>	<b>2 167 069</b>
Other than intercompany payables	1 791 062	1 580 603
<b>Total short-term payables</b>	<b>4 376 385</b>	<b>3 747 672</b>

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

## Long-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2013	Balance at 31 Dec 2012
<b>Long-term payables</b>		
• Trade payables		
Strojírny Třinec, a.s.	0	502
Strojírny a stavby Třinec, a.s.	1 523	498
DALSELV DESIGN a.s.	0	2 469
Moravia Security, a.s.	11	0
<b>Total long-term intercompany payables</b>	<b>1 534</b>	<b>3 469</b>
Other than intercompany payables	780 873	480 434
<b>Total long-term payables</b>	<b>782 407</b>	<b>483 903</b>

Other than intercompany long-term payables as of 31 December 2013 and 2012 primarily include a deferred tax liability of CZK 755,581 thousand and CZK 462,117 thousand, respectively.

## 4.7.6. Bank Loans

### Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2013	Balance at 31 Dec 2012	Interest rate % p.a.	Form of collateral at 31 Dec 2013
Investment	CZK/EUR	0	91 560	3M PRIBOR/ EURIBOR + 0.99	Movable assets VH, receivables from insurance, blank promissory note
Investment	CZK	500 000	700 000	3M PRIBOR + 1,5 (margin according to Senior Debt/EBITDA)	Movable and immovable assets KB12, receivables from insurance, promissory note
Investment	EUR	0	10 292	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	197 222	0	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	431 560	684 200	3M PRIBOR + 1.6/ FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment	CZK	240 000	0	3M PRIBOR + 1.4	Securities, promissory note
Investment	CZK	947 368	0	3M PRIBOR + 1.4	Immovable and movable assets, securities, insurance receivables, promissory note
<b>Total</b>		<b>2 316 150</b>	<b>1 486 052</b>		

### Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2013	Balance at 31 Dec 2012	Interest rate % p.a.	Form of collateral at 31 Dec 2013
Overdraft	CZK	17 664	44 847	1T PRIBOR + 1.00	Blank promissory note
Overdraft	CZK	221 051	93 732	1D PRIBOR + 0.95	Blank promissory note
Overdraft	CZK	33 159	60 632	1T PRIBOR + 0.75	Blank promissory note
Overdraft	CZK	174 686	176 412	O/N PRIBOR + 0.9	Blank promissory note
Overdraft	CZK	150 586	0	O/N PRIBOR + 1.0	Blank promissory note
Investment	CZK / EUR	96 879	73 248	3M PRIBOR/ EURIBOR + 0.99	Movable assets, receivable from insurance, blank promissory note
Investment	CZK	200 000	200 000	3M PRIBOR + 1,5 (margin according to Senior Debt/EBITDA)	Movable and immovable assets KB12, receivables from insurance, promissory note
Investment	EUR	11 228	53 073	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	30 299	0	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	0	11 111	FIXED 4.65	Immovable and movable assets, guarantee statement of MS, blank promissory note
Investment	CZK	0	5 000	3M PRIBOR+ 0.79	No collateral
Investment	CZK	252 640	252 640	3M PRIBOR + 1.6/ FIXED 2.46	Movable assets, securities, blank promissory note
Investment	CZK	60 000	0	3M PRIBOR + 1.4	Securities, promissory note
Investment	CZK	252 632	0	3M PRIBOR + 1.4	Immovable and movable assets, securities, insurance receivables, promissory note
<b>Total</b>		<b>1 500 824</b>	<b>970 695</b>		

Repayments of long-term loans exceeding 5 years amount to CZK 76,024 thousand.

#### 4.8. DETAILS OF INCOME

(CZK thousand)

	31 Dec 2013	31 Dec 2012
Proceeds of the sale of goods	2 402	10 451
Proceeds of the sale of products and services, of which:	36 699 065	37 100 709
– Products	36 274 885	36 685 371
– Services	424 180	415 338
Other*	409 259	436 322
<b>Total sales of goods and products</b>	<b>37 110 726</b>	<b>37 547 482</b>

\* Under the item of “Other” the Company reports the change in internally produced inventory and own work capitalised.

#### 4.9. SUBSIDIES

Other subsidies for operating purposes of CZK 6,111 thousand utilised for the year ended 31 December 2013 (2012: CZK 9,050 thousand) include subsidies for research and education.

In 2013 and 2012, the Company drew a public subsidy for the “Training Programme for Employees of Members of the INDUSTRY UNION OF FERROUS METALLURGY” of CZK 52 thousand and CZK 828 thousand, respectively.

In 2013, the Company used a subsidy for the acquisition of environmental investments of CZK 142,747 thousand.

#### 4.10. OTHER OPERATING EXPENSES AND INCOME

Expenses for advisory, consulting and audit services as of 31 December 2013 and 2012 amounted to CZK 34,077 thousand and CZK 34,692 thousand, respectively.

As of 31 December 2013, other operating income of the Company mainly involve the subsidy related to the use of allowances of CZK 381,730 thousand; as of 31 December 2012, other operating income involved the subsidy related to the use of allowances, including income from the sale of emission allowances, of CZK 655,661 thousand.

Other financial income as of 31 December 2013 and 2012 predominantly included foreign exchange rate gains of CZK 32,155 thousand and CZK 32,402 thousand, respectively.

As of 31 December 2013, other operating expenses primarily reflect the use of allowances of CZK 381,730 thousand; as of 31 December 2012, other operating expenses reflected the use of allowances, including the costs of the sale of emission allowances, of CZK 655,661 thousand.

Other financial expenses as of 31 December 2013 and 2012 predominantly include foreign exchange rate losses of CZK 45,101 thousand and CZK 23,328 thousand, respectively.

#### 4.11. RESEARCH AND DEVELOPMENT COSTS

(CZK thousand)

	31 Dec 2013	31 Dec 2012
Research and development costs (net of subsidies)	41 217	32 302



## 4.12. RELATED PARTY TRANSACTIONS

### 4.12.1. Income Generated with Related Parties

The following table shows the income generated with related parties for the year ended 31 December 2013:

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	104	24 154	4 230	44	0	28 532
ENERGETIKA TŘINEC, a.s.	Controlled entity	256	383 320	40 312	1 229	0	425 117
Kvalifikační a personální agentura, o.p.s.	Affiliate	0	0	322	0	0	322
MORAVIA STEEL a.s.	Controlling entity	236	30 593 502	168 852	3 078	0	30 765 668
REFRASIL, s.r.o.	Controlled entity	14	280	4 750	877	0	5 921
Řetězárna, a.s.	Controlled entity	0	0	2 062	20	0	2 082
Slévárny Třinec, a.s.	Controlled entity	627	245 993	18 288	37 704	0	302 612
TRIALFA, s.r.o.	Controlled entity	0	26 198	4 232	1 089	0	31 519
TRISIA, a.s.	Controlled entity	0	0	85	19	0	104
TŘINECKÁ PROJEKCE, a.s.	Associate	0	0	835	42	0	877
Třinecké gastroslužby, s.r.o.	Controlled entity	2	0	4 565	683	0	5 250
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	7 611	194	0	7 805
Sochorová válcovna TŽ, a.s.	Controlled entity	59	4 159 095	9 323	1	0	4 168 478
Beskydská golfová, a.s.	Fellow subsidiary	0	0	136	0	0	136
Steel Consortium Partners, a.s.	Controlled entity	0	0	69	0	0	69
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	0	3 706	8	0	3 714
Moravia Security, a.s.	Controlled entity	0	0	1 330	13	0	1 343
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	59	285	1	0	345
Strojírny a stavby Třinec, a.s.	Controlled entity	413	72 954	38 318	23 651	0	135 336
VÚHŽ a.s.	Controlled entity	563	2 273	1 215	1 382	0	5 433
Střední odborná škola Třineckých železáren*	Affiliate	0	206	1 772	73	0	2 051
Hanácké železáreny a pérovny, a.s.	Fellow subsidiary	0	0	2 783	0	0	2 783
HRAT, s.r.o.	Associate	0	0	4	0	0	4
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	0	2 537	4	0	2 541
M Steel Projects a.s.	Fellow subsidiary	0	0	78	0	0	78
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 225	3 942	0	5 167
„D&D“ Drótáru Zrt.	Controlled entity	0	0	0	28	6 038	6 066
ŽDB DRÁTOVNA a.s.	Controlled entity	85	0	9 634	86	0	9 805
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	0	99	0	61	160
Kovárna VIVA a.s.	Fellow subsidiary	0	0	5	0	0	5
<b>Total</b>		<b>2 359</b>	<b>35 508 034</b>	<b>328 663</b>	<b>74 168</b>	<b>6 099</b>	<b>35 919 323</b>

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

The following table shows the income generated with related parties for the year ended 31 December 2012:

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	64	29 023	4 152	44	0	33 283
ENERGETIKA TŘINEC, a.s.	Controlled entity	679	362 290	38 711	1 184	0	402 864
Kvalifikační a personální agentura, o.p.s.	Affiliate	0	0	253	0	0	253
MORAVIA STEEL a.s.	Controlling entity	175	30 672 526	167 490	774	0	30 840 965
REFRASIL, s.r.o.	Controlled entity	13	2	4 723	996	0	5 734
Řetězárna, a.s.	Controlled entity	13	0	2 312	17	0	2 342
Slévárny Třinec, a.s.	Controlled entity	435	329 280	18 799	36 515	0	385 029
TRIALFA, s.r.o.	Controlled entity	1	32 143	4 245	2 256	0	38 645
TRISIA, a.s.	Controlled entity	0	0	84	0	0	84
SILESIASLAG, a.s. „v likvidaci“***	Controlled entity	0	0	21	0	0	21
TŘINECKÁ PROJEKCE, a.s.	Associate	0	0	642	4	0	646
Třinecké gastroslužby, s.r.o.	Controlled entity	7	0	4 248	560	0	4 815
Strojírny Třinec, a.s.	Controlled entity	1 063	349 032	27 133	12 452	0	389 680
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	7 812	81	0	7 893
Sochorová válcovna TŽ, a.s.	Controlled entity	435	4 428 649	8 906	368	0	4 438 358
Beskydská golfová, a.s.	Fellow subsidiary	0	0	128	0	0	128
Steel Consortium Partners, a.s.	Controlled entity	0	0	67	0	0	67
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	4 493	0	16	0	4 509
Moravia Security, a.s.	Controlled entity	0	0	1 275	36	0	1 311
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	455	354	0	809
D 5, akciová společnost, Třinec	Controlled entity	23	999	13 630	8 823	0	23 475
VÚHŽ a.s.	Controlled entity	1 380	0	1 021	1 074	0	3 475
Střední odborná škola Třineckých železáren*	Affiliate	2	150	1 489	44	0	1 685
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	0	2 355	0	0	2 355
FINITRADING, a.s.	Controlling entity	0	0	9	10	0	19
HRAT, s.r.o.	Associate	0	0	23	0	0	23
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	0	2 500	2	0	2 502
M Steel Projects a.s.	Fellow subsidiary	0	0	111	0	0	111
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 607	3 868	0	5 475
„D&D“ Drótaru Zrt.	Controlled entity	0	0	0	35	8 793	8 828
ŽDB DRÁTOVNA a.s.**	Controlled entity	6 112	0	480	275	0	6 867
Kovárna VIVA a.s.	Fellow subsidiary	0	0	9	0	0	9
<b>Total</b>		<b>10 402</b>	<b>36 208 587</b>	<b>314 690</b>	<b>69 788</b>	<b>8 793</b>	<b>36 612 260</b>

\* TŘINECKÉ ŽELEZÁŘNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

#### 4.12.2. Purchases

The following table shows purchases from related parties in the year ended 31 December 2013:

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory including energy	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	28 386	57 862	0	86 248
ENERGETIKA TŘINEC, a.s.	Controlled entity	397	2 129 909	103 825	0	2 234 131
Kvalifikační a personální agentura, o.p.s.	Affiliate	0	0	100	0	100
MORAVIA STEEL a.s.	Controlling entity	2 696 528	19 710 835	264 667	27 952	22 699 982
REFRASIL, s.r.o.	Controlled entity	0	3 490	155 557	0	159 047
Řetězárna, a.s.	Controlled entity	0	6 890	0	0	6 890
Slévárny Třinec, a.s.	Controlled entity	3 369	83 986	665	0	88 020
TRIALFA, s.r.o.	Controlled entity	0	7 326	20 244	50 977	78 547
TRISIA, a.s.	Controlled entity	0	0	9 638	122	9 760
TŘINECKÁ PROJEKCE, a.s.	Associate	27 992	0	4 202	0	32 194
Třinecké gastroslužby, s.r.o.	Controlled entity	0	11 737	1 379	57 959	71 075
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	175	81 530	0	81 705
Sochorová válcovna TŽ, a.s.	Controlled entity	0	105 085	37 264	0	142 349
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 374	0	5 374
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	14 605	0	0	14 605
Moravia Security, a.s.	Controlled entity	770	33	54 438	0	55 241
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	134	8 528	0	8 662
Strojírny a stavby Třinec, a.s.	Controlled entity	226 595	351 099	506 834	401	1 084 929
VÚHŽ a.s.	Controlled entity	0	2 726	2 432	0	5 158
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 178 204	0	0	1 178 204
Střední odborná škola Třineckých železáren*	Affiliate	0	274	9 968	34	10 276
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 138	0	1 138
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	630	0	0	630
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótaru Zrt.	Controlled entity	0	6 443	0	0	6 443
Hutnictví železa, a.s.	Associate	0	0	5 707	110	5 817
ŽDB DRÁTOVNA a.s.	Controlled entity	0	2 217	2 808	0	5 025
DALSELV DESIGN a.s.	Controlled entity	7 080	51	8 289	0	15 420
Hanácké železáreny a pérovny, a.s.	Fellow subsidiary	0	64	0	0	64
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	468 804	0	0	468 804
<b>Total</b>		<b>2 962 731</b>	<b>24 113 103</b>	<b>1 342 569</b>	<b>137 555</b>	<b>28 555 958</b>

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

The following table shows purchases from related parties in the year ended 31 December 2012:

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory including energy	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	26 293	54 272	0	80 565
ENERGETIKA TŘINEC, a.s.	Controlled entity	468	2 036 997	103 653	0	2 141 118
Kvalifikační a personální agentura, o.p.s.	Affiliate	0	0	100	0	100
MORAVIA STEEL a.s.	Controlling entity	367	20 042 998	230 485	40 956	20 314 806
REFRASIL, s.r.o.	Controlled entity	0	79 235	160 281	36	239 552
Řetězárna, a.s.	Controlled entity	0	8 556	0	0	8 556
Slévárny Třinec, a.s.	Controlled entity	15 840	96 602	904	0	113 346
TRIALFA, s.r.o.	Controlled entity	0	11 513	19 425	51 061	81 999
TRISIA, a.s.	Controlled entity	0	8 720	16	0	8 736
TŘINECKÁ PROJEKCE, a.s.	Associate	13 434	0	6 771	0	20 205
Třinecké gastroslužby, s.r.o.	Controlled entity	0	11 286	1 572	53 818	66 676
Strojírny Třinec, a.s.	Controlled entity	53 483	379 571	201 765	702	635 521
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	451	78 534	0	78 985
Sochorová válcovna TŽ, a.s.	Controlled entity	0	104 198	40 991	0	145 189
Beskydská golfová, a.s.	Fellow subsidiary	0	0	4 368	0	4 368
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	16 379	0	0	16 379
Moravia Security, a.s.	Controlled entity	477	0	53 545	69	54 091
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	8 353	0	0	8 353
D 5, akciová společnost, Třinec	Controlled entity	72 780	24 196	316 475	903	414 354
VÚHŽ a.s.	Controlled entity	2 784	2 651	2 645	0	8 080
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 236 800	0	0	1 236 800
Střední odborná škola Třineckých železáren*	Affiliate	0	354	9 128	42	9 524
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 218	0	1 218
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	1 057	3 356	0	4 413
HRAT, s.r.o.	Associate	0	0	180	0	180
„D&D“ Drótáru Zrt.	Controlled entity	0	13 501	0	0	13 501
Hutnictví železa, a.s.	Associate	0	0	5 638	101	5 739
Barrandov Televizní Studio a.s.	Fellow subsidiary	200	0	0	0	200
ŽDB DRÁTOVNA a.s.**	Controlled entity	0	1 092	0	0	1 092
DALSELV DESIGN a.s.***	Controlled entity	5 262	0	11	0	5 273
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	63	0	63
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	0	64	0	64
<b>Total</b>		<b>165 095</b>	<b>24 110 803</b>	<b>1 295 460</b>	<b>147 688</b>	<b>25 719 046</b>

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act



## 5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The average number of the Company's employees as of 31 December 2013 was 6,099 of which 5 managers. The average number of the Company's employees as of 31 December 2012 was 5,962, of which 5 managers.

The staff costs of employees in the year ended 31 December 2013 amounted 2,963,654 thousand and staff costs of managers amounted to CZK 53,077 thousand. The staff costs of employees in the year ended 31 December 2012 amounted 2,809,452 thousand and staff costs of managers amounted to CZK 53,703 thousand, of which remuneration to members of the Board of Directors for the year ended 31 December 2013 amounted to CZK 2,880 thousand. The remuneration to members of the Board of Directors for the year ended 31 December 2012 amounted to CZK 3,218 thousand. The remuneration to members of the Supervisory Board and members of the Audit Committee in the years ended 31 December 2013 and 2012 amounted to CZK 6,342 thousand and 6,192 thousand and CZK 180 thousand and CZK 180 thousand, respectively.

The number of employees is based on the average recalculated headcount. The category of management includes the Chief Executive Officer and divisional directors.

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

#### 31 December 2013

(CZK thousand)

	Board of Directors	Supervisory Board	Management	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 081	211	0	0
Liability insurance	159	287	0	32

#### 31 December 2012

(CZK thousand)

	Board of Directors	Supervisory Board	Management	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 014	117	0	0
Liability insurance	182	295	0	34

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

### Provided Guarantees

#### 31 December 2013

Type of commitment	Total amount	Balance at 31 Dec 2013
<b>Guarantees</b>		
- to other entities	USD 576 thousand	CZK 11,465 thousand
	EUR 2,239 thousand	CZK 61,404 thousand
	CZK 4,000 thousand	CZK 4,000 thousand

#### 31 December 2012

Type of commitment	Total amount	Balance at 31 Dec 2012
<b>Guarantees</b>		
- to other entities	USD 576 thousand	CZK 10,981 thousand
	EUR 2,138 thousand	CZK 53,774 thousand
	CZK 5,000 thousand	CZK 5,000 thousand

## Legal Disputes

The dispute of the EcoNet CENTRUM civic association for the allegedly unpaid dividends for 2006 in the amount of CZK 180,000 thousand together with accrued interest. The Regional Court in Hradec Králové stated in its resolution that it was not locally responsible for the case, referring the case to the Regional Court in Ostrava. The plaintiff appealed this resolution. The High Court in Prague rejected the plaintiff's appeal. The case was referred to the Regional Court in Ostrava as to the locally responsible court. The Regional Court in Ostrava rejected the claim in its resolution. The plaintiff filed an appeal against this resolution and the Regional Court upheld this appeal in its resolution. The proceedings in this matter are continuing, the proceedings have not yet been ordered. The Company considers the charge to completely lack merit.

The Company was contacted by the plaintiff with a proposal for terminating the dispute. Based on this proposal, the Company will negotiate with the plaintiff regarding the termination of the dispute

The petition of a shareholder, Marek Veselý, regarding the invalidity of the resolution passed at the Company's annual general meeting of shareholders held on 30 June 2010, was rejected by the Regional Court in Ostrava as lacking merit in its ruling no. 29Cm 142/2010-99 of 25 August 2011. The plaintiff appealed the ruling. The High Court in Olomouc confirmed the ruling of the Regional Court in Ostrava on the rejection of the petition by its ruling no. 8 Cmo 64/2012-169 of 3 April 2012. The plaintiff took an extraordinary remedial measure and made an appeal against the ruling of the High Court in Olomouc addressed to the Regional Court in Ostrava on 16 July 2012. According to the ejustice information system, the appeal was delivered to the Supreme Court through the Regional Court in Ostrava on 24 October 2012 under no. 29 Cdo 3284/2012 and no proceedings have been ordered in this matter for the time being. The Company considers the claim to completely lack merit.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association regarding the invalidity of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s. The Municipal Court in Brno refused this charge in its ruling as the charge was filed after the expiration of the statute of limitation. The plaintiff appealed the ruling. The Municipal Court in Brno referred this case to the Regional Court in Brno to make a decision on the plaintiff's appeal. The Regional Court in Brno confirmed the ruling of the Municipal Court in Brno on the rejection of the claim in its resolution dated 3 September 2013. The Company considers the charge to completely lack merit.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association against the Company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the Company on 14 December 2012. The Company has not yet been summoned by the court regarding this case or called on to undertake any procedural act. The resolution on the legal action depends on the assessment of validity of the contracts of the plaintiff with the Company's former shareholders based on which the plaintiff is seeking the settlement of the receivable. The Company believes that these contracts are likely to be invalid; however, it does not rule out that the court will arrive at a different conclusion and the legal action will be successful. The substance of the legal dispute does not involve determining the amount of the Company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff; otherwise, the creditors under this liability are the former shareholders of the Company. The Company has contacted the plaintiff with the objective of initiating negotiations on amicable settlement of the dispute and is currently in contact with the legal representative of the plaintiff.

The petition of Aleš Hodina and Bohumil Hála for declaring the resolution of the extraordinary general meeting of the Company held on 31 July 2013 invalid. The proceedings were initiated at the Regional Court in Ostrava by filing this petition on 1 November 2013. The Company considers the petition to completely lack merit.

Requests of 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. In these requests, the Company was referred to as another participant in the proceedings. The Company is aware that requests of Jaroslav Licehamr (filed on 22 August 2013), Petr Suda, Petr Kořenka and Radek Gabriel (filed on 12 September 2013), Břetislav Vaněk and Michal Utíkal (filed on 16 September 2013), Silvie Košíková (filed on 30 August 2013), Zbyněk Drbohlav (filed on 12 September 2013), Petr Červenka, Stanislav Hyvnar, Zbyněk Kasal, Lubor Veselý and Marek Veselý (filed on 20 September 2013), Jiří Kupka, GIRAS, s.r.o., (filed on 12 September 2013), Jiří Lengál, Vilém Franta (filed on 18 September 2013), Maxim Chadzitaskos (filed on 18 September 2013), Jan Luft (filed on 20 September 2013), Jan Čopík, Ivana Tomanová, Aleš Hodina and Bohumil Hála (filed on 19 Sep-

tember 2013) and a collective request of 51 persons (filed on 16 September 2013) were filed at the Regional Court in Ostrava.

The Company does not rule out that the requests of other former shareholders of the Company were also filed regarding this case.

## Environmental Liabilities

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

As of 31 December 2013 and 2012, the Company drew CZK 489,345 thousand and CZK 467,063 thousand, respectively.

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.

## 7. POST BALANCE SHEET EVENTS

With effect from 1 January 2014, the following changes have been made in the number of members and composition of the Supervisory Board:

Position	Original member	New member	Date of change
Member	Jiří Cieńciała	–	before 31 December 2013
Member	Jozef Blaško	–	before 31 December 2013
Member	František Ligocki	–	before 31 December 2013
Member	Hanns Kurt Zöllner	–	before 31 December 2013
Member	Vladislav Heczko	–	before 31 December 2013
Member	Pablo Alarcón Espinosa	–	before 31 December 2013
Chairman	Tomáš Chrenek, Ph.D., CSc.	–	before 31 December 2013
First Vice-chairman	Ján Moder	–	before 31 December 2013
Second Vice-chairman	Evžen Balko	–	before 31 December 2013
Member	–	Tomáš Chrenek	since 1 January 2014
Member	–	Ján Moder	since 1 January 2014
Member	–	Evžen Balko	since 1 January 2014
Member	–	Jozef Blaško	since 1 January 2014
Member	–	Jiří Cieńciała	since 1 January 2014
Member	–	František Ligocki	since 1 January 2014

TŘINECKÉ ŽELEZÁRNY, a. s. and Sochorová válcovna TŽ, a.s. have the intention to undertake a merger by amalgamation in which Sochorová válcovna TŽ, a.s. will cease to exist and its net assets will be assumed by the successor company TŘINECKÉ ŽELEZÁRNY, a. s. with the effective merger date on 1 January 2014 and the anticipated completion of the merger process by 31 July 2014.

On 12 February 2014, the Company was granted greenhouse gas emission allowances for 2013 of 3,839,675 pieces.



# FINANCIAL PART II. – CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

<b>Name of the Company:</b>	<b>TŘINECKÉ ŽELEZÁRNY, a. s.</b>
Registered Office:	Průmyslová 1000, Staré Město, 739 61 Třinec
Legal Status:	Joint Stock Company
Corporate ID:	180 50 646

### Components of the Consolidated Financial Statements:

Consolidated Balance Sheet

Consolidated Profit and Loss Account

Consolidated Statement of Changes in Equity

Consolidated Cash Flow Statement

Consolidated Notes to the Financial Statements

These consolidated financial statements were prepared on 1 April 2014.

<b>Statutory body of the reporting entity:</b>	<b>Signature</b>
<b>Jan Czudek</b> Chairman of the Board of Directors	
<b>Radomíra Pekárková</b> Member of the Board of Directors	



# CONSOLIDATED BALANCE SHEET

(in CZK thousand)

		31.12.2013			31.12.2012
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>65 140 835</b>	<b>-30 057 753</b>	<b>35 083 082</b>	<b>30 935 029</b>
<b>B.</b>	<b>Fixed assets</b>	<b>48 038 471</b>	<b>-29 294 637</b>	<b>18 743 834</b>	<b>17 056 370</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<i>494 555</i>	<i>-319 202</i>	<i>175 353</i>	<i>267 766</i>
B.I.2.	Research and development	4 553	-4 553		683
B.I.3.	Software	277 395	-238 818	38 577	17 210
B.I.4.	Valuable rights	153 935	-64 597	89 338	71 436
B.I.5.	Goodwill	385	-385		
B.I.6.	Other intangible fixed assets	50 183	-10 849	39 334	171 962
B.I.7.	Intangible fixed assets under construction	8 104		8 104	6 475
<i>B.II.</i>	<i>Tangible fixed assets</i>	<i>46 531 503</i>	<i>-28 560 248</i>	<i>17 971 255</i>	<i>15 484 849</i>
B.II.1.	Land	733 712		733 712	559 720
B.II.2.	Structures	11 701 927	-6 023 188	5 678 739	5 162 722
B.II.3.	Individual movable assets and sets of movable assets	32 626 085	-22 451 968	10 174 117	8 983 669
B.II.6.	Other tangible fixed assets	90 786	-49 564	41 222	69 150
B.II.7.	Tangible fixed assets under construction	1 092 872	-35 528	1 057 344	596 539
B.II.8.	Prepayments for tangible fixed assets	286 121		286 121	113 049
<i>B.III.</i>	<i>Non-current financial assets</i>	<i>237 317</i>	<i>-67 995</i>	<i>169 322</i>	<i>205 449</i>
B.III.1.	Equity investments in subsidiaries	208 090	-48 810	159 280	197 258
B.III.2.	Equity investments in associates	26 201	-18 184	8 017	8 167
B.III.3.	Other non-current securities and investments	3 026	-1 001	2 025	24
<i>B.IV.</i>	<i>Goodwill on consolidation</i>	<i>620 707</i>	<i>-347 192</i>	<i>273 515</i>	<i>558 922</i>
B.IV.1.	Positive goodwill on consolidation	620 707	-347 192	273 515	558 922
<i>B.V.</i>	<i>Securities and equity interests under equity accounting</i>	<i>154 389</i>		<i>154 389</i>	<i>539 384</i>
<b>C.</b>	<b>Current assets</b>	<b>17 013 070</b>	<b>-763 116</b>	<b>16 249 954</b>	<b>13 814 032</b>
<i>C.I.</i>	<i>Inventories</i>	<i>10 655 672</i>	<i>-598 022</i>	<i>10 057 650</i>	<i>8 334 143</i>
C.I.1.	Material	4 692 189	-328 504	4 363 685	3 396 499
C.I.2.	Work in progress and semifinished goods	3 304 408	-181 374	3 123 034	2 871 885
C.I.3.	Products	2 626 437	-87 753	2 538 684	1 977 855
C.I.5.	Goods	29 117	-391	28 726	27 759
C.I.6.	Prepayments for inventory	3 521		3 521	60 145
<i>C.II.</i>	<i>Long-term receivables</i>	<i>18 582</i>		<i>18 582</i>	<i>18 575</i>
C.II.1.	Trade receivables	7 387		7 387	7 726
C.II.5.	Long-term prepayments made	1 310		1 310	1 241
C.II.7.	Other receivables	7 926		7 926	7 558
C.II.8.	Deferred tax asset	1 959		1 959	2 050
<i>C.III.</i>	<i>Short-term receivables</i>	<i>5 098 463</i>	<i>-150 046</i>	<i>4 948 417</i>	<i>4 279 321</i>
C.III.1.	Trade receivables	4 580 828	-135 109	4 445 719	4 039 929
C.III.2.	Receivables from subsidiaries	36 065		36 065	
C.III.6.	State – tax receivables	320 292		320 292	183 381
C.III.7.	Short-term prepayments made	29 440	-264	29 176	16 403
C.III.8.	Estimated receivables	11 117		11 117	18 596
C.III.9.	Other receivables	120 721	-14 673	106 048	21 012
<i>C.IV.</i>	<i>Current financial assets</i>	<i>1 240 353</i>	<i>-15 048</i>	<i>1 225 305</i>	<i>1 181 993</i>
C.IV.1.	Cash on hand	3 445		3 445	3 658
C.IV.2.	Cash at bank	1 211 791		1 211 791	1 107 942
C.IV.3.	Short-term securities and investments	25 117	-15 048	10 069	70 393
<b>D.I.</b>	<b>Other assets</b>	<b>89 294</b>		<b>89 294</b>	<b>64 627</b>
D.I.1.	Deferred expenses	44 911		44 911	55 237
D.I.2.	Complex deferred expenses	40 323		40 323	4 365
D.I.3.	Accrued income	4 060		4 060	5 025

(in CZK thousand)

		31.12.2013	31.12.2012
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>35 083 082</b>	<b>30 935 029</b>
<b>A.</b>	<b>Equity</b>	<b>22 402 960</b>	<b>21 220 290</b>
A.I.	<b>Share capital</b>	<b>8 109 863</b>	<b>8 109 863</b>
A.I.1.	Share capital	8 109 863	8 109 863
A.II.	<b>Capital funds</b>	<b>219 733</b>	<b>72 634</b>
A.II.2.	Other capital funds	107 774	106 848
A.II.3.	Gains or losses from the revaluation of assets and liabilities	111 959	-34 214
A.III.	<b>Statutory funds</b>	<b>3 311 905</b>	<b>3 319 723</b>
A.III.1.	Statutory reserve fund / Indivisible fund	986 370	993 854
A.III.2.	Statutory and other funds	2 325 535	2 325 869
A.IV.	<b>Profit or loss for prior periods</b>	<b>8 872 635</b>	<b>7 884 415</b>
A.IV.1.	Retained earnings	8 926 690	8 009 341
A.IV.2.	Accumulated losses brought forward	-54 055	-119 831
A.IV.3.	Other profit or loss of prior periods		-5 095
A.V.	<b>Profit or loss for the current period, net of minority interests</b>	<b>1 376 122</b>	<b>1 055 037</b>
A.V.1.	Profit or loss for the current period	1 321 241	983 424
A.V.2.	Share of income from associates	54 881	71 613
A.VI.	<b>Consolidation reserve fund</b>	<b>512 702</b>	<b>778 618</b>
<b>B.</b>	<b>Liabilities</b>	<b>12 271 880</b>	<b>9 309 705</b>
B.I.	<b>Reserves</b>	<b>398 565</b>	<b>242 655</b>
B.I.1.	Reserves under special legislation	8 040	28 921
B.I.2.	Reserve for pensions and similar liabilities	3 292	3 253
B.I.4.	Other reserves	387 233	210 481
B.II.	<b>Long-term liabilities</b>	<b>1 320 422</b>	<b>932 700</b>
B.II.1.	Trade payables	25 042	19 788
B.II.9.	Other payables	10 000	5 000
B.II.10.	Deferred tax liability	1 285 380	907 912
B.III.	<b>Short-term liabilities</b>	<b>5 737 303</b>	<b>4 904 264</b>
B.III.1.	Trade payables	4 688 911	3 924 767
B.III.4.	Payables to partners and association members	10	
B.III.5.	Payables to employees	448 594	412 361
B.III.6.	Social security and health insurance payables	164 517	139 806
B.III.7.	State – tax payables and subsidies	217 229	202 557
B.III.8.	Short-term prepayments received	16 810	107 452
B.III.10.	Estimated payables	174 744	99 586
B.III.11.	Other payables	26 488	17 735
B.IV.	<b>Bank loans and borrowings</b>	<b>4 815 590</b>	<b>3 230 086</b>
B.IV.1.	Long-term bank loans	2 697 809	1 718 944
B.IV.2.	Short-term bank loans	2 117 649	1 510 955
B.IV.3.	Short-term borrowings	132	187
<b>C.I.</b>	<b>Other liabilities</b>	<b>49 542</b>	<b>49 554</b>
C.I.1.	Accrued expenses	16 897	13 906
C.I.2.	Deferred income	32 645	35 648
<b>D.</b>	<b>Minority equity</b>	<b>358 700</b>	<b>355 480</b>
D.I.	Minority share capital	83 300	83 300
D.II.	Minority capital funds	3 482	3 490
D.III.	Minority profit funds including retained earnings and accumulated losses	249 212	225 440
D.IV.	Minority profit or loss for the current period	22 706	43 250

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

(in CZK thousand)

		Year ended 31.12.2013	Year ended 31.12.2012
I.	Sales of goods	486 041	768 938
A.	Costs of goods sold	472 876	736 511
<b>+</b>	<b>Gross margin</b>	<b>13 165</b>	<b>32 427</b>
II.	Production	45 718 040	43 185 438
II.1.	Sales of own products and services	44 867 738	42 470 475
II.2.	Change in internally produced inventory	59 632	-189 155
II.3.	Own work capitalised	790 670	904 118
B.	Purchased consumables and services	36 762 254	35 836 470
B.1.	Consumed material and energy	33 492 209	33 018 972
B.2.	Services	3 270 045	2 817 498
<b>+</b>	<b>Added value</b>	<b>8 968 951</b>	<b>7 381 395</b>
C.	Staff costs	5 125 263	4 596 270
C.1.	Payroll costs	3 556 706	3 179 552
C.2.	Remuneration to members of statutory bodies	20 689	21 937
C.3.	Social security and health insurance costs	1 253 091	1 109 660
C.4.	Social costs	294 777	285 121
D.	Taxes and charges	61 072	87 680
E.	Depreciation of intangible and tangible fixed assets	1 515 317	1 367 676
KR A.	Release of consolidation difference (goodwill)	282 202	64 990
III.	Sales of fixed assets and material	109 653	101 970
III.1.	Sales of fixed assets	10 336	13 286
III.2.	Sales of material	99 317	88 684
F.	Net book value of fixed assets and material sold	86 949	75 173
F.1.	Net book value of sold fixed assets	3 994	1 832
F.2.	Book value of sold material	82 955	73 341
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	63 348	-228 267
IV.	Other operating income	582 404	1 106 543
H.	Other operating expenses	741 415	1 285 952
<b>*</b>	<b>Operating profit or loss</b>	<b>1 785 442</b>	<b>1 340 434</b>
VI.	Proceeds from the sale of securities and investments	1 912	
J.	Cost of securities and investments sold	1 192	
VII.	Income from non-current financial assets	1 668	2 252
VII.1.	Income from subsidiaries and associates	1 668	2 043
VII.3.	Income from other non-current financial assets		209
IX.	Income from the revaluation of securities and derivatives	570	4 985
L.	Costs of the revaluation of securities and derivatives	3 570	839
M.	Change in reserves and provisions relating to financial activities	30 884	639
X.	Interest income	2 354	4 057
N.	Interest expenses	67 263	61 125
XI.	Other financial income	231 295	219 224
O.	Other financial expenses	159 984	214 828
<b>*</b>	<b>Financial profit or loss</b>	<b>-25 094</b>	<b>-46 913</b>
Q.	Income tax on ordinary activities	421 859	272 559
Q.1.	- due	135 847	44 977
Q.2.	- deferred	286 012	227 582
<b>**</b>	<b>Profit or loss from ordinary activities</b>	<b>1 338 489</b>	<b>1 020 962</b>
XIII.	Extraordinary income	5 683	5 879
R.	Extraordinary expenses	225	167
<b>*</b>	<b>Extraordinary profit or loss</b>	<b>5 458</b>	<b>5 712</b>
<b>**</b>	<b>Consolidated profit or loss net of share of income from associates</b>	<b>1 343 947</b>	<b>1 026 674</b>
	Consolidated profit or loss net of minority interests	1 321 241	983 424
	Minority profit or loss	22 706	43 250
<b>*</b>	<b>Share of income from associates</b>	<b>54 881</b>	<b>71 613</b>
	Profit or loss for the current period (+/-)	1 398 828	1 098 287
<b>***</b>	<b>Profit or loss for the current period, net of minority interests (+/-)</b>	<b>1 376 122</b>	<b>1 055 037</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in CZK thousand)

	Share capital	Capital funds	Statutory reserve fund	Statutory and other funds	Other profit or loss of prior periods	Profit or loss for prior periods	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
<b>Balance at 31 December 2011</b>	<b>8 109 863</b>	<b>53 340</b>	<b>915 193</b>	<b>2 325 927</b>		<b>6 672 745</b>	<b>1 295 969</b>	<b>698 972</b>	<b>79 646</b>	<b>20 151 655</b>
Profit for the current period							983 424		71 613	1 055 037
Distribution of profit or loss		539	78 661			1 216 769	-1 295 969	79 646	-79 646	
Revaluation of assets		18 756								18 756
Other profit or loss					-5 095					-5 095
Other		-1		-58		-4				-63
<b>Balance at 31 December 2012</b>	<b>8 109 863</b>	<b>72 634</b>	<b>993 854</b>	<b>2 325 869</b>	<b>-5 095</b>	<b>7 889 510</b>	<b>983 424</b>	<b>778 618</b>	<b>71 613</b>	<b>21 220 290</b>
Profit for the current period							1 321 241		22 796	1 344 037
Distribution of profit or loss		1 014	43 259			890 318	-934 591	71 613	-71 613	
Change in the consolidation method						-364		-337 529		-337 893
Revaluation of assets		26 635								26 635
Other profit or loss					3 170	-3 170				
Impact of changes in the consolidation group		119 536	-50 743		1 925	97 651	-48 833		32 085	151 621
Other		-86		-334		-1 310				-1 730
<b>Balance at 31 December 2013</b>	<b>8 109 863</b>	<b>219 733</b>	<b>986 370</b>	<b>2 325 535</b>		<b>8 872 635</b>	<b>1 321 241</b>	<b>512 702</b>	<b>54 881</b>	<b>22 402 960</b>

# CONSOLIDATED CASH FLOW STATEMENT

(in CZK thousand)

		Year ended 31.12.2013	Year ended 31.12.2012
<b>P.</b>	<b>Cash and cash equivalents at the beginning of the accounting period</b>	<b>1 181 993</b>	<b>999 561</b>
	<b>Cash flows from ordinary activities</b>		
Z.	Profit/(loss) from ordinary activities before tax	1 760 348	1 293 521
A.1.	Adjustments for non-cash transactions	1 973 026	1 247 559
A.1.1.	Depreciation of fixed assets (+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 797 519	1 432 666
A.1.2.	Change in provisions and reserves	94 232	-227 628
A.1.3.	Profit/(loss) on the sale of fixed assets (-/+)	-7 062	-11 454
A.1.4.	Revenues from dividends and profit shares (-), except for those paid from consolidation entities	-1 668	-2 252
A.1.5.	Interest expense (+) excluding capitalised interest and interest income (-)	64 909	57 068
A.1.6.	Adjustments, if any, and other non-cash transactions	25 096	-841
<b>A.*</b>	<b>Net cash flow from operating activities before tax, movements in working capital and extraordinary items</b>	<b>3 733 374</b>	<b>2 541 080</b>
A.2.	Change in non-cash component of working capital	-126 939	163 771
A.2.1.	Change in receivables from operating activities (+/-), deferred expenses, accrued income and estimated assets	135 747	533 448
A.2.2.	Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	145 057	-1 198 619
A.2.3.	Change in inventory	-382 302	828 942
A.2.4.	Change in current financial assets not included in cash and cash equivalents	-25 441	
<b>A.**</b>	<b>Net cash flow from operating activities before tax and extraordinary items</b>	<b>3 606 435</b>	<b>2 704 851</b>
A.3.	Interest paid (-), except interest capitalised	-76 055	-64 262
A.4.	Interest received (+)	8 313	13 197
A.5.	Income tax paid from operating activities, additional tax paid for previous periods (-)	-101 267	-27 445
A.6.	Receipts and expenditures relating to extraordinary activities, which form extraordinary profit or loss, including income tax paid from extraordinary activities	5 457	5 712
A.7.	Received dividends and profit shares (+)	1 668	2 252
<b>A.***</b>	<b>Net cash flow from operating activities</b>	<b>3 444 551</b>	<b>2 634 305</b>
	<b>Cash flows from investing activities</b>		
B.1.	Fixed assets expenditures	-2 362 071	-1 120 026
B.2.	Receipts from fixed assets sold	11 028	14 668
B.3.	Loans provided to related parties	-36 000	
B.4.	Cash flows from the purchase of business or its part	-2 510 378	-1 430 709
<b>B.***</b>	<b>Net cash flow from investing activities</b>	<b>-4 897 421</b>	<b>-2 536 067</b>
	<b>Cash flow from financial activities</b>		
C.1.	Change in long-term or short-term payables which fall into cash and cash equivalent in financing activities	1 490 341	101 344
C.2.	Impact on cash and cash equivalents due to change in equity	-19 600	-17 150
C.2.5.	Payments made from funds (-/+)		
C.2.6.	Dividends and profit shares paid, including withholding tax related to these claims and including financial settlement with partners (-), except for dividends and profit shares paid between Group entities	-19 600	-17 150
<b>C.***</b>	<b>Net cash flow from financial activities</b>	<b>1 470 741</b>	<b>84 194</b>
<b>F.</b>	<b>Net increase or decrease of cash and cash equivalents</b>	<b>17 871</b>	<b>182 432</b>
<b>R.</b>	<b>Cash and cash equivalents at the end of the accounting period</b>	<b>1 199 864</b>	<b>1 181 993</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter also referred to as the “Company”), was formed by the National Property Fund of the Czech Republic on the basis of a Deed of Foundation as a joint stock company registered in Třinec, Czech Republic, and was incorporated following its registration in the Register of Companies of the Regional Court in Ostrava on 21 March 1991. The Company is primarily engaged in metallurgy with a closed metallurgical cycle. In addition to the production of coke, pig iron and steel, the range of principal products provided by the Company involves the products of rolling mills, namely blooms, slabs, billets, rods, thin, medium and heavy sections, rails including the production of plates, clamps and jumpers for rails, steel tubes and drawing-quality steel.

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

The Company's issued share capital is CZK 8,109,863 thousand.

Since 22 September 2013, MORAVIA STEEL a.s. has been the sole shareholder of the Company.

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

During the year ended 31 December 2013, a change was recorded in the Register of Companies relating to the change in the sole shareholder of the Company. The extraordinary general meeting decided to transfer the shares issued by the Company and owned by other shareholders to the principal shareholder MORAVIA STEEL a.s. In addition, a change relating to the replacement of ordinary bearer shares with the nominal value of CZK 1,000 by ordinary registered shares with the identical nominal value, and a change relating to the take-over of part of the net assets of the dissolving company Strojírny Třinec, a.s. that was dissolved as a result of the demerger by split-up through amalgamation were recorded in the Register of Companies.

### 1.3. GROUP IDENTIFICATION

According to Section 66a (3) of Act No. 513/1991 Coll., the Commercial Code, the Company was controlled by MORAVIA STEEL a.s. in the year ended 31 December 2013. MORAVIA STEEL a.s. was controlled by FINITRADING a.s. and R.F.G., a.s., acting in concert.

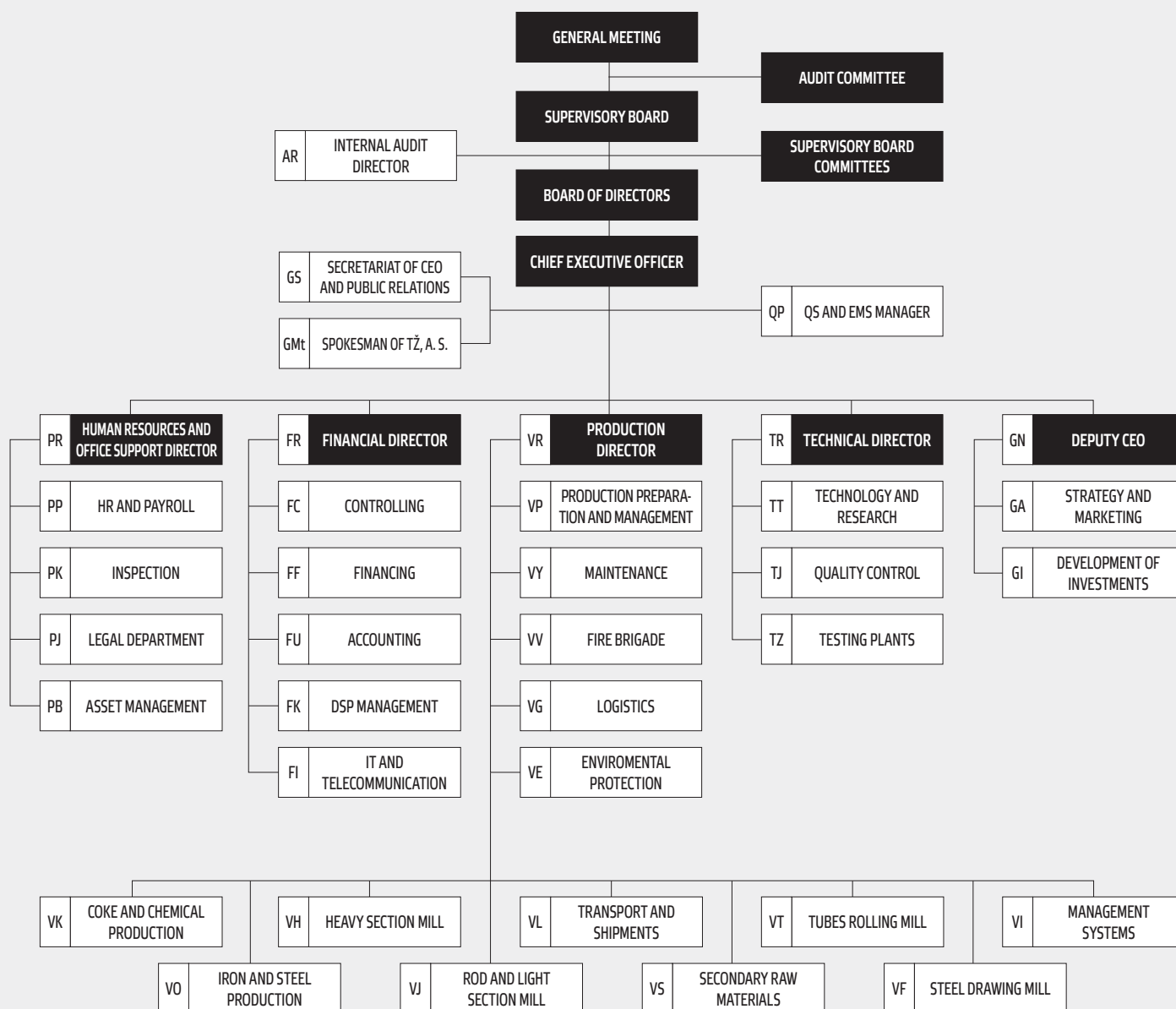
### 1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2013

	Position	Name
<b>Board of Directors</b>	Chairman	Jan Czudek
	1st Vice Chairman	Česlav Marek
	2nd Vice Chairman	Petr Popelář
	Member	Ivo Žižka
	Member	Henryk Huczala
<b>Supervisory Board</b>	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Evžen Balko
	Member	František Ligocki
	Member	Hanns Kurt Zöllner
	Member	Jiří Cieñciała
	Member	Vladislav Heczko
	Member	Jozef Blaško
Member	Pablo Alarcón Espinosa	

During the year ended 31 December 2013, no changes were made in the composition of the Company's Board of Directors and Supervisory Board.

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

### 2.1. BASIC ORGANISATIONAL STRUCTURE OF THE COMPANY AS OF 31 DECEMBER 2013



#### The bodies of the Company are as follows:

- General Meeting;
- Board of Directors;
- Supervisory Board; and
- Audit Committee.

#### During the year ended 31 December 2013, the following changes were made in the organisational structure of the Company:

- Cancellation of the AP division – company centres of TŽ managed by AR – Internal Audit Director.
- Cancellation of the GA division – Strategy of TŽ, a.s. and the GG division – Marketing managed by GR – Chief Executive Officer and their joining into GA – Strategy and Marketing managed by GR – Deputy CEO.
- Renaming of the VL plant – Dispatch Offices and Transportation managed by VR – Production Director to VL – Transportation and Dispatch.
- Change in the name of the GRn division – Deputy CEO managed by the CEO to GN – Deputy CEO.

## 2.2. NAMES AND REGISTERED OFFICES OF CONTROLLED ENTITIES (SUBSIDIARIES) AND ASSOCIATES INCLUDED IN THE CONSOLIDATED GROUP

The following companies were included in the consolidated group for the year ended 31 December 2013:

### Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2013
ENERGETIKA TŘINEC, a.s.*	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00 %
Slévárny Třinec, a.s.**	Průmyslová 1001, Staré Město, 739 61 Třinec, Doručovací číslo: 739 65	Foundry industry	100.00 %
VÚHŽ a.s.	Dobrá 240 739 51	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00 %
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	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 %
„METALURGIA“ S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00 %
„D&D“ Dróttáru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	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 %
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Metalworking, locksmithing, tool engineering	100.00 %
Hanácké železářny a pérovny, a. s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100,00 %
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00 %
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00 %
REFRASIL, s.r.o.	Třinec-Konšská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00 %

Note.:

\* Before 9 October 2013, the registered office recorded in the Register of Companies was Třinec-Staré Město, Průmyslová 1024, 739 65; it was changed to Průmyslová 1024, Staré Město, 739 61 Třinec in the Register of Companies on 9 October 2013

\*\* Before 21 January 2013, the registered office recorded in the Register of Companies was Třinec-Staré Město, Průmyslová 1024, 739 65; it was changed to Průmyslová 1024, Staré Město, 739 61 Třinec in the Register of Companies on 21 January 2013, delivery number: 739 65

\*\*\* Before 17 December 2013, the registered office recorded in the Register of Companies was Bohumín – Pudlov, Jeremenkova 66, 735 51; it was changed to Jeremenkova 66, Pudlov, 735 51 Bohumín in the Register of Companies on 17 December 2013

In the year ended 31 December 2013, the consolidation group was extended to include Hanácké železářny a pérovny, a.s. due to the acquisition of the 100% equity investment in this entity. In addition, the consolidation group was extended to include SV servisní, s.r.o. which is wholly owned by Hanácké železářny a pérovny, a.s. The consolidation for partial consolidation groups was not prepared. Both entities were included in the consolidation group as of 1 November 2013.

Sochorová válcovna TŽ, a.s. was consolidated using the full method due to the purchase of the 82% equity investment in this entity and an increase in the equity investment of the Company by which the Company became the sole shareholder of this entity. The consolidation using the full method started on 1 November 2013; before 31 October 2013, the entity was consolidated using the equity method.

Strojírny Třinec, a.s. was removed from the consolidation group due to its demerger through spin-off, the successor companies are TŘINECKÉ ŽELEZÁŘNY, a. s., and D 5, akciová společnost, Třinec, which changed its name to Strojírny a stavby Třinec, a.s. as of 1 September 2013.

## Associate:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2013
VESUVIUS ČESKÁ REPUBLIKA, a.s.*	Průmyslová 715, Kanská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%

Note.:

\* Before 4 November 2013, the registered office recorded in the Register of Companies was Třinec, Průmyslová 715, 739 65; it was changed to Průmyslová 715, Kanská, 739 61 Třinec in the Register of Companies on 4 November 2013

The following companies were included into the consolidated group for the year ended 31 December 2012:

## Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2012
ENERGETIKA TŘINEC, a. s.	Třinec-Staré Město, Průmyslová 1024, 739 65	Production and distribution of heat and electricity	100.00%
Strojírny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1038, 739 65	Metalworking, smithcraft, tool engineering	100.00%
Slévárny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1001, 739 65	Foundry industry	100.00%
VÚHŽ a.s.	Dobrá 240 739 51	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%
Šroubárna Kyjov spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00%
D 5, akciová společnost Třinec	Třinec-Staré Město, Průmyslová 1026, 739 65	Locksmithing, carpentry, constructions and their transformations	100.00%
"METALURGIA" S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00%
„D&D“ Drótaru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	100.00%
ŽDB DRÁTOVNA a.s.	Bohumín-Pudlov, Jeremenkova 66, 735 51	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%
Řetězárna a.s.	Česká Ves, Polská 57, 790 81	Production of chains, chain products and drawn wire	51.00%
REFRASIL, s.r.o.	Třinec-Kanská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

In the year ended 31 December 2012, the consolidation group was extended to include ŽDB DRÁTOVNA a.s. due to the acquisition of the 100 % equity investment in this entity. ŽDB DRÁTOVNA a.s. was included in the group as of 1 October 2012.

## Associates:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2012
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec, Průmyslová 715, 739 65	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Metalworking, locksmithing, tool engineering	18.00%

The consolidation methods were used in compliance with the consolidation rules of the consolidated group – full consolidation was applied in the case of controlled entities, consolidation under the equity method was used for associates.

The Company participated in the financial and operating policies of Sochorová válcovna TŽ, a.s. For this reason, Sochorová válcovna TŽ, a.s. was consolidated using the equity method before 31 October 2013.

The financial statements of all entities – be it subsidiaries or associates of TŘINECKÉ ŽELEZÁRNY, a. s. both included in and excluded from the consolidation (hereinafter also referred to as the “Group”), are maintained in the registered office of the Company for presentation purposes.

### 2.3. THE BALANCE SHEET DATES AND REGISTERED OFFICES OF THE ENTITIES INCLUDED IN THE CONSOLIDATED GROUP

The financial statements of the companies included in the consolidated group were prepared as of and for the years ended 31 December 2013 and 2012. "METALURGIA" S.A. is based in Poland, „D&D“ Drótáru Zrt. in Hungary, and other companies in the consolidation group are based in the Czech Republic.

### 2.4. COMPANIES EXCLUDED FROM CONSOLIDATION

Entities in which the Company has control or substantial influence 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 TŘINECKÉ ŽELEZÁRNY, 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 TŘINECKÉ ŽELEZÁRNY, 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 TŘINECKÉ ŽELEZÁRNY, a. s
- Long-term restrictions significantly hinder TŘINECKÉ ŽELEZÁRNY, 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 TŘINECKÉ ŽELEZÁRNY, 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 TŘINECKÉ ŽELEZÁRNY, a. s., and (iii) 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 TŘINECKÉ ŽELEZÁRNY, 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 purpose of preparing the consolidated financial statements of the TRINECKÉ železářny, a. s. Group, accounting principles and policies used within the Group were brought into line. Significant accounting principles and policies as they are used by individual companies are set out below.

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

#### 3.1. FINANCIAL REPORTING PERIOD

The consolidated financial statements of the Group for the year ended 31 December 2013 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2012;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2012;
- The statement of changes in equity contains comparative amounts as of 31 December 2012; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2012.

### 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) 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 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 Foundation Deed.

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 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 also expensed through the account 'Services' in the year of acquisition.

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

The results of the 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 also referred to as the “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 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 recorded as a component of ‘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’. An upward revaluation of the emission allowances is not recognised. If there is a lack of allowances at the consolidated balance sheet date, a reserve is recognised 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
Machines 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 depreciation period of the related asset is appropriately adjusted.

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:

Equity investments are valued at cost less 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 through balance sheet accounts 'Other non-current securities and equity investments' and 'Gains and losses from the revaluation of assets and liabilities'. A deferred tax is determined in respect of the revaluation difference where the value of available-for-sale securities increases, and is recorded through accounts 'Gains and losses from the revaluation of assets and liabilities' and 'Deferred tax liability'.

Upon sale or any other disposal, they are valued on the basis of the weighted average of the costs.

Investments in enterprises in which entities consolidated using the full 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 entities consolidated using the full 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 a non-current financial asset 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, the results of its operations and reflects its interest in the entity's equity.

## 4.3. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are designated as either trading or hedging. The criteria for a derivative instrument to be accounted for as a hedge are as follows:

- At the inception of the hedge, a decision was made regarding hedged items and hedging instruments, risks to be hedged, the approach to establishing and documenting whether the hedge is effective;
- The hedge is highly effective (that is, within a range of 80 percent to 125 percent); and
- The hedge effectiveness can be measured reliably and is assessed on an ongoing basis, the effectiveness is assessed at the derivative trade date and subsequently 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 financial instruments are concluded for the contracted transaction volume.

Derivative financial instruments are carried at fair value at the consolidated balance sheet date. In determining the fair value, the Company has referred to the market value.

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 contract, a forecasted future transaction, groups of assets, groups of liabilities, or 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 principally consist of cash on hand and cash at bank and short-term debt securities with a maturity of less than 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 custom 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.

The revaluation of internally developed inventory is performed as of 1 January for processing costs by reference to the calculations made based on the approved financial plan.

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 the 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 valuation, movement, 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 (against receivables from other than Group companies) are created as follows:

- (a) Receivables past due for 360 days and more are provisioned in full; and
- (b) Receivables past due over 180 days but less than 360 days are provisioned at 50 percent.

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

Provisions are created 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 recorded at nominal value. Interest on these bills is accrued over their maturity period.

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

#### **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) 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. Hanácké železářny a pérovny, 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. 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 Group's liability for current tax is calculated using tax rates that have been enacted by the 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 included directly in expenses regardless 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 consolidated financial statements requires the Group companies 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 Group companies have made these estimates and assumptions on the basis of all the relevant information available to them. 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 and intangible). The output of a research and development 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. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES**

Starting from 2013, the Company has changed the policy of reporting equity investments in companies that are not part of the business group in terms of Section 66a of the Commercial Code. The equity investment in Střední odborná škola Tříineckých železáren with the acquisition cost of CZK 2,000 thousand that was reported in ‘Equity investments – subsidiary (controlled entity)’ and the equity investment in Kvalifikační a personální agentura, o.p.s. with the acquisition cost of CZK 34 thousand that was reported in ‘Equity investments in associates’ are currently reported in ‘Other non-current securities and investments’.

Starting from 2013, the Company has not reported the fee for air pollution in the amount of CZK 7,003 thousand (for 2012 in the amount of CZK 39,286 thousand) in the profit and loss account as part of ‘Other operating costs’ but in the line ‘Taxes and charges’.

Starting from 2012, the Company has newly determined the costs of certifying products up to CZK 60 thousand to be immaterial when their charge through expenses without accounting for a deferral does not impact the purpose of accrual accounting. Prior to 2012, the Company deferred the costs of the certification of products in all cases. Regularly repeating product certificates are not deferred.

#### **4.19. SUBSIDIES**

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

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

#### 4.20. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

For cash flow 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)	
	31 Dec 2013	31 Dec 2012
Cash on hand	3 445	3 658
Current accounts	1 184 625	1 107 942
Term deposit	27 166	0
Short-term securities and equity investments	25 117	84 827
Provisions against short-term securities and equity investments	-15 048	-14 434
<b>Total current financial assets</b>	<b>1 225 305</b>	<b>1 181 993</b>
Cash and cash equivalents not included in the cash flow	-25 441	0
<b>Total cash and cash equivalents</b>	<b>1 199 864</b>	<b>1 181 993</b>

The difference between cash and cash equivalents as of 31 December 2013 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.

#### 4.21. 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 Company. Furthermore, financial investments of the 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 Company were eliminated from the balance sheet against acquired equity. The assets in the consolidated balance sheet include the item '*Securities and equity interests under equity accounting*', whose balance 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 include the item '*Share of income from associates*' which represents the Company's share in the current period's results of associates, 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 of securities or investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated company.

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

Amortisation charges of goodwill arising on consolidation are recognised in a special consolidated profit and loss account line item the 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.

The consolidation of the financial statements was performed using the direct consolidation method.

The financial statements for the years ended 31 December 2013 and 2012 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 statement preparation date are available in the registered office of the Company.

The consolidation rules for 2013 and 2012 (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 Company.

## 5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

### 5.1. CONSOLIDATED PROFIT/LOSS FOR 2013

#### 5.1.1. Structure of the Consolidated Profit/Loss for 2013

(CZK thousand)

Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a. s.	1 082 057
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	63 096
Profit/(loss) of the current period – Slévárny Třinec, a.s.	2 202
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	86 693
Profit/(loss) of the current period – Strojírny a stavby Třinec, a.s.	40 457
Profit/(loss) of the current period – VÚHŽ a.s.	22 433
Profit/(loss) of the current period – „METALURGIA“ S.A.	8 573
Profit/(loss) of the current period – „D&D“ Drótáru Zrt.	10 000
Profit/(loss) of the current period – ŽDB DRÁTOVNÁ a.s.	142 576
Share in profit of the current period Hanácké železářny a pérovny, a.s.	-6 329
Share in profit of the current period SV servisní, s.r.o.	1 299
Share in profit of the current period Sochorová válcovna TŽ, a.s.	69 850
Share in profit of the current period REFRASIL, s.r.o.	11 564
Share in profit of the current period Řetězárna a.s.	11 707
Share in profit/(loss) of equity accounted investments – Sochorová válcovna TŽ, a.s.	32 085
Share in profit/(loss) of equity accounted investments – VESUVIUS ČESKÁ REPUBLIKA, a.s.	22 796
Adjustments within the equity method of consolidation (see below)	-224 937
<b>Consolidated profit</b>	<b>1 376 122</b>

#### 5.1.2. Adjustments within Full Consolidation for 2013

(CZK thousand)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	-30 777
Write-off of the revaluation of assets at fair	-41 300
Write-offs of the margin from the sale of assets value including the deferred tax impact	8 197
Elimination of declared dividends of the consolidated group entities	-112 400
Elimination of provisioning against „D&D“ Drótáru Zrt.	233 545
Write-off of the positive goodwill on consolidation of „D&D“ Drótáru Zrt.	-282 202
<b>Total adjustments</b>	<b>-224 937</b>

### 5.2. CONSOLIDATED PROFIT/LOSS FOR 2012

#### 5.2.1. Structure of the Consolidated Profit/Loss for 2012

(CZK thousand)

Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a. s.	793 459
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	35 003
Profit/(loss) of the current period – Strojírny Třinec, a.s.	48 833
Profit/(loss) of the current period – Slévárny Třinec, a.s.	1 443
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	5 302
Profit/(loss) of the current period – D 5, akciová společnost, Třinec	19 973
Profit/(loss) of the current period – VÚHŽ a.s.	15 668
Profit/(loss) of the current period – „METALURGIA“ S.A.	13 648
Profit/(loss) of the current period – „D&D“ Drótáru Zrt.	21 650
Profit/(loss) of the current period – ŽDB DRÁTOVNÁ a.s.	4 805
Share in profit of the current period – REFRASIL, s.r.o.	15 135
Share in profit of the current period – Řetězárna a.s.	29 838
Share in profit/(loss) of equity accounted investments – Sochorová válcovna TŽ, a.s.	45 921
Share in profit/(loss) of equity accounted investments – VESUVIUS ČESKÁ REPUBLIKA, a.s.	25 692
Adjustments within full consolidation (see below)	-23 841
Adjustments within the equity method of consolidation (see below)	2 508
<b>Consolidated profit</b>	<b>1 055 037</b>

## 5.2.2. Adjustments within Full Consolidation for 2012

(CZK thousand)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	9 751
Write-off of the revaluation of assets at fair	-45 984
Write-offs of the margin from the sale of assets value including the deferred tax impact	15 962
Elimination of declared dividends of the consolidated group entities	-36 850
Elimination of provisioning against „D&D“ Drôtáru Zrt.	98 270
Write-off of the positive goodwill on consolidation of „D&D“ Drôtáru Zrt.	-64 990
<b>Total adjustments</b>	<b>-23 841</b>

## 5.2.3. Adjustments within the Equity Method of Accounting for 2012

(CZK thousand)

Elimination of profit and loss from unrealised inventory from the sale among the entities in the consolidation group including the deferred tax impact	2 508
<b>Total adjustments</b>	<b>2 508</b>

## 6. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

### 6.1. INTANGIBLE FIXED ASSETS

#### Cost

(CZK thousand)

	Balance at 1 Jan 2012	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2012
Research and development	4 553	0	0	0	0	4 553
Goodwill	338	0	0	0	22	360
Software	229 456	1 979	6 034	6 447	236	231 258
Valuable rights	90 975	42 292	872	3 974	597	130 762
Other intangible FA	107 566	0	1 030 820	964 364	0	174 022
Intangible FA under construction	0	0	8 854	2 379	0	6 475
<b>Total</b>	<b>432 888</b>	<b>44 271</b>	<b>1 046 580</b>	<b>977 164</b>	<b>855</b>	<b>547 430</b>

(CZK thousand)

	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2013
Research and development	0	0	0	0	4 553
Goodwill	0	0	0	25	385
Software	18 154	28 329	686	340	277 395
Valuable rights	0	24 065	1 697	805	153 935
Other intangible FA	8 336	155	132 330	0	50 183
Intangible FA under construction	12 291	41 019	51 696	15	8 104
<b>Total</b>	<b>38 781</b>	<b>93 568</b>	<b>186 409</b>	<b>1 185</b>	<b>494 555</b>

#### Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 1 Jan 2012	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2012
Research and development	2 959	0	911	0	0	3 870
Goodwill	338	0	0	0	22	360
Software	212 643	1 898	5 718	6 447	236	214 048
Valuable rights	57 376	192	3 905	2 435	288	59 326
Other intangible FA	1 427	0	591	0	42	2 060
Intangible FA under construction	0	0	0	0	0	0
<b>Total</b>	<b>274 743</b>	<b>2 090</b>	<b>11 125</b>	<b>8 882</b>	<b>588</b>	<b>279 664</b>

(CZK thousand)

	New acquisition	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2013
Research and development	0	683	0	0	4 553
Goodwill	0	0	0	25	385
Software	17 863	7 066	479	320	238 818
Valuable rights	0	6 362	1 698	607	64 597
Other intangible FA	8 147	617	0	25	10 849
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>26 010</b>	<b>14 728</b>	<b>2 177</b>	<b>977</b>	<b>319 202</b>

## Net Book Value

(CZK thousand)

	Balance at 31 Dec 2012	Balance at 31 Dec 2013
Research and development	683	0
Goodwill	0	0
Software	17 210	38 577
Valuable rights	71 436	89 338
Other intangible FA	171 962	39 334
Intangible FA under construction	6 475	8 104
<b>Total</b>	<b>267 766</b>	<b>175 353</b>

The tables of movements within intangible fixed assets include the column 'New acquisition' relating to the expansion of the consolidated group to include Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s. and SV servisní, s.r.o. in 2013 and ŽDB DRÁTOVNÁ a.s. in 2012.

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

Principal additions to intangible fixed assets in the year ended 31 December 2013 are as follows:

(CZK thousand)

APS Software for production planning	15 281
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## Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 14,653 thousand and CZK 11,127 thousand as of 31 December 2013 and 2012, respectively.

Other intangible assets primarily include greenhouse gas emission allowances.

As of the consolidated balance sheet date, allowances for greenhouse gas emissions for 2013 were not allocated. The Company recognised the used allowances and use of the grant for allowances of CZK 515,144 thousand with a debit and credit entry to account 347 – Grants for emission allowances, with a corresponding entry to the relevant cost and income account.

During 2012, the Company obtained 4,759,917 allowances in the amount of CZK 1,064,693 thousand free of charge. As of the balance sheet date of 31 December 2012, the Company recognised used allowances of CZK 1,033,637 thousand and the revaluation of emission allowances of CZK 47,728 thousand. During 2012, the Company exchanged 426,628 EUA allowances for 511,954 CER allowances. The effect of the exchange to the CER allowances amounted to CZK 13,854 thousand.

## Aggregate Balance of Low Value Intangible Assets not Reported on the Balance Sheet

The aggregate balance of low value intangible assets not reported on the face of the balance sheet was CZK 42,043 thousand and CZK 34,856 thousand as of 31 December 2013 and 2012, respectively.



## 6.2. TANGIBLE FIXED ASSETS

### Cost

(CZK thousand)

	Balance at 1 Jan 2012	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2012
Land	499 071	56 663	3 354	168	800	559 720
Structures	9 599 461	911 778	241 559	25 650	17 132	10 744 280
Individual movable assets	27 412 908	1 824 977	544 122	253 257	44 975	29 573 725
Other tangible FA	21 627	64 051	4 187	728	844	89 981
Tangible FA under construction	308 831	17 879	981 035	675 444	1 052	633 353
Prepayments for tangible FA	23 200	3 269	177 284	90 704	0	113 049
<b>Total</b>	<b>37 865 098</b>	<b>2 878 617</b>	<b>1 951 541</b>	<b>1 045 951</b>	<b>64 803</b>	<b>41 714 108</b>

(CZK thousand)

	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2013
Land	171 634	1 794	841	1 405	733 712
Structures	609 061	344 991	17 318	20 913	11 701 927
Individual movable assets	1 789 245	1 521 314	318 817	60 618	32 626 085
Other tangible FA	0	1 604	2 420	1 621	90 786
Tangible FA under construction	6 793	2 314 917	1 862 678	487	1 092 872
Prepayments for tangible FA	18 466	518 248	363 642	0	286 121
<b>Total</b>	<b>2 595 199</b>	<b>4 702 868</b>	<b>2 565 716</b>	<b>85 044</b>	<b>46 531 503</b>

### Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 1 Jan 2012	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2012
Land	0	0	0	0	0	0
Structures	4 970 659	399 408	238 010	35 102	8 583	5 581 558
Individual movable assets	18 479 675	1 210 392	1 124 729	257 434	32 694	20 590 056
Other tangible FA	12 238	0	8 459	432	566	20 831
Tangible FA under construction	36 394	380	28 643	28 603	0	36 814
Prepayments for tangible FA	0	0	0	0	0	0
<b>Total</b>	<b>23 498 966</b>	<b>1 610 180</b>	<b>1 399 841</b>	<b>321 571</b>	<b>41 843</b>	<b>26 229 259</b>

(CZK thousand)

	New acquisition	Additions	Disposals	Impact of fore- ign exchange differences	Balance at 31 Dec 2013
Land	0	0	0	0	0
Structures	205 247	266 635	40 602	10 350	6 023 188
Individual movable assets	897 772	1 251 618	330 539	43 061	22 451 968
Other tangible FA	0	29 600	1 867	1 000	49 564
Tangible FA under construction	0	1 554	2 840	0	35 528
Prepayments for tangible FA	1 075	0	1 075	0	0
<b>Total</b>	<b>1 104 094</b>	<b>1 549 407</b>	<b>376 923</b>	<b>54 411</b>	<b>28 560 248</b>

## Net Book Value

(CZK thousand)

Net book value	Balance at 31 Dec 2012	Balance at 31 Dec 2013
Land	559 720	733 712
Structures	5 162 722	5 678 739
Individual movable assets	8 983 669	10 174 117
Other tangible FA	69 150	41 222
Tangible FA under construction	596 539	1 057 344
Prepayments for tangible FA	113 049	286 121
<b>Total</b>	<b>15 484 849</b>	<b>17 971 255</b>

The tables of movements within tangible fixed assets include the column 'New acquisition' relating to the expansion of the consolidated group to include Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s., and SV servisní, s.r.o. in 2013 and ŽDB DRÁTOVNA a.s., in 2012.

Principal additions to tangible fixed assets for the year ended 31 December 2013 are as follows:

(CZK thousand)

Acquisition of a new technology – injection of powdered coal in furnaces nos.4 and 6	578 803
Extension of the equipment for the continuous casting of steel ZPO 1	60 391
Acquisition of a combined towbar	55 692

Principal additions to tangible fixed assets under construction for the year ended 31 December 2013 were as follows:

(CZK thousand)

NK 14 boiler – 125t/hour	263 322
Acquisition of new technology – peeling and refining line	188 655
Energy for the dust coal at the blast furnace – MoRe Dorru, construction of a cooling tower	66 067

## Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,500,664 thousand and CZK 1,356,549 thousand as of 31 December 2013 and 2012, respectively.

## Aggregate Balance of Low Value Tangible Assets not Reported on the Balance Sheet

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 706,443 thousand and CZK 617,799 thousand as of 31 December 2013 and 2012, respectively.

## Fair Value

As of the acquisition date in 2013, no assets were revalued to fair value at any of the acquired entities (Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s. and SV servisní, s.r.o.) as this was the sale and acquisition of companies in the group of TRINECKÉ ŽELEZÁŘNY, a. s. and MORAVIA STEEL a.s. which are members of the superior consolidation group.

As of the acquisition date in 2012, the assets of ŽDB DRÁTOVNA a.s. were revalued at fair value.

In the year ended 31 December 2012, the revaluation of assets to fair value increased the balance of tangible fixed assets by CZK 175,082 thousand and resulted in the recognition of a deferred tax liability of CZK 20,703 thousand using the 19 percent tax rate.

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

### Finance Leases

#### 31 December 2013

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2013
Total anticipated lease payments	180	4 744	4 924
Actual lease payments made through 31 Dec 2013	180	4 615	4 795
Future payments due by 31 Dec 2014	0	129	129
Future payments due in the following periods	0	0	0

On 31 January 2013, ŽDB DRÁTOVNA a.s. concluded agreements with the leasing company on a preliminary termination of the lease contract dated 30 December 2010 (on the lease of production machinery of CZK 103,184 thousand for the period of 60 months) which prematurely terminate the above lease contracts on 29 January 2013 and the payables of the parties arising from the lease contracts were settled by the lessee in accordance with the concluded contracts. This resulted in the acquisition of tangible assets for CZK 60,438 thousand.

### 31 December 2012

(CZK thousand)

	Cars	Machinery and equipment		Balance at 31 Dec 2012
		Other	New acquisition	
Total anticipated lease payments	2 704	28 561	74 275	105 540
Actual lease payments made through 30 Sept 2012	1 182	18 407	14 223	33 812
Actual lease payments made through 31 Dec 2012	1 327	6 136	4 741	12 204
Future payments due by 31 Dec 2013	195	3 892	18 964	23 051
Future payments due in the following periods	0	126	36 347	36 473

The 'New acquisition' column in the finance lease table in 2012 includes the extension of the consolidation group to include ŽDB DRÁTOVNA a.s.

### Operating Lease

Lease payments of CZK 40,707 thousand and CZK 40,576 thousand were made in the years ended 31 December 2013 and 2012, respectively.

## 6.4. PLEDGED FIXED ASSETS

### 31 December 2013

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	570 957	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc – Prague branch and CITIBANK Europe plc
Land	40 732	
Tangible fixed assets	749 541	Loan from Česká spořitelna, a.s.
Land	26 630	
Tangible fixed assets	482 337	Loan from Česká spořitelna, a.s.
Tangible fixed assets	199 503	Loan from Československá obchodní banka, a.s.
Land	10 640	
Land	699	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.**
Tangible fixed assets	431 917	Loan from Československá obchodní banka, a.s., collateralised by assets up to CZK 926,452 thousand
Land	34 415	
Technology	622 944	
Tangible fixed assets	32 728	Long-term loan from UniCredit Bank Czech Republic and Slovakia, a.s.**
Tangible fixed assets	28 012	Long-term loan from UniCredit Bank Czech Republic and Slovakia, a.s.**
Tangible fixed assets	120 356	Overdraft loan from Československá obchodní banka, a.s.
Land	10 614	
Tangible fixed assets, technology	21 385	Česká spořitelna, a.s. – pledge in favour of the loan of Třinecké železárny, a. s. for KB 12 coke battery
Technology	155 462	UniCredit Bank Czech Republic and Slovakia, a.s. – investment loan**
Tangible fixed assets	152 494	Loans from Česká spořitelna, a.s.
Tangible fixed assets*	49 523	Loan from ING Bank Śląski S.A., collateralised by machinery up to PLN 7,500 thousand
Tangible fixed assets*	132 060	Loan from BNP Paribas Bank Polska S.A., collateralised by fixed assets up to PLN 20,000 thousand
Tangible fixed assets*	12 546	Loan from ING Bank Śląski S.A., collateralised by fixed assets up to PLN 1,900 thousand
Tangible fixed assets*	35 237	State grant from National Development Agency (Hungary)
<b>Total</b>	<b>3 920 732</b>	

Note:

\* translated using the exchange rate of the Czech National Bank as of 31 December 2013

\*\* in 2013, the name of UniCredit Bank Czech Republic, a.s. changed to UniCredit Bank Czech Republic and Slovakia, a.s.

31 December 2012

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	605 624	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc – Prague branch and CITIBANK Europe plc
Land	40 732	
Tangible fixed assets	569 757	Loan from Česká spořitelna, a.s.
Tangible fixed assets	280 787	Loan from Citibank, a.s.
Tangible fixed assets	202 371	Loan from Československá obchodní banka, a.s.
Land	10 640	
Tangible fixed assets*	123 440	Loan from BNP Paribas Bank Polska S.A., collateralised by fixed assets up to PLN 20,000 thousand
Tangible fixed assets*	46 290	Loan from ING Bank Śląski S.A., collateralised by machinery up to PLN 7,500 thousand
Tangible fixed assets*	36 601	State grant from National Development Agency (Hungary)
Tangible fixed assets	889 955	Loan from Československá obchodní banka, a.s., collateralised by assets up to CZK 885,000 thousand
Land	34 416	
Tangible fixed assets	38 589	Long-term loan from UniCredit Bank Czech Republic, a.s.
Tangible fixed assets	10 224	Long-term loan from Československá obchodní banka, a.s.
Tangible fixed assets, land	3 659	Loan from CITIBANK Europe plc
Tangible fixed assets, land	15 067	Investment loan from Československá obchodní banka, a.s.
Tangible fixed assets	97 161	Overdraft loan from Československá obchodní banka, a.s.
Land	10 614	
Technology	49 766	Investment loan from Československá obchodní banka, a.s.
Tangible fixed assets, Technology	127 453	Investment loan from Komerční banka, a.s.
Tangible fixed assets, Technology	22 343	Česká spořitelna, a.s. – pledge in favour of the loan of Třinecké železárny, a. s. for KB 12 coke battery
<b>Total</b>	<b>3 215 489</b>	

Note: \* translated using the exchange rate of the Czech National Bank as of 31 December 2012

## 6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

### 6.5.1. Equity Investments in Subsidiaries

31 December 2013

(CZK thousand)

Name of the entity	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., Třinec-Staré Město	25 800	0	100.00	44 057	2 575	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	36 298	1 863	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 100	219	0	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	117	100.00	1 240	-161	-17 825	0
Reťaze Slovakia s.r.o., Skalica, Slovakia	4 936	0	80.00	15 049	802	0	1 668
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	48 519	1 727	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	59 544	-1 466	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn, Poland	48 558	0	88.00	50 494	484	-5 315	0
Moravia Security, a.s., Třinec-Konská	12 000	12	100.00	17 770	1 665	0	0
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	2 745	183	83.18	13 637	2 423	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	1 264	-13 633	-25 670	0
<b>Total</b>						<b>-48 810</b>	<b>1 668</b>

Note: *italics – preliminary results as of 31 December 2013*

31 December 2012

(CZK thousand)

Name of the entity	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., Třinec-Staré Město	25 800	0	100.00	41 482	1 788	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	34 435	1 460	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 100	230	0	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	117	100.00	1 401	-108	-17 606	0
Reťaze Slovakia s.r.o., Skalica, Slovakia	4 936	0	80.00	15 071	817	0	2 043
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	45 738	0	89.11	47 256	2 041	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	58 885	-1 650	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością,Cieszyn, Poland	48 558	0	88.00	46 714	326	0	0
Moravia Security, a.s., Třinec-Konská	12 000	12	100.00	16 105	1 371	0	0
Neomet Sp. z o.o., Radomsko, Poland	1 074	3 400	100.00	1 049	30	-1 074	0
Moravia Steel Poland Sp. z o.o., Cieszyn, Poland	182	100	100.00	309	28	0	0
Střední odborná škola Třineckých železáren, Třinec-Kanada*	2 000	0	100.00	79 710	-3 492	0	0
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	2 745	183	83.18	11 214	476	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	20 001	-9 559	0	0
<b>Total</b>						<b>-18 680</b>	<b>2 043</b>

Note.: \* TŘINECKÉ ŽELEZÁRNY, a. s., is the founder in accordance with Act No. 561/2004 Coll., Education Act

## 6.5.2. Equity Investments in Associates

31 December 2013

(CZK thousand)

Name of the entity	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Financial income for the year
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.28	40 400	-34	-18 184	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 317	0	0	0
<b>Total</b>						<b>-18 184</b>	<b>0</b>

Note: preliminary results as of 31 December 2013

\* results for the period from 1 April 2013 – 31 March 2014

31 December 2012

(CZK thousand)

Name of the entity	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Financial income for the year
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	6 521	460	-34	0
Hutnictví železa, a.s., Prague 10	16 397	27 328	39.21	41 640	-2 885	-18 008	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 164	-671	0	0
<b>Total</b>						<b>-18 042</b>	<b>0</b>

Note: \* results for the period from 1 April 2012 – 31 March 2013



## 6.6. NON-CURRENT FINANCIAL ASSETS

### Cost

(CZK thousand)

	Balance at 31 Dec 2011	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2012
Equity investments in subsidiaries	176 591	40 978	0	-1 710	79	215 938
Equity investments in associates	28 719	0	2 510	0	0	26 209
Other non-current securities and equity investments	207	0	100	0	6	113
Other non-current financial assets	24 350	0	24 350	0	0	0
Acquired non-current financial assets	0	40 229	40 229	0	0	0
<b>Total</b>	<b>229 867</b>	<b>81 207</b>	<b>67 189</b>	<b>-1 710</b>	<b>85</b>	<b>242 260</b>

(CZK thousand)

	New acquisition	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2013
Equity investments in subsidiaries	0	425	8 256	-17	0	208 090
Equity investments in associates	0	26	34	0	0	26 201
Other non-current securities and equity investments	907	2 134	100	-34	6	3 026
Acquired non-current financial assets	0	451	451	0	0	0
<b>Total</b>	<b>907</b>	<b>3 036</b>	<b>8 841</b>	<b>-51</b>	<b>6</b>	<b>237 317</b>

The tables of movements within non-current financial assets include the column 'New acquisition' in 2013 relating to the expansion of the consolidated group to include Sochorová válcovna TŽ, a.s. and Hanácké železářny a pérovny, a.s. that own other non-current securities and equity investments.

Major additions to non-current financial assets in 2013 include:

- Increase in the equity investment in MATERIALOVÝ A METALURGICKÝ VÝZKUM s.r.o. from 89.11% to 90.01%; and
- Increase in the equity investment in Hutnictví železa, a.s. from 39,21% to 39,28%.

Given the change in the reporting of equity investments that are not part of the group under Section 66A of Act No. 513/1991 Coll., Commercial Code, the equity investments in Střední odborná škola Třineckých železáren and Kvalifikační a personální agentura, o.p.s. are reported in "Other non-current securities and equity investments".

Major additions to non-current financial assets in 2012 included:

- Increase in the equity investment in TŘINECKÁ PROJEKCE, a.s., from 34.09% to 83.18%; and
- Acquisition of the 68% equity investment in DALSELV DESIGN a.s.

## 6.7. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

### 2013

(CZK thousand)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
<b>Goodwill arising on consolidation</b>						
ŽDB DRÁTOVNA a.s.	255 534	0	255 534	0	0	0
„D&D“ Drótáru Zrt.	365 173	-347 192	17 981	0	282 202	0
<b>Total</b>	<b>620 707</b>	<b>-347 192</b>	<b>273 515</b>	<b>0</b>	<b>282 202</b>	<b>0</b>

The gross value of the goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 255,534 thousand. The goodwill arising on consolidation includes the deferred tax arising from the difference from revaluation of assets and liabilities. In 2013, the Company recognised a year-on-year change in this deferred tax of CZK 4,990 thousand, total deferred tax in 2013 amounts to 14,457 thousand. In 2013, the Company recognised an increase in the goodwill arising on consolidation of CZK 1,990 thousand as a result of a change in the cost of ŽDB DRÁTOVNA a.s. of CZK (392) thousand and as a result of the derecognition of the deferred tax from the valuation difference on acquired assets of CZK 2,382 thousand.

The gross value of the goodwill arising on consolidation of „D&D“ Drótáru Zrt. amounts to CZK 365,173 thousand. In 2013, the write-off of this goodwill arising on consolidation of CZK 282,202 thousand was recognised in expenses, the net value as of 31 December 2013 amounts to CZK 17,981 thousand. The positive goodwill arising on consolidation includes the deferred tax arising from the revaluation of assets and liabilities. In 2013, a year-on-year change in the deferred tax was recognised in the amount of CZK 205 thousand. The deferred tax in 2013 amounted to CZK 4,483 thousand.

The goodwill on consolidation in respect of the new acquisitions in 2013 Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s. and SV servisní, s.r.o.) did not arise as it was a sale and acquisition of companies in the TRINECKÉ ŽELEZÁŘNY, a. s. and MORAVIA STEEL a.s. group that is a part of a superior consolidation group. The difference between the cost of the equity investment of these entities and their equity as of 1 November 2013 recalculated by the equity investment of the consolidating company was reported in equity in the line “Gains or losses from the revaluation of assets and liabilities”.

## 2012

(CZK thousand)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
<b>Goodwill arising on consolidation</b>						
ŽDB DRÁTOVNA a.s.	258 534	0	258 534	0	0	0
„D&D“ Drótáru Zrt.	365 378	-64 990	300 388	0	64 990	0
<b>Total</b>	<b>623 912</b>	<b>-64 990</b>	<b>558 922</b>	<b>0</b>	<b>64 990</b>	<b>0</b>

In the year ended 31 December 2012, the Company recognised goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. in the amount of CZK 258,534 thousand. The goodwill arising on consolidation includes the deferred tax arising from the difference from the revaluation of assets and liabilities of ŽDB DRÁTOVNA a.s., which was recognised against the goodwill arising on consolidation in the amount of CZK 20,638 thousand.

The gross goodwill arising on consolidation of „D&D“ Drótáru Zrt. amounts to CZK 365,378 thousand. In 2012, the write-off of this goodwill arising on consolidation in the amount of CZK 64,990 thousand was recognised in expenses, the net value as of 31 December 2012 amounts to CZK 300,388 thousand. The positive goodwill arising on consolidation includes the deferred tax arising from the difference from the revaluation of assets and liabilities. In 2012, a change in this deferred tax as compared to 2011 in the amount of CZK 202 thousand was recognised, the total amount of the deferred tax in 2012 amounts to CZK 4,688 thousand.

## 6.8. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK thousand)

Securities and equity investments under equity accounting	2013	2012
VESUVIUS ČESKÁ REPUBLIKA, a.s.	154 389	131 592
Sochorová válcovna TŽ, a.s.	0	407 792
<b>Total</b>	<b>154 389</b>	<b>539 384</b>

## 6.9. PLEDGED NON-CURRENT FINANCIAL ASSETS

As of 31 December 2013 and 2012, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 533,000 thousand and CZK 2,000 thousand, respectively.

## 6.10. INVENTORY

The balance of net inventory increased by CZK 1,277,077 thousand as a result of the extension of the consolidation group on 1 November 2013.

As of 31 December 2013, „METALURGIA“ S.A. has pledged the inventory up to PLN 7,000 thousand (CZK 46,221 thousand) with BNP PARIBAS BANK Polska S.A. in relation to the used loan. In 2012, inventory was pledged up to PLN 7,000 thousand (CZK 43,204 thousand).

## 6.11. RECEIVABLES

### 6.11.1. Short-Term Receivables

As of 31 December 2013 and 2012, gross short-term trade receivables past their due dates amounted to CZK 471,874 thousand (net CZK 339,973 thousand) and CZK 500,533 thousand (net CZK 377,161 thousand), respectively.

#### Other Short-Term Receivables

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

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

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

Estimated receivables principally include amounts due from anticipated insurance proceeds.

Receivables typically mature within 30 days.

### 6.11.2. Pledged Receivables

Strojírny a stavby Třinec, a.s. records pledged receivables of CZK 30 million in relation to the loan from Československá obchodní banka, a.s., of which the receivables of no less than CZK 20 million are from debtors outside the TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. group.

As of 31 December 2013, ŽDB DRÁTOVNA a.s. records pledged receivables of CZK 3,565 thousand based on the Loan Contract concluded Československá obchodní banka, a.s. As of 31 December 2012, the pledged receivables amounted to CZK 567,645 thousand.

As of 31 December 2013, Šroubárna Kyjov, spol. s r.o. records pledged receivables of CZK 91,986 thousand based on the Loan Contract concluded with Československá obchodní banka, a.s. As of 31 December 2012, the pledged receivables amounted to CZK 76,901 thousand.

As of 31 December 2013, VÚHŽ a.s. pledged receivables of CZK 10,328 thousand. The pledge results from the concluded Contract for the Establishment of a Pledge of Receivables in Československá obchodní banka, a.s., and collateralises the provided short-term loans. As of 31 December 2012, this pledge amounted to CZK 13,352 thousand.

As of 31 December 2013, „METALURGIA“ S.A. records pledged receivables of PLN 3,115,102.06 (CZK 20,569 thousand) with ING Commercial Finance Polska S.A. As of 31 December 2012, the pledged receivables amounted to PLN 3,915,744.35 (CZK 24,168 thousand).

### 6.11.3. Intercompany Receivables

#### Short-term Receivables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2013	Balance at 31 Dec 2012
● Trade receivables		
Doprava TŽ, a.s.	1 963	1 481
Moravia Security, a.s.	138	123
MORAVIA STEEL a.s.	2 648 031	2 137 363
TRIALFA, s.r.o.	4 412	2 675
TŘINECKÁ PROJEKCE, a.s.	332	449
Třinecké gastroslužby, s.r.o.	1 666	1 153
Sochorová válcovna TŽ, a.s.	0	388 247
Kvalifikační a personální agentura, o.p.s.	3	3
TRISIA, a.s.	8	7
VESUVIUS ČESKÁ REPUBLIKA, a.s.	5 136	4 804
Beskydská golfová, a.s.	40	36
NEOMET Sp. z o.o.	60	1
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	95	119
Hanácké železářny a pérovny, a.s.	0	537
Střední odborná škola Třineckých železáren*	867	847
M Steel Projects a.s.	12	10 736
Steel Consortium Partners, a.s.	22	1
Security Morava, s.r.o.	0	8
Moravskoslezský kovošrot, a.s.	4 276	223
HRAT, s.r.o.	0	3
FINITRADING, a.s.	0	2
Moravia Steel Poland Sp. z o.o.**	0	1
DALSELV DESIGN a.s.	0	1 517
Moravia Steel Deutschland GmbH	-808	1 429
Kovárna VIVA a.s.	4	11
AHP HYDRAULIKA, a.s.	540	0
<b>Total</b>	<b>2 666 797</b>	<b>2 551 776</b>
● Receivables – controlled or controlling entity		
„NEOMET“ Sp. z o.o.	36 065	0
<b>Total</b>	<b>36 065</b>	<b>0</b>
● Short-term prepayments made		
Třinecké gastroslužby, s.r.o.	530	0
<b>Total</b>	<b>530</b>	<b>0</b>
● Other receivables		
SILESIALSLAG, a.s. „v likvidaci“***	0	1 255
<b>Total</b>	<b>0</b>	<b>1 255</b>
<b>Total short-term intercompany receivables</b>	<b>2 703 392</b>	<b>2 553 031</b>
Other than intercompany receivables	<b>2 245 025</b>	<b>1 726 290</b>
<b>Total short-term receivables</b>	<b>4 948 417</b>	<b>4 279 321</b>

Note:

\* TŘINECKÉ ŽELEZÁŘNY, a. s., is the founder in accordance with Act No. 561/2004 Coll., Education Act

\*\* Moravia Steel Poland Sp. z o.o. was dissolved in 2013 in the merger with „METALURGIA „ S.A.

\*\*\* SILESIALSLAG, a.s., “in liquidation”, entered liquidation as of 1 January 2012; the company’s extraordinary

General Meeting approved the distribution of the liquidation balance on 17 December 2012 and the company was dissolved following the removal from the Register of Companies after the completed liquidation on 4 December 2013

Long-term receivables past their due dates by more than 5 years as of 31 December 2013 amounted to CZK 201 thousand (2012: CZK 0).

## **6.12. EQUITY**

Allocations to the statutory reserve fund are made at 5 percent of net profits until the fund reaches the legally required 20 percent of the Company's share capital as required by legislation in respect of the entities based in the Czech Republic.

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.

### **6.12.1. Share Capital**

The Company's share capital is composed of 8,109,863 ordinary registered shares in the certificate form, fully subscribed and paid up, with a nominal value of CZK 1 thousand per share.

## **6.13. RESERVES**

Other reserves primarily consist of reserves for the scrapping of equipment, employee bonuses, losses incurred in connection with concluded long-term contracts and emission allowances.

## **6.14. PAYABLES**

### **6.14.1. Long-Term Payables**

Long-term trade payables as of 31 December 2013 primarily include payables arising from retention fees from suppliers according to concluded contracts.

Long-term trade payables with maturities exceeding 5 years as of 31 December 2013 amount to CZK 148 thousand (2012: CZK 620 thousand).

### **6.14.2. Short-Term Trade Payables**

As of 31 December 2013, short-term trade payables past their due dates amount to CZK 72,160 thousand (2012: CZK 41,132 thousand).

Payables typically fall due for settlement within 30 days.

### **Other Payables**

As of 31 December 2013, payables associated with social security and the state employment policy contribution amounted to CZK 109,135 thousand (2012: CZK 97,569 thousand), health insurance payables totalled CZK 50,870 thousand (2012: CZK 38,137 thousand). Payables arising from the additional pension scheme amounted to CZK 4,512 thousand (2012: CZK 4,100 thousand) as of 31 December 2013. No social securities and health insurance payables past their due dates were recorded.

The category 'State – tax payables and subsidies' principally comprises received environmental subsidies and personal and corporate income tax payables.

Estimated payables mainly consist of payables arising from the estimated payable for outstanding vacation days and annual bonuses including insurance and estimated payables arising from unbilled inventory including services.

Other payables primarily relate to contributions to employees.



## 6.14.3. Intercompany Payables

### Short-term Payables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2013	Balance at 31 Dec 2012
<b>● Trade payables</b>		
Doprava TŽ, a.s.	13 478	11 863
Kvalifikační a personální agentura, o.p.s.	10	41
Hutnictví železa, a.s.	593	613
MORAVIA STEEL a.s.	2 157 622	1 807 267
Moravia Security, a.s.	7 569	5 524
Security Morava, s.r.o.	194	276
TRIALFA, s.r.o.	15 056	14 495
TRISIA, a.s.	929	534
TŘINECKÁ PROJEKCE, a.s.	8 032	3 498
Třinecké gastroslužby, s.r.o.	14 747	7 655
Sochorová válcovna TŽ, a.s.	0	12 939
VESUVIUS ČESKA REPUBLIKA, a.s.	10 945	8 692
Beskydská golfová, a.s.	3 025	2 400
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	1 744	320
„ZAMECZEK BŁOGOCICE” Sp. z o.o.	111	104
Střední odborná škola Třineckých železáren*	3 073	2 694
Moravskoslezský kovošrot, a.s.	147 649	158 017
HRAT, s.r.o.	42	36
Reťaze Slovakia, s.r.o.	0	37
DALSELV DESIGN a.s.	7 612	10 091
Moravia Steel Deutschland GmbH	9	125
MORAVIA STEEL SLOVENIJA d.o.o.	0	94
M Steel Projects a.s.	40 434	0
NEOMET Sp. z o.o.	20 724	0
<b>Total</b>	<b>2 453 598</b>	<b>2 047 315</b>
<b>● Short-term prepayments received</b>		
M Steel Projects a.s.	398	62 244
<b>Total</b>	<b>398</b>	<b>62 244</b>
<b>Total short-term intercompany payables</b>	<b>2 453 996</b>	<b>2 109 559</b>
Other than intercompany payables	3 283 307	2 794 705
<b>Total short-term payables</b>	<b>5 737 303</b>	<b>4 904 264</b>

Note: \*TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

### Long-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2013	Balance at 31 Dec 2012
<b>Long-term payables</b>		
<b>● Trade payables</b>		
DALSELV DESIGN a.s.	0	2 469
Moravia Security, a.s.	11	0
<b>Total long-term intercompany payables</b>	<b>11</b>	<b>2 469</b>
Other than intercompany payables	1 320 411	930 231
<b>Total long-term payables</b>	<b>1 320 422</b>	<b>932 700</b>

Other than intercompany long-term payables principally include a deferred tax liability of CZK 1,285,380 thousand and CZK 907,912 thousand as of 31 December 2013 and 2012, respectively.

## 6.15. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET

### 6.15.1. 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 basis	Tax rate in %	Balance at 31 Dec 2013	Balance at 31 Dec 2012
Difference between tax and accounting net book value of fixed assets	19	-7 968 761	-6 943 374
Difference between tax and accounting net book value of fixed assets	10	-146 325	-138 960
Remeasurement of securities available for sale	19	54	20
Remeasurement of securities available for sale	10	0	217
Remeasurement of assets to fair value charged against equity	19	-212 493	-245 861
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	10	-44 829	-46 876
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	19	-76 092	-83 557
Accounting reserves	19	341 039	153 386
Accounting reserves	10	0	26 450
Provisions	19	617 275	570 791
Provisions	10	8 194	6 593
Outstanding default interest	19	0	-37
Expenses to be allowable in subsequent periods	19	122 857	101 814
Expenses to be allowable in subsequent periods	10	2 091	0
Utilisable tax losses	19	175 523	1 428 591
Unrealised gains on the intragroup sale of inventory	19	42 720	7 023
Unrealised gains on intragroup sales of tangible fixed assets	19	302 856	313 025
Other	10	-28 397	0
<b>Total tax base</b>		<b>-6 864 288</b>	<b>-4 850 755</b>
<b>Deferred tax liability</b>		<b>-1 285 380</b>	<b>-907 912</b>

(CZK thousand)

Analysis of movements		
<b>1 Jan 2012</b>		<b>-614 067</b>
New acquisition		-56 822
Current changes charged to the profit and loss account		-227 243
Current changes recognised in equity		10 655
Recognition against the goodwill arising on consolidation		-20 435
<b>31 Dec 2012</b>		<b>-907 912</b>
New acquisition		-98 236
Current changes charged to the profit and loss account		-285 793
Current changes recognised in equity		175
Recognition against the goodwill arising on consolidation		6 385
Other		1
<b>31 Dec 2013</b>		<b>-1 285 380</b>

### 6.15.2. Deferred Tax Asset

(CZK thousand)

	Tax rate in %	Balance at 31 Dec 2013	Balance at 31 Dec 2012
Accounting reserves	19	10 310	5 022
Expenses to be allowable in subsequent periods	19	0	2 139
Provisions	19	0	3 629
<b>Total tax base</b>		<b>10 310</b>	<b>10 790</b>
<b>Deferred tax asset</b>		<b>1 959</b>	<b>2 050</b>

(CZK thousand)

Analysis of movements		
<b>1 Jan 2012</b>		<b>2 288</b>
Current changes charged to the profit and loss account		-339
Current changes charged to equity		101
<b>31 Dec 2012</b>		<b>2 050</b>
Current changes charged to the profit and loss account		-219
Current changes charged to equity		128
<b>31 Dec 2013</b>		<b>1 959</b>

## 6.16. BANK LOANS

### Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2013	Balance at 31 Dec 2012	Interest rate in %	Form of collateral at 31 Dec 2013
Investment	CZK	431 560	684 200	3M PRIBOR + 1.6/ FIXED 2.46	Immovable and movable assets, securities, bill of exchange
Investment	EUR	0	10 292	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	CZK	500 000	700 000	3M PRIBOR + 1.5 (margin according to Senior Debt/EBITDA)	Movable and immovable assets KB12, receivable from insurance, bill of exchange
Investment	CZK/EUR	0	91 560	3M PRIBOR/ EURIBOR + 0.99	Movable assets VH, receivables from insurance, blank bill of exchange
Investment	CZK	240 000	0	3M PRIBOR + 1.4	Securities, bill of exchange
Investment	EUR	197 222	0	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	947 368	0	3M PRIBOR + 1.4	Immovable and movable assets, securities, bill of exchange
Investment	EUR	2 057	9 428	1M EURIBOR + 1.3	KEH8, KER8 line
Term	CZK	155 686	212 299	3M PRIBOR + 1.6 p.a.	Receivables, pledged real estate including its parts and accessories
Investment	EUR	8 781	11 165	1M EURIBOR + 1.15	Pledged real estate
Investment	EUR	8 711	0	1M EURIBOR + 1.61	Pledged real estate
Investment	CZK	150 000	0	PRIBOR + 1.5	Blank bill of exchange, pledge of movable assets
Investment	CZK	9 375	0	1M PRIBOR + 1.6	Pledged real estate, pledged movable assets, receivables from insurance of immovable and movable assets, pledge of trade receivables
Investment	EUR	9 569	0	1M EURIBOR + 0.85	Pledge of immovable and movable assets, pledge of receivables from insurance of real estate and movable assets
Investment	CZK	10 000	0	3.90	Pledge of real estate, pledge of movable assets, pledge of receivables from the insurance of real estate and movable assets
Investment	EUR	10 970	0	3M EURIBOR + 1.3	KPH 600 machine, KLM measuring system
Investment	EUR	16 510	0	3M EURIBOR + 1.3	
<b>Total</b>		<b>2 697 809</b>	<b>1 718 944</b>		

## Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2013	Balance at 31 Dec 2012	Interest rate in %	Form of collateral at 31 Dec 2013
Investment	CZK	0	11 111	FIXED 4.65	Immovable and movable assets, guarantee statement of MS, blank bill of change
Investment	EUR	11 228	53 073	6M EURIBOR + 0.6	Hermes guarantee insurer
Overdraft	CZK	174 686	176 412	O/N PRIBOR + 0.9	Blank bill of exchange
Overdraft	CZK	221 051	93 732	1D PRIBOR + 0.95	Blank bill of exchange
Investment	CZK	200 000	200 000	3M PRIBOR + 1.5 (margin according to Senior Debt/EBITDA)	Movable and immovable assets KB12, receivables from insurance, bill of exchange
Overdraft	CZK	17 664	44 847	1T PRIBOR + 1.00	Blank bill of exchange
Overdraft	CZK	33 159	60 632	1T PRIBOR + 0.75	Blank bill of exchange
Investment	CZK	252 640	252 640	3M PRIBOR + 1.6/ FIXED 2.46	Immovable and movable assets securities, bill of exchange
Investment	EUR/CZK	0	20 523	6.74 3M PRIBOR + 2.5	Statement of the parent company, pledge of assets, blank bills of exchange
Investment	EUR	0	628	3M EURIBOR + 1.6	KBA 601 bending machine
Investment	EUR	8 227	7 543	1M EURIBOR + 1.3	KEH8, KER8 line
Investment	EUR	6 582	0	3M EURIBOR + 1.3	KPH 600 machine, KLM measurement system
Investment	EUR	5 430	0	3M EURIBOR + 1.3	
Investment	CZK	0	5 000	3M PRIBOR + 0.79	No collateral
Investment	EUR	0	7 278	6M EURIBOR + 1.3	Receivables, Sakamura press
Overdraft	CZK	0	5 296	O/N PRIBOR + 0.9	Receivables, real estate
Investment	EUR/CZK	96 879	73 248	3M PRIBOR/ EURIBOR + 0.99	Movable assets, receivables from insurance, bill of exchange
Investment	PLN	52 009	34 336	WIBOR + margin 1.45	Pledge
Investment	PLN	30 149	14 928	WIBOR + margin 1.5	Pledge
Investment	EUR	3 399	3 115	1M EURIBOR + 1.15	Pledge of real estate
Term	CZK	56 613	56 613	3M PRIBOR + 1.6	Receivables, pledge of real estate including its parts and accessories
Revolving	CZK	420 000	390 000	PRIBOR + 1.1	Receivables, pledge of real estate including its parts and accessories
Overdraft	CZK	150 586	0	O/N PRIBOR + 1.0	Blank bill of exchange
Investment	EUR	30 299	0	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	60 000	0	3M PRIBOR + 1.4	Securities, bill of exchange
Investment	CZK	252 632	0	3M PRIBOR + 1.4	Immovable and movable assets, securities, receivables from insurance, bill of exchange
Investment	EUR	2 904	0	1M EURIBOR + 1.61	Pledge of real estate
Revolving	CZK	20 000	0	1M PRIBOR + 0.9	Pledge of real estate, movable assets, receivables from insurance of immovable and movable assets
Investment	CZK	4 688	0	1M PRIBOR + 1.6	Pledge of real estate, movable assets, receivables from insurance of immovable and movable assets, pledge of trade receivables
Investment	EUR	2 824	0	1M EURIBOR + 0.85	Pledge of immovable and movable assets, pledge of receivables from insurance of immovable and movable assets
Investment	CZK	4 000	0	3.90	Pledge of immovable and movable assets, pledge of receivables from insurance of immovable and movable assets
<b>Total</b>		<b>2 117 649</b>	<b>1 510 955</b>		

Repayments of long-term bank loans with maturities exceeding five years amount to CZK 76,024 thousand.

## 6.17. OFF BALANCE SHEET LIABILITIES AND LEGAL DISPUTES

### TŘINECKÉ ŽELEZÁRNY, a. s.

#### Provided guarantees

##### 31 December 2013

Type of liability	Total amount	Balance at 31 Dec 2013
<b>Guarantees</b>		
- to other entities	USD 576 thousand	CZK 11 465 thousand
	EUR 2 239 thousand	CZK 61 404 thousand
	CZK 4 000 thousand	CZK 4 000 thousand

##### 31 December 2012

Type of liability	Total amount	Balance at 31 Dec 2012
<b>Guarantees</b>		
- to other entities	USD 576 thousand	CZK 10 981 thousand
	EUR 2 138 thousand	CZK 53 774 thousand
	CZK 5 000 thousand	CZK 5 000 thousand

#### Legal Disputes

The dispute of the EcoNet CENTRUM civic association for the allegedly unpaid dividends for 2006 in the amount of CZK 180,000 thousand together with accrued interest. The Regional Court in Hradec Králové stated in its resolution that it was not locally responsible for the case, referring the case to the Regional Court in Ostrava. The plaintiff appealed this resolution. The High Court in Prague rejected the plaintiff's appeal. The case was referred to the Regional Court in Ostrava as to the locally responsible court. The Regional Court in Ostrava rejected the claim in its resolution. The plaintiff filed an appeal against this resolution and the Regional Court upheld this appeal in its resolution. The proceedings in this matter are continuing, the proceedings have not yet been ordered. The Company considers the charge to completely lack merit.

The Company was contacted by the plaintiff with a proposal for terminating the dispute. Based on this proposal, the Company will negotiate with the plaintiff regarding the termination of the dispute.

The petition of a shareholder, Marek Veselý, regarding the invalidity of the resolution passed at the Company's annual general meeting of shareholders held on 30 June 2010, was rejected by the Regional Court in Ostrava as lacking merit in its ruling no. 29 Cm 142/2010-99 of 25 August 2011. The plaintiff appealed the ruling. The High Court in Olomouc confirmed the ruling of the Regional Court in Ostrava on the rejection of the petition by its ruling no. 8 Cmo 64/2012-169 of 3 April 2012. The plaintiff took an extraordinary remedial measure and made an appeal against the ruling of the High Court in Olomouc addressed to the Regional Court in Ostrava on 16 July 2012. According to the ejustice information system, the appeal was delivered to the Supreme Court through the Regional Court in Ostrava on 24 October 2012 under no. 29 Cdo 3284/2012 and no proceedings have been ordered in this matter for the time being. The Company considers the claim to completely lack merit.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association regarding the invalidity of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s. The Municipal Court in Brno refused this charge in its ruling as the charge was filed after the expiration of the statute of limitation. The plaintiff appealed the ruling. The Municipal Court in Brno referred this case to the Regional Court in Brno to make a decision on the plaintiff's appeal. The Regional Court in Brno confirmed the ruling of the Municipal Court in Brno on the rejection of the claim in its resolution dated 3 September 2013. The Company considers the charge to completely lack merit.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association against the Company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the Company on 14 December 2012. The Company has not yet been summoned by the court regarding this case or called on to undertake any procedural act. The resolution on the legal action depends on the assessment of validity of the contracts of the plaintiff with the Company's former shareholders based on which the plaintiff is seeking



the settlement of the receivable. The Company believes that these contracts are likely to be invalid; however, it does not rule out that the court will arrive at a different conclusion and the legal action will be successful. The substance of the legal dispute does not involve determining the amount of the Company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff; otherwise, the creditors under this liability are the former shareholders of the Company. The Company has contacted the plaintiff with the objective of initiating negotiations on amicable settlement of the dispute and is currently in contact with the legal representative of the plaintiff.

The petition of Aleš Hodina and Bohumil Hála for declaring the resolution of the extraordinary general meeting of the Company held on 31 July 2013 invalid. The proceedings were initiated at the Regional Court in Ostrava by filing this petition on 1 November 2013. The Company considers the petition to completely lack merit.

Requests of 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. In these requests, the Company was referred to as another participant in the proceedings. The Company is aware that requests of Jaroslav Licehamr (filed on 22 August 2013), Petr Suda, Petr Kořenka and Radek Gabriel (filed on 12 September 2013), Břetislav Vaněk and Michal Utíkal (filed on 16 September 2013), Silvie Košíková (filed on 30 August 2013), Zbyněk Drbohlav (filed on 12 September 2013), Petr Červenka, Stanislav Hyvnar, Zbyněk Kasal, Lubor Veselý and Marek Veselý (filed on 20 September 2013), Jiří Kupka, GIRAS, s.r.o., (filed on 12 September 2013), Jiří Lengál, Vilém Franta (filed on 18 September 2013), Maxim Chadzitaskos (filed on 18 September 2013), Jan Luft (filed on 20 September 2013), Jan Čopík, Ivana Tomanová, Aleš Hodina and Bohumil Hála (filed on 19 September 2013), a collective request of 51 persons (filed on 16 September 2013) and a request of OSMA – ČR – OJ036, Corporate ID: 01188810, with its registered office in Chomutov, SNP 3676 (filed on 6 September 2013 with the District Court in Liberec; the ruling passed by this court on 28 February 2014 submitted to the High Court in Prague to decide on referring the matter to the Regional Court in Ostrava) were filed at the Regional Court in Ostrava.

The Company does not rule out that the requests of other former shareholders of the Company were also filed regarding this case.

## Environmental Liabilities

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

As of 31 December 2013 and 2012, the Company drew CZK 489,345 thousand and CZK 467,063 thousand, respectively.

Given 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.

## ENERGETIKA TŘINEC, a.s.

### Collateral for loans

(CZK thousand)

Type of liability	Balance at 31 Dec 2013	Balance at 31 Dec 2012
Blank bills of exchange – collateral for overdraft loans	200 000	150 000
Blank bills of exchange – collateral for long-term loans	150 000	-
<b>Total</b>	<b>350 000</b>	<b>150 000</b>

## VÚHŽ a.s.

### Provided Guarantees

VÚHŽ, a.s. concluded a contract for the provision of bank guarantees with the maximum credit facility of CZK 30,000 thousand with Citibank Europe plc which is collateralised by a blank bill of exchange and pledge of real estate. As of 31 December 2013, provided guarantees amount to CZK 3,906 thousand. This is a bank guarantee to customers of the company provided over the warranty period for the supplied water gauges.

## ŽDB DRÁTOVNA a.s.

### Environmental Liabilities

ŽDB 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.

Additionally, ŽDB 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.

## 7. ADDITIONAL CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

### 7.1. INCOME FROM ORDINARY ACTIVITIES AND SOLD GOODS

#### 7.1.1. The Group's Income from Ordinary Activities and Sale of Goods for 2013

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	36 092 486	5 027 606	41 120 092
Other production	1 602 415	1 465 687	3 068 102
Sale of goods	397 748	88 293	486 041
Services	613 524	66 020	679 544
Change in inventory	57 444	2 188	59 632
Own work capitalised	790 321	349	790 670
<b>Total</b>	<b>39 553 938</b>	<b>6 650 143</b>	<b>46 204 081</b>

#### 7.1.2. The Group's Income from Ordinary Activities and Sale of Goods for 2012

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	35 467 866	2 394 514	37 862 380
Other production	2 156 795	1 883 757	4 040 552
Sale of goods	337 461	431 477	768 938
Services	507 686	59 857	567 543
Change in inventory	-205 052	15 897	-189 155
Own work capitalised	898 476	5 642	904 118
<b>Total</b>	<b>39 163 232</b>	<b>4 791 144</b>	<b>43 954 376</b>

### 7.2. GRANTS

In 2013 and 2012, TŘINECKÉ ŽELEZÁRNY, a. s. used a public grant for the “Educational Programme of the Employees of ODVĚTOVÝ SVAZ HUTNICTVÍ ŽELEZA“ project in the amount of CZK 52 thousand and CZK 828 thousand, respectively.

In 2013, TŘINECKÉ ŽELEZÁRNY, a. s. obtained a subsidy for environmental investments of CZK 142,747 thousand.

In 2013, VÚHŽ a.s. received an operational subsidy of CZK 5,651 thousand, of which CZK 650 thousand was handed over to co-recipients. This included subsidies for education, research and development. In 2012, other subsidies for operating purposes of CZK 7,215 thousand included subsidies for the education, research and development.

In 2013 and 2012, VÚHŽ a.s. received an investment subsidy for the acquisition of the coating unit for the coating using the PVD method of CZK 12,832 thousand and CZK 17,166 thousand, respectively.

Other grants for operating purposes in Šroubárna Kyjov, spol. s.r.o. of CZK 2,900 thousand for 2013 include the subsidies for the operational programme in the “By the Increase in Professional Knowledge towards a better Position of Šroubárna Kyjov on the Market” project.

In June 2012, Šroubárna Kyjov, spol. s.r.o. received a subsidy for the “Decrease in the Energy Requirements of Production Halls“ investment of CZK 4,909 thousand. Subsequently, Šroubárna Kyjov, spol. s.r.o. received another subsidy for this investment in the amount of CZK 4,397 thousand.

In 2013, ENERGETIKA TŘINEC, a.s. received a subsidy for the environmental investment of CZK 108,978 thousand.

In 2013, Slévárny Třinec, a.s. received a subsidy for the investment of CZK 10,775 thousand.

Other subsidies for operating purposes of CZK 16,051 thousand drawn for 2013 (2012: CZK 20,328 thousand) include subsidies for research, education and subsidies from the labour office.

### 7.3. OTHER EXPENSES AND INCOME

Costs of advisory, consulting and audit activities as of 31 December 2013 amount to CZK 46,093 thousand and CZK 41,846 thousand as of 31 December 2012.

Other operating income as of 31 December 2013 and 2012 predominantly includes the drawing of the grant for greenhouse gas emissions including the income from the sale of allowances of CZK 515,144 thousand and CZK 1,033,637 thousand, respectively.

Other financial income in 2013 and 2012 predominantly includes foreign exchange rate gains of CZK 229,854 thousand and CZK 216,347 thousand, respectively.

Other operating expenses as of 31 December 2013 and 2012 predominantly include the use of emission allowances including the costs of the sale of gas emissions of CZK 515,470 thousand and CZK 1,033,858 thousand, respectively.

Other financial expenses as of 31 December 2013 and 2012 predominantly include foreign exchange rate losses of CZK 144,751 thousand and CZK 202,218 thousand, respectively.

#### 7.4. TOTAL RESEARCH AND DEVELOPMENT COSTS

(CZK thousand)

	31 Dec 2013	31 Dec 2012
Research and development costs (less grants)	58 363	47 905

#### 7.5. RELATED PARTY TRANSACTIONS

##### 7.5.1. Income Generated with Related Parties

The column 'Relation to the company' is disclosed from the perspective of TŘINECKÉ ŽELEZÁRNY, a. s.

2013

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	15 914	9	0	1 668	17 591
Doprava TŽ, a.s.	Controlled entity	104	24 928	4 280	44	0	29 356
TRIALFA, s.r.o.	Controlled entity	0	27 094	4 384	1 089	0	32 567
TŘINECKÁ PROJEKCE, a.s.	Associate	0	494	928	42	0	1 464
Třinecké gastroslužby, s.r.o.	Controlled entity	2	3 292	9 329	793	0	13 416
Steel Consortium Partners, a.s.	Controlled entity	0	0	69	0	0	69
Kvalif. a pers. agentura, o.p.s.	Associate	0	0	322	0	0	322
TRISIA, a.s.	Controlled entity	0	0	103	19	0	122
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	9 504	21 885	197	0	31 586
Moravia Security, a.s.	Controlled entity	0	213	1 347	13	0	1 573
Střední odborná škola Třineckých železáren*	Controlled entity	0	2 515	1 902	73	0	4 490
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	59	575	1	0	635
HRAT, s.r.o.	Associate	0	0	4	0	0	4
MORAVIA STEEL a.s.	Controlling entity	661	31 449 163	168 930	3 189	185	31 622 128
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	312 690	0	0	0	312 690
Beskydská golfová, a.s.	Fellow subsidiary	0	103	641	0	0	744
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 283	19 919	0	21 202
Kovárna VIVA a.s.	Fellow subsidiary	0	0	8	0	0	8
M Steel Projects a.s.	Fellow subsidiary	387 558	14 879	78	0	0	402 515
NEOMET Sp. z o.o.	Fellow subsidiary	0	0	99	99	61	259
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	1 040	0	0	0	1 040
Sochorová válcovna TŽ, a.s.**	Controlled entity	35	3 513 986	7 684	0	0	3 521 705
Hanácké železářny a pérovny, a.s.***	Controlled entity	0	57	11 571	0	0	11 628
<b>Total</b>		<b>388 360</b>	<b>35 375 931</b>	<b>235 431</b>	<b>25 478</b>	<b>1 914</b>	<b>36 027 114</b>

Note:

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

\*\* income generated between 1 Jan 2013 and 31 Oct 2013

\*\*\* income generated between 1 Jan 2013 and 31 Oct 2013

2012

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	64	29 788	4 224	44	0	34 120
Kvalif. a pers. agentura, o.p.s.	Associate	0	0	253	0	0	253
MORAVIA STEEL a.s.	Controlling entity	635	31 119 614	167 609	2 267	0	31 290 125
Retaze Slovakia s.r.o.	Controlled entity	0	18 587	30	0	0	18 617
TRIALFA, s.r.o.	Controlled entity	1	33 203	4 484	2 256	0	39 944
TRISIA, a.s.	Controlled entity	0	0	103	0	0	103
TŘINECKÁ PROJEKCE, a.s.	Associate	0	509	911	4	0	1 424
Třinecké gastroslužby, s.r.o.	Controlled entity	7	2 853	4 554	560	0	7 974
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	8 686	25 521	184	0	34 391
Sochorová válcovna TŽ, a.s.	Controlled entity	5 104	4 431 226	50 110	368	0	4 486 808
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	8 100	0	0	0	8 100
Beskydská golfová, a.s.	Fellow subsidiary	0	0	540	0	0	540
SILESIA SLAG, a.s.	Controlled entity	0	0	21	0	0	21
Steel Consortium Partners, a.s.	Controlled entity	0	0	67	0	0	67
Moravia Security, a.s.	Controlled entity	0	195	1 294	36	0	1 525
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	2 613	370	0	2 983
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	221	0	0	221
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	46	3 455	0	0	3 501
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 607	6 076	0	7 683
Střední odborná škola Třineckých železáren*	Controlled entity	2	2 311	5 891	46	0	8 250
Kovárna VIVA a.s.	Fellow subsidiary	0	0	12	0	0	12
M Steel Projects a.s.	Fellow subsidiary	314 210	11 138	111	0	0	325 459
HRAT, s.r.o.	Associate	0	0	23	0	0	23
FINITRADING, a.s.	Controlling entity	0	0	9	10	0	19
Neomet Sp. z o.o.	Controlled entity	0	0	6	0	0	6
Moravia Steel Poland Sp. z o.o.	Controlled entity	0	0	7	0	0	7
Security Morava, s.r.o.	Controlled entity	0	0	47	0	0	47
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	4 758	0	0	0	4 758
SV servisní, s.r.o.	Fellow subsidiary	0	0	124	0	0	124
DALSELV DESIGN a.s.	Controlled entity	0	0	11	0	0	11
<b>Total</b>		<b>320 023</b>	<b>35 671 014</b>	<b>273 858</b>	<b>12 221</b>	<b>0</b>	<b>36 277 116</b>

Note:

\* TŘINECKÉ ŽELEZÁŘNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act



## 7.5.2. Purchases from Related Parties

Relation to the relevant company is disclosed from the perspective of TŘINECKÉ ŽELEZÁRNY, a. s.

2013

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Extra-ordinary expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	430	650	0	0	1 080
Doprava TŽ, a.s.	Controlled entity	0	30 904	68 032	0	0	98 936
TRIALFA, s.r.o.	Controlled entity	0	7 912	20 525	53 316	0	81 753
TŘINECKÁ PROJEKCE, a.s.	Associate	35 449	0	6 280	192	0	41 921
Třinecké gastroslužby, s.r.o.	Controlled entity	0	16 758	9 675	85 001	0	111 434
Kvalifikační a personální agentura, o.p.s.	Associate	0	0	177	0	0	177
Hutnictví železa, a.s.	Controlled entity	0	0	5 725	110	0	5 835
TRISIA, a.s.	Controlled entity	0	0	10 107	130	0	10 237
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	175	81 530	0	0	81 705
Moravia Security, a.s.	Controlled entity	770	100	57 203	0	0	58 073
Střední odborná škola Třineckých železáren*	Controlled entity	0	284	11 304	542	0	12 130
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	134	8 938	0	0	9 072
„ZAMECZEK BĚLOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 138	0	0	1 138
HRAT, s.r.o.	Associate	80	0	120	0	0	200
DALSELV DESIGN a.s.	Fellow subsidiary	7 080	51	8 289	0	0	15 420
Security Morava, s.r.o.	Controlled entity	0	0	320	0	0	320
MORAVIA STEEL a.s.	Controlling entity	2 696 540	23 268 303	364 874	33 385	0	26 363 102
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	0	0	111	0	0	111
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	337	0	0	337
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	0	7	0	7
MORAVIA STEEL UK LIMITED	Fellow subsidiary	0	0	67	0	0	67
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 374	0	0	5 374
Moravskoslezský kovošrot	Fellow subsidiary	0	1 178 495	0	0	0	1 178 495
Kovárna VIVA a.s.	Fellow subsidiary	0	604	0	0	0	604
NEOMET Sp. z o.o.	Fellow subsidiary	0	468 804	0	0	0	468 804
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	0	2 157	0	0	2 157
Sochorová válcovna TŽ, a.s.**	Controlled entity	0	89 139	33 551	0	0	122 690
Hanácké železářny a pérovny, a.s.***	Controlled entity	0	64	0	0	0	64
<b>Total</b>		<b>2 739 919</b>	<b>25 062 157</b>	<b>696 484</b>	<b>172 683</b>	<b>0</b>	<b>28 671 243</b>

Note:

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

\*\* income generated between 1 Jan 2013 and 31 Oct 2013

\*\*\* income generated between 1 Jan 2013 and 31 Oct 2013

2012

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Extra-ordinary expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	28 754	65 691	0	0	94 445
Hutnictví železa, a.s.	Controlled entity	0	0	5 638	101	0	5 739
Kvalifikační a personální agentura, o.p.s.	Associate	0	26	203	0	0	229
MORAVIA STEEL a.s.	Controlling entity	547	22 280 469	248 567	45 956	0	22 575 539
Reťaze Slovakia, s.r.o.	Controlled entity	0	465	625	0	0	1 090
TRIALFA, s.r.o.	Controlled entity	0	12 588	19 541	53 120	0	85 249
TRISIA, a.s.	Controlled entity	0	8 720	613	14	0	9 347
TŘINECKÁ PROJEKCE, a.s.	Associate	15 272	0	7 798	0	0	23 070
Třinecké gastroslužby, s.r.o.	Controlled entity	0	15 927	8 123	75 482	0	99 532
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	462	78 534	0	0	78 996
Sochorová válcovna TŽ, a.s.	Controlled entity	0	106 429	40 991	0	0	147 420
Beskydská golfová, a.s.	Fellow subsidiary	0	0	4 368	0	0	4 368
Moravia Security, a.s.	Controlled entity	536	0	53 797	69	0	54 402
Security Morava, s.r.o.	Controlled entity	0	0	2 798	0	0	2 798
Střední odborná škola Třineckých železáren*	Controlled entity	0	393	11 134	550	0	12 077
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 218	0	0	1 218
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	8 353	194 490	0	0	202 843
Moravskoslezský kovošrot	Fellow subsidiary	0	1 236 800	0	0	0	1 236 800
Kovárna VIVA a.s.	Fellow subsidiary	0	307	0	0	0	307
HRAT, s.r.o.	Associate	0	0	180	0	0	180
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	94	0	0	94
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	188	0	0	188
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	0	64	0	0	64
Barrandov Televizní Studio a.s.	Fellow subsidiary	200	0	0	0	0	200
DALSELV DESIGN a.s.	Fellow subsidiary	5 262	0	11	0	0	5 273
<b>Total</b>		<b>21 817</b>	<b>23 699 693</b>	<b>744 666</b>	<b>175 292</b>	<b>0</b>	<b>24 641 468</b>

Note:

\* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

## 8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

#### 8.1.1. Staff Costs and Number of Employees for 2013

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽELEZÁRNY, a. s.	6 099	5	3 016 731	53 077
ENERGETIKA TŘINEC, a.s.	372	5	176 267	11 765
Slévárny Třinec, a.s.	675	5	256 271	9 305
REFRASIL, s.r.o.	170	2	87 086	11 878
Řetězárna a.s.	252	6	102 426	12 374
Šroubárna Kyjov, spol. s r.o.	312	6	131 448	10 573
Strojírny a stavby Třinec, a.s.	1 526	11	565 507	23 597
VÚHŽ a.s.	292	10	161 742	14 878
„METALURGIA“ S.A.	269	4	78 104	5 235
„D&D“ Drótaru Zrt.	127	5	50 380	6 367
ŽDB DRÁTOVNA a.s.	1 066	6	413 288	9 728
Sochorová válcovna TŽ, a.s.	727	9	55 324	7 959
Hanácké železářny a pérovny, a.s.	251	6	29 182	2 782
SV servisní, s.r.o.	15	1	1 507	234
<b>Total under full consolidation</b>	<b>12 153</b>	<b>81</b>	<b>5 125 263</b>	<b>179 752</b>

#### 8.1.2. Staff Costs and Number of Employees for 2012

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽELEZÁRNY, a. s.	5 962	5	2 863 155	53 703
ENERGETIKA TŘINEC, a.s.	370	5	174 262	11 062
Strojírny Třinec, a.s.	956	8	357 743	16 768
Slévárny Třinec, a.s.	689	5	251 783	9 126
REFRASIL, s.r.o.	173	2	84 753	11 536
Řetězárna a.s.	261	6	113 147	12 523
Šroubárna Kyjov, spol. s r.o.	300	6	119 644	10 793
D 5, akciová společnost, Třinec	683	8	245 918	11 734
VÚHŽ a.s.	297	9	157 931	13 760
„METALURGIA“ S.A.	274	4	74 986	5 638
„D&D“ Drótaru Zrt.	124	5	49 172	7 186
ŽDB DRÁTOVNA a.s.	1 062	7	103 776	3 849
<b>Total under full consolidation</b>	<b>11 151</b>	<b>70</b>	<b>4 596 270</b>	<b>167 678</b>

## 8.2. BENEFITS PROVIDED TO MEMBERS OF STATUTORY, SUPERVISORY AND MANAGEMENT BODIES

Set out below are the amounts of bonuses, advances, borrowings, other receivables, payables and other benefits in respect of members of the statutory, management and supervisory bodies:

(CZK thousand)

Company/benefit	2013	2012
<b>TŘINECKÉ ŽELEZÁRNY, a. s.</b>	<b>11 172</b>	<b>11 232</b>
Use of management cars	1 292	1 131
Liability insurance	478	511
Bonuses	9 402	9 590
<b>ENERGETIKA TŘINEC, a.s.</b>	<b>1 265</b>	<b>1 281</b>
Use of management cars	448	448
Life insurance contribution	131	148
Liability insurance	38	37
Bonuses	648	648
<b>Strojírny Třinec, a.s.</b>	<b>0</b>	<b>1 140</b>
Use of management cars	0	400
Life insurance contribution	0	80
Liability insurance	0	20
Bonuses	0	640
<b>Slévárny Třinec, a.s.</b>	<b>1 142</b>	<b>1 141</b>
Use of management cars	425	424
Life insurance contribution	54	54
Liability insurance	15	15
Bonuses	648	648
<b>REFRASIL, s.r.o.</b>	<b>450</b>	<b>441</b>
Use of management cars	254	244
Liability insurance	4	5
Bonuses	192	192
<b>Řetězárna a.s.</b>	<b>5 684</b>	<b>7 353</b>
Use of management cars	647	646
Liability insurance	7	7
Bonuses	5 030	6 700
<b>Strojírny a stavby Třinec, a.s.</b>	<b>1 753</b>	<b>1 214</b>
Use of management cars	782	539
Liability insurance	41	32
Bonuses	930	643
<b>VÚHŽ a.s.</b>	<b>1 605</b>	<b>1 481</b>
Use of management cars	872	786
Life insurance contribution	84	40
Liability insurance	1	7
Bonuses	648	648
<b>Šroubárna Kyjov, spol. s r.o.</b>	<b>802</b>	<b>876</b>
Use of management cars	438	512
Life insurance contribution	29	29
Liability insurance	11	11
Bonuses	324	324
<b>ŽDB DRÁTOVNA a.s.</b>	<b>973</b>	<b>300</b>
Use of management cars	325	146
Bonuses	648	154
<b>„METALURGIA“ S.A</b>	<b>1 035</b>	<b>1 005</b>
Liability insurance	9	7
Bonuses	1 026	998
<b>„D&amp;D“ Drótáru Zrt.</b>	<b>681</b>	<b>752</b>
Bonuses	681	752
<b>Sochorová válcovna TŽ, a.s.</b>	<b>591</b>	<b>0</b>
Use of management cars	258	0
Life insurance contribution	2	0
Liability insurance	43	0
Bonuses	288	0
<b>Hanácké železářny a pérovny, a.s.</b>	<b>271</b>	<b>0</b>
Use of management cars	46	0
Liability insurance	1	0
Bonuses	224	0
<b>SV servisní, s.r.o.</b>	<b>10</b>	<b>0</b>
Use of management cars	10	0
<b>Total</b>	<b>27 434</b>	<b>28 216</b>

## 9. POST BALANCE SHEET EVENTS

With effect from 1 January 2014, and subsequently with effect from 31 March 2014, the following changes were made in the number of members and composition of the Supervisory Board of the Company:

Position	Original member	New member	Date of change
Member	Jiří Cieňciata	–	before 31 December 2013
Member	Jozef Blaško	–	before 31 December 2013
Member	František Ligocki	–	before 31 December 2013
Member	Hanns Kurt Zöllner	–	before 31 December 2013
Member	Vladislav Heczko	–	before 31 December 2013
Member	Pablo Alarcón Espinosa	–	before 31 December 2013
Chairman	Tomáš Chrenek,	–	before 31 December 2013
First Vice-Chairman	Ján Moder	–	before 31 December 2013
Second Vice-Chairman	Evžen Balko	–	before 31 December 2013
Member	–	Tomáš Chrenek	since 1 January 2014
Member	–	Ján Moder	since 1 January 2014
Member	–	Evžen Balko	since 1 January 2014
Member	–	Jozef Blaško	since 1 January 2014
Member	–	Jiří Cieňciata	since 1 January 2014
Member	–	František Ligocki	since 1 January 2014
Chairman	–	Tomáš Chrenek	since 31 March 2014
First Vice-chairman	–	Ján Moder	since 31 March 2014
Second Vice-Chairman	–	Evžen Balko	since 31 March 2014
Member	–	Jozef Blaško	since 31 March 2014
Member	–	Jiří Cieňciata	since 31 March 2014
Member	–	František Ligocki	since 31 March 2014

With effect from 1 April 2014, the following changes were made in the composition of the Board of Directors:

Position	Original member	New member	Date of change
Chairman	Jan Czudek	–	before 31 December 2013
First Vice-Chairman	Česlav Marek	–	before 31 December 2013
Second Vice-Chairman	Petr Popelář	–	before 31 December 2013
Member	Ivo Žižka	–	before 31 December 2013
Member	Henryk Huczala	–	before 31 December 2013
Chairman	–	Jan Czudek	since 1 April 2014
First Vice-Chairman	–	Česlav Marek	since 1 April 2014
Second Vice-Chairman	–	Henryk Huczala	since 1 April 2014
Member	–	Ivo Žižka	since 1 April 2014
Member	–	Radomíra Pekárková	since 1 April 2014

With effect from 1 April 2014, the following changes were made to the organisational structure of the Company:

- Creation of the IR division – Investments and Strategy Director;
- Transfer of the GA division – Strategy and Marketing under IR as IS – Strategy and Marketing;
- Transfer of the GI organisational unit – Development and Investments under IR as IV – Development and Investments; and
- Cancellation of the planned GN – Deputy CEO reporting to the CEO.

TŘINECKÉ ŽELEZÁRNY, a. s. and Sochorová válcovna TŽ, a.s. have the intention to undertake a merger by amalgamation in which Sochorová válcovna TŽ, a.s. will cease to exist and its net assets will be assumed by the successor company TŘINECKÉ ŽELEZÁRNY, a. s. with the effective merger date on 1 January 2014 and the anticipated completion of the merger process by 31 July 2014.

Subsequent to the consolidated balance sheet date, the Group was allocated greenhouse gas emission allowances of 4,417,836 pieces for 2013.

# XI // REPORT ON RELATED PARTY TRANSACTIONS

This Related Party Transactions Report between TŘINECKÉ ŽELEZÁRNY, a. s., with its registered office at Průmyslová 1000, Staré Město, 739 61 Třinec, Corporate ID: 18050646, recorded in File B, Insert 146 of the Register of Companies held by the Regional Court in Ostrava (hereinafter “TŽ” or the “Company”) and the controlling entities, and between TŽ and entities controlled by the same controlling entity has been prepared in line with Section 82 of Act 90/2012 Coll., on Business Companies and Cooperatives (hereinafter the “Act on Business Corporations”) for the 2013 reporting period (hereinafter the “reporting period”).

## I. DEFINITION OF THE CONTROLLING AND CONTROLLED ENTITIES AND THE STRUCTURE OF THE RELATIONS BETWEEN THESE PARTIES

### A. CONTROLLING ENTITIES

**MORAVIA STEEL a.s.** based in Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID: 63474808

Relation: In the reporting period, MORAVIA STEEL a.s. was in the position of the controlling entity of TŽ; until 4 June 2013, this entity acted in concert with FINITRADING, a.s. as an additional shareholder of TŽ; on 4 June 2013, FINITRADING, a.s. transferred its equity investment in TŽ to MORAVIA STEEL a.s.

Since 22 September 2013, MORAVIA STEEL a.s. has been the sole shareholder of TŽ.

In the reporting period, MORAVIA STEEL a.s. was controlled by the entities named below which acted in concert in line with Section 66 (b) (1) and Section 66 (b) (2) (b) of Act No. 513.1991 Coll., the Commercial Code (similar to Section 78 (1) and Section 78 (2) (b) of the Act on Business Corporations):

- **FINITRADING, a.s.**, with its registered office in Třinec, nám. Svobody 526, 739 61, Corporate ID: 61974692.
- **R.F.G., a.s.**, with its registered office in Třinec, nám. Svobody 526, 739 61, Corporate ID: 63079658; FINITRADING, a.s., is an entity controlling R.F.G., a.s.

### B. ENTITIES CONTROLLED BY MORAVIA STEEL a.s.

**MORAVIA STEEL IBÉRIA, S.A.**, registered office: Campo Grande, 35 – 9. A, P-1700 Lisboa, Portugal

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA GOEL TRADE d.o.o.**, “in liquidation”, registered office: Perkovčeva 48, 104 30 Samobor, Croatia

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL ITALIA s.r.l.**, registered office: via Niccolini 26, 20154 Milano, Italy

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL SLOVENIJA d.o.o.**, registered office: Valvazorjeva 14, 3000 Celje, Slovenia

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**Moravia Steel Deutschland GmbH**, registered office: Cliev 19, 51515 Kürten, Germany

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL UK LIMITED**, registered office: 5 Bradwall Court, Bradwall Road, Sandbach, Cheshire, CW11 1 GE, UK

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.



Barrandov Televizní Studio a.s., registered office: Prague 5, Kříženeckého nám. 322, 152 00, Corporate ID: 41693311  
Relation: In the reporting period, until 14 May 2013, the entity was controlled by MORAVIA STEEL a.s.

Barrandov Studio a.s., registered office: Prague 5 – Hlubočepy, Kříženeckého nám. 322/5, 152 00, Corporate ID: 28172469  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Barrandov Productions s.r.o., registered office: Prague 5, Kříženeckého nám. 5/322, 152 00, Corporate ID: 25621025  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Filmová nadace RWE & Barrandov Studio (the RWE & Barrandov Studio Film Foundation), registered office:  
Prague 5, Kříženeckého nám. 322, 152 00, Corporate ID: 27437213  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

MS – Slovensko s.r.o., registered office: Námestie Ludovíta Štúra 2, Bratislava 811 02, Slovakia  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

MORAVIA STEEL ISRAEL Ltd., registered office: 23 Efal St., Petach Tikva 49 511, P.O.B. 3286 Israel  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Beskydská golfová, a.s., registered office: Ropice 415, 739 56, Corporate ID: 25352920  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Sochorová válcovna TŽ, a.s., registered office: Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID: 25872940  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s. and TŽ, acting in concert until 11 November 2013.

Hanácké železářny a pérovny, a.s., registered office: Dolní 3137/100, 796 01 Prostějov, Corporate ID: 26955342  
Relation: In the reporting period, until 11 November 2013, the entity was controlled by MORAVIA STEEL a.s.

SV servisní, s.r.o., registered office: Prostějov, Dolní 3137/100, 796 01, Corporate ID: 60725974  
Relation: In the reporting period, until 11 November 2013, the entity was controlled by MORAVIA STEEL a.s.

M Steel Projects a.s., registered office: Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID: 28602331  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

M Steel Projects, s.r.o., registered office: Vojtecha Tvrdeho 793/21, Žilina 010 01, Corporate ID: 46685570, Slovakia  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

AHP HYDRAULIKA, a. s., registered office: Robotnícka 841, Turčianske Teplice 039 01, Corporate ID: 31563104, Slovakia  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Moravskoslezský kovošrot, a.s., registered office: Prague 1- Nové Město, V Jámě 1371/8, 110 00, Corporate ID: 26855097  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

MSK Polska Sp.z o.o., “in liquidation”, registered office: BATALIONÓW CHŁOPSKICH 2, 42-680 TARNOWSKIE GÓRY, Poland  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Moravia Steel Middle East FZCO, registered office: Jebel Ali Free Zone, Building 18-19 # 133, Dubai, U.A.E.  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Moravia Steel Middle East Ltd., registered office: Jebel Ali Free Zone, Building 18-19 # 133, Dubai, U.A.E.

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

“NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, registered office: ŚWIĘTEJ ROZALII 10/12, 97-500 Radomsko, Poland

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

### C. ENTITIES CONTROLLED BY TŽ

ENERGETIKA TŘINEC, a.s., registered office: Průmyslová 1024, Staré Město, 739 61 Třinec, Corporate ID: 47675896

Relation: In the reporting period, the entity was controlled by TŽ.

Strojírny Třinec, a.s., registered office: Třinec-Staré Město, Průmyslová 1038, 739 65, Corporate ID: 25363654

Relation: In the reporting period, until 31 August 2013, the entity was controlled by TŽ.

(The entity was dissolved as a result of amalgamation without liquidation with TŽ and D 5, akciová společnost, Třinec.)

Slévárny Třinec, a.s., registered office: Třinec-Staré Město, Průmyslová 1001, 739 65, Corporate ID: 25830716

Relation: In the reporting period, the entity was controlled by TŽ.

Třinecké gastroslužby, s.r.o., registered office: Třinec-Staré Město, Průmyslová 1035, 739 65, Corporate ID: 25838148

Relation: In the reporting period, the entity was controlled by TŽ.

SILESIALAG, a.s. “in liquidation”, registered office: Třinec-Staré Město, Průmyslová 1032, 739 65, Corporate ID: 25893882

Relation: The entity was dissolved as of 1 January 2012 – at this date, the entity entered into liquidation and was dissolved following its deletion from the Register of Companies subsequent to the completion of the liquidation, ie on 4 December 2013.

Doprava TŽ, a.s., registered office: Třinec-Staré Město, Průmyslová 1008, 739 65, Corporate ID: 25398083

Relation: In the reporting period, the entity was controlled by TŽ.

TRIALFA, s.r.o., registered office: Třinec-Kanada, ul. Míru 272, 739 65, Corporate ID: 25839888

Relation: In the reporting period, the entity was controlled by TŽ.

Řetězárna a.s., registered office: Česká Ves, Polská 48, 790 81, Corporate ID: 47672081

Relation: In the reporting period, the entity was controlled by TŽ.

Reťaze Slovakia, s.r.o., registered office: Nádražná 30, Skalica 909 01, Corporate ID: 34143483, Slovakia

Relation: In the reporting period, the entity was controlled by TŽ.

TRISIA, a.s., registered office: Třinec, nám. Svobody 526, Frýdek-Místek, Corporate ID: 64610152

Relation: In the reporting period, the entity was controlled by TŽ.

REFRASIL, s.r.o., registered office: Třinec-Konská, Průmyslová 720, 739 65, Corporate ID: 48395862

Relation: In the reporting period, the entity was controlled by TŽ.

Steel Consortium Partners, a.s. “in liquidation”, based in Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID: 27242382

Relation: In the reporting period, the entity was controlled by TŽ. (The entity was dissolved as of 1 January 2014 – as of this date it entered into liquidation).

VÚHŽ a.s., registered office: Dobrá 240, 739 51, Corporate ID: 27768953

Relation: In the reporting period, the entity was controlled by TŽ.

MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., registered office: Pohraniční 693/31, Vítkovice, 703 00 Ostrava, Corporate ID: 25870807

Relation: In the reporting period, the entity was controlled by TŽ.

Šroubárna Kyjov, spol. s r.o., registered office: Kyjov, Jiráskova 987, 697 32, Corporate ID: 42293588

Relation: In the reporting period, the entity was controlled by TŽ.

Moravia Security, a.s., registered office: Třinec-Konská, Průmyslová 725, 739 65, Corporate ID: 27835481

Relation: In the reporting period, the entity was controlled by TŽ.

Security Morava, s.r.o., registered office: Kyjov, Jiráskova 987, 697 01, Corporate ID: 28346262

Relation: In the reporting period, the entity was controlled by TŽ.

Strojírny a stavby Třinec, a.s., registered office: Průmyslová 1038, Staré Město, 739 61 Třinec, Corporate ID: 47674539

Relation: In the reporting period, the entity was controlled by TŽ. (Change in the company name and registered office: formerly, the entity operated under the business name "D 5, akciová společnost, Třinec, registered office: Třinec-Staré Město, Průmyslová 1026, 739 65.)

"METALURGIA" Spółka Akcyjna, registered office: ulica Świętej Rozalii nr 10/12, 97-500 Radomsko, Poland

Relation: In the reporting period, the entity was controlled by TŽ.

„ZAMECZEK BŁOGOCICE“ SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, registered office: ul. Zeromskiego 1, 43-400 Cieszyn, Poland

Relation: In the reporting period, the entity was controlled by TŽ.

„D&D” Drótaru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság, registered office: 3527 Miskolc, Besenyői u. 18., Hungary

Relation: In the reporting period, the entity was controlled by TŽ.

TŘINECKÁ PROJEKCE, a.s., registered office: Třinec-Kanada, Míru 274, 739 61, Corporate ID: 47677741

Relation: In the reporting period, the entity was controlled by TŽ.

ŽDB DRÁTOVNA a.s., registered office: Jeremenkova 66, Pudlov, 735 51 Bohumín, Corporate ID: 29400066

Relation: In the reporting period, the entity was controlled by TŽ.

DALSELV DESIGN a.s., registered office: Ostrava-Mariánské Hory, Slévárenská 403/11, 709 00, Corporate ID: 28262913

Relation: In the reporting period, the entity was controlled by TŽ.

Sochorová válcovna TŽ, a.s., registered office: Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID: 25872940

Relation: In the reporting period, starting on 11 November 2013, the entity was controlled by TŽ. (Formerly, the entity was controlled by MORAVIA STEEL a.s. and TŽ, acting in concert.)

Hanácké železářny a pérovny, a.s., registered office: Dolní 3137/100, 796 01 Prostějov, Corporate ID: 26955342

Relation: In the reporting period, starting on 11 November 2013, the entity was controlled by TŽ.

SV servisní, s.r.o., registered office: Prostějov, Dolní 3137/100, 796 01, Corporate ID: 60725974

Relation: In the reporting period, starting on 11 November 2013, the entity was controlled by TŽ.

The registered office addresses disclosed in this Chapter I have been outlined in accordance with the status at 31 December 2013.

## II. ROLE OF TŽ AND THE CONTROLLING METHODS AND INSTRUMENTS

In line with Chapter I of this Related Party Transactions Report, TŽ's role in the transactions with its related parties involves acting as a manufacturing company, the principal business activities of which comprise the production of metallurgical products.

TŽ is directly controlled by MORAVIA STEEL a.s.

In the reporting period, MORAVIA STEEL a.s. exercised controlling influence over TŽ, in its role as the majority shareholder in line with Section 66 (a) (1) and Section 66 (a) (3) (a) of Act No. 513/1991 Coll., the Commercial Code (similarly, in accordance with Section 73 and Section 74 (3) of the Act on Business Corporations), using its share on the voting rights in TŽ and thus, exercising its right to participate in its management at the General Meetings of TŽ and exercising its voting rights in the scope equal to its equity investment held in TŽ.

In the reporting period, until 4 June 2013, TŽ was controlled both by MORAVIA STEEL a.s. and FINITRADING a.s., whose position of the controlling entity of TŽ was based on the legal assumption in terms of Section 66 (a) (4) of Act No. 513/1991 Coll., the Commercial Code (similarly, in accordance with Section 75 (3) of the Act on Business Corporations).

Since 22 September 2013, MORAVIA STEEL a.s. has exercised controlling influence over TŽ as the sole shareholder, acting in the capacity as the General Meeting of TŽ.

TŽ acts as a controlling entity in relation to a part of a business group which primarily includes manufacturing companies. TŽ exercised controlling influence over these entities that are directly controlled by TŽ in its role as the majority shareholder under Section 66 (a) (1) and Section 66 (a) (3) (a) of Act No. 513/1991 Coll., the Commercial Code (similarly, in accordance with Section 73 and Section 74 (3) of the Act on Business Corporations), in that it used its shareholding in the voting rights of the controlled entities at their General Meetings, or that it exercised its role as the sole shareholder (owner) acting in the capacity as the General Meeting of the relevant controlled entities.

## III. LIST OF NEGOTIATIONS AND CONTRACTS

### A. List of negotiations and mutual contracts between the Company and controlling entities or entities controlled by the same controlling entity:

- a) In the reporting period, TŽ recorded no negotiations at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity that would relate to assets exceeding 10% of the equity of TŽ identified according to the financial statements for the year ended 31 December 2012 in accordance with Section 82 (2) d) of the Act on Business Corporations.
- b) The list of contracts between TŽ and controlling entities and entities controlled by the same controlling entity in accordance with Section 82 (2) (2) e) of the Act on Business Corporations, effective in the reporting period, is provided below in parts B. to H. of this part, ie a list of such contracts between TŽ and
  - MORAVIA STEEL a.s. in part B.;
  - Sochorová válcovna TŽ, a.s., in part C.;
  - Beskydská golfová, a.s., in part D.;
  - Hanácké železářny a pérovny, a.s., in part E.;
  - Moravskoslezský kovošrot, a.s., in part F.;
  - M Steel Projects a.s., in part G.; and
  - "NEOMET" SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ in part H.
- c) Between TŽ and other controlling entities and entities controlled by the same controlling entity other than listed in b) above, no contracts were concluded in accordance with Section 82 (2) e) of the Act on Business Corporations.
- d) Relations defined by Section 82 (2) d) and e) of the Act on Business Corporations that may have arisen in the reporting period between TŽ and entities controlled by TŽ according to part C. of chapter I., are listed in the Related Party Transactions Report of each of these controlled entities that individually prepares this report and describes these relations to TŽ.
- e) Parts B. to H. of this Related Party Transactions Report and individual Related Party Transactions Reports of entities controlled by the Company which are referred to in part A. d) of this chapter also provide information on potential relations with Strojírny Třinec, a.s. that was dissolved in the demerger and following merger without liquidation with TŽ and D 5, akciová společnost, Třinec (currently Strojírny a stavby Třinec, a.s.) as the rights and obligations arising from these relations for part of the dissolving company

“Drobné kolejivo” were assumed by TŽ, as the successor company with effect from 1 September 2013 and part of the dissolving company “Strojírny bez DK” was assumed by D 5, akciová společnost, Třinec (currently Strojírny a stavby Třinec, a.s.) as the successor company.

## **B. List of Contracts between TŽ and MORAVIA STEEL a.s.**

### **Introduction**

a) The principal contract applicable to the day-to-day business relations between TŽ and MORAVIA STEEL a.s. is the General Commercial Contract of 30 December 2002 whereby both parties declared their common interest in the further development of their mutual business relations. This contract is also updated for the relevant reporting period:

aa) by the Master Contract mentioned below of 30 December 2002 for the sale area; and

ab) by the Contract for the Supply of Materials and Raw Materials mentioned below of 12 January 1999 for the purchase area.

The individual performances are presented in the partial purchase contracts executed pursuant to the above contracts for a particular product, amount, shape and type, the agreed upon price and performance deadline. The agreed upon prices respect the specific features of purchases and sales in the metallurgic industry and take into account the elimination of foreign exchange risks, the adjustment of payment conditions, and business risks.

b) Due to the high number of contracts entered into during the reporting period, this related party transactions report includes:

ba) separate references to the individual contracts important for the relations between TŽ and MORAVIA STEEL a.s., primarily the contracts whereby the performance fee exclusive of VAT was agreed within the day-to-day course of business relations in the amount of no less than 1% of TŽ's share capital, and 0.5% of the TŽ's share capital outside of day-to-day business relations; and

bb) a collective reference to other contracts, mainly contracts whereby the performance fee is below the amount set out under section.

### **B.1. Contracts under which TŽ provided the performance in favour of MORAVIA STEEL a.s.**

#### **B.1.1. Master Contract**

The contract between TŽ and MORAVIA STEEL, a.s. was concluded on 30 December 2002.

The subject of the contract is the sale of metallurgical products to MORAVIA STEEL a.s. Partial sale contracts are prepared for individual performances. The prices for goods are arm's length prices derived from market prices.

During the reporting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and corrective tax documents in the respect of prices for the sale of products, or expenses associated with complaints was provided for consideration of CZK 30,290,610 thousand.

#### **B.1.2. Master Contract**

The contract between the Company and MORAVIA STEEL, a.s. was concluded on 26 February 2009.

The subject of this contract is the production of the track fastenings such as sole plates, jumpers and clamps.

During the reporting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and corrective tax documents in the respect of prices for the sale of products, or expenses associated with complaints was provided for consideration of CZK 302,892 thousand.

The rights and obligations arising from this contract were assumed by TŽ as a result of the demerger followed by merger starting from 1 September 2013.

#### **B.1.3. Licence Contract for the Use of the “Three Hammers in a Circle” Trademark**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 30 June 2002.

The subject of the contract is the use of the trademark of TŽ by MORAVIA STEEL a.s. as part of its logo.

During the reporting period, the consideration for the use amounted to CZK 123,000 thousand.

#### **B.1.4. Contract for the Provision of Services**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 1 January 2003.

The subject of the contract is the provision of security and asset guards, fire protection, postal services, archiving and documentation services, dispatch services, transport and customs clearance, information technology, selected technical services, pricing services, and selected accounting services and complaint resolution services to MORAVIA STEEL a.s.

During the reporting period, the performance under the above contract was provided for consideration of CZK 30,896 thousand.

#### **B.1.5. Lease Contract**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 9 March 2000.

The subject of the contract is the lease of real estate, non-residential premises and movable assets, including services relating to the lease, for the location of the registered office and business activities of MORAVIA STEEL a.s.

The rent and other payments arising from the above contract during the reporting period amounted to CZK 8,461 thousand.

#### **B.1.6. Contract for the Provision of Telecommunications Services**

This contract between TŽ and MORAVIA STEEL a.s. was entered into on 31 December 1998.

The subject of the contract is provision of telecommunication services to MORAVIA STEEL, a.s.

During the reporting period, the performance under the above contract was provided for consideration of CZK 2,987 thousand.

#### **B.1.7. Other Contracts**

During the reporting period, TŽ and MORAVIA STEEL, a.s. recorded effective contracts under which MORAVIA STEEL a.s. was provided with other performance involving the sale of goods and other assets, provision of internet services or other services for a total consideration of CZK 6,822 thousand.

### **B.2. Contracts under which MORAVIA STEEL a.s. provided the performance in favour of TŽ**

#### **B.2.1. Purchase Contract for the Supply of Materials and Raw Materials**

This contract between TŽ and MORAVIA STEEL, a.s. was entered into on 12 January 1999.

The subject of the contract is the purchase of metallurgical raw materials, mainly ores, coal, fuels and metallurgical semi-finished products. The volume of the supplies and fees are specified on a quarterly basis in the form of partial sale contracts.

During the reporting period, the performance under the above contract was provided for consideration of CZK 19,595,790 thousand.

#### **B.2.2. Master Forwarding Contract**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 30 December 2002.

The subject of the contract is the provision of the transport for goods and to perform activities associated with such transport and to arrange for any other action necessary for the operation of national railway freight transport for TŽ. The performance was provided on the basis of contractual prices agreed for one year with respect to a specific shipment and volume.

During the reporting period, the performance under the above contract was provided for consideration of CZK 253,098 thousand.

#### **B.2.3. Mandate Contract**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 1 July 2005.

The subject of the contract is the fact that MORAVIA STEEL a.s., on behalf and on the account of TŽ, agrees to deal with all business matters relating to the purchase of work and services local and foreign, technical and overhead material, spare parts necessary for performing the activity of TŽ, primarily providing for the production, maintenance and repairing of the production facility, technology, structures, land and other assets owned or used by TŽ.

During the reporting period, TŽ provided MORAVIA STEEL a.s. with consideration of CZK 42,841 thousand.



#### **B.2.4. Mandate Contract**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 29 June 2007.

The subject of the contract is the fact that MORAVIA STEEL a.s., on behalf and on the account of the Company, agrees to deal with all business matters relating to the purchase of metal scrap category No. 170405 (Iron and Steel) complying with the requirements of ČSN 420030 (Steel and Alloy scrap) – i.e. scrap for the production needs of the Company, as well as to deal with the relating activities, in the scope and under the conditions defined in the mandate contract.

During the reporting period, TŽ provided MORAVIA STEEL a.s. with consideration of CZK 82,724 thousand pursuant to the contract.

#### **B.2.5. Mandate Contract**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 28 February 2013.

The subject of the contract is the fact that MORAVIA STEEL a.s., on behalf and on the account of TŽ, agrees to deal with business matters relating to the purchase of fuel – diesel oil, gasoline and fuel for JET A1 aircraft turbine engines, as well as to deal with the relating activities, in the scope and under the conditions defined in the mandate contract, in the interest of the ongoing securing of fuel supplies necessary for the smooth operations of TŽ.

During the reporting period, TŽ provided MORAVIA STEEL a.s. with consideration of CZK 415 thousand.

#### **B.2.6. Contract for the Transfer of Securities**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 4 November 2013.

The subject of the contract is the transfer of securities – shares of Sochorová válcovna TŽ, a.s. to TŽ.

During the reporting period, TŽ provided MORAVIA STEEL a.s. with consideration which is subject to trade secrecy restrictions.

#### **B.2.7. Contract for the Transfer of Securities**

The contract between TŽ and MORAVIA STEEL a.s. was entered into on 4 November 2013.

The subject of the contract is the transfer of securities – shares of Hanácké železářny a pérovny, a.s., to TŽ.

During the reporting period, TŽ provided MORAVIA STEEL a.s. with consideration which is subject to trade secrecy restrictions.

#### **B.2.8. Other Contracts**

1. TŽ and MORAVIA STEEL, a.s. recorded other effective contracts in the reporting period under which TŽ received performance from MORAVIA STEEL, a.s. involving the provision of liability insurance, property insurance, insurance for the corporate body members, purchase of goods and provision of other services totalling CZK 28,611 thousand.

2. MORAVIA STEEL a.s. provided TŽ with guarantees for its obligations under:

The guarantees for investment loan settlement of CZK 300,000 thousand to the creditor CITIBANK Europe plc. The contract was concluded on 9 September 2004. As of 7 March 2013, the guarantees were terminated.

MORAVIA STEEL, a.s. provided no performance under the guarantees.

### **C. List of Contracts between TŽ and Sochorová válcovna TŽ, a.s.**

#### **C.1. Contracts under which TŽ provided the performance in favour of Sochorová válcovna TŽ, a.s.**

##### **C.1.1. Master Contract**

TŽ concluded this contract with Sochorová válcovna TŽ, a.s. on 30 June 2002.

The subject of the contract is the provision of conticasts, billets and blooms as well as charges for the manufacturing programme of Sochorová válcovna TŽ, a.s. Partial sale contracts are executed for individual performances. The prices for goods are arm's length prices derived from the prices for the relevant product mix under common commercial relationships.

During the reporting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and corrective tax documents in respect of the prices for the sale of products, or expenses associated with complaints, was provided for consideration of CZK 4,155,851 thousand.

#### **C.1.2. Licence Contract for the Use of the “Three Hammers in a Circle” Trademark**

The Company concluded this contract with Sochorová válcovna TŽ, a.s. on 30 June 2002.

The subject of this contract is the marking of products of Sochorová válcovna TŽ, a.s. with the trademark of the Company as well as the use of the trademark of the Company as part of the logo of Sochorová válcovna TŽ, a.s.

During the reporting period, the consideration for the right ensuing from the above contract amounted to CZK 80 thousand.

#### **C.1.3. Contract for the Provision of Services**

The contract between TŽ and Sochorová válcovna TŽ, a.s. was concluded on 2 January 2004.

The subject of the contract is the provision of services involving guards and protection of property, fire protection, filing room, archiving and documentation services, information technology, selected technical services, selected accounting services, protection of the environment, payroll and personnel and inspection services, audit, marketing, and procurement services to Sochorová válcovna TŽ, a.s.

During the reporting period, the performance under the above contract was provided for consideration of CZK 7,327 thousand.

#### **C.1.4. Lease Contract**

TŽ concluded the contract with Sochorová válcovna TŽ, a.s. on 30 June 2002.

During the reporting period, land for the business operations of Sochorová válcovna TŽ, a.s. was leased under this contract.

During the reporting period, the consideration for the rental and other payments under the above contract amounted to CZK 1,632 thousand.

#### **C.1.5. Contract for the Lease of Non-Residential Premises**

The Company concluded this contract with for the operation of Sochorová válcovna TŽ, a.s. on 13 May 2002.

The subject of the contract is the lease of non-residential premises, including the provision of services relating to the lease, for business activities of Sochorová válcovna TŽ, a.s.

During the reporting period, the consideration for the lease and other services under the above contract amounted to CZK 40 thousand.

#### **C.1.6. Other Contracts**

During the reporting period, the Company and Sochorová válcovna TŽ, a.s., recorded effective contracts under which Sochorová válcovna TŽ, a.s., was provided with performance involving the sale of goods and other assets and the provision of other services for an aggregate consideration of CZK 3,548 thousand.

### **C.2. Contracts under which Sochorová válcovna TŽ, a.s. provided the performance in favour of TŽ**

#### **C.2.1. Master Agreement No. 4600000076**

The Company concluded the contract with Sochorová válcovna TŽ, a.s. on 9 January 2003.

The subject of the contract is the thermal processing or other technologically necessary adjustments to rolled material.

During the reporting period, the performance under the above contract was provided for consideration of CZK 37,262 thousand.

#### **C.2.2. Other Contracts**

In the reporting period, TŽ and Sochorová válcovna TŽ, a.s. recorded effective contracts under which the Company and Sochorová válcovna TŽ, a.s. recorded performance involving the purchase of scrap and cinder for CZK 105,066 thousand and under which the Company received performance involving the provision of services for consideration of CZK 21 thousand.

#### **D. List of Contracts between and Beskydská golfová, a.s.**

##### **D.1. Contracts under which TŽ, a.s. provided the performance in favour of Beskydská golfová, a.s.**

During the reporting period, TŽ and Beskydská golfová, a.s., recorded effective contracts under which TŽ provided Beskydská golfová, a.s., with performance involving the provision of internet and other services for an aggregate consideration of CZK 136 thousand.

##### **D.2. Contracts under which Beskydská golfová, a.s. provided the performance in favour of TŽ**

In the reporting period, TŽ and Beskydská golfová, a.s., recorded effective contracts under which TŽ received performance involving the purchase of services for consideration of CZK 5,374 thousand.

#### **E. List of Contracts between TŽ and Hanácké železářny a pérovny, a.s.**

##### **E.1. Contracts under which TŽ provided the performance in favour of Hanácké železářny a pérovny, a.s.**

During the relevant reporting period, TŽ and Hanácké železářny a pérovny, a.s., recorded effective contracts under which TŽ provided performance which involved the provision of services for an aggregate consideration of CZK 2,783 thousand.

##### **E.2. Contracts under which Hanácké železářny a pérovny, a.s. provided the performance in favour of TŽ**

During the relevant reporting period, TŽ and Hanácké železářny a pérovny, a.s., recorded effective contracts under which TŽ received performance which involved the purchase of material for an aggregate consideration of CZK 64 thousand.

#### **F. List of Contracts between TŽ and Moravskoslezský kovošrot, a.s.**

##### **F.1. Contracts under which TŽ provided the performance in favour of Moravskoslezský kovošrot, a.s.**

###### **F.1.1. Contract for the Receipt, Use and Disposal of Waste**

This Contract was concluded between TŽ and Moravskoslezský kovošrot, a.s., on 25 January 2013.

The subject of the contract is the sale of scrap.

In the reporting period, performance was provided under this contract for consideration of CZK 1,800 thousand.

###### **F.1.2. Master Contract**

This Contract was concluded between TŽ and Moravskoslezský kovošrot, a.s. on 4 January 2010.

The subject of the contract is the sale of non-ferrous metal scrap.

In the reporting period, performance was provided under this contract for consideration of CZK 2,142 thousand.

###### **F.1.3. Other Contracts**

During the reporting period, the Company and Moravskoslezský kovošrot, a.s. recorded effective contracts under which TŽ provided Moravskoslezský kovošrot, a.s. with other services for an aggregate consideration of CZK 1,225 thousand.

##### **F.2. Contracts under which Moravskoslezský kovošrot, a.s. provided the performance in favour of TŽ**

During the reporting period, TŽ and Moravskoslezský kovošrot, a.s., recorded effective contracts under which the Company received performance which involved the purchase of scrap.

During the reporting period, Moravskoslezský kovošrot, a.s. provided TŽ with performance for consideration of CZK 1,178,204 thousand based on these contracts.

#### **G. List of Contracts between TŽ and M Steel Projects a.s.**

During the relevant reporting period, TŽ and M Steel Projects a.s. recorded effective contracts under which TŽ provided performance which involved the provision of services for an aggregate consideration of CZK 78 thousand.

## H. List of Contracts between TŽ and “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

### H.1. Contracts under which TŽ provided the performance in favour of “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

#### H.1.1. Loan Contract

The contract between TŽ and “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ was entered into on 28 November 2013.

The subject of this contract is a provision of a loan.

During the reporting period, TŽ provided “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ with performance for the consideration of CZK 61 thousand based on this contract.

#### H.1.2. Other Contract

During the relevant reporting period, TŽ and “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ recorded effective contracts under which TŽ provided “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ with other services for an aggregate consideration of CZK 99 thousand.

### H.2. Contracts under which “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ provided the performance in favour of TŽ

During the reporting period, TŽ and “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ recorded effective contracts under which the Company received performance which involved the purchase of scrap.

During the reporting period, “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ provided the Company with performance for the consideration of CZK 468,804 thousand based on these contracts.

## IV. ASSESSMENT OF RELATIONS

This Related Party Transactions Report lists all significant facts that are requirements of the Related Party Transactions Report, covering the relations between TŽ and entities that control it, and between TŽ and entities controlled by the same controlling entity in accordance with Section 82 of the Act on Business Corporations.

Performances and counter-performances received and provided by TŽ, as listed in parts B. to H. of Part III. of this Related Party Transactions Report, were provided under standard business conditions.

The prices agreed between TŽ and controlling entities and entities controlled by the same controlling entity do not differ from prices that would be agreed by independent entities; the transactions between TŽ and these entities are conducted under the arm's length principle.

TŽ considers the relations with controlling entities and entities controlled by the same controlling entity as beneficial and TŽ faces no other risks than standard market risks arising from business in relevant sectors due to these relations.

TŽ incurred no detriment from relations with controlling entities and entities controlled by the same controlling entity in the reporting period.

In Třinec on 17 March 2014



.....  
**Jan Czudek**

Chairman of the Board of Directors  
TŘINECKÉ ŽELEZÁRNY, a. s.



.....  
**Petr Popelář**

Second Vice-Chairman of the Board of Directors  
TŘINECKÉ ŽELEZÁRNY, a. s.