

ANNUAL REPORT

2017



TŘINECKÉ ŽELEZÁRNY

CONTENTS

GENERAL SECTION

I	Company Profile	4
II	Key Performance Indicators 2013 – 2017	8
III	Supervisory Board and Board of Directors	9
IV	Introductory Word of the Supervisory Board Chairman	11
V	Board of Directors Report	13
	Development of the Macroeconomic Environment and Competition	13
	Production and Position on the Market	14
	Investments and Modernizations	17
	Technology and Research	18
	Environment	20
	Employees	23
	Management System	25
	Financial Information	27
	Strategic Objectives	29
VI	Report of the Supervisory Board	30
VII	Report of the Audit Committee	32

FINANCIAL SECTION

VIII	Auditor's Report	37
IX	Financial Part I. – Financial Statements	40
	Balance Sheet Full Version – Assets	41
	Balance Sheet Full Version – Liabilities & Equity	43
	Profit and Loss Account Structured by the Nature of Expense Method	44
	Statement of Changes in Equity	45
	Cash Flow Statement	46
	Notes to the Financial Statement	47
X	Financial part II. – Consolidated Financial Statements	81
	Consolidated Balance Sheet Full Version – Assets	82
	Consolidated Balance Sheet Full Version – Liabilities & Equity	84
	Consolidated Profit and Loss Account Structured by the Nature of Expense Method	86
	Consolidated Statement of Changes in Equity	88
	Consolidated Cash Flow Statement	89
	Notes to the Consolidated Financial Statement	90
XI	Report on Related Party Transactions for the Year 2017	138

GENERAL SECTION



I

COMPANY
PROFILE

TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter Třinecké železářny), was founded in 1839 and for 179 years it has been a successor of the long tradition of metallurgical production in Těšín Silesia.

At present, Třinecké železářny is the most significant subsidiary of the commercial company MORAVIA STEEL a. s., which is its sole shareholder. In the last nine years, Třinecké železářny has been the largest producer of crude steel in the Czech Republic. The strategy of Třinecké železářny is focused on “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”.

Annual production of the ironworks reaches around 2.5 million tonnes of steel and 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.

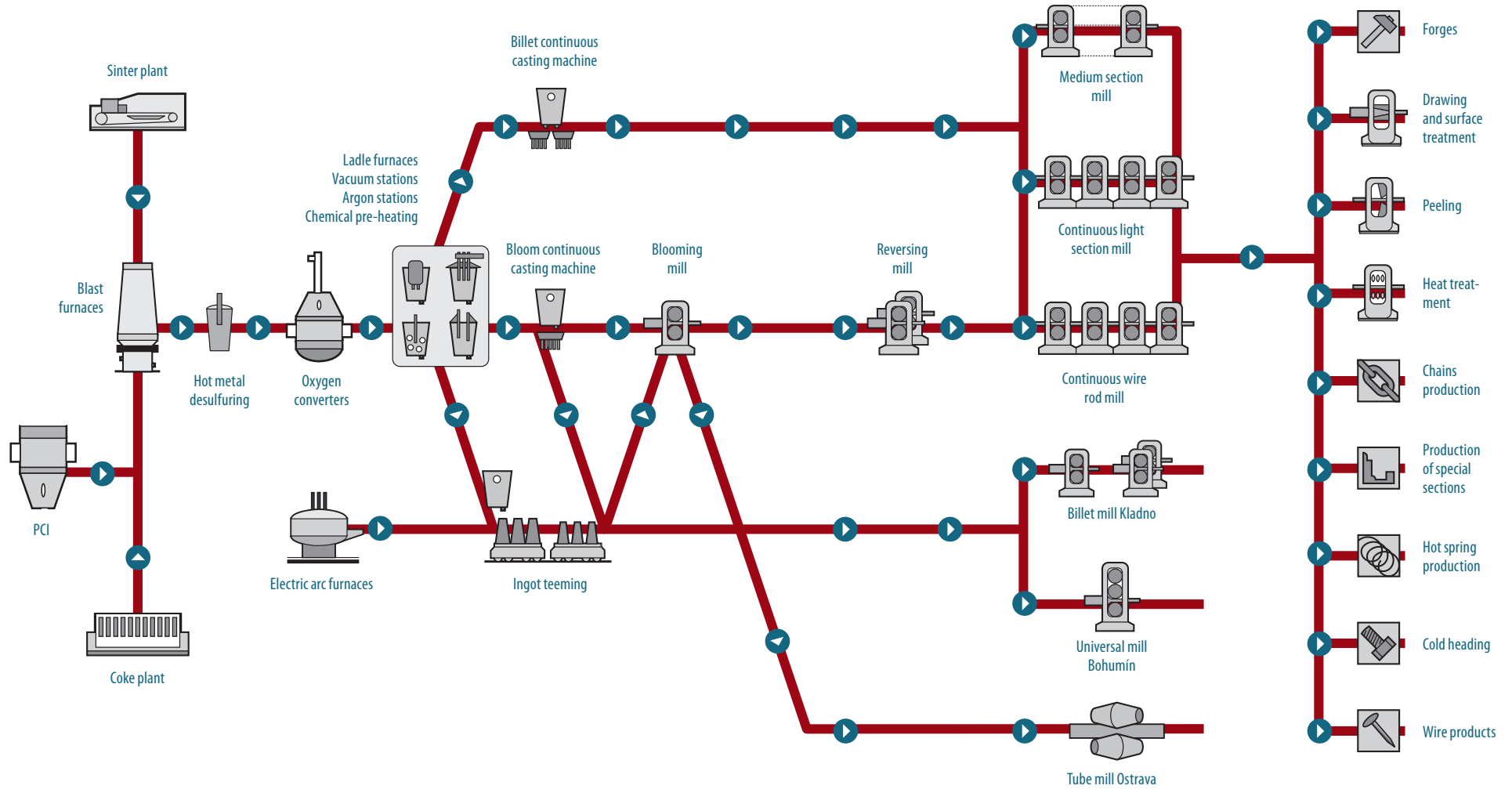
Our production plants comprise a comprehensive cycle from coke production to the final hot rolled steel product. The coke-chemical production plant includes two coke-oven batteries. Produced coke is used in our own blast furnaces together with the sinter charge prepared in two sinter plants. Part of the blast furnace coke consumption has been substituted by the pulverised coal injection (PCI) into the blast furnace hearth. More than 98% of Třinec steel is produced in the BOF converter plant, on the basis of oxygen refining of iron. The BOF plant is equipped with complete ladle metallurgy enabling chemical and thermal homogenisation, additional alloying as well as vacuum treatment. The BOF steel is largely cast in 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 for blooms and heavy profiles, medium section mill, rolling mill for wire rod and light sections – as well as for the tube mill in Ostrava, for the universal strip rolling mill in Bohumín, the steel drawing plant in Staré Město u Uherského Hradiště or for the billet mill located in Kladno. The accompanying products, resulting from metallurgical production, are processed into artificial normal weight aggregate and further

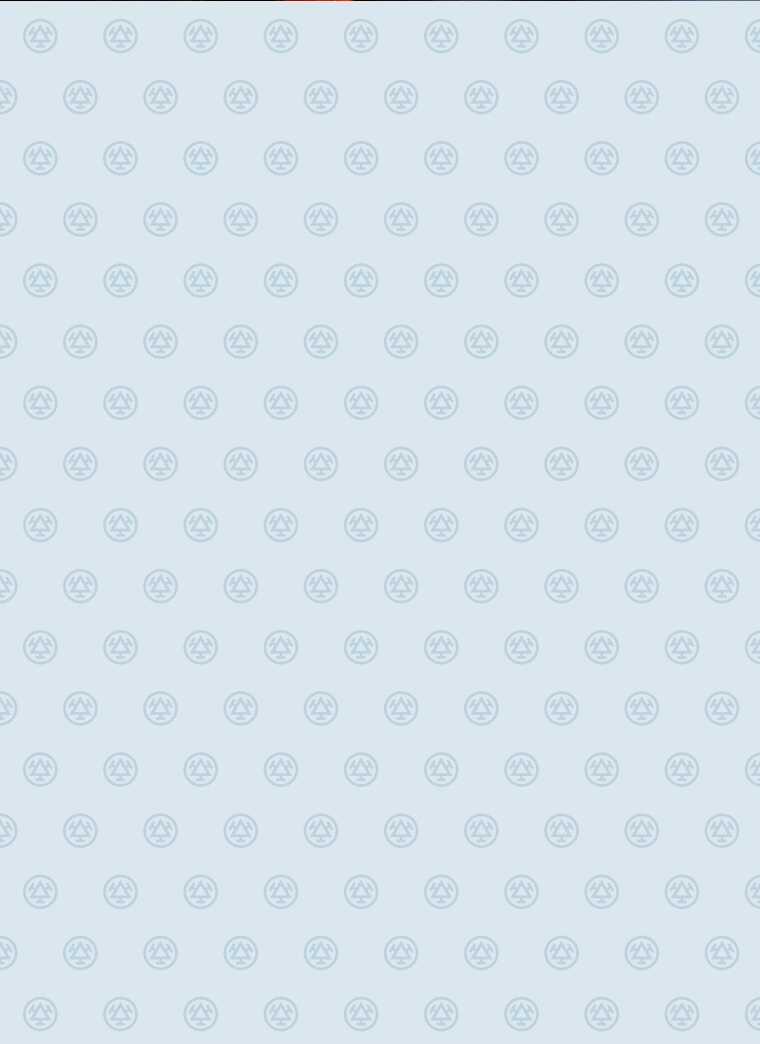
construction material at the secondary raw material plant. Metalliferous waste goes back to the closed metallurgical cycle.

To date, Třinecké železářny has produced more than 180 million tonnes of steel. Our products 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.



MATERIAL FLOWS AND TECHNOLOGIES





OUR STRATEGIC FRAMEWORK



II

KEY PERFORMANCE
INDICATORS 2013 – 2017

KEY PERFORMANCE INDICATORS 2013 – 2017

Indicator	Unit	2013	2014	2015	2016	2017
Pig iron production	kt	2 068	2 061	2 070	2 118	2 059
Crude steel production	kt	2 553	2 540	2 532	2 605	2 528
Of which continuous castings	kt	2 440	2 424	2 409	2 487	2 424
Sales of rolled products including steel	kt	2 405	2 272	2 379	2 386	2 333
Total revenues	CZK mil.	37 765	40 849	37 695	33 027	36 807
Income from sales of products, goods and services	CZK mil.	36 701	38 354	36 921	32 217	35 859
Export share	%	58.4	66.6	66.6	67.8	66.2
Total costs excluding income tax	CZK mil.	36 378	37 077	34 350	31 273	35 118
Net profit or loss	CZK mil.	1 082	3 048	2 780	1 440	1 424
Consolidated profit or loss	CZK mil.	1 376	3 518	3 026	1 857	1 561
Net total assets	CZK mil.	30 378	33 462	32 948	33 843	35 399
Gross tangible fixed assets	CZK mil.	29 934	33 372	34 301	36 115	38 497
Adjustments	CZK mil.	19 204	20 479	21 087	22 118	23 118
Equity	CZK mil.	21 264	24 512	25 692	25 732	25 756
Capital investments	CZK mil.	1 653*	2 007*	1 518*	2 038	2 679*
Other capital including other liabilities	CZK mil.	9 115	8 950	7 255	8 111	9 643
Employees (average adjusted total)	Persons	6 099	6 909	7 014	7 006	7 029
Average monthly wage	CZK/person	27 750	28 396	29 100	29 103	31 043

*without subsidies

III

SUPERVISORY BOARD
AND BOARD OF DIRECTORS

SUPERVISORY BOARD

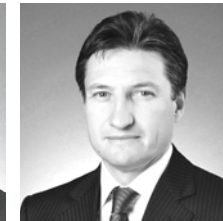
Title	Name	Changes
Chairman	Tomáš Chrenek	
1st Vice-Chairman	Ján Moder	
2nd Vice-Chairman	Evžen Balko	
Member	Jozef Blaško	
Member	Jiří Cieřiaala	to 31. 3. 2017
Member	Marcel Pielesz	from 1. 12. 2017
Member	František Ligocki	



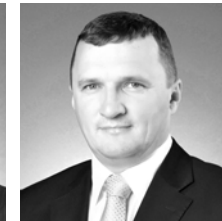
Tomáš Chrenek



Ján Moder



Evžen Balko



Jozef Blaško



Jiří Cieřiaala



Marcel Pielesz



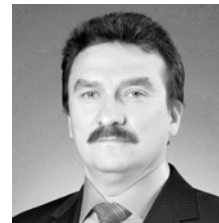
František Ligocki

BOARD OF DIRECTORS

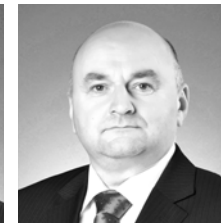
Title	Name
Chairman	Jan Czudek
1st Vice-Chairman	Česlav Marek
2nd Vice-Chairman	Henryk Huczala
Member	Radomíra Pekárková
Member	Ivo Žižka



Jan Czudek



Česlav Marek



Henryk Huczala



Radomíra Pekárková



Ivo Žižka

IV

INTRODUCTORY WORD OF THE SUPERVISORY BOARD CHAIRMAN



TO OUR CUSTOMERS, PARTNERS AND EMPLOYEES

2017 meant further stabilization of European markets, although some threats could not be overlooked. First of all, this includes the inconsistent implementation of the EU's industrial policy aimed at reversing the declining share of industry in the European Union's GDP. However, this share remains unchanged contrary to the expectations. In addition, European markets face several other risks, the largest of which is the US market protection measures now underway set by the Trump administration. The level of European exports to the US, which was 4.9 million tonnes in 2017, is currently declining and new outlets for redundant products will be sought.

Other challenges faced by today's steel industry are disproportionately high energy prices for energy-intensive manufacturing companies. Compared to US prices, European companies pay for electricity almost two and a half times as much. In addition, we are currently unable to accurately assess the implications of the fourth phase of the EU Emissions Trading System. The impact of this reform may result in a huge increase in extra costs, where the low efficiency of steel production

in Europe will not allow it to continue, and production units will start to move beyond the EU borders to a much greater extent than has been the case so far.

The demand for steel is high. This can be proved by the negative balance of the Czech Republic's steel trade, which has increased again in comparison with previous year, by almost one million tonnes. While this balance was -330,000 tonnes 10 years ago, today it is worth -2.6 million tonnes of steel products. Czech steelmaking is thriving in times of boom, but we do not use its full potential. Třinecké železářny supplied the market with roughly 50 thousand tonnes of steel products less in 2017 than in the previous year. The main cause are not the market conditions, but the fundamental rebuilding of the blooming mill and the billet stand. We have reconstructed the blooming mill after an unbelievable 103 years of its operation. The most demanding phase of this reconstruction was the demolition and rebuilding of the foundations under the carrier technology. The trench depth for new foundations has reached almost 8 meters. At present, instead of the great grandma mill we have one of the most up-to-date rolling stands in Europe. Other investments include the



For nine years
in a rope we are
the biggest

Czech crude
steel producer

construction of a new billet grinding plant and the reconstruction of the continuous casting facility No. 1. The total investment costs reached almost CZK 2.7 billion.

Despite the difficult conditions due to our new investments, we have continued to hold the position of the largest producer of steel and rolled material in the Czech Republic, when virtually every second tonne of Czech steel was cast in Třinec.

The profit for the year 2017 slightly decreased compared to the previous year, its pre-tax value amounted to CZK 1,689 million. Our company's consolidated financial performance has also been positively reflected in the good results of our subsidiaries.

Dear customers, partners and employees, thank you on behalf of the Supervisory Board and the Board of Directors of our joint stock company for quality cooperation, work commitment, invention and loyalty, as well as the support that we have received from you all over the past year. The difficult situation that took place in 2017 has been managed, thanks in particular to you. It is a sincere thanks to all of you. I believe that even in the future, Třinecké železářny will be one of the leading companies in the Czech Republic and our products will continue to be sought after by customers from around the world.

Tomáš Chrenek

CHAIRMAN OF THE SUPERVISORY BOARD



BOARD OF DIRECTORS REPORT

DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

In 2017, Gross Domestic Product in the Czech Republic recorded the second-best result since the crisis in 2009. Year-on-year growth of 4.5% was also well balanced, both domestic and foreign demand contributed to it. The Czech economy has had a very successful year, when household consumption has grown, reflecting rising wages and low unemployment rates, which reached record numbers. Economic growth has also been supported by declining savings rate and high consumer confidence in further economic development. Industry supported by external demand in the automotive sector made a significant contribution to the economic development. The construction output rose above the level of the previous year, despite the first half of last year which seemed hopeless. The economic forecasts assume that the positive economic situation should continue in 2018.

Last year, crude steel production in the Czech Republic declined by more than 14 percent to 4.55 million tonnes. For the first time since 2009 domestic steel production reached under five million tonnes. The most significant drop in production was due to the planned reconstruction and modernization in both the largest domestic steelworks. However, Třinecké železářny was able to produce 2,528 thousand tonnes of crude steel in 2017, compared to the previous year, this was decrease of only 3 percent. As a result, the Company retained its position as the largest steel producer in the Czech Republic, which it has held for nine years. Compared to the previous year, total foreign trade in metallurgical products in the Czech Republic recorded an increase in imports in almost all product ranges last year, i.e. flat and long products, tubes and other products. On the contrary, the total exports of metallurgical products from the Czech Republic declined to the level of 2014. Imports of metallurgical products from third countries (outside the European Union) to the Czech Republic have steadily increased in recent years, the most noticeable increase concerns ingots and semi-finished products.

In 2017, world steel production grew by 5.3% compared to the previous year and reached 1,691.2 million tonnes. Compared to previous years, crude steel production also increased in Europe, North and South America. Only Japan recorded a decline. For the ninth consecutive year, China confirmed its world leadership in the production of crude steel with over 500 million tonnes per year. In 2017, China's share of world production increased slightly from 49.0% to 49.2%, to 831.7 million tonnes of crude steel. Global steel consumption continues to follow a moderate growth trend, which can be expected for the near future. In spite of rising production and consumption of steel, in recent years especially European steelmaking has had to face the pressure of increasing imports from third countries and the threat of the impact of a new form of emission allowance reform for the period of 2021-2030, which currently does not provide carbon leakage protection and it will cost steel companies billions of crowns. Addressing these urgent issues is undoubtedly a key factor for maintaining a competitive and sustainable steel industry in Europe.

PRODUCTION AND POSITION ON THE MARKET

World crude steel production reached 1,691 million tonnes in 2017, a growth of 5.3% compared to 2016. Its production increased in 2017 in all regions, with the exception of the countries of the Commonwealth of Independent States.

Annual crude steel production in Asia was at 1,162 million tonnes, a growth of 5.4% compared to 2016. The crude steel production in China amounted to 831.7 million tonnes, an increase of 5.7%. Japan produced 104.7 million tonnes in 2017, a decline of 0.1% compared to 2016. The production of crude steel in India last year rose by 6.2% to 101.4 million tonnes. South Korea produced 71.1 million tonnes of crude steel, i.e. 3.7% more than in the previous year. North America produced 4.8% more crude steel than in 2016, 116.0 million tonnes.

The EU countries produced 168.7 million tonnes of crude steel last year, 4.1% more than the previous year. Germany produced 43.6 million tonnes (+ 3.5%), Italy reached 24.0 million tonnes (+2.9%) and Spain recorded 14.5 million tonnes of crude steel (+ 6.2%). EU countries' share of global crude steel production declined from 10.1% in 2016 to 10.0% in 2017.

In 2017, the production of crude steel in the CIS (Commonwealth of Independent States) countries was 102.1 million tonnes, of which Russia produced 71.3 million tonnes of crude steel, 1.3% more than in 2016. Ukraine recorded a decrease in production of 6.4 % to 22.7 million tonnes.

The largest increase in crude steel production was registered in South America, where 43.7 million tonnes were produced, 8.7% more than in the previous year, of which Brazil produced 34.4 million tonnes, a growth of 9.9% compared to 2016.

The average use of world production capacities in 2011 was 72.3%, compared with 69.3% in 2016.

The year 2017 was a strong expanding year for the consumer sector of the EU steel industry. The strongest growth in consumption was recorded in the steel tube sector, followed by mechanical engineering, electrical appliances and construction sectors. As expected, growth in the automotive industry declined slightly. Higher growth rates were achieved in Central Europe countries.

The outlook for 2018 and 2019 remains positive. Activity in the steel sector stabilizes and the moderate pace of development will continue despite the projected decline in the tubes sector and

automotive industries. Basic economic conditions continue to support lasting development in other sectors.

Production in the steel industry in the EU is projected to increase by 2.2% in 2018 and by 1.8% in 2019.

The risk factor for the steel market is mainly unfair imports and protectionist measures in some countries.

The production of crude steel in the Czech Republic in 2017 amounted to 4.55 million tonnes, which is 14.2% less than the previous year. The volume of crude steel production decreased by 11.4% to 4.17 million tonnes. In 2018, production is expected to increase to the previous level, i.e. a growth in the range of 10–15%.

The share of Třinecké železářny in the domestic production of raw steel last year grew to 55%. In 2017, Třinecké železářny produced a total of 2,528 million tonnes of crude steel. Třinecké železářny has modern technological equipment, high level of expertise and knowledge of employees throughout the production and technological flow. We qualify as one of the leading European manufacturers of long products, mainly in the

production of SBQ steel, wire rod and drawn bars. The high quality of our products and the reliability of our deliveries has found the permanent use in the European market, mainly in the automotive industry, mechanical engineering, railway industry and construction sectors.

The sales volume of rolled products and semi-finished products including steel reached 2,333 million tonnes last year. Out of this volume, 32.8% is attributable to domestic buyers. The most important export countries include Germany, Slovakia, Italy, Poland and the USA.

In the overall summary, the best-selling product was the wire rod, whose share of total sales in 2017 amounted to 42.6%. Total sales of wire rod reached the level of 995 kilo tonnes last year, 70% of which was sold to foreign markets.

The volume of sales in the range of bars and profiles amounted to 575 kilo tonnes, 62% of this was exported. Thanks to investments in new refining and processing capacity, this type of product is offered not only as rolled steel but also heat-treated steel, peeled or drawn. A greater degree of finalization allows for increased sales of higher added value products, which are mainly used in the automotive and engineering industry.

Sales of semis recorded a slight decrease to 339 kilo tonnes (–6.6%). The share of semi-block casting accounted for 66%, e. g. 18% of rolled blocks and 15% of rolled billets. A one percent share was completed by sales of ingots and rolled slabs. Export volume of 168 kilo tonnes accounted for 49% of total sales of semi-finished products.

Třinecké železářny is the only rail and railway accessories producer in the Czech Republic and last year it supplied 30 kilo tonnes on the domestic market. Of the total sales volume of 192 kilo tonnes, 68 kilo tonnes of rails and railway accessories were exported to the EU, and another 67 kilo tonnes of rails were sent to Canada and the USA. Total exports of this product range accounted for 84% last year.

Exports of seamless tubes rose to 87 kilo tonnes in the past year, 81% of which went to the EU market. The domestic supply increased to 9,1%. Seamless tubes are used to construction sector, mechanical engineering, oil and energy industries.

Sales of wide steel, produced by the universal strip mill in Bohumín, reached 37.9 kilo tonnes in 2017, mainly in the assortment of structural steels, of which 33.4 kilo tonnes were exported to EU countries. Of the remaining 4.5 kilo tonnes, supplied to the domestic market, tool steel represented 38%.

SALES OF LONG PRODUCTS 2015 – 2017

Sales (tonnes)	Domestic			Export			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Wire rod	300 805	313 055	301 458	636 343	663 567	693 064	937 148	976 622	994 522
Semis	175 954	170 242	171 633	190 639	192 813	167 742	366 593	363 055	339 375
Profiles and bars	208 115	214 278	217 011	362 831	361 211	356 802	570 946	575 489	573 813
Rails ¹	55 851	23 549	29 562	222 484	210 813	162 413	278 335	234 362	191 975
Tubes	10 543	7 377	8 675	81 009	88 114	87 485	91 552	95 491	96 160
Wide steel	5 872	4 739	4 551	40 071	43 162	33 430	45 943	47 901	37 981
Drawn bars	29 157	29 074	28 432	52 500	57 624	63 768	81 657	86 698	92 200
Drawn wire rod	4 109	3 578	3 894	2 702	3 143	3 290	6 811	6 721	7 184
Total	790 406	765 892	765 216	1 588 579	1 620 447	1 567 994	2 378 985	2 386 339	2 333 210

¹ sales of rails together with railway superstructure accessories

OUR EXPORT TERRITORIES

Export share v %	2014	2015	2016	2017
European Union	86.4	86.6	88.9	90.2
– Germany	25.3	25.2	26.5	24.7
– Slovakia	11.7	11.4	13.4	15.1
– Italy	12.9	13.6	15.2	15.9
– Poland	12.7	12.5	10.8	10.8
The Other Europe	0.8	1	3.1	0.4
America	11.1	9.4	7.3	7.6
Africa + Australia	0.8	0.6	0	0.1
Asia	0.9	2.4	0.7	1.7
Total	100,0	100,0	100,0	100,0



After unbelievable
103 year
 operation
 we have modernized
 the blooming mill

INVESTMENTS AND MODERNIZATIONS

The technical development projects plan for 2017, which is part of the business program, is fully compliant with 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 investments were focused on modernising, through environmental projects resulting from the conclusions of integrated permits, projects to cut costs as well as renew current facilities.

A total amount of CZK 2,698 million was invested, of which CZK 18.74 million consisted of grants for environmental projects received from the State Environmental Fund SEF.

In 2017, 52 running projects were ongoing.

The most significant of them are:

- Reconstruction of a gas cleaning facility of converter No. 1 and No. 2,
- New cleaning billet mill construction,
- Annealing rods furnaces construction,
- Modernisation and reconstruction of blooming mill,
- New billet line.

A total of 133 modernization projects have been launched. The most significant of them are:

- Renewal of guide line of continuous casting machine No. 1,
- Modernization and reconstruction of continuous casting machine No. 1,
- Modification of continuous casting No. 1 for casting format 600 mm,
- Desulphurisation of sinter plant No. 1,
- Replacement of scissors No. 3.

In 2017, 8 ecological projects have been continued using grants of the State Environmental Fund of the Czech Republic and EU funds. In total, CZK 44 million was invested in these events in 2017. The most significant are:

- Filtration station at the slag mill,
- Centralized vacuuming of sinter plant No. 2 and pouring station No. 1, iron ore sorting,
- Dust catching facility at the Billet Mill in Kladno.



TECHNOLOGY AND RESEARCH

Satisfaction of demanding customer requirements is related to the technological activity of Třinecké železářny, which is focused on the realization of the strategic aims of Třinecké železářny. In practice, it means that the technological process control throughout the production flow is ensured by the required qualitative parameters of the manufactured semi-finished products. Validation, integration and implementation of modern, advanced technologies and processes not only significantly reduces production and processing costs or environmental burden, but also significantly adds value to final products. Thanks to this, Třinecké železářny is one of the leading steel producers in Central Europe.

The field of technology is sophisticatedly managed through the technological regulations and measures. It 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, as peeling, drawing or hot treatment where needed. The technological regulations and measures mentioned above are closely connected with the requirements of customers in synergy with the possibilities of production facilities and they are continuously updated with regard to research and development

activities, or innovation technology. In the case of investments in new facilities, appropriate documentation is created to allow the implementation of new technology.

The implemented “Quality Plans” and “Programme of Continual Improvement” as a part of the “Quality Objectives” are tools for retaining the most significant customers. These activities are aimed at lowering or eliminating non-conformity of production and achieving maximum satisfaction in the midst of the still growing number of quality demands of customers. Close cooperation with key customers is professionally controlled by technical “Quality Services”.

Finally, technological activity is focused on improving the quality of interaction with subsidiaries in the Třinecké železářny – Moravia Steel Group. Active cooperation helps optimise and link together new technologies or innovations with new development of cutting-edge products.

One of the key tools of permanent production quality control in line with customer requirements are the principal production programs that are negotiated every year:

- Steel grades for Billet Mill in Kladno,
- Tube production,
- Steel grades from EAF,
- Steel bars from Continuous Light Section Mill and Medium Section Mill for automotive industry,
- Screw steel,
- Spring steel,
- Drawn steel,
- Chain steel,
- Bearing steel,
- Continuously cast semis for direct deliveries and axle steel,
- Rails,
- Wire rod from Continuous Wire Rod Mill,
- Waste management and by-products.

Research and development in Třinecké železářny was focused in 2017 on the optimization of production costs, the introduction of new technologies throughout the production process and the finalization of steel products. In addition to the costs, the aim was to increase the quality parameters in connection with the strategic investment plans and innovations in the

company. At the same time, the development of environmentally friendly technologies has been pursued to reduce negative impacts. It should be noted that the year 2017 was accompanied by a negative fact, by the non-standard quality of coal imported to the Czech Republic, so it was important to test coal from other foreign locations to achieve suitable coal compositions for the production of blast furnace coke. This has led to an increased number of tests and laboratory activities.

Examples includes projects aimed at:

- Improvement of micro-purity steel produced by continuous casting machine No. 1 and No. 2,
- Optimization of hot iron and coke production costs,
- Reduction of coal-tar in coke waters,
- Use of secondary raw materials (dust, isolates etc.) in the production cycle,
- Mechanical qualities improvement of manufactured steel grades and new grades of steel for special applications.

Within the framework of realized investments or prototypes, research and development were also focused on:

- Development and verification of the heat treatment (refinement) technologies of drawn bars on the inductive refining line,

- Development and verification of controlled rolling and wire cooling after reconstruction of Continuous Wire Rod Mill,
- Punch optimization and heat treatment technology of microalloyed and low alloy steels,
- Research and development of temperature-controlled rolling and cooling of seamless tubes with subsequent final treatment,
- Development and verification of controlled rail cooling,
- Development and utilization of laser triangulation method to improve the surface quality of cast billets in the conditions of new cleaning billet mill construction.

The main partners of Třinecké železářny involving projects in the field of basic research are their subsidiaries MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s. r. o. and VÚHŽ a. s., universities and research organisations, i.e. Technical University of Ostrava, Brno University of Technology, University of Chemistry and Technology in Prague have the same measure of cooperation as in the prior years.

A total of 25 research projects were carried out in 2017, of which 22 were intra-company projects and 3 were state subsidies provided by the Technology Agency of the Czech Republic and the Ministry of Industry of the Czech Republic.



thanks to the environmental
investments the dust
emissions dropped by

74.7%

comparing to 2013

ENVIRONMENT

Air protection

Compared to 2016, there was further year-on-year reduction in emissions of solid pollutants to the new historical minimum. This reduction is related to the year-round operation of new dust-capture investments, without limitation of production during the installation of new technologies.

For sulphur dioxide, nitrogen oxides and carbon monoxide, we recorded their moderate year-on-year increase, which corresponded to the increase in agglomerate production compared to 2016.

For the year 2017, the emissions of greenhouse gases from installations in the Třinec area of TŽ were in the amount of 2,629,576 tonnes of carbon dioxide. The amount of carbon dioxide from the tube mill in Ostrava was 14,013 tonnes and the amount of carbon dioxide from the Billet Mill Kladno reached 51,122 tonnes. The total amount of greenhouse gases from Třinecké železářny installations in the year 2017 amounted to 2,694,711 tonnes of carbon dioxide, which represents a slight annual increase due to the re-commissioning of coke oven battery No. 11 after its modernization and reconstruction.

POLLUTANTS IN 2017 COMPARED TO 2016

Year	Solid pollutants (t/year)	Sulphur (t/year)	Nitrogen oxides (t/year)	Carbon monoxide (t/year)	Carbon dioxide (t/year)
2016	185	2 514	1 596	65 903	2 586 537
2017	148	2 753	1 726	69 032	2 694 711



Water protection

The amount of industrial wastewater discharged into the Olše River watercourse and the pollution of water did not record any significant change in 2017 compared to 2016. This corresponds to the long term stabilised state of our water management. The level of waste water pollution achieves a sustainable level with respect to compliance with the specified limits of pollution.

In terms of production of wastewater per tonne of produced steel, the situation is consistently stable as in 2016, when wastewater production was 1.63 m³/t. In 2017, wastewater production recorded 1.65 m³/t.

During 2017, 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 IN 2017 COMPARED TO 2016

Year	Volume of waste water [m ³ /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]
2016	4 350 240	34.6	0.57	2 083	78.3	3.9
2017	4 171 138	32.0	0.66	2 115	83.1	3.5

Note.: the data refer to the Třinecké železářny premises in Třinec

Waste management

In the reporting year 2017, we recorded a growth of waste production compared to 2016, but in terms of longer year-to-year comparisons, 2017 is considered to be the quantitative average.

The total amount of waste in Třinecké železářny premises reached 132,535 tonnes, a 20% increase in comparison with the previous year 2016 (110,219 tonnes). The growth in the category “Other” (104,666) was 17%. In the category “Hazardous produced waste” a growth of 32% was recorded.

The level of waste per tonne of produced steel amounted to 42.3 kg/tonne of steel in 2016, in the reporting year 2017 – 52.4 kg/tonne of steel (an increase of 24%).

The main reason for the year-on-year increase in the amount of “Other” waste is the higher incidence of unprocessed slag, linings and refractory materials. Greater production of “Hazardous produced waste” was caused by a further increase in the captured dust from the purification of metallurgical gas. A significant share of the overall increase of waste production in 2017 was caused by the construction of a new blockade. During this construction investment

project approximately 8 kilo tonnes of “Other” were generated, and about 8.5 kilo tonnes of “Hazardous produced waste”.

Environmental projects

In 2017 the following major environmental investment projects were completed and launched:

- Construction of a new hot blast stove No. 64,
- Centralized vacuuming of coke and splinters.

The total cost of completed and ongoing environmental investment actions in 2017 reached the amount of CZK 189,087 million.

Other actions with positive environmental benefits have been paid from operational sources.

Environmental aims for 2018

As part of the investment actions, the following ecological projects should be implemented in 2018:

- Desulphurisation of Sinter plant No. 1,
- Dust removing tundish tilting of continuous steel casting equipment No. 1,
- Central vacuuming of Sinter plant 1 and loading station 2,
- Centralized vacuuming of Sinter plant 2 and loading station 1, iron ore sorting,
- Dust collection equipment on Secondary raw materials facility,
- Filtration station on slag mill,
- Reconstruction and modernization of the small-scale waste store,
- Construction of the 5th section on the multipurpose ecological area,
- Dust catch facility at the Billet Mill in Kladno.

A number of the other actions with a positive impact on the environment will be implemented at individual plants from operational sources.



EMPLOYEES

The relationship between employees and Třinecké železářny is based on openness and mutual respect, while TŽ supports the development and career growth of its employees. The core principles of Třinecké železářny's behaviour, including the relationship with employees, principles of corporate culture and core Corporate Social Responsibility (CSR), are set out in the Code of Conduct for the conduct of Třinecké železářny. These principles are reflected in the provisions of the Rules of Procedure and other internal rules. The statutory and above-standard benefits of the employees are enshrined in the Corporate Collective Bargaining Agreement and its successor Social Code.

As in previous years, human resources in 2017 carefully supervised the acquisition of technically qualified job seekers – not only graduates from technical secondary schools and universities – to ensure generational change and to eliminate staff turnover.

This year, the graduates of technical branches of the Secondary Technical School of Třinecké železářny also found a wide range of jobs within Třinecké železářny. In order to meet the need for the employment of college graduates, the 16th and the 17th run of the Internship Centre for Gradu-

ates began. Among other things, cooperation with schools of all levels continued, focusing mainly on the support and promotion of technology and technical and natural sciences.

As in previous years, emphasis was also placed on employee training. Corporate training is based on the HR strategy and policy of Třinecké železářny set out in the Human Resources Development Plan, which is an integral part of the Business Plan. In order to maintain the qualification level of the employees and their further development, a number of courses were carried out in addition to the qualification requirements. Educational events focused mainly on vocational training and quality education, language preparation, managerial education and workshops for the acquisition of professional knowledge continued.

In 2017, Třinecké železářny participated in the project Supporting Vocational Training for Employees II, which is co-financed by the European Social Fund and the State Budget of the Czech Republic and implemented by the Czech Labour Office. Within this project three specialized IT courses took place. Attention was paid even to internal education, through the application of the Corporate Academy, which serves not only to pre-

pare and implement training, but also as a platform for sharing information, knowledge and experience, as well as discussion on various topics.

Above all, beyond the statutory health protection, a number of preventive activities aimed at promoting health and healthy lifestyle were organized in cooperation with the Czech Industrial Health Insurance Company. We have organized ten-day rehabilitation stays in a spa, outpatient rehabilitation procedures in a health facility as well as additional reconditioning care, including physical activities, massages, relaxation procedures and nutrition counselling. Traditionally, there was free flu vaccination supplemented with vitamin delivery. Prevention of health hazards at work is carried out in accordance with the valid legislation of the Czech Republic and the terms of the “Safe Enterprise” award, which the State Labour Inspectorate awarded to Třinecké železářny repeatedly in 2016 with validity for the next three years.

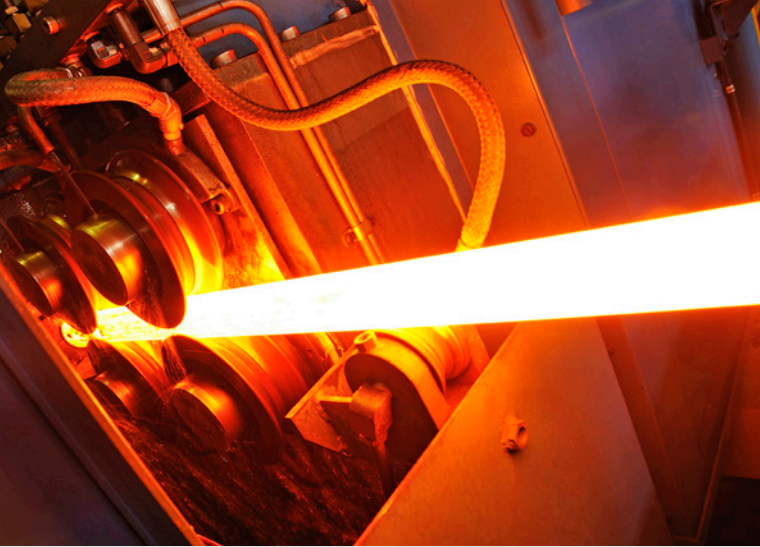
Třinecké železářny recorded a total of 22 occupational accidents with sickness absence longer than 3 calendar days in the year 2017. There was no fatal injury. The number of injuries amounted to 0.31 injury per 100 employees per year.

The greatest effort was made in the field of personnel work and motivation of employees in order to fulfil the production in the required volume, while maintaining a high degree of quality and ensuring the start of modernization and investment projects.

In the year 2017, from the point of view of the development of the staff, the year was marked by extensive new investments, repairs and upgrades. The conditions were influenced, for example, by the modernization of the blooming mill at the Production of Heavy Profiles plant, the introduction of a new billet grinding shop for the Production of Light Profiles and Wire Rod. Compared to 2016, there was a slight increase in the number of employees to the recalculated headcount of 7,029 employees per year.

For the year 2017, real average wages of CZK 31,043 were achieved.

Fulfilling the growth in average earnings agreed in the Corporate Collective Agreement as well as the fulfilment of other agreed provisions of the Corporate Collective Agreement and the Social Code is the basis for social peace.



We managed
to tackle
successfully
the challenges
of 2017

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. The efforts of all employees are aimed at increasing the added value of long rolled products, the predominant part of our production.

The basic principles of the management include the linear organisational structure as well as process and project management including the risk analyses at all management subsystems. None of the principles are applied in isolation; management is based on their well-considered combination. In order to obtain required feedback to identify and monitor the fulfilment of strategic objectives, we have set up the performance management system Balanced Scorecard (BSC) and regular reporting system.

In 2017, a series of measures were adopted to support the strategic objectives in all strategic areas (Partnership, Technology, Staff, and Management). The company managers, who are responsible for strategy, attended the educational events regarding the legislation changes, pro-innovation corporate culture, automation and robotic solutions for Industry 4.0.

The management system, including the information systems, did not change in 2017. The information platform still consists of SAP and Lotus Notes.

Based on the social responsibility of Třinecké železářny management towards the environment and stakeholders in the region, the energy management system within the scope of EN ISO 50001 (certified by the third independent party for the Třinec site in 2016) was expanded in 2017 to separate production units in Kladno, Ostrava and Staré Město u Uherského Hradiště. It was decided to certify the SA 8000 Corporate Social Responsibility Scheme, which is scheduled for the second half of 2018. At the same time, the application of this standard was introduced into the management system.



In 2017, we have completed the implementation of the system of recording all business contracts between the companies in the Třinecké železářny – Moravia Steel Group and the record of contracts concluded between TŽ and external entities, which makes it possible to find a given business case in electronic form in the so-called Trade Relations Database (DOV). As of 1 July 2017, the requirements of the Contract Registry Act were also included in the management system.

Preparations for the implementation of the requirements of Regulation (EU) 2016/679 (General Personal Data Protection Regulation (GDPR)) and preparation of changes to the quality system in connection with the new IATF Standard 16 949 were launched in 2017.

Long term targeted effort on responsible behaviour towards the environment and people of the region continued last year at events like cleaning the Olše riverbed, organising our employees to help NGOs within the so-called Volunteer Day, by the financial support of selected NGO projects within the region or sponsoring various sports teams.

Complying with the commitment of the “Agreement on Limiting the Environmental Impact” concluded between Třinecké železářny and the Ministry of the Environment, Třinecké železářny organized rehabilitation stays in the Tatras for children from elementary schools in the Třinec region for the fourth time in 2017. In 2017, these stays were attended by a total of 257 children, with the costs of Třinecké železářny amounting to CZK 1.55 million.

Třinecké železářny have shares in 29 companies. Most of these companies are focused on activities directly or indirectly related to the metallurgical business, and this focus corresponds to the long-term business strategy of Třinecké železářny.

Třinecké železářny has no organisational branch abroad.

FINANCIAL INFORMATION

The profit before tax for the year 2017 amounted to CZK 1,689 million. The operation of Třinecké železářny was significantly influenced by the modernization and reconstruction of the blooming mill.

Compared to 2016, the pre-tax profit is lower by CZK 66 million, mainly due to the decrease in production volume and the quantity sold associated with the aforementioned investment project, as well as higher growth of input prices compared to the increase in sales prices of rolled products and steel.

Nevertheless, revenues from Třinecké železářny reached the level of CZK 35,859 million, which represents their year-on-year increase by CZK 3,642 million due to the increase in the average sales price of rolled steel products and steel, as well as higher sales of other products and services (upgraded coke oven battery – shutdown in 2016).

DEVELOPMENT OF REVENUES

Indicator (in CZK thousands)	2016	2017
Rolled goods incl. steel	31 291	34 504
Other products	495	916
Sales of own products	31 786	35 420
Revenues from services	431	439
Sale of own production, services and goods	32 217	35 859

Our revenues
increased by CZK
3,642
million
year-on-year

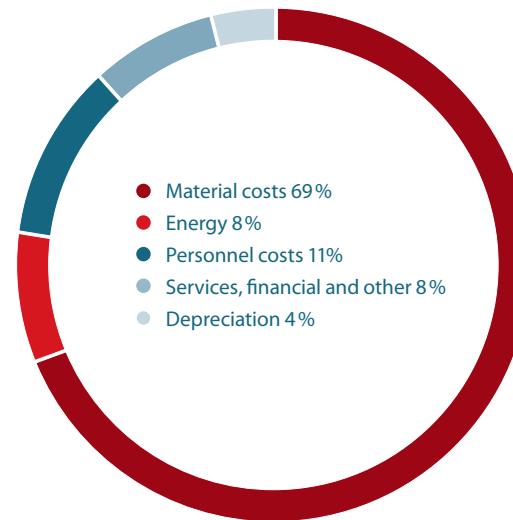
The purchased consumables and services were CZK 4,426 million higher than in 2016. The most significant impact on their year-on-year increase was the consumption of raw materials due to the rise in the prices of the crucial input commodities. Production of steel was 77 kt lower.

The added value reached CZK 6,734 million in 2017, which is CZK 154 million less than in 2016. Labour productivity of value added per employee in 2017 was CZK 958 thousand (CZK 983 thousand in 2016).

The lower operating result was also influenced by higher personnel costs, depreciation and increase in reserves, positive reduction of allowances for inventories and sale of emission allowances, the operating result decreased by CZK 275 million year-on-year.

The financial result was CZK 210 million higher than in 2016 in relation to higher earnings from subsidiaries and a decrease in the provision for non-current financial assets.

COST STRUCTURE IN 2017



As at 31 December 2017, our company reported assets totalling CZK 35,399 million, which is CZK 1,555 million more than at 31 December 2016.

The year-on-year increase in assets was due to increased fixed assets by CZK 1,935 million.

Tangible fixed assets increased by CZK 1,388 million (investments higher than depreciation). Intangible fixed assets increased by CZK 78 million (emission allowances). Non-current financial

assets increased by CZK 469 million mainly as a result of the acquisition of a 100% stake in IMOPRA s. r. o.

Current assets, including accruals, decreased by CZK 400 million.

The increase in inventories of CZK 914 million was mainly due to an increase in input commodity prices.

Receivables decreased by CZK 860 million due to the reduction of tax receivables from the state, decrease in trade and other receivables.

Cash amounted to CZK 454 million, accruals of assets increased by CZK 20 million.

In the area of liabilities, as compared to 31 December 2016, the share capital increase was CZK 24 million.

External resources, including accruals, increased year-on-year by CZK 1,531 million due to an increase in liabilities to credit institutions, trade payables, reserves and other liabilities.



STRATEGIC OBJECTIVES

The year 2017 was a successful year for the world steel industry, production grew in almost all countries and overall recorded a 5.3% increase. This year, the growth rate of steel production is expected to decrease to about 3%. Reducing redundancies and reducing the ecological burden of the steel industry in China will continue. Dynamic growth in new production capacities is expected in India, Iran and Turkey.

To maintain competitiveness, Třinecké železárny will continue to reduce costs and develop products with higher added value. In 2017, Třinecké železárny successfully completed the modernization and reconstruction of the blooming mill and the installation of a new billet stand. Furthermore, the operation of a new grinding shop for long billets was started and a new hot blast stove was launched.

For the year 2018, it is planned to modify the equipment for continuous casting of steel to a new diameter format of 600 mm and to put into operation new chamber annealing furnaces for steel bars. Another major investment in the finalization of the steel bars will be the installation of finalizing and treatment line No. 2, which is scheduled to be commissioned for 2019. In 2018, Třinecké železárny will also begin the implementation of a large-scale project of the operation in Staré Město u Uherského Hradiště, which will continue in 2019.

VI

REPORT OF THE SUPERVISORY BOARD

The Supervisory Board regularly audited whether the business activities of TŘINECKÉ ŽELEZÁRNY, a. s. are carried out in accordance with the valid legislation, the statutes of TŘINECKÉ ŽELEZÁRNY, a. s., and the sole shareholder's decisions acting in the capacity of the General Meeting and resolutions of the Supervisory Board.

In the course of the year of 2017, the Board of Directors informed it of the current economic situation of TŘINECKÉ ŽELEZÁRNY, a. s., as well as the fulfilment of the Business Plan.

The Supervisory Board supervised the performance of the Board of Directors and the business activities of TŘINECKÉ ŽELEZÁRNY, a. s., in accordance with the approved documents of this company, i.e. the Business Plan and the Financial Plan of TŘINECKÉ ŽELEZÁRNY, a. s. for 2017.

At its meeting on 23 April 2018, the Supervisory Board reviewed the Annual Report of TŘINECKÉ ŽELEZÁRNY, a. s. for the year 2017, which includes

- The regular financial statements for the year 2017,
- The ordinary consolidated financial statements for the year 2017,
- Report on relations for the accounting period of 2017,
- The Board of Directors' proposal for the distribution of profits generated for the 2017 reporting period, and
- The report of the Board of Directors on the business activities of TŘINECKÉ ŽELEZÁRNY, a. s., and the state of its assets.

The Supervisory Board stated that the Report on Relations for the reporting period of 2017 was prepared in accordance with Act No. 90/2012 Coll. and the actual status of the relations between TŘINECKÉ ŽELEZÁRNY, a. s. and the controlling entities and between TŘINECKÉ ŽELEZÁRNY, a. s. and the entities controlled by the same controlling entity.

The Supervisory Board further stated that its proposal for the distribution of profit generated for the reporting period 2017 is not contrary to the provisions of Section 350 of Act No. 90/2012 Coll.

The Supervisory Board recommends that the regular financial statements and the regular consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. for the year 2017, as well as the proposal of the Board of Directors for the distribution of the profit generated for the accounting period of 2017 and the report of the Board of Directors on the business activity of the TŘINECKÉ ŽELEZÁRNY, a. s. of its assets, for approval by the General Meeting, i.e. the sole shareholder of TŘINECKÉ ŽELEZÁRNY, a. s. acting in the capacity of the General Meeting.



Tomáš Chrenek

CHAIRMAN OF THE SUPERVISORY BOARD

VII

REPORT OF THE AUDIT COMMITTEE

INTRODUCTION

The Audit Committee of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter referred to as the „Committee“) has three members in accordance with the Articles of Association of this company (Dana Trezziová, Ján Moder and Tomáš Chrenek). The Committee worked in accordance with the valid legislation, the Articles of Association of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter referred to as „TŽ“) and the Rules of Procedure of the Committee. In 2017, the Committee met twice. In 2018, one session of the Committee was held until the date of the General Meeting.

At its meetings, the Audit Committee dealt in particular with the following issues:

- i. Monitoring the preparation of the financial statements of TŽ and the consolidated financial statements of TŽ for 2017. The procedure for preparing the financial statements of TŽ for 2017 and the consolidated financial statements of TŽ for the year 2017 was carried out according to Czech and international accounting standards and these financial statements are audited;
- ii. Monitoring the process of mandatory audit of TŽ's financial statements and TŽ's consolidated financial statements for the year 2017;

- iii. Assessing the independence of statutory auditors and audit firms and monitoring the provision of other non-audit services by statutory auditors and audit firms;
- iv. Receiving information, statements and communications under the applicable legal regulations from the auditor;
- v. Continuous monitoring of the effectiveness of internal control in TŽ and subsidiaries of TŽ belonging to the so-called consolidation unit defined by the Board of Directors (hereinafter referred to as the TŽ Group) and the risk management system including the discussion of risk management reports;
- vi. Continuous monitoring of the effectiveness of internal audit and ensuring its functional independence;
- vii. Discussion of internal audit activities and results of internal audits and monitoring compliance with recommendations and remedial measures taken from internal audits carried out;
- viii. Monitoring the implementation of the TŽ Internal Audit Service's work plan for 2017;
- ix. Discussing the Internal Audit Service's work plan for 2018;
- x. Information on the impact of the external economic environment on TŽ's management;

- xi. Informing the Supervisory Board of TŽ on matters falling within the scope of the Committee and making recommendations on the items that were the subject of the Committee's deliberations;
- xii. Reporting to the General Meeting of Shareholders.

In addition, the main members of the Audit Team, the Financial Director of TŽ, the Head of the Internal Audit Unit of TŽ, as well as the employees of TŽ who were responsible for the activities or who participated in the activities on which the Committee focused were usually invited to the Committee meeting.

The Committee was able to inspect documents and records relating to the activities of TŽ throughout its scope of activity to the extent necessary for the performance of its activities.

Financial statements and statutory audits

Based on the decision of the General Meeting dated 29 June 2015, Deloitte Audit s.r.o. carries out the mandatory audit. At its meetings, the Committee focused on tracking the financial reporting procedures and accounting for significant transactions. The Committee has been kept informed by the external auditor on the timing

of the audit and on the significant facts identified during the audit.

The Committee has accepted the Statutory Auditor's and Audit Firm's Declaration of Independence on the Audited Person. The Committee assessed the independence and objectivity of the external auditor, cooperated with the auditor, and reviewed the nature and scope of additional non-audit services provided by the auditor. In these areas, the Committee has found no mistakes.

As part of its work, the Audit Committee also obtained valuation information related to the external auditor's work and reviewed the effectiveness of the statutory audit. The Audit Committee participated in the communication between the auditor and TŽ and evaluated the manner in which the management of TŽ followed the recommendations provided by the auditor. The Audit Committee also monitored the integrity of the financial information provided by TŘINECKÉ ŽELEZÁRNY, as, including the examination of the consistency and appropriateness of the accounting methods used in TŽ.

The Audit Committee reviewed the procedure for the preparation of the financial statements of TŽ and the consolidated financial statements of TŽ.

The Audit Committee monitored the process of mandatory auditing of TŽ's financial statements for the year 2017, the consolidated financial statements of TŽ for 2017 and the financial statements of individual TZ Group companies. The procedure for preparing the financial statements of TŽ for 2017 and the consolidated financial statements of TŽ for the year 2017 was based on Czech and international accounting standards, and these financial statements are audited. At the same time, the Committee took note of the auditor's opinion on TŽ's financial statements and TŽ's consolidated financial statements as at 31 December 2017 that it had audited the financial statements and, in its opinion, presented a true and fair view of the financial position as at 31 December 2017 and financial performance of cash flows for the year ended 31 December 2017. The Committee informed the Supervisory Board of TŽ about its conduct, findings and conclusions, including the fact that the statutory audit contributed significantly to ensuring the integrity of the accounting and financial reporting systems.

Internal audit, internal control system and risk management

The Audit Committee monitored the effectiveness of internal control and internal audit in TŽ and individual companies of the TŽ Group.



The Audit Committee was regularly informed about the activities of TŽ internal audit and implementation of the internal audit plan for 2017. The Committee monitored the effectiveness of TŽ's internal audit and assessed its functional independence. 8 audits were conducted in 2017. The work of the internal audit department of TŽ is carried out in full compliance with internationally recognized standards. The Committee regularly discussed the results of the audit activity, in particular the main findings and recommendations from the audits carried out. The Committee reviewed and discussed information on the implementation of remedial measures from audits that had been approved by management. The Board was acquainted with the plan of activities of the TŽ internal audit department for 2018. Based on the results of audits carried out by TŽ, it can be stated that the internal control system in TŽ is effective and any shortcomings are also solved on the basis of the outputs from the internal audit activity.

At its meetings the Committee discussed information and interim reports on risk management and risk management system in TŽ and individual companies of the TŽ Group. The Committee was regularly informed about the impact of the external environment on the management of TŽ and the TŽ Group. The Audit Committee informed the TŽ Supervisory Board about its findings in the area of

risk management and the impact of the external environment on TŽ's management.

CONCLUSION

The Audit Committee, in performing the main activities entrusted to it by TŽ's Statutes, i.e. monitoring the preparation of the financial statements, including consolidated financial statements, monitoring the process of the statutory audit of the financial statements and consolidated financial statements, monitoring the effectiveness of internal control of TŽ and the risk management system, internal audit and risk management and the assessment of the statutory auditor's independence, including the provision of non-audit services by TŽ's statutory auditor, did not find, during the course of 2017, nor at the time of drafting this report, any shortcomings or other material facts to be reported to the General Meeting of TŽ or the sole shareholder of TŽ acting in the capacity of its General Meeting.

Dana Trezziová

AUDIT COMMITTEE CHAIRWOMAN



FINANCIAL SECTION



VIII

AUDITOR'S
REPORT


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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
TŘINECKÉ ŽELEZÁRNY, a. s.

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

Opinion on the Financial Statements and Consolidated Financial Statements

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

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

In our opinion:

The accompanying Financial Statements give a true and fair view of the financial position of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

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

Basis for Opinion

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

Other Information in the Annual Report

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

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the Consolidated Financial Statements.

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

In Prague on 23 April 2018

Audit firm:

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



Statutory auditor:

Václav Loubek
registration no. 2037



IX

FINANCIAL PART I.
FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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 23 March 2018.

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

BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

		31.12.2017		31.12.2016	
		Gross	Adjustment	Net	Net
TOTAL ASSETS		59 837 069	-24 438 358	35 398 711	33 843 445
B.	Fixed assets	46 683 763	-23 777 924	22 905 839	20 970 855
<i>B.I.</i>	<i>Intangible fixed assets</i>	833 021	-274 259	558 762	480 115
B.I.1.	Research and development	4 553	-4 553		
B.I.2.	Valuable rights	344 272	-264 474	79 798	68 137
B.I.2.1.	Software	212 712	-193 602	19 110	24 021
B.I.2.2.	Other valuable rights	131 560	-70 872	60 688	44 116
B.I.4.	Other intangible fixed assets	481 853	-5 232	476 621	409 825
B.I.5.	Prepayments for intangible fixed assets and intangible fixed assets under construction	2 343		2 343	2 153
B.I.5.1.	Prepayments for intangible fixed assets				54
B.I.5.2.	Intangible fixed assets under construction	2 343		2 343	2 099
<i>B.II.</i>	<i>Tangible fixed assets</i>	38 497 110	-23 140 083	15 357 027	13 969 351
B.II.1.	Land and structures	9 879 473	-4 797 479	5 081 994	4 574 489
B.II.1.1.	Land	524 507		524 507	524 426
B.II.1.2.	Structures	9 354 966	-4 797 479	4 557 487	4 050 063
B.II.2.	Tangible movable assets and sets of tangible movable assets	28 002 750	-18 340 806	9 661 944	8 802 916
B.II.4.	Other tangible fixed assets	5 440		5 440	5 481
B.II.4.3.	Other tangible fixed assets	5 440		5 440	5 481
B.II.5.	Prepayments for tangible fixed assets and tangible fixed assets under construction	609 447	-1 798	607 649	586 465
B.II.5.1.	Prepayments for tangible fixed assets	72 616		72 616	71 255
B.II.5.2.	Tangible fixed assets under construction	536 831	-1 798	535 033	515 210
<i>B.III.</i>	<i>Non-current financial assets</i>	7 353 632	-363 582	6 990 050	6 521 389
B.III.1.	Equity investments-controlled or controlling entity	7 300 636	-345 662	6 954 974	6 486 312
B.III.3.	Equity investments in associates	50 995	-17 920	33 075	33 075
B.III.5.	Other non-current securities and investments	2 001		2 001	2 002
C.	Current assets	13 019 905	-660 434	12 359 471	12 759 965
<i>C.I.</i>	<i>Inventories</i>	10 168 259	-612 798	9 555 461	8 641 939
C.I.1.	Material	4 175 009	-300 407	3 874 602	3 647 732
C.I.2.	Work in progress and semifinished goods	3 879 166	-254 770	3 624 396	2 788 891
C.I.3.	Products and goods	2 099 387	-57 621	2 041 766	2 204 443
C.I.3.1.	Products	2 099 366	-57 621	2 041 745	2 204 394
C.I.3.2.	Goods	21		21	49
C.I.5.	Prepayments for inventories	14 697		14 697	873

THE TABLE CONTINUES ON THE NEXT PAGE ▼

C.II.	Receivables	2 640 111	-35 088	2 605 023	3 465 340
C.II.1.	Long-term receivables	8 726		8 726	5 969
C.II.1.5.	Receivables-other	8 726		8 726	5 969
C.II.1.5.2.	Long-term prepayments made	639		639	640
C.II.1.5.4.	Sundry receivables	8 087		8 087	5 329
C.II.2.	Short-term receivables	2 631 385	-35 088	2 596 297	3 459 371
C.II.2.1.	Trade receivables	2 007 879	-15 624	1 992 255	2 100 753
C.II.2.2.	Receivables-controlled or controlling entity	24 040		24 040	184 245
C.II.2.4.	Receivables-other	599 466	-19 464	580 002	1 174 373
C.II.2.4.3.	State-tax receivables	562 735		562 735	955 976
C.II.2.4.4.	Short-term prepayments made	4 283		4 283	4 586
C.II.2.4.5.	Estimated receivables	4 891		4 891	23 560
C.II.2.4.6.	Sundry receivables	27 557	-19 464	8 093	190 251
C.III.	Current financial assets	12 548	-12 548		62
C.III.2.	Other current financial assets	12 548	-12 548		62
C.IV.	Cash	198 987		198 987	652 624
C.IV.1.	Cash on hand	1 890		1 890	1 649
C.IV.2.	Cash at bank	197 097		197 097	650 975
D.	Other assets	133 401		133 401	112 625
D.1.	Deferred expenses	38 626		38 626	39 234
D.2.	Complex deferred expenses	94 707		94 707	73 341
D.3.	Accrued income	68		68	50

BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

	31.12.2017	31.12.2016
TOTAL LIABILITIES & EQUITY	35 398 711	33 843 445
A. Equity	25 756 117	25 731 979
A.I. Share capital	8 109 863	8 109 863
A.I.1. Share capital	8 109 863	8 109 863
A.II. Share premium and capital funds	103 740	103 740
A.II.2. <i>Capital funds</i>	103 740	103 740
A.II.2.1. Other capital funds	103 787	103 787
A.II.2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	-47	-47
A.III. Funds from profit	2 858 219	2 858 219
A.III.1. Other reserve funds	2 858 219	2 858 219
A.IV. Retained earnings (+/-)	13 260 157	13 220 593
A.IV.1. Accumulated profits brought forward	13 260 157	13 220 593
A.V. Profit or loss for the current period (+/-)	1 424 138	1 439 564
B.+C. Liabilities	9 633 456	8 108 104
B. Reserves	294 496	134 206
B.III. Reserves under special legislation	1 098	1 089
B.IV. Other reserves	293 398	133 117
C. Payables	9 338 960	7 973 898
C.I. Long-term payables	2 948 345	2 557 602
C.I.2. Payables to credit institutions	1 821 573	1 464 619
C.I.4. Trade payables	48 325	55 362
C.I.8. Deferred tax liability	1 078 307	1 037 621
C.I.9. <i>Payables-other</i>	140	
C.I.9.3. Sundry payables	140	
C.II. Short-term payables	6 390 615	5 416 296
C.II.2. Payables to credit institutions	1 422 319	755 270
C.II.3. Short-term prepayments received		118
C.II.4. Trade payables	3 764 378	3 644 200
C.II.8. <i>Other payables</i>	1 203 918	1 016 708
C.II.8.3. Payables to employees	331 287	332 564
C.II.8.4. Social security and health insurance payables	115 596	105 723
C.II.8.5. State-tax payables and subsidies	509 327	438 072
C.II.8.6. Estimated payables	171 615	119 822
C.II.8.7. Sundry payables	76 093	20 527
D. Other liabilities	9 138	3 362
D.1. Accrued expenses	7 022	1 088
D.2. Deferred income	2 116	2 274

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(IN CZK THOUSAND)

	Year ended 31.12.2017	Year ended 31.12.2016
I. Sales of products and services	35 858 795	32 216 680
II. Sales of goods	241	340
A. Purchased consumables and services	30 171 522	25 745 488
A.1. Costs of goods sold	238	335
A.2. Consumed material and energy	27 124 845	22 751 565
A.3. Services	3 046 439	2 993 588
B. Change in internally produced inventory (+/-)	-550 719	-53 779
C. Own work capitalised (-)	-495 941	-362 533
D. Staff costs	4 002 618	3 718 370
D.1. Payroll costs	2 814 695	2 561 677
D.2. Social security and health insurance costs and other charges	1 187 923	1 156 693
D.2.1. Social security and health insurance costs	975 985	906 903
D.2.2. Other charges	211 938	249 790
E. Adjustments to values in operating activities	1 153 692	1 339 373
E.1. Adjustments to values of intangible and tangible fixed assets	1 289 616	1 277 240
E.1.1. Adjustments to values of intangible and tangible fixed assets-permanent	1 294 673	1 258 761
E.1.2. Adjustments to values of intangible and tangible fixed assets-temporary	-5 057	18 479
E.2. Adjustments to values of inventories	-131 842	68 829
E.3. Adjustments to values of receivables	-4 082	-6 696
III. Other operating income	654 815	668 111
III.1. Sales of fixed assets	14 361	29 127
III.2. Sales of material	113 817	105 669
III.3. Sundry operating income	526 637	533 315
F. Other operating expenses	837 983	828 236
F.1. Net book value of sold fixed assets	7 877	10 121
F.2. Net book value of sold material	105 077	101 606
F.3. Taxes and charges	30 603	27 558
F.4. Reserves relating to operating activities and complex deferred expenses	146 712	57 599
F.5. Sundry operating expenses	547 714	631 352
* Operating profit or loss (+/-)	1 394 696	1 669 976

THE TABLE CONTINUES ON THE NEXT PAGE ▼

IV.	Income from non-current financial assets-equity investments	250 329	121 293
IV.1.	Income from equity investments-controlled or controlling entity	229 588	98 160
IV.2.	Other income from equity investments	20 741	23 133
VI.	Interest income and similar income	516	2 939
VI.1.	Interest income and similar income-controlled or controlling entity	516	2 383
VI.2.	Other interest income and similar income		556
I.	Adjustments to values and reserves relating to financial activities	-84 013	-2 851
J.	Interest expenses and similar expenses	29 806	35 651
J.2.	Other interest expenses and similar expenses	29 806	35 651
VII.	Other financial income	41 913	17 990
K.	Other financial expenses	52 891	24 859
*	Financial profit or loss (+/-)	294 074	84 563
**	Profit or loss before tax (+/-)	1 688 770	1 754 539
L.	Income tax	264 632	314 975
L.1.	Due income tax	223 946	300 814
L.2.	Deferred income tax (+/-)	40 686	14 161
**	Profit or loss net of tax (+/-)	1 424 138	1 439 564
***	Profit or loss for the current period (+/-)	1 424 138	1 439 564
*	Net turnover for the current period	36 806 609	33 027 353

STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, other reserve funds	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2015	8 109 863	103 740	2 858 219	11 840 443	2 780 150	25 692 415
Distribution of profit or loss				1 380 150	-1 380 150	
Profit shares paid					-1 400 000	-1 400 000
Profit or loss for the current period					1 439 564	1 439 564
Balance at 31 December 2016	8 109 863	103 740	2 858 219	13 220 593	1 439 564	25 731 979
Distribution of profit or loss				39 564	-39 564	
Profit shares paid					-1 400 000	-1 400 000
Profit or loss for the current period					1 424 138	1 424 138
Balance at 31 December 2017	8 109 863	103 740	2 858 219	13 260 157	1 424 138	25 756 117

CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31.12.2017	Year ended 31.12.2016
P. Opening balance of cash and cash equivalents	635 919	1 339 642
<i>Cash flows from ordinary activities (operating activities)</i>		
Z. Profit or loss before tax	1 688 770	1 754 539
A.1. Adjustments for non-cash transactions	970 955	1 283 072
A.1.1. Depreciation of fixed assets	1 294 673	1 258 761
A.1.2. Change in provisions and reserves	-78 282	135 360
A.1.3. Profit/(loss) on the sale of fixed assets	-6 484	-19 006
A.1.4. Revenues from profit shares	-250 329	-121 293
A.1.5. Interest expense and interest income	29 290	32 712
A.1.6. Adjustments for other non-cash transactions	-17 913	-3 462
A.* Net operating cash flow before changes in working capital	2 659 725	3 037 611
A.2. Change in working capital	-1 378	71 128
A.2.1. Change in operating receivables and other assets	701 535	-687 679
A.2.2. Change in operating payables and other liabilities	77 075	963 894
A.2.3. Change in inventories	-782 088	-205 090
A.2.4. Change in current financial assets	2 100	3
A.** Net cash flow from operations before tax	2 658 347	3 108 739
A.3. Interest paid	-29 138	-35 124
A.4. Interest received	1 011	3 105
A.5. Income tax paid from ordinary operations	-175 164	-708 587
A.6. Received profit shares	250 329	121 293
A.*** Net operating cash flows	2 705 385	2 489 426
<i>Cash flows from investing activities</i>		
B.1. Fixed assets expenditures	-2 961 594	-1 935 403
B.2. Proceeds from fixed assets sold	14 528	28 846
B.3. Loans and borrowings to related parties	159 741	
B.*** Net investment cash flows	-2 787 325	-1 906 557
<i>Cash flow from financial activities</i>		
C.1. Change in payables from financing	1 030 341	113 408
C.2. Impact of changes in equity	-1 400 000	-1 400 000
C.2.6. Profit shares paid	-1 400 000	-1 400 000
C.*** Net financial cash flows	-369 659	-1 286 592
F. Net increase or decrease in cash and cash equivalents	-451 599	-703 723
R. Closing balance of cash and cash equivalents	184 320	635 919

NOTES TO THE FINANCIAL STATEMENT

1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE COMPANY

TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter the “Company”) was formed by the National Property Fund of the 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.

MORAVIA STEEL a.s. is the sole shareholder of the Company.

1.2. CHANGES IN AND AMENDMENTS TO THE REGISTER OF COMPANIES

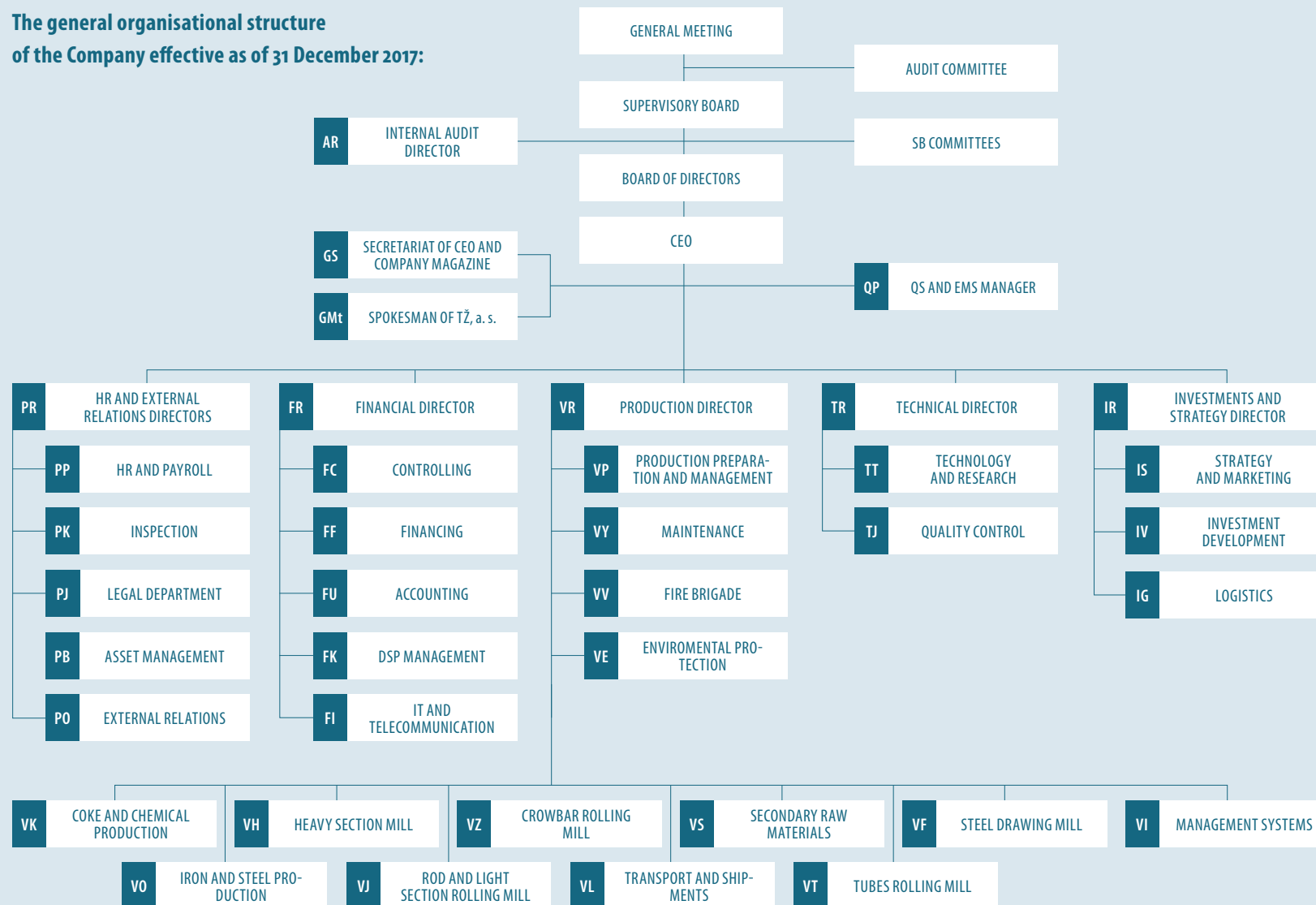
During the year ended 31 December 2017, a change in the Company’s corporate details was recorded in the Register of Companies concerning the composition of the Supervisory Board and a change involving the deletion of a person authorised for legal acts in relation to the Company’s employees in line with Section 164 (3) of Act No. 89/2012 Coll., Civil Code, as amended until 27 February 2017.

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 general organisational structure of the Company effective as of 31 December 2017:



The following organisational change was made in 2017:

- The PR – HR and Office Support Director was renamed to PR – HR and External Relations Director; a new organisational department was established: PO – External Relations; and
- The GS – Secretariat of CEO and PR was renamed to GS – Secretariat and Company Magazine.

1.4. GROUP IDENTIFICATION

For the purposes of these notes to the financial statements, the Group includes (i) the Company, (ii) entities controlling the Company (“controlling entities”) and/or entities holding an equity investment in the Company that is treated as part of “Equity investments in associates”, (iii) entities in which the controlling entities, the Company or other entities controlled by them have an equity investment that is treated as part of “Equity investments in associates”.

In the year ended 31 December 2017, the Company was controlled by MORAVIA STEEL a.s. as the sole shareholder. MORAVIA STEEL a.s. is controlled by FINITRADING, a.s., which is its sole shareholder.

FINITRADING, a.s., with its registered office at Svobody 526, Lyžbice, 739 61 Třinec, prepares the consolidated financial statements of the broadest group of reporting entities. These financial statements can be obtained at the registered office of FINITRADING, a.s.

The Company prepares the consolidated financial statements for the narrowest group of reporting entities. These financial statements can be obtained at the Company’s registered office.

1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2017

	Position	Name
Board of Directors	Chairman	Jan Czudek
	1st Vice Chairman	Česlav Marek
	2nd Vice Chairman	Henryk Huczala
	Member	Ivo Žižka
	Member	Radomíra Pekárková
Supervisory Board	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Evžen Balko
	Member	František Ligocki
	Member	Jozef Blaško
	Member	Marcel Pielesz

During the year ended 31 December 2017, the following change was made in the composition of the Company’s Supervisory Board:

Supervisory Board:

Position	Originally	New	Date of change
Member	Jiří Cieńciała	–	31 March 2017
Member	–	Marcel Pielesz	1 December 2017

2. BASIC 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

The Company's financial statements as of 31 December 2017 have been prepared as follows:

- The balance sheet includes comparative figures as of 31 December 2016;
- The profit and loss account includes comparative figures for the year ended 31 December 2016;
- The statement of changes in equity includes comparative figures as of 31 December 2016; and
- The cash flow statement includes comparative figures as of 31 December 2016.

2.2. 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 intangible results of 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 (production overheads) and to the production period. Costs of sale are not included. Production overheads also comprise costs for engineering activities.

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, 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 tangible fixed asset improvements exceeding CZK 40 thousand on an individual basis increases the cost of the related tangible fixed asset for the fiscal period.

The cost of intangible asset improvements exceeding CZK 60 thousand on an individual basis increases the cost of the related intangible fixed asset for the fiscal 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' in the profit and loss account.

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 presented in the balance sheet as part of 'Other reserves' and in the profit and loss account as part of '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.

Due to the mergers completed in prior reporting periods, emission allowances are reported on standalone ETS Registry accounts depending on the locally-defined operation facility. In reporting the disposal of emission allowances, the FIFO valuation method is applied in respect of individual deposit ETS Registry accounts and individual emission allowance types.

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 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).

2.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments in controlled entities, equity investments in associates, securities and equity investments available for sale.

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 their cost.

At the balance sheet date, changes in the fair value of available-for-sale securities are recorded through balance sheet lines 'Other securities and investments' and 'Gains or 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 or 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 – controlled or controlling entity'.

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

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.

2.4. CURRENT FINANCIAL ASSETS AND CASH

Current financial assets principally consist of 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.

Cash consists of cash on hand and cash at bank.

2.5. INVENTORY

Valuation

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

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

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

At the 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 their realisability.

2.6. 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 Act No. 586/1992 Coll., the Income Taxes Act, and Act No. 593/1992 Coll., the Provisioning Act.

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

- a) Receivables past due by 1 year and more are provisioned in full; and
- b) Receivables past due over six months but less than one year are provisioned at 50%.

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

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

2.7. PAYABLES

Trade payables and other 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.

2.8. PAYABLES TO CREDIT INSTITUTIONS

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

2.9. 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. 387/2016 Coll., on Conditions for Storing Waste in Dump Sites.

2.10. 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, cash denominated in foreign currencies (foreign currency cash) is 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.

2.11. TAXATION

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), VZ – Sochorová válcovna plant and the Univerzální trať plant and the Track Fastenings Plant which are depreciated using the straight line and accelerated methods.

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.

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.

2.12. BORROWING COSTS

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

2.13. 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 (‘Other expenses’ in the profit and loss account) 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’.

2.14. 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.

Profit share income is recognised when the Company’s General Meeting, i.e. the sole shareholder acting in the capacity thereof, adopts a decision on profit distribution.

2.15. USE OF ESTIMATES

The presentation of financial statements requires making 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. 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.

2.16. 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.

2.17. 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.

2.18. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

For cash flow reporting purposes, cash and cash equivalents include cash on hand 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:

(CZK THOUSAND)

	31 Dec 2017	31 Dec 2016
Cash on hand	1 890	1 649
Cash at bank	197 097	650 975
Other current financial assets	12 548	15 110
Provisions against other current financial assets	-12 548	-15 048
Total current financial assets and cash	198 987	652 686
Cash and cash equivalents not included in the cash flow	-14 667	-16 767
Total cash and cash equivalents	184 320	635 919

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

3. ADDITIONAL INFORMATION

3.1. FIXED ASSETS

Intangible Fixed Assets

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Research and development	4 553	0	0	4 553
Valuable rights	308 880	35 481	89	344 272
Other intangible FA	415 011	511 704	444 862	481 853
Prepayments made for intangible FA	54	0	54	0
Intangible FA under construction	2 099	35 725	35 481	2 343
Total	730 597	582 910	480 486	833 021

Accumulated Amortisation

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Research and development	4 553		0	0
Valuable rights	240 743	23 820	89	264 474
Other intangible FA	5 186	46	0	5 232
Total	250 482	23 866	89	274 259

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Research and development	68 137	79 798
Valuable rights	409 825	476 621
Other intangible FA	54	0
Prepayments made for intangible FA	2 099	2 343
Total	480 115	558 762

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 23,866 thousand and CZK 17,986 thousand as of 31 December 2017 and 2016, respectively.

Other intangible fixed assets primarily include emission allowances.

In the year ended 31 December 2017, the Company acquired 3,641,918 emission allowances for 2017 in the amount of CZK 511,704 thousand free of charge. As of the balance sheet date of 31 December 2017, the Company recognised a disposal of emission allowances for 2017 of CZK 364,037 thousand.

In 2017, the Company sold 600,000 allowances. The effect of the sale of the allowances was CZK 77,910 thousand.

In the year ended 31 December 2016, the Company acquired 3,712,239 emission allowances for 2016 in the amount of CZK 500,072 thousand free of charge. As of the balance sheet date of 31 December 2016, the Company recognised a disposal of emission allowances for 2016 of CZK 478,592 thousand.

During 2016, the Company purchased 3,441 CER credits of CZK 48 thousand and exchanged this volume of CER credits for 3,441 EUA allowances.

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 26,515 thousand and CZK 29,389 thousand as of 31 December 2017 and 2016, respectively.

Tangible Fixed Assets

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Land	524 426	90	9	524 507
Structures	8 660 552	704 897	10 483	9 354 966
Tangible movable assets and sets thereof	26 333 665	1 937 684	268 599	28 002 750
Other tangible FA	5 481	0	41	5 440
Prepayments for tangible FA	71 255	189 986	188 625	72 616
Tangible FA under construction	519 479	2 660 022	2 642 670	536 831
Total	36 114 858	5 492 679	3 110 427	38 497 110

Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Structures	4 591 668	197 485	8 950	4 780 203
Tangible movable assets and sets thereof	17 526 813	1 061 523	250 425	18 337 911
Total	22 118 481	1 259 008	259 375	23 118 114

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Structures	18 821	0	1 545	17 276
Tangible movable assets and sets thereof	3 936	0	1 041	2 895
Tangible FA under construction	4 269	0	2 471	1 798
Total	27 026	0	5 057	21 969

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Land	524 426	524 507
Structures	4 050 063	4 557 487
Tangible movable assets and sets thereof	8 802 916	9 661 944
Other tangible FA	5 481	5 440
Prepayments for tangible FA	71 255	72 616
Tangible FA under construction	515 210	535 033
Total	13 969 351	15 357 027

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

(CZK THOUSAND)

Tangible FA acquired for the blooming mill project	650 634
Tangible FA acquired for the construction of a new crowbar cleaning plant	314 936
Tangible FA acquired for the reconstruction of KKO gas cleaning plants – K1, K2	206 007
Acquisition of air heater No. 64 for VP6	203 281

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

(CZK THOUSAND)

Construction of furnaces for rod annealing	149 929
Adjustment of ZPO 1 for casting format no. 600	56 123
Desulfurization of agglomeration no. 1	33 091

During the year ended 31 December 2017, the disposals of tangible fixed assets included assets with an aggregate net book value of CZK 19,756 thousand. Major disposals principally comprised partial liquidation of KB 11 due to the sale of a hangar, partial liquidation of the KKO gas cleaning plant and disposals of movable assets due to their sale.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,270,807 thousand and CZK 1,240,775 thousand as of 31 December 2017 and 2016, respectively.

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

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 581,740 thousand and CZK 550,110 thousand as of 31 December 2017 and 2016, respectively.

Assets Held under Operating Lease Agreements

In the years ended 31 December 2017 and 2016, the Company made lease payments of CZK 51,979 thousand and CZK 53,609 thousand, respectively.

Pledged Fixed Assets

31 December 2017

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	254 186	Loan from Česká spořitelna, a.s.
Land	23 663	
Tangible FA	455 923	Loan from Česká spořitelna, a.s.
Land	3 444	
Tangible FA	754 558	Loan from Česká spořitelna, a.s.
Buildings	141 948	
Land	3 458	
Tangible FA	2 601	Loan from Československá obchodní banka, a.s.
Land	39 986	
Tangible FA	891 744	Loan from Československá obchodní banka, a.s.
Tangible FA	917 188	Loan from Československá obchodní banka, a.s.
Tangible FA	428 076	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	664	
Tangible FA	507 916	Loan from HSBC Bank plc– Prague branch
Land	110 468	
Total	4 535 823	

31 December 2016

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	255 304	Loan from Česká spořitelna, a.s.
Land	23 663	
Tangible FA	492 847	Loan from Česká spořitelna, a.s.
Land	3 444	
Tangible FA	179 600	Loan from Československá obchodní banka, a.s.
Land	10 513	
Tangible FA	2 706	Loan from Československá obchodní banka, a.s.
Land	39 986	
Tangible FA	915 886	Loan from Československá obchodní banka, a.s.
Tangible FA	464 261	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	664	
Tangible FA	548 883	Loan from HSBC Bank plc– Prague branch
Land	110 468	
Total	3 048 225	

3.2. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Equity investments – controlled or controlling entity	6 913 487	387 272	123	7 300 636
Equity investments – associates	50 995	0	0	50 995
Other non-current securities and equity investments	2 002	0	1	2 001
Total	6 966 484	387 272	124	7 353 632

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Balance at 31 Dec 2017
Equity investments – controlled or controlling entity	427 175	4 240	85 753	345 662
Equity investments – associates	17 920	0	0	17 920
Total	445 095	4 240	85 753	363 582

The most significant additions to non-current financial assets in the year ended 31 December 2017 include as follows:

- Based on the decision of the Company of 13 March 2017, as the sole shareholder of “D&D” Drótáru Ipari és Kereskedelmi Zárkörűen Működő Részvénytársaság (hereinafter “D&D Drótáru Zrt.”), the share capital and the capital reserve in “D&D” Drótáru Zrt. were increased by HUF 3,000,000 and HUF 2,121,048 thousand, respectively, by the capitalisation of the Company’s receivable from “D&D” Drótáru Zrt. of EUR 6.8 million. Based on this transaction, the value of the financial investment in “D&D” Drótáru Zrt. increased by CZK 183,773 thousand. The resulting foreign exchange rate gain is reported in the profit and loss account line ‘Other financial expenses’;
- Acquisition of a 100% equity investment in IMOPRA s.r.o.; and
- Increase of the equity investment in DALSELV DESIGN a.s. from 68% to 100%.

Equity Investments – Controlled or controlling entity

31 December 2017

(CZK THOUSAND)

Company name and registered office	Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100,00	1 959 932	111 289	0	100 000
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100,00	616 781	55 987	0	50 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100,00	2 771 317	111 061	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100,00	617 692	14 129	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100,00	669 546	55 350	0	60 000
HŽP a.s., Prostějov	130 000	130 000	100,00	573 266	36 810	0	10 000
„D&D” Drótáru Zrt., 3527 Miskolc, Sajószigeti utca 4 (HUN)	709	1	100,00	320 935	40 868	-310 907	0
„METALURGIA” Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100,00	259 713	18 813	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100,00	342 494	25 631	0	0
Řetězárna a.s., Česká Ves	61 200	515	51,00	542 783	25 438	0	3 570
REFRASIL, s.r.o., Kanská, Třinec	25 500	0	51,00	252 652	19 937	0	6 018
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100,00	51 982	1 498	0	0
Doprava TŽ, a.s., Třinec–Staré Město	16 000	115	100,00	48 991	2 771	0	0
TRIALFA, s.r.o., Třinec – Kanada	100	0	100,00	19 419	500	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100,00	35 670	3 055	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90,00	43 200	-4 098	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	2 000	20	100,00	11 378	-1 282	-22 958	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83,18	29 521	7 635	0	0
„ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88,00	46 146	86	-9 141	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66,00	49 679	-1 274	0	0
IMOPRA s.r.o., Nivnice	2 000	0	100,00	94 302	4 715	0	0
Total						-343 006	229 588

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

31 December 2016

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial income
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100,00	1 948 644	170 161	0	0
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100,00	610 794	53 008	0	30 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100,00	2 660 256	61 420	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100,00	603 563	17 952	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100,00	674 196	73 794	0	40 000
HŽP a.s., Prostějov	130 000	130 000	100,00	546 456	69 088	0	20 000
„D&D“ Drótáru Zrt., 3527 Miskolc, Sajószigeti utca 4 (HUN)	450	5	100,00	112 997	33 287	-396 660	0
„METALURGIA“ Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100,00	241 589	16 777	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100,00	316 863	21 821	0	0
Řetězárna a.s., Česká Ves	61 200	515	51,00	521 915	12 820	0	3 570
REFRASIL, s.r.o., Kónská, Třinec	25 500	0	51,00	244 515	11 849	0	4 590
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100,00	50 484	2 384	0	0
Doprava TŽ, a.s., Třinec–Staré Město	16 000	115	100,00	46 220	2 678	0	0
TRIALFA, s.r.o., Třinec – Kanada	100	0	100,00	18 919	273	0	0
Moravia Security, a.s., Kónská, Třinec	12 000	12	100,00	26 079	3 624	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90,00	47 298	-2 032	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68,00	12 661	-8 316	-21 391	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83,18	21 886	3 686	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88,00	46 150	-49	-9 124	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66,00	50 953	-1 709	0	0
TOTAL						-427 175	98 160

Equity Investments – Associates

31 December 2017

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Kinská Třinec	25 137	25 137	40,00	342 178	13 196	0	20 717
Ocelářská unie a.s., Nové Město, Praha 1**	16 221	27 036	38,78	45 856	6 035	-17 920	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23,26	949	323	0	0
TOTAL						-17 920	20 717

Note: *italics-preliminary results of operation as of 31 December 2017*

*results for the period from 1 April 2017 – 31 March 2018

**former Hutnictví železa, a.s.

31 December 2016

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Kinská, Třinec	25 137	25 137	40,00	380 773	51 791	0	23 109
Hutnictví železa, a.s., Strašnice, Prague 10	16 221	27 036	38,78	38 897	-200	-17 920	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23,26	626	-1 104	0	0
TOTAL						-17 920	23 109

Note: *results for the period from 1 April 2016 – 31 March 2017

Other Non-Current Securities and Equity Investments

31 December 2017

(CZK THOUSAND)

Name of the entity	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	0	2,08	794	828	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33,33	3 823	-294	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100,00	137 769	-1 582	0	0
Unirelex, a.s. v likvidaci, Praha	2,22	2 000	0,04306	*	*	-4	0
Veolia Energie ČR, a.s., Ostrava	0,89	1 700	0,00216	*	*	0	24
TOTAL						-58	24

Note: *italics-preliminary results of operation as of 31 December 2017*

*the values are not available

31 December 2016

(CZK THOUSAND)

Name of the entity	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	0	2,08	665	-147	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33,33	4 051	-606	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100,00	144 007	131	0	0
Unirelex, a.s. v likvidaci, Praha	2,22	2 000	0,04306	*	*	-4	0
Veolia Energie ČR, a.s., Ostrava	0,89	1 700	0,00216	7 535 788	321 921	0	24
Total						-58	24

Note: *the values are not available

Non-Current Financial Assets Pledged as Collateral

As of 31 December 2017 and 2016, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 130,000 thousand and CZK 132,000 thousand, respectively.

3.3. RECEIVABLES**Short-Term Receivables**

As of 31 December 2017 and 2016, the Company records short-term trade receivables past their due dates in the gross amount of CZK 22,681 thousand and CZK 19,422 thousand (net CZK 7,056 thousand and CZK 1,763 thousand), respectively.

Other Receivables

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

As of 31 December 2017 and 2016, State – tax receivables predominantly include a receivable arising from value added tax, prepayments for corporate income tax and prepayments for fees under Act No. 201/2012 Coll., the Air Protection Act.

Other receivables principally include a receivable arising from an indisputable claim for a subsidy and receivables from individuals. In 2016, other receivables principally included a receivable arising from a safekeeping agreement and receivables from individuals.

As of 31 December 2017 and 2016, estimated receivables principally include amounts due from anticipated insurance proceeds and an amount due from the refund of the value added tax paid abroad. Receivables typically mature within 30 days.

Intercompany Receivables

Short-Term Receivables

(CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2017	Balance at 31 Dec 2016
• Trade receivables			
Doprava TŽ, a.s.	Controlled entity	793	1 490
ENERGETIKA TŘINEC, a.s.	Controlled entity	42 030	17 047
Šroubárna Kyjov, spol. s r.o.	Controlled entity	2 783	398
Strojírny a stavby Třinec, a.s.	Controlled entity	16 107	18 030
MORAVIA STEEL a.s.	Controlling entity	1 798 888	1 919 099
REFRASIL, s.r.o.	Controlled entity	488	508
Řetězárna, a.s.	Controlled entity	7	4
Slévárny Třinec, a.s.	Controlled entity	42 085	35 596
TRIALFA, s.r.o.	Controlled entity	3 887	1 829
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	65	37
Třinecké gastroslužby, s.r.o.	Controlled entity	701	733
TRISIA, a.s.	Controlled entity	13	13
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	388	354
Beskydská golfová, a.s.	Fellow subsidiary	37	37
VÚHŽ a.s.	Controlled entity	526	549
Moravia Security, a.s.	Controlled entity	64	65
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	11	22
Moravskoslezský kovošrot, a.s.,	Fellow subsidiary	180	163
„METALURGIA“ Spółka Akcyjna	Controlled entity	504	492
HŽP a.s.	Controlled entity	692	1 701
M Steel Projects a.s.	Fellow subsidiary	11	21
„NEOMET“ Sp. z o.o.	Fellow subsidiary	114	25
ŽDB DRÁTOVNA a.s.	Controlled entity	1 872	1 864
Barrandov Studio a.s.	Fellow subsidiary	107	107
Total		1 912 353	2 000 184
• Receivables – Controlled or controlling entity			
D&D“ Drótaru Zrt.	Controlled entity	0	184 245
IMOPRA s.r.o.	Controlled entity	24 040	0
Total		24 040	184 245
• Short-term prepayments provided			
TRISIA, a.s.	Controlled entity	2	0
Total		2	0

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• Other receivables			
MORAVIA STEEL a.s.	Controlling entity	11	0
Total		11	0
Total short-term intercompany receivables		1 936 406	2 184 429
Other than intercompany receivables		659 891	1 274 942
Total short-term receivables		2 596 297	3 459 371

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

As of 31 December 2017, the Company records no receivables secured with material guarantees.

3.4. EQUITY

Valuation differences include profit/loss from the revaluation of securities available for sale net of a deferred tax liability.

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.

Proposal for the Allocation of Profit for 2017

In 2017, the Company generated net profit after tax of CZK 1,424,138 thousand. The Company's Board of Directors proposes dividing it as follows:

- Profit share allocated to the sole shareholder: CZK 1,200,000 thousand
- Retained earnings brought forward: CZK 224,138 thousand

3.5. RESERVES

Other reserves principally consist of reserves for employee bonuses, risks arising from business relations, including warranty claims.

3.6. PAYABLES

Long-Term Payables

Long-term trade payables as of 31 December 2017 include payables arising from retentions from suppliers under concluded contracts.

As of 31 December 2017, the Company records no long-term payables secured with material guarantees.

As of 31 December 2017, the Company does not record trade payables with maturity longer than five years. As of 31 December 2016, the Company recorded trade payables with maturity longer than five years in the amount of CZK 4,633 thousand.

Deferred Income Tax

The deferred tax liability is analysed as follows:

(CZK THOUSAND)

Deferred tax arising from	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Difference between tax and accounting carrying values of fixed assets	-6 787 207	-6 510 528
Revaluation of available-for-sale securities	58	58
Accounting reserves	293 343	133 062
Provisions	638 423	773 265
Expenses that are tax deductible in the following periods	180 084	142 981
Total	-5 675 299	-5 461 162
Tax rate (in %)	19	19
Deferred tax liability	-1 078 307	-1 037 621

(CZK THOUSAND)

Analysis of movements	
31 Dec 2016	-1 037 621
Current changes charged against the profit and loss account	-40 686
31 Dec 2017	-1 078 307

Income Tax

(CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Profit before tax	1 688 770	1 754 539
Tax at the domestic income tax rate of 19%	320 866	333 362
Tax effect of expenses that are not deductible in determining taxable profit	-56 234	-18 387
Total income tax on ordinary and extraordinary activities – recognised in deferred tax and income tax payable	264 632	314 975

Short-Term Payables

As of 31 December 2017 and 2016, the Company records short-term trade payables past their due dates of CZK 8,271 thousand and CZK 8,436 thousand, respectively.

Payables typically fall due for settlement within 30 days.

Other Payables

As of 31 December 2017, payables arising from social security and the state employment policy contribution amounted to CZK 78,007 thousand (2016: CZK 71,617 thousand), health insurance payables totalled CZK 34,512 thousand (2016: CZK 31,399 thousand), and pension insurance payables totalled CZK 3,077 thousand (2016: CZK 2,707 thousand). The Company has no past due social security or health insurance payables.

In the years ended 31 December 2017 and 2016, the category "State – tax payables and subsidies" principally comprises received subsidies for emission allowances and a payable arising from personal income tax.

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

In the years ended 31 December 2017 and 2016, other payables primarily comprise payables arising from group registration for value added tax, guarantees and employee contributions.

As of 1 January 2017, the group registration for VAT was extended to include MORAVIA STEEL a.s.

Intercompany Payables

Long-Term Payables

CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2017	Balance at 31 Dec 2016
<i>Long-term payables</i>			
• Trade payables			
REFRASIL, s.r.o.	Controlled entity	0	4 129
Strojírny a stavby Třinec, a.s.	Controlled entity	690	1 373
VÚHŽ a.s.	Controlled entity	829	0
Total		1 519	5 502
Total long-term intercompany payables		1 519	5 502
Other than intercompany payables		2 946 826	2 552 100
Total long-term payables		2 948 345	2 557 602

Other than intercompany long-term payables as of 31 December 2017 and 2016 primarily include a deferred tax liability of CZK 1,078,307 thousand and CZK 1,037,621 thousand, respectively, and payables to credit institutions of CZK 1,821,573 thousand and CZK 1,464,619 thousand, respectively.

Short-Term Payables

(CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2017	Balance at 31 Dec 2016
• Trade payables			
Doprava TŽ, a.s.	Controlled entity	10 814	10 061
ENERGETIKA TŘINEC, a.s.	Controlled entity	317 630	281 898
OCELÁŘSKÁ UNIE, a.s.	Associate	37	549
Šroubárna Kyjov, spol. s r.o.	Controlled entity	2 053	1 757
MORAVIA STEEL a.s.	Controlling entity	1 571 665	1 588 537
REFRASIL, s.r.o.	Controlled entity	17 081	12 533
Řetězárna, a.s.	Controlled entity	599	670
Slévárny Třinec, a.s.	Controlled entity	4 450	5 374
TRIALFA, s.r.o.	Controlled entity	14 309	15 832
TRISIA, a.s.	Controlled entity	613	945
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	1 979	2 743
Třinecké gastroslužby, s.r.o.	Controlled entity	6 850	7 073
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	8 498	8 359
Beskydská golfová, a.s.	Fellow subsidiary	3 025	3 025
Strojírny a stavby Třinec, a.s.	Controlled entity	173 532	146 756
VÚHŽ a.s.	Controlled entity	4 221	356
Moravia Security, a.s.	Controlled entity	8 988	7 161
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	2 064	957
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	158 279	165 497
„METALURGIA“ Spółka Akcyjna	Controlled entity	323	349
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	103	103
HRAT, s.r.o.	Associate	36	36
ŽDB DRÁTOVNA a.s.	Controlled entity	1 055	1 116
DALSELV DESIGN a.s.	Controlled entity	3 162	3 314
“NEOMET“ Sp. z o.o.	Fellow subsidiary	88 613	70 202
MINERFIN, a.s.	Group entity	4 210	1 026
Security Morava, s.r.o.	Controlled entity	1 058	909
Total		2 405 247	2 337 138
• Estimated payables			
MORAVIA STEEL a.s.	Controlling entity	4 327	231
Total		4 327	231

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• Other payables			
ENERGETIKA TŘINEC, a.s.	Controlled entity	319	6 084
Strojírny a stavby Třinec, a.s.	Controlled entity	0	1 408
MORAVIA STEEL a.s.	Controlling entity	62 026	0
Total		62 345	7 492
Total short-term intercompany payables			
		2 471 919	2 344 861
Other than intercompany payables		3 918 696	3 071 435
Total short-term payables		6 390 615	5 416 296

Other than intercompany short-term payables as of 31 December 2017 and 2016 predominantly include payables to credit institutions of CZK 1,422,319 thousand and CZK 755,270 thousand, respectively.

Payables to Credit Institutions

Long-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Form of collateral at 31 Dec 2017
Investment	EUR	73 523	95 069	Hermes guarantee insurer
Investment	EUR	99 070	134 757	ODL guarantee insurer
Investment	CZK	0	0	Immovable and movable assets, securities, promissory note
Investment	CZK	0	60 000	Securities, promissory note
Investment	CZK	0	189 474	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	120 000	240 000	Immovable and movable assets, promissory note
Investment	CZK	60 000	135 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	720 000	610 319	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	748 980	0	Immovable and movable assets, insurance receivables, promissory note
Total		1 821 573	1 464 619	

Repayments of long-term payables to credit institutions over 5 years amount to CZK 54,981 thousand.

Short-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Form of collateral at 31 Dec 2017
Investment	EUR	16 339	16 973	Hermes guarantee insurer
Investment	EUR	28 306	29 946	ODL guarantee insurer
Investment	CZK	0	63 140	Immovable and movable assets, securities, promissory note
Investment	CZK	60 000	60 000	Securities, promissory note
Investment	CZK	189 474	252 631	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment	CZK	75 000	60 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	240 000	152 580	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	187 245	0	Immovable and movable assets, insurance receivables, promissory note
Overdraft	CZK	257 909	0	Promissory note
Overdraft	CZK	248 046	0	Promissory note
Total		1 422 319	755 270	

3.7. DETAILS OF INCOME

(CZK THOUSAND)

	31 Dec 2017	31 Dec 2016
Proceeds of the sale of goods	241	340
Proceeds of the sale of products and services	35 858 795	32 216 680
– Products	35 419 555	31 786 150
– Services	439 240	430 530
Total sales of goods, products and services	35 859 036	32 217 020

3.8. OTHER EXPENSES AND INCOME

As of 31 December 2017, other operating income of the Company mainly involves the use of the subsidy related to emission allowances CZK 522,725 thousand, as of 31 December 2016 including the income from the sale of emission allowances of CZK 478,512 thousand.

Other financial income as of 31 December 2017 and 2016 predominantly includes foreign exchange rate gains of CZK 41,031 thousand and CZK 17,063 thousand, respectively.

As of 31 December 2017, other operating expenses primarily reflect the use of emission allowances of CZK 444,862 thousand, as of 31 December 2016, including the costs of the sale of allowances in the amount of CZK 478,592 thousand.

Other financial expenses as of 31 December 2017 predominantly include foreign exchange rate losses of CZK 29,853 thousand and gifts of CZK 19,824 thousand. As of 31 December 2016, other financial expenses predominantly included foreign exchange rate losses of CZK 21,971 thousand.

3.9. SUBSIDIES

Subsidies for operating purposes of CZK 6,741 thousand utilised for the year ended 31 December 2017 include subsidies for research and development, a subsidy for museum operations, subsidies from the Labour Office for socially useful employment, a subsidy to ensure educational activities of employees and subsidies for an environmental project.

Subsidies for operating purposes of CZK 3,547 thousand utilised for the year ended 31 December 2016 include subsidies for research and development, education, a subsidy for museum operations and subsidies for an environmental project. In 2016, the Company returned a subsidy for an environmental project of CZK 10 thousand.

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

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

3.10. RESEARCH AND DEVELOPMENT COSTS

(CZK THOUSAND)

	31 Dec 2017	31 Dec 2016
Research and development costs (net of subsidies)	44 108	53 051

3.11. RELATED PARTY TRANSACTIONS

Income Generated with Related Parties

Income from intercompany transactions amounted to CZK 35,451,071 thousand and CZK 31,798,967 thousand in the years ended 31 December 2017 and 2016, respectively. All intercompany transactions were at arm's length.

The following table shows the income generated with related parties for the year ended 31 December 2017:

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Financial income	Other income	Total
Doprava TŽ, a.s.	Controlled entity	0	20 966	4 285	0	5	25 256
ENERGETIKA TŘINEC, a.s.	Controlled entity	**77 910	219 737	38 921	0	23	336 591
MORAVIA STEEL a.s.	Controlling entity	0	34 319 782	168 486	0	56	34 488 324
REFRASIL, s.r.o.	Controlled entity	0	1 266	5 078	0	8	6 352
Řetězárna, a.s.	Controlled entity	0	0	121	0	0	121
Slévárny Třinec, a.s.	Controlled entity	0	275 044	20 529	0	45	295 618
TRIALFA, s.r.o.	Controlled entity	0	25 204	3 892	0	8	29 104
TRISIA, a.s.	Controlled entity	0	5	140	0	0	145
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	1	949	0	3	953
Třinecké gastroslužby, s.r.o.	Controlled entity	0	670	5 213	0	500	6 383
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	11	7 869	0	92	7 972
Beskydská golfová, a.s.	Fellow subsidiary	0	2	130	0	0	132
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	4	5 729	0	3	5 736
Moravia Security, a.s.	Controlled entity	0	46	1 467	0	2	1 515
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	265	242	0	3	510
Strojírny a stavby Třinec, a.s.	Controlled entity	0	177 051	38 226	0	320	215 597
VÚHŽ a.s.	Controlled entity	2 151	2 867	1 904	0	4	6 926
HŽP a.s.	Controlled entity	0	241	3 072	0	3	3 316
„METALURGIA“ Spółka Akcyjna*	Controlled entity	0	0	2 087	0	3	2 090
M Steel Projects a.s.	Fellow subsidiary	0	0	162	0	0	162
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	872	1 370	0	3	2 245
„D&D“ Drótáru Zrt.	Controlled entity	0	0	1	494	3	498
ŽDB DRÁTOVNA a.s.	Controlled entity	0	637	13 046	0	46	13 729
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	0	706	0	1	707
Hotel Golf Ropice a.s.	Fellow subsidiary	0	0	4	0	0	4
Barrandov Studio, a.s.	Fellow subsidiary	0	0	1 058	0	0	1 058
Security Morava, s.r.o.	Controlled entity	0	0	9	0	0	9
MSPProjects International s.r.o.	Fellow subsidiary	0	0	4	0	0	4
DALSELV DESIGN a.s.	Controlled entity	0	0	0	0	2	2
IMOPRA s.r.o.	Controlled entity	0	0	0	9	3	12
TOTAL		80 061	35 044 671	324 700	503	1 136	35 451 071

Note: *The translation was made using the average value of the foreign exchange rate

**Emission allowances sold

The income arising from intercompany profit shares for the year ended 31 December 2017 is disclosed in Note 3.2.

The following table shows the income generated with related parties for the year ended 31 December 2016:

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Financial income	Other income	Total
Doprava TŽ, a.s.	Controlled entity	140	22 673	4 288	0	3	27 104
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	104 277	37 709	0	23	142 009
MORAVIA STEEL a.s.	Controlling entity	0	30 925 118	168 024	0	305	31 093 447
REFRASIL, s.r.o.	Controlled entity	0	1 293	4 990	0	4	6 287
Řetězárna, a.s.	Controlled entity	0	1	2 770	0	0	2 771
Slévárny Třinec, a.s.	Controlled entity	0	220 034	20 269	0	56	240 359
TRIALFA, s.r.o.	Controlled entity	0	20 933	3 992	0	22	24 947
TRISIA, a.s.	Controlled entity	0	6	170	0	0	176
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	0	641	0	2	643
Třinecké gastroslužby, s.r.o.	Controlled entity	0	592	5 250	6	546	6 394
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	2	7 678	0	51	7 731
Beskydská golfová, a.s.	Fellow subsidiary	0	0	130	0	0	130
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	10	3 616	0	14	3 640
Moravia Security, a.s.	Controlled entity	0	53	1 542	0	2	1 597
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	73	252	0	0	325
Strojírny a stavby Třinec, a.s.	Controlled entity	0	173 486	37 282	0	118	210 886
VÚHŽ a.s.	Controlled entity	0	2 432	1 595	0	3	4 030
HŽP a.s.	Controlled entity	0	815	3 258	0	0	4 073
„METALURGIA“ Spółka Akcyjna*	Controlled entity	0	1	1 961	0	0	1 962
M Steel Projects a.s.	Fellow subsidiary	0	0	198	0	0	198
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	401	1 135	0	0	1 536
„D&D“ Drátáru Zrt.*	Controlled entity	0	0	0	2 304	0	2 304
ŽDB DRÁTOVNÁ a.s.	Controlled entity	0	666	14 010	0	10	14 686
„NEOMET“ Sp. z o.o.*	Fellow subsidiary	0	0	640	0	0	640
Kovárna VIVA a.s.	Fellow subsidiary	0	0	7	0	0	7
Hotel Golf Ropice a.s.	Fellow subsidiary	0	0	4	0	0	4
R.F.G., a.s. „v likvidaci“	Group entity	0	0	8	0	0	8
Barrandov Studio, a.s.	Fellow subsidiary	0	0	1 058	0	0	1 058
MINERFIN a.s.	Group entity	0	0	1	0	0	1
Security Morava, s.r.o.	Controlled entity	0	0	10	0	0	10
MSPProjects International s.r.o.	Fellow subsidiary	0	0	4	0	0	4
TOTAL		140	31 472 866	322 492	2 310	1 159	31 798 967

Note: *The translation was made using the average value of the foreign exchange rate

The income arising from intercompany profit shares for the year ended 31 December 2016 is disclosed in Note 3.2.

Purchases from Related Parties

Total purchases from related parties amounted to CZK 25,408,308 thousand and CZK 20,952,897 thousand in the years ended 31 December 2017 and 2016. All related party transactions were at arm's length.

The following table shows purchases from related parties in the year ended 31 December 2017:

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory of material, products and goods	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	408	20 116	59 236	76	79 836
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	1 760 824	86 694	0	1 847 518
MORAVIA STEEL a.s.	Controlling entity	104	18 882 353	249 198	240	19 131 895
REFRASIL, s.r.o.	Controlled entity	0	328	151 458	0	151 786
Řetězárna, a.s.	Controlled entity	0	6 978	0	0	6 978
Slévárny Třinec, a.s.	Controlled entity	15 323	89 656	761	0	105 740
TRIALFA, s.r.o.	Controlled entity	0	5 563	18 942	49 566	74 071
TRISIA, a.s.	Controlled entity	0	9	8 277	88	8 374
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	37 633	0	9 612	0	47 245
Třinecké gastroslužby, s.r.o.	Controlled entity	0	12 594	1 655	66 594	80 843
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	150	24	78 633	0	78 807
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 369	0	5 369
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	15 611	0	0	15 611
Moravia Security, a.s.	Controlled entity	626	225	70 407	60	71 318
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	791	6 071	0	6 862
Strojírny a stavby Třinec, a.s.	Controlled entity	369 966	261 314	572 921	268	1 204 469
VÚHŽ a.s.	Controlled entity	9 830	2 913	1 948	0	14 691
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 335 964	0	0	1 335 964
„ZAMECZEK BĚLOGOVICE“ Sp. z o.o.*	Controlled entity	0	0	1 246	0	1 246
„METALURGIA“ Spółka Akcyjna*	Controlled entity	0	615	1 306	0	1 921
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótáru Zrt.*	Controlled entity	0	5 735	0	0	5 735
Ocelářská unie a.s.	Associate	0	0	2 788	138	2 926
ŽDB DRÁTOVNA a.s.	Controlled entity	244	8 147	2 144	0	10 535
DALSELV DESIGN a.s.	Controlled entity	35 967	4 726	631	0	41 324
MINERFIN, a.s.	Group entity	0	16 006	0	0	16 006
„NEOMET“ Sp. z o.o.*	Fellow subsidiary	0	1 050 735	0	0	1 050 735
MORAVIA STEEL UK LIMITED*	Fellow subsidiary	0	0	0	24	24
AHP HYDRAULIKA, a.s.*	Fellow subsidiary	0	129	0	0	129
Security Morava s.r.o.	Controlled entity	0	0	10 230	0	10 230
TOTAL		470 251	23 481 356	1 339 647	117 054	25 408 308

Note: *The translation was made using the average value of the foreign exchange rate

The following table shows purchases from related parties in the year ended 31 December 2016:

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory of material, products and goods	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	5	21 725	62 848	17	84 595
ENERGETIKA TŘINEC, a.s.	Controlled entity	**338	1 912 388	93 573	74	2 006 373
MORAVIA STEEL a.s.	Controlling entity	293	14 900 804	263 540	40 658	15 205 295
REFRASIL, s.r.o.	Controlled entity	16 053	275	147 400	0	163 728
Řetězárna, a.s.	Controlled entity	0	5 044	263	0	5 307
Slévárny Třinec, a.s.	Controlled entity	8 594	90 243	666	136	99 639
TRIALFA, s.r.o.	Controlled entity	0	6 455	22 766	59 076	88 297
TRISIA, a.s.	Controlled entity	0	0	10 925	109	11 034
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	36 048	0	12 161	0	48 209
Třinecké gastroslužby, s.r.o.	Controlled entity	0	12 429	1 443	64 595	78 467
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	121	81 787	0	81 908
Beskydská golfová, a.s.	Fellow subsidiary	0	0	7 368	0	7 368
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	11 168	0	0	11 168
Moravia Security, a.s.	Controlled entity	2 635	56	68 277	0	70 968
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	4 423	0	4 423
Strojírny a stavby Třinec, a.s.	Controlled entity	189 699	293 950	529 338	343	1 013 330
VÚHŽ a.s.	Controlled entity	0	1 038	2 354	0	3 392
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	979 139	0	0	979 139
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 247	0	1 247
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	657	825	0	1 482
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótaru Zrt.	Controlled entity	0	5 438	0	0	5 438
Hutnictví železa, a.s.	Associate	0	0	5 739	132	5 871
ŽDB DRÁTOVNA a.s.	Controlled entity	0	6 950	2 125	0	9 075
DALSELV DESIGN a.s.	Controlled entity	144 215	69	604	0	144 888
MINERFIN a.s.*	Group entity	0	9 644	0	0	9 644
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	803 862	0	0	803 862
Security Morava s.r.o.	Controlled entity	0	0	8 630	0	8 630
TOTAL		397 880	19 061 455	1 328 422	165 140	20 952 897

Note: *The translation was made using the average value of the foreign exchange rate

**Purchase of emission allowances of CZK 48 thousand.

3.12. EMPLOYEES, MANAGEMENT AND SUPERVISORY BOARD

Staff Costs and Number of Employees

31 December 2017

(CZK THOUSAND)

	Number	Total staff costs
Employees	7 028	3 878 780
Management	6	123 838
Total	7 034	4 002 618

31 December 2016

(CZK THOUSAND)

	Number	Total staff costs
Employees	7 005	3 689 831
Management	6	28 539
Total	7 011	3 718 370

The remuneration to members of the Supervisory Board in the years ended 31 December 2017 and 2016 amounted to CZK 3,304 thousand and CZK 3,696 thousand, respectively.

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

For the purposes of these financial statements, the category of management includes the members of the Board of Directors and the Investment and Strategy Director.

3.13. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

31 December 2017

(CZK THOUSAND)

	Management	Supervisory Board
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 296	51
Liability insurance	325	246

31 December 2016

(CZK THOUSAND)

	Management	Supervisory Board
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 165	204
Liability insurance	258	258

3.14. CONTINGENT LIABILITIES AND ASSETS AND OFF BALANCE SHEET COMMITMENTS, LEGAL DISPUTES

Provided Guarantees

31 December 2017

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

31 December 2016

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

Received Guarantees

31 December 2017

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

31 December 2016

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

Legal Disputes

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

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

Environmental Liabilities

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

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

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

3.15. POST BALANCE SHEET EVENTS

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

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FINANCIAL PART II.
CONSOLIDATED FINANCIAL
STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

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:

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 23 March 2018.

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

CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	31.12.2017		31.12.2016	
	Gross	Adjustment	Net	Net
TOTAL ASSETS	75 599 976	-34 951 935	40 648 041	38 616 012
B. Fixed assets	57 518 347	-34 129 729	23 388 618	21 527 479
<i>B.I. Intangible fixed assets</i>	1 127 350	-419 691	707 659	731 707
B.I.1. Research and development	4 553	-4 553		
B.I.2. Valuable rights	552 599	-401 901	150 698	142 941
B.I.2.1. Software	315 711	-283 601	32 110	37 525
B.I.2.2. Other valuable rights	236 888	-118 300	118 588	105 416
B.I.3. Goodwill	356	-356		
B.I.4. Other intangible fixed assets	565 610	-12 881	552 729	583 325
B.I.5. Prepayments for intangible fixed assets and intangible fixed assets under construction	4 232		4 232	5 441
B.I.5.1. Prepayments for intangible fixed assets				54
B.I.5.2. Intangible fixed assets under construction	4 232		4 232	5 387
<i>B.II. Tangible fixed assets</i>	55 579 276	-33 657 138	21 922 138	20 223 140
B.II.1. Land and structures	14 440 847	-7 161 409	7 279 438	6 718 583
B.II.1.1. Land	741 769		741 769	740 105
B.II.1.2. Structures	13 699 078	-7 161 409	6 537 669	5 978 478
B.II.2. Tangible movable assets and sets of tangible movable assets	39 752 060	-26 399 519	13 352 541	12 370 010
B.II.4. Other tangible fixed assets	96 650	-80 482	16 168	14 836
B.II.4.3. Other tangible fixed assets	96 650	-80 482	16 168	14 836
B.II.5. Prepayments for tangible fixed assets and tangible fixed assets under construction	1 289 719	-15 728	1 273 991	1 119 711
B.II.5.1. Prepayments for tangible fixed assets	201 334		201 334	176 555
B.II.5.2. Tangible fixed assets under construction	1 088 385	-15 728	1 072 657	943 156
<i>B.III. Non-current financial assets</i>	423 821	-52 900	370 921	169 356
B.III.1. Equity investments-controlled or controlling entity	395 531	-34 755	360 776	159 210
B.III.3. Equity investments in associates	26 201	-18 057	8 144	8 144
B.III.5. Other non-current securities and investments	2 089	-88	2 001	2 002
<i>B.IV. Goodwill on consolidation</i>	251 029		251 029	250 967
B.IV.1. Positive goodwill on consolidation	251 029		251 029	250 967
<i>B.V. Securities and equity interests under equity accounting</i>	136 871		136 871	152 309

THE TABLE CONTINUES ON THE NEXT PAGE ▼

C.	Current assets	17 906 554	-822 206	17 084 348	16 916 733
<i>C.I.</i>	Inventories	12 477 189	-714 941	11 762 248	10 552 945
C.I.1.	Material	5 482 720	-374 530	5 108 190	4 775 530
C.I.2.	Work in progress and semifinished goods	4 331 370	-265 265	4 066 105	3 185 317
C.I.3.	<i>Products and goods</i>	2 646 602	-75 146	2 571 456	2 588 499
C.I.3.1.	Products	2 613 049	-74 910	2 538 139	2 562 699
C.I.3.2.	Goods	33 553	-236	33 317	25 800
C.I.5.	Prepayments for inventories	16 497		16 497	3 599
<i>C.II.</i>	Receivables	4 542 886	-94 717	4 448 169	5 066 508
<i>C.II.1.</i>	Long-term receivables	37 821		37 821	17 879
C.II.1.1.	Trade receivables	24 477		24 477	5 950
C.II.1.4.	Deferred tax asset	273		273	276
C.II.1.5.	<i>Receivables-other</i>	13 071		13 071	11 653
C.II.1.5.2.	Long-term prepayments made	2 199		2 199	3 668
C.II.1.5.4.	Sundry receivables	10 872		10 872	7 985
<i>C.II.2.</i>	Short-term receivables	4 505 065	-94 717	4 410 348	5 048 629
C.II.2.1.	Trade receivables	3 660 343	-73 425	3 586 918	3 529 819
C.II.2.2.	Receivables-controlled or controlling entity	24 040		24 040	
C.II.2.4.	<i>Receivables-other</i>	820 682	-21 292	799 390	1 518 810
C.II.2.4.3.	State-tax receivables	663 862		663 862	1 068 854
C.II.2.4.4.	Short-term prepayments made	12 651	-26	12 625	13 204
C.II.2.4.5.	Estimated receivables	92 881		92 881	233 943
C.II.2.4.6.	Sundry receivables	51 288	-21 266	30 022	202 809
<i>C.III.</i>	Current financial assets	12 548	-12 548		62
C.III.2.	Other current financial assets	12 548	-12 548		62
<i>C.IV.</i>	Cash	873 931		873 931	1 297 218
C.IV.1.	Cash on hand	4 704		4 704	4 136
C.IV.2.	Cash at bank	869 227		869 227	1 293 082
D.	Other assets	175 075		175 075	171 800
D.1.	Deferred expenses	55 935		55 935	61 862
D.2.	Complex deferred expenses	118 847		118 847	86 254
D.3.	Accrued income	293		293	23 684

CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

	31.12.2017	31.12.2016
TOTAL LIABILITIES & EQUITY	40 648 041	38 616 012
A. Equity	27 935 420	27 788 940
<i>A.I. Share capital</i>	8 109 863	8 109 863
A.I.1. Share capital	8 109 863	8 109 863
<i>A.II. Share premium and capital funds</i>	94 715	107 578
<i>A.II.2. Capital funds</i>	94 715	107 578
A.II.2.1. Other capital funds	110 247	108 901
A.II.2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	-15 532	-1 323
<i>A.III. Funds from profit</i>	3 312 852	3 312 852
A.III.1. Other reserve funds	3 312 852	3 312 852
<i>A.IV. Retained earnings (+/-)</i>	14 254 204	13 819 430
A.IV.1. Accumulated profits brought forward	14 271 842	13 852 502
A.IV.2. Accumulated losses brought forward (-)	-17 638	-33 072
<i>A.V. Profit or loss for the current period, net of minority interests</i>	1 560 659	1 856 807
A.V.1. Profit or loss for the current period	1 555 381	1 836 091
A.V.2. Share of income from associates	5 278	20 716
<i>A.VII. Consolidation reserve fund</i>	603 127	582 410
B.+C. Liabilities	12 292 661	10 424 845
B. Reserves	427 701	246 428
B.1. Reserve for pensions and similar liabilities	4 288	3 248
B.3. Reserves under special legislation	11 517	17 254
B.4. Other reserves	411 896	225 926
C. Payables	11 864 960	10 178 417
<i>C.I. Long-term payables</i>	3 797 558	3 270 308
C.I.2. Payables to credit institutions	2 208 306	1 724 604
C.I.4. Trade payables	49 790	54 422
C.I.8. Deferred tax liability	1 539 322	1 491 282
C.I.9. <i>Payables-other</i>	140	
C.I.9.3. Sundry payables	140	

THE TABLE CONTINUES ON THE NEXT PAGE ▼

C.II.	Short-term payables	8 067 402	6 908 109
C.II.2.	Payables to credit institutions	1 734 625	898 701
C.II.3.	Short-term prepayments received	27 062	130 687
C.II.4.	Trade payables	4 733 984	4 512 704
C.II.8.	Other payables	1 571 731	1 366 017
C.II.8.2.	Short-term financial borrowings	154	54
C.II.8.3.	Payables to employees	461 548	458 922
C.II.8.4.	Social security and health insurance payables	189 038	177 431
C.II.8.5.	State-tax payables and subsidies	597 752	500 926
C.II.8.6.	Estimated payables	234 680	203 228
C.II.8.7.	Sundry payables	88 559	25 456
D.	Other liabilities	31 798	28 108
D.1.	Accrued expenses	15 776	12 882
D.2.	Deferred income	16 022	15 226
E.	Minority equity	388 162	374 119
E.1.	Minority share capital	83 300	83 300
E.2.	Minority capital funds	4 404	3 213
E.3.	Minority profit funds including accumulated profits and accumulated losses	278 393	275 543
E.5.	Minority profit or loss for the current period	22 065	12 063

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

(IN CZK THOUSAND)

	Year ended 31.12.2017	Year ended 31.12.2016
I. Sales of products and services	45 225 486	40 973 161
II. Sales of goods	93 070	87 275
A. Purchased consumables and services	36 590 383	31 019 984
A.1. Costs of goods sold	78 896	70 491
A.2. Consumed material and energy	32 466 873	27 296 359
A.3. Services	4 044 614	3 653 134
B. Change in internally produced inventory (+/-)	-741 719	60 475
C. Own work capitalised (-)	-989 429	-702 204
D. Staff costs	6 399 835	6 006 457
D.1. Payroll costs	4 528 828	4 191 538
D.2. Social security and health insurance costs and other charges	1 871 007	1 814 919
D.2.1. Social security and health insurance costs	1 569 234	1 472 919
D.2.2. Other charges	301 773	342 000
E. Adjustments to values in operating activities	1 792 004	2 018 347
E.1. <i>Adjustments to values of intangible and tangible fixed assets</i>	1 898 236	1 951 486
E.1.1. Adjustments to values of intangible and tangible fixed assets-permanent	1 906 150	1 877 495
E.1.A. Release of consolidation difference (goodwill)		2 443
E.1.2. Adjustments to values of intangible and tangible fixed assets-temporary	-7 914	71 548
E.2. Adjustments to values of inventories	-105 910	74 506
E.3. Adjustments to values of receivables	-322	-7 645
III. Other operating income	893 559	963 958
III.1. Sales of fixed assets	17 539	32 490
III.2. Sales of material	122 749	100 930
III.3. Sundry operating income	753 271	830 538
F. Other operating expenses	1 121 995	1 301 625
F.1. Net book value of sold fixed assets	7 483	11 489
F.2. Net book value of sold material	102 368	92 340
F.3. Taxes and charges	60 199	57 488
F.4. Reserves relating to operating activities and complex deferred expenses	153 363	-24 439
F.5. Sundry operating expenses	798 582	1 164 747
* Operating profit or loss (+/-)	2 039 046	2 319 710

THE TABLE CONTINUES ON THE NEXT PAGE ▼

IV.	Income from non-current financial assets-equity investments	2 415	2 186
IV.1.	Income from equity investments-controlled or controlling entity	2 391	2 162
IV.2.	Other income from equity investments	24	24
VI.	Interest income and similar income	223	1 257
VI.1.	Interest income and similar income-controlled or controlling entity	21	80
VI.2.	Other interest income and similar income	202	1 177
I.	Adjustments to values and reserves relating to financial activities	1 740	7 417
J.	Interest expenses and similar expenses	37 155	42 079
J.2.	Other interest expenses and similar expenses	37 155	42 079
VII.	Other financial income	103 235	46 904
K.	Other financial expenses	164 292	65 963
*	Financial profit or loss (+/-)	-97 314	-65 112
**	Profit or loss before tax (+/-)	1 941 732	2 254 598
L.	Income tax	364 286	406 444
L.1.	Due income tax	312 806	395 936
L.2.	Deferred income tax (+/-)	51 480	10 508
**	Profit or loss net of tax (+/-)	1 577 446	1 848 154
**	Consolidated profit or loss net of share of income from associates	1 577 446	1 848 154
	Consolidated profit or loss net of minority interests	1 555 381	1 836 091
	Minority profit or loss	22 065	12 063
*	Share of income from associates	5 278	20 716
	Profit or loss for the current period (+/-)	1 582 724	1 868 870
***	Profit or loss for the current period net of minority interests (+/-)	1 560 659	1 856 807
*	Net turnover for the current period	46 317 988	42 074 741

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, other reserve funds	Retained earnings	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2015	8 109 863	112 098	3 312 852	12 216 890	3 002 629	559 301	23 108	27 336 741
Distribution of profit or loss		89		1 602 540	-1 602 629	23 108	-23 108	
Profit shares paid					-1 400 000			-1 400 000
Revaluation of assets		-4 609						-4 609
Profit for the current period					1 836 091		20 716	1 856 807
Other						1		1
Balance at 31 December 2016	8 109 863	107 578	3 312 852	13 819 430	1 836 091	582 410	20 716	27 788 940
Distribution of profit or loss		1 342		434 749	-436 091	20 716	-20 716	
Profit shares paid					-1 400 000			-1 400 000
Revaluation of assets		-14 180						-14 180
Reclassification/use of funds		-25		25				
Profit for the current period					1 555 381		5 278	1 560 659
Other						1		1
Balance at 31 December 2017	8 109 863	94 715	3 312 852	14 254 204	1 555 381	603 127	5 278	27 935 420

CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31.12.2017	Year ended 31.12.2016
P. Opening balance of cash and cash equivalents	1 280 513	1 841 505
<i>Cash flows from ordinary activities (operating activities)</i>		
Z. Profit or loss from ordinary activities before tax	1 941 732	2 254 598
A.1. Adjustments for non-cash transactions	1 983 422	2 030 270
A.1.1. Depreciation of fixed assets excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 906 150	1 879 938
A.1.2. Change in provisions and reserves	40 957	121 387
A.1.3. Profit/(loss) on the sale of fixed assets	-10 056	-21 001
A.1.4. Revenues from profit shares, except for those paid from consolidation entities	-2 415	-2 186
A.1.5. Interest expense and interest income	36 932	40 822
A.1.6. Other non-cash transactions	11 854	11 310
A.* Net operating cash flow before changes in working capital	3 925 154	4 284 868
A.2. Change in working capital	-276 613	23 957
A.2.1. Change in operating receivables and other assets	657 820	-747 202
A.2.2. Change in operating payables and other liabilities	177 462	998 954
A.2.3. Change in inventories	-1 113 995	-227 798
A.2.4. Change in current financial assets	2 100	3
A.** Net cash flow from operations before tax	3 648 541	4 308 825
A.3. Interest paid	-36 981	-43 857
A.4. Interest received	1 212	3 606
A.5. Income tax paid from ordinary operations	-272 840	-815 236
A.6. Received profit shares	23 132	25 295
A.*** Net operating cash flows	3 363 064	3 478 633
<i>Cash flows from investing activities</i>		
B.1. Fixed assets expenditures	-3 690 667	-2 653 309
B.2. Proceeds from fixed assets sold	19 681	32 254
B.3. Loans and borrowings to related parties	-24 032	
B.*** Net investment cash flows	-3 695 018	-2 621 055
<i>Cash flow from financial activities</i>		
C.1. Change in payables from financing	1 319 917	-10 730
C.2. Impact of changes in equity	-1 409 212	-1 407 840
C.2.6. Profit shares paid, except for profit shares paid between Group entities	-1 409 212	-1 407 840
C.*** Net financial cash flows	-89 295	-1 418 570
F. Net increase or decrease in cash and cash equivalents	-421 249	-560 992
R. Closing balance of cash and cash equivalents	859 264	1 280 513

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE COMPANY

TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter the “Company”), was formed by the National Property Fund of the 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.

MORAVIA STEEL a.s. is the sole shareholder of the Company.

1.2. CHANGES IN AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2017, a change in the Company’s corporate details was recorded in the Register of Companies concerning the composition of the Supervisory Board and a change involving the deletion of a person authorised for legal acts in relation to the Company’s employees in line with Section 164 (3) of Act No. 89/2012 Coll., Civil Code, as amended until 27 February 2017.

1.3. GROUP IDENTIFICATION

For the purposes of these notes to the consolidated financial statements, the Group includes (i) the Company, (ii) entities controlling the Company (hereinafter “controlling entities”) and/or entities holding an equity investment in the Company that is treated as part of “Equity investments in associates”, (iii) entities in which the controlling entities, the Company or other entities controlled by them have an equity investment that is treated as part of “Equity investments – controlled or controlling entity” (“hereinafter “subsidiaries”) or at least as part of “Equity investments in associates” (hereinafter “associates”).

In the year ended 31 December 2017, the Company was controlled by MORAVIA STEEL a.s. as the sole shareholder. MORAVIA STEEL a.s. is controlled by FINITRADING, a.s., which is its sole shareholder.

FINITRADING, a.s., with its registered office at Svobody 526, Lyžbice, 739 61 Třinec, prepares the consolidated financial statements of the broadest group of reporting entities. These financial statements can be obtained at the registered office of FINITRADING, a.s.

The Company prepares the consolidated financial statements for the narrowest group of reporting entities. These financial statements can be obtained at the Company’s registered office.

1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2017

	Position	Name
Board of Directors	Chairman	Jan Czudek
	1st Vice Chairman	Česlav Marek
	2nd Vice Chairman	Henryk Huczala
	Member	Ivo Žižka
	Member	Radomíra Pekárková
Supervisory Board	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Evžen Balko
	Member	František Ligocki
	Member	Jozef Blaško
	Member	Marcel Pielesz

During the year ended 31 December 2017, the following change was made in the composition of the Company's Supervisory Board:

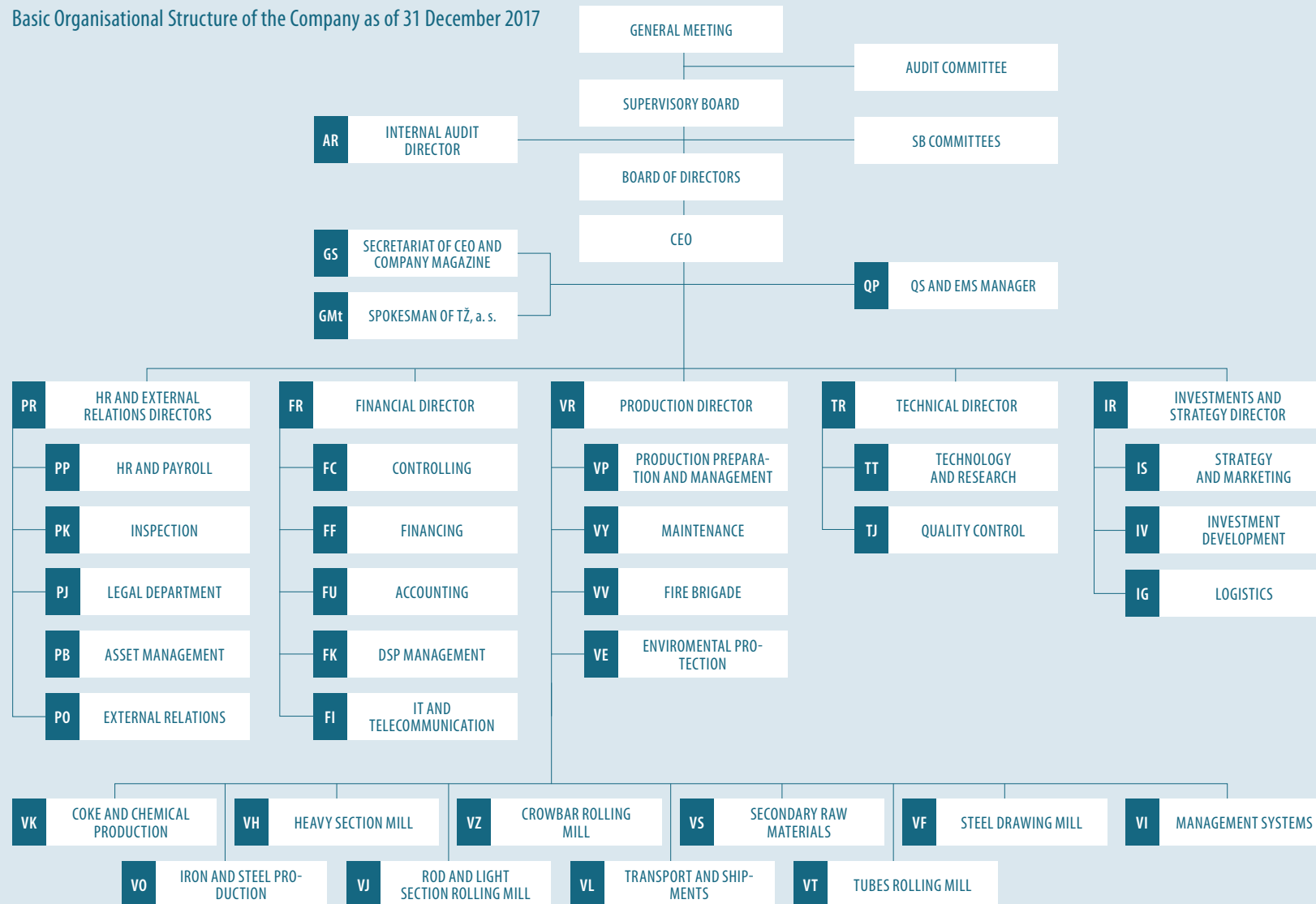
Supervisory Board:

Position	Originally	New	Date of change
Member	Jiří Cieńciała	–	31 March 2017
Member	–	Marcel Pielesz	1 December 2017

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

2.1. ORGANISATIONAL STRUCTURE

Basic Organisational Structure of the Company as of 31 December 2017



The bodies of the Company are as follows:

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

The following organisational change was made in 2017:

- The PR – HR and Office Support Director was renamed to PR – HR and External Relations Director; a new organisational department was established: PO – External Relations; and
- The GS – Secretariat of CEO and PR was renamed to GS – Secretariat and Company Magazine.

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 2017:

Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Equity onvestment at 31 Dec 2017
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	Foundry industry	100.00%
VÚHŽ a.s.	č.p. 240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%
Šroubárna Kyjov, spol. s r.o.	Jiráskova 987/50, 697 01 Kyjov	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, lok.12, 97–500 Radomsko, Poland	Production of nails, wire and wire products	100.00%
"D&D" Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság*	3527 Miskolc, Sajószigeti utca 4., 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%
HŽP 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.	Dolní 3137/100, 796 01 Prostějov	Electricity trading and distribution, gas trading and distribution	100.00%
Řetězárna a.s.	Polská 48, 790 81 Česká Ves	Production of chains, chain products and drawn wire	51.00%
REFRASIL, s.r.o.	Průmyslová 720, Kanská, 739 61 Třinec	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

Note: *hereinafter also "D&D" Drótáru Zrt.

Associate:

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2017
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 726, Kanská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%

The following companies were included in the consolidated group for the year ended 31 December 2016:

Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2016
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	Foundry industry	100.00%
VÚHŽ a.s.	No. 240, 739 51 Dobrá	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" Drótaru Zrt.	3527 Miskolc, Sajósziget utca 4., 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%
HŽP 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-Kanská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

Note: *until 10 November 2016, the registered office recorded in the Register of Companies was Kyjov, Jiráskova 987, 69732; it was changed to Jiráskova 987/50, 697 01 Kyjov in the Register of Companies on 10 November 2016

**until 27 December 2016, the registered office recorded in the Register of Companies was Prostějov, Dolní 3137/100, 79601; it was changed to Dolní 3137/100, 796 01 Prostějov in the Register of Companies on 27 December 2016

***until 21 November 2016, the registered office recorded in the Register of Companies was Česká Ves, Polská 48, 79081; it was changed to Polská 48, 790 81 Česká Ves in the Register of Companies on 21 November 2016

Associate:

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2016
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 726, Kanská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%

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

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 2017 and 2016. "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 consolidated assets of such subsidiary or associate in the total recalculated consolidated assets of the Company, subsidiaries and associates is less than 1.5 percent, and the value of consolidated assets is recalculated using the percentage of the interest in the entity which is owned by the Company;
- The share of the recalculated consolidated equity of such subsidiary or associate in the total recalculated consolidated equity of the Company, subsidiaries, associates is less than 1.5 percent, and the value of consolidated equity is recalculated using the percentage of the interest in the entity which is owned by the Company; and
- The share in the recalculated consolidated net turnover (revenues of account class 6) of such subsidiary or associate in the total recalculated consolidated net turnover of the Company, subsidiaries, associates is less than 1.5 percent, and the value of the consolidated net turnover is recalculated using the percentage of the interest in the entity which is owned by the Company.

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 consolidated assets of this whole in the total recalculated consolidated assets of the Company, subsidiaries, associates less than 1.5 percent, while the value of consolidated assets for these purposes is recalculated using the percentage of the ownership share held by the Company (ii) the share of recalculated consolidated equity in total recalculated consolidated equity of the Company, subsidiaries, associates less than 1.5 percent, while the value of consolidated equity for these purposes is recalculated using the percentage of the ownership share held by the Company, and (iii) share of the recalculated consolidated net turnover (revenues of account class 6) in total recalculated consolidated net turnover of the Company, subsidiaries, associates less than 1.5 percent, while the value of the consolidated net turnover for these purposes is recalculated using the percentage of the ownership share held by the Company.

For calculating materiality levels, the Company, subsidiaries and associates with the exception of subsidiaries or associates in bankruptcy or liquidation are taken into account.

3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

The 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 TŘINECKÉ ŽELEZÁRNY, 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 for the year ended 31 December 2017 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2016;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2016;
- The statement of changes in equity contains comparative amounts as of 31 December 2016; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2016.

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 cost. Tangible and intangible fixed assets developed internally are valued at direct costs, incidental costs directly attributable to the internal production of assets (production overheads) and to the production period. Costs of sale are not included. Production overheads also comprise costs for engineering activities.

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

The cost of tangible fixed asset improvements exceeding CZK 40 thousand on an individual basis increases the cost of the related tangible fixed asset for the fiscal period.

The cost of intangible asset improvements exceeding CZK 60 thousand on an individual basis increases the cost of the related intangible fixed asset for the fiscal period.

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' in the profit and loss account.

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 presented in the balance sheet as part of 'Other reserves' and in the profit and loss account as part of '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.

Due to the mergers completed in prior reporting periods, emission allowances are reported on standalone ETS Registry accounts depending on the locally-defined operation facility. In reporting the disposal of emission allowances, the FIFO valuation method is applied in respect of individual deposit ETS Registry accounts and individual emission allowance types.

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 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 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).

4.2. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments in controlled entities, equity investments in associates, securities and equity investments available for sale.

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 – controlled or controlling entity'.

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 AND CASH

Current financial assets principally consist of 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.

Cash consists of cash on hand and cash at bank.

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.

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 their 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 Act No. 586/1992 Coll., the Income Taxes Act, and Act No. 593/1992 Coll., the Provisioning Act.

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

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

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

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

4.7. PAYABLES

Trade payables and other 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. PAYABLES TO CREDIT INSTITUTIONS

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

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. 387/2016 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.

Cash denominated in foreign currencies (foreign currency cash) is 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 it was 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

Depreciation of Fixed Assets for Tax Purposes

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

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.

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 payables to credit institutions 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 ('Other expenses' in the profit and loss account) 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.

Profit share income is recognised when the Company's General Meeting, i.e. the sole shareholder acting in the capacity thereof, adopts a decision on profit distribution.

4.16. USE OF ESTIMATES

The presentation of consolidated financial statements requires making 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. 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.

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. SUBSIDIES

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

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

4.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

For cash flow reporting purposes, cash and cash equivalents include cash on hand 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:

	(CZK THOUSAND)	
	31 Dec 2017	31 Dec 2016
Cash on hand	4 704	4 136
Cash at bank	869 227	1 293 082
Other current financial assets	12 548	15 110
Provisions against other current financial assets	-12 548	-15 048
Total current financial assets and cash	873 931	1 297 280
Cash and cash equivalents not included in the cash flow	-14 667	- 16 767
Total cash and cash equivalents	859 264	1 280 513

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

4.20. CONSOLIDATION RULES

The individual items of the balance sheets and the profit and loss accounts of subsidiaries consolidated under the full consolidation method were added up in total amounts with the balance sheet and the profit and loss account of the 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 investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated entity.

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 2017 and 2016 prepared by the companies included in the consolidated group, as well as the financial statements of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statement preparation date are available in the registered office of the Company.

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

5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

5.1. CONSOLIDATED PROFIT/LOSS FOR 2017

5.1.1. Structure of the Consolidated Profit/Loss for 2017

(CZK THOUSAND)

Profit/(loss) of the current period–TŘINECKÉ ŽELEZÁRNY, a. s.	1 424 138
Profit/(loss) of the current period–ENERGETIKA TŘINEC, a.s.	111 061
Profit/(loss) of the current period–Slévárny Třinec, a.s.	14 129
Profit/(loss) of the current period–Šroubárna Kyjov, spol. s r.o.	55 350
Profit/(loss) of the current period–Strojírny a stavby Třinec, a.s.	55 987
Profit/(loss) of the current period–VÚHŽ a.s.	25 631
Profit/(loss) of the current period – “METALURGIA” S.A.	18 813
Profit/(loss) of the current period – “D&D” Drótáru Zrt.	40 868
Profit/(loss) of the current period–ŽDB DRÁTOVNA a.s.	111 289
Profit/(loss) of the current period–HŽP a.s.	36 810
Profit/(loss) of the current period–SV servisní, s.r.o.	5 618
Share in profit of the current period–REFRASIL, s.r.o.	10 168
Share in profit of the current period–Řetězárna a.s.	12 973
Share in profit of the current period under the equity method	5 278
Adjustments within the full method of consolidation (see below)	-346 738
Adjustments within the equity method of consolidation (see below)	-20 716
Consolidated profit	1 560 659

5.1.2. Adjustments within Full Consolidation for 2017

(CZK THOUSAND)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	-412
Write-off of the revaluation of assets at fair value	3 932
Write-offs of the margin from the sale of assets value including the deferred tax impact	-15 355
Elimination of declared profit shares of the consolidated group entities	-239 588
Elimination of provisioning against “D&D” Drótáru Zrt.	-85 753
Elimination of profit from the sale of emission allowances	-9 562
Total adjustments	-346 738

5.1.3. Adjustments to the Profit or Loss within the Equity Method for 2017

(CZK THOUSAND)

Elimination of paid profit shares of VESUVIUS ČESKÁ REPUBLIKA, a.s.	-20 716
Total adjustments	-20 716

5.2. CONSOLIDATED PROFIT/LOSS FOR 2016

5.2.1. Structure of the Consolidated Profit/Loss for 2016

(CZK THOUSAND)

Profit/(loss) of the current period–TŘINECKÉ ŽELEZÁRNY, a. s.	1 439 564
Profit/(loss) of the current period–ENERGETIKA TŘINEC, a.s.	61 421
Profit/(loss) of the current period–Slévárny Třinec, a.s.	17 952
Profit/(loss) of the current period–Šroubárna Kyjov, spol. s r.o.	73 795
Profit/(loss) of the current period–Strojírny a stavby Třinec, a.s.	53 008
Profit/(loss) of the current period–VÚHŽ a.s.	21 821
Profit/(loss) of the current period – “METALURGIA” S.A.	16 777
Profit/(loss) of the current period – “D&D” Drótáru Zrt.	33 287
Profit/(loss) of the current period–ŽDB DRÁTOVNA a.s.	170 161
Profit/(loss) of the current period–HŽP a.s.	69 087
Profit/(loss) of the current period–SV servisní, s.r.o.	8 133
Share in profit of the current period–REFRASIL, s.r.o.	6 043
Share in profit of the current period–Řetězárna a.s.	6 538
Share in profit of the current period under the equity method	20 716
Adjustments within the full method of consolidation (see below)	-118 388
Adjustments within the equity method of consolidation (see below)	-23 108
Consolidated profit	1 856 807

5.2.2. Adjustments within Full Consolidation for 2016

(CZK THOUSAND)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	-4 990
Write-off of the revaluation of assets at fair value	2 508
Write-offs of the margin from the sale of assets value including the deferred tax impact	9 965
Elimination of declared profit shares of the consolidated group entities	-113 160
Elimination of provisioning against “D&D” Drótáru Zrt.	-10 268
Write-off of the positive goodwill on consolidation of “D&D” Drótáru Zrt.	-2 443
Total adjustments	-118 388

5.2.3. Adjustments to the Profit or Loss within the Equity Method for 2016

(CZK THOUSAND)

Elimination of paid profit shares of VESUVIUS ČESKÁ REPUBLIKA, a.s.	-23 108
Total adjustments	-23 108

6. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

6.1. INTANGIBLE FIXED ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2017
Research and development	4 553	0	0	0	4 553
Valuable rights	513 022	40 815	190	-1 048	552 599
Goodwill	357	0	0	-1	356
Other intangible FA	595 526	549 636	579 552	0	565 610
Prepayments for intangible FA	54	0	54	0	0
Intangible FA under construction	5 387	116 091	117 246	0	4 232
Total	1 118 899	706 542	697 042	-1 049	1 127 350

Accumulated Amortisation

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2017
Research and development	4 553	0	0	0	4 553
Valuable rights	370 081	32 806	189	-797	401 901
Goodwill	357	0	0	-1	356
Other intangible FA	12 201	654	0	26	12 881
Total	387 192	33 460	189	-772	419 691

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Research and development	0	0
Valuable rights	142 941	150 698
Goodwill	0	0
Other intangible FA	583 325	552 729
Prepayments for intangible FA	54	0
Intangible FA under construction	5 387	4 232
Total	731 707	707 659

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 35,897 thousand and CZK 26,230 thousand as of 31 December 2017 and 2016, respectively.

Other intangible assets primarily include allowances.

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

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

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

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 40,832 thousand and CZK 42,647 thousand as of 31 December 2017 and 2016, respectively.

6.2. TANGIBLE FIXED ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2017
Land	740 105	2 804	132	-1 008	741 769
Structures	12 846 643	870 005	11 079	-6 491	13 699 078
Tangible movable assets and sets thereof	37 625 176	2 556 403	408 117	-21 402	39 752 060
Other tangible FA	95 047	4 241	1 316	-1 322	96 650
Prepayments for tangible FA	176 555	583 331	558 313	-239	201 334
Tangible FA under construction	960 893	3 558 523	3 431 011	-20	1 088 385
Total	52 444 419	7 575 307	4 409 968	-30 482	55 579 276

Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2017
Structures	6 806 384	310 205	9 492	-1 329	7 105 768
Tangible movable assets and sets thereof	25 245 925	1 548 675	388 724	-16 734	26 389 142
Other tangible FA	80 211	2 371	1 140	-960	80 482
Total	32 132 520	1 861 251	399 356	-19 023	33 575 392

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2017
Structures	61 781	1 860	8 000	0	55 641
Tangible movable assets and sets thereof	9 241	4 319	3 183	0	10 377
Tangible FA under construction	17 737	462	2 471	0	15 728
Total	88 759	6 641	13 654	0	81 746

Net Book Value

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2016	Balance at 31 Dec 2017
Land	740 105	741 769
Structures	5 978 478	6 537 669
Tangible movable assets and sets thereof	12 370 010	13 352 541
Other tangible FA	14 836	16 168
Prepayments for tangible FA	176 555	201 334
Tangible FA under construction	943 156	1 072 657
Total	20 223 140	21 922 138

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

(CZK THOUSAND)

Tangible FA acquired for the blooming mill project	650 634
Tangible FA acquired for the construction of a new crowbar cleaning plant	314 936
Tangible FA acquired for the reconstruction of KKO gas cleaning plants – K1, K2	206 007
Acquisition of air heater No. 64 for VP6	203 281
HUGF 420-230 JET (LOI) annealing bell furnace	42 972
LOI annealing shop hall	33 867
Technical improvement on Candor staining line	31 723
KOCH KHZ 40 000 wire-drawing machine	30 297
New hall	27 943
Technical improvement on staining line – CANDOR building	26 238
Shinban line no. 2-OR	21 297
Mixer no. 2 including container, tires and conveyer belts 3723	20 451
Shinban line no. 1-IR	20 373
KER 7 bending machine	19 345
Caterpillar excavator	17 636

THE TABLE CONTINUES ON THE NEXT PAGE ▼

KOCH KGT 36/4+KVS 1000 wire-drawing machine	16 979
Pipe and cable media distributors on a power-supply bridge	15 172
Annealing furnace	14 851
Mexer no. 1 including container, tires and conveyer belts 3	14 016
Supporting steel construction of the power-supply bridge	12 661
S630/4 wire-drawing line*	12 560
S560/7 wire-drawing line*	12 166
Technical improvement on line 803 of the patent galvanizing furnace	11 080
SVSI operating building	10 672
Pipe expanding machine no. 1	10 228
Modification station incl. TRF/181	9 420

Note: *translated using the exchange rate of the Czech National Bank as of 31 December 2017

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

(CZK THOUSAND)

Construction of furnaces for rod annealing	149 929
Adjustment of ZPO 1 for casting format no. 600	56 123
Desulfurization of agglomeration no. 1	33 091
BSR 1 progression press	8 604

During the year ended 31 December 2017, the disposals of tangible fixed assets in TŘINECKÉ ŽELEZÁRNY, a. s., included assets with the aggregate net book value of CZK 19,756 thousand. Major disposals principally comprised partial liquidation of KB 11 due to the sale of a hangar, partial liquidation of the KKO gas cleaning plant and disposals of movable assets due to their sale.

During the year ended 31 December 2017, the disposals of tangible fixed assets in Řetězárna a.s. included a non-functional Aichelin line and its one-off depreciation in the amount of CZK 2,473 thousand.

For the year ended 31 December 2017, the disposals of tangible fixed assets in Strojírny a stavby Třinec, a.s. included items with the net book value of CZK 9,671 thousand that had already been fully depreciated. The most significant disposals included a band saw.

The most significant disposals of tangible fixed assets of ŽDB DRÁTOVNA a.s. in 2017 included:

(CZK THOUSAND)

PLD – 612 line for the rewinding of coppered wire	2 170
SFMU45/70 torsion spring automat	1 332
UDZWGT 320/11 wire-drawing machine with OBC coiling machine	1 226
USDZWGT 320/11 wet wire-drawing machine with OBC coiling machine	878

This information on ŽDB DRÁTOVNA a.s. is disclosed in acquisition costs; it does not concern disposals of fixed assets due to their sale.

The most significant additions to tangible fixed assets under construction in VÚHŽ a.s. include predominantly the launched modernisation and renovation of the rolling mill with the anticipated categorisation to assets in the first half of 2018, and the renovation of the gatehouse and reception which has not yet been subject to construction clearance approval.

During the year ended 31 December 2017, the disposals of tangible fixed assets in SV servisní, s.r.o., included items with the net book value of CZK 0 thousand.

In 2017, ENERGETIKA TŘINEC, a.s., updated a provision against the central warehouse of fuel oils in the total amount of CZK 40,089 thousand. The provision corresponds to 98% of the net book value of this asset as of 31 December 2017.

During the year ended 31 December 2017, the disposals of tangible fixed assets in ENERGETIKA TŘINEC, a.s., included items with the net book value of CZK 14 thousand. The most significant disposals predominantly included the disposal of obsolete K14 boiler in the acquisition cost of CZK 21,745 thousand.

As of 31 December 2017, the additions to tangible fixed assets of HŽP a.s., similarly to 2016, included predominantly acquired machines and equipment necessary for the production of leaf, parabolic and helical springs. Disposals comprise unnecessary or obsolete machines that were liquidated or sold during the year.

In the year ended 31 December 2017, REFRASIL, s.r.o., sold unneeded fully-depreciated movable assets for the selling price of CZK 66 thousand.

The most significant disposals of tangible fixed assets of Šroubárna Kyjov, spol. s r. o. in the year ended 31 December 2017 included predominantly a vertical machining centre (acquisition cost of CZK 3,294 thousand), which was disposed of through liquidation due to redundancy, a Volkswagen Passat (acquisition cost of CZK 753 thousand) and a Volkswagen Passat AA sedan (acquisition cost of CZK 853 thousand, net book value of CZK 782 thousand) – disposed of through sale.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,870,253 thousand and CZK 1,851,265 thousand as of 31 December 2017 and 2016, respectively.

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

The aggregate costs of low value tangible fixed assets not reported on the face of the balance sheet were CZK 827,093 thousand and CZK 782,553 thousand as of 31 December 2017 and 2016, respectively.

6.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS

Finance Leases

31 December 2017

During the year ended 31 December 2017, the Consolidated Group reported no assets under finance leases.

31 December 2016

During the year ended 31 December 2016, the Consolidated Group reported no assets under finance leases.

Operating Lease

Lease payments of CZK 63,596 thousand and CZK 61,137 thousand were made in the years ended 31 December 2017 and 2016, respectively.

6.4. PLEDGED FIXED ASSETS

31 December 2017

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	254 186	Loan from Česká spořitelna, a.s.
Land	23 663	
Tangible fixed assets	455 923	Loan from Česká spořitelna, a.s.
Land	3 444	
Tangible fixed assets	754 558	Loan from Česká spořitelna, a.s.
Buildings	141 948	
Land	3 458	
Tangible fixed assets	2 601	Loan from Československá obchodní banka, a.s.
Land	39 986	
Tangible fixed assets	891 744	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	917 188	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	428 076	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	664	
Tangible fixed assets	507 916	Loan from HSBC Bank plc – Prague branch
Land	110 468	
Tangible fixed assets	106 961	Overdraft from Československá obchodní banka, a.s.
Land	5 264	
Technology	100 993	Raiffeisenbank a.s. – pledge for the long-term bank loan for funding the MoRe T4 – 110kV distribution point
Tangible fixed assets	119 298	Investment loan from ING Bank N.V.
Tangible fixed assets*	91 710	Loan from Bank Polska Kasa Opieki Spółka Akcyjna., collateralised by machinery up to PLN 15,000 thousand
Tangible fixed assets, land	748	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	754	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 552	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	832	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	272	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 808	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	2 180	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 074	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	8 368	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	361	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	120	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	11 455	Investment loan from Československá obchodní banka, a.s.
Land	13 089	Loan from Citibank Europe plc.
Technology	63 182	
Total	5 065 844	

Note: *translated using the exchange rate of the Czech National Bank as of 31 December 2017

31 December 2016

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	255 304	Loan from Česká spořitelna, a.s.
Land	23 663	
Tangible fixed assets	492 847	Loan from Česká spořitelna, a.s.
Land	3 444	
Tangible fixed assets	179 600	Loan from Československá obchodní banka, a.s.
Land	10 513	
Tangible fixed assets	2 706	Loan from Československá obchodní banka, a.s.
Land	39 986	
Tangible fixed assets	915 886	Loan from Československá obchodní banka, a.s.
Land	464 261	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	664	
Tangible fixed assets	548 883	
Land	110 468	Loan from HSBC Bank plc – Prague branch
Tangible fixed assets	126 803	Overdraft from Československá obchodní banka, a.s.
Land	10 567	
Technology	114 610	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction
Tangible fixed assets	90 829	Loans from Česká spořitelna, a.s.
Land	5 346	
Tangible fixed assets	136 744	Investment loan from ING Bank N.V.
Tangible fixed assets*	91 890	Loan from Bank Polska Kasa Opieki Spółka Akcyjna., collateralised by machinery up to PLN 15,000 thousand
Tangible fixed assets, land	987	Loan from Citibank Europe plc.
Tangible fixed assets, land	969	Loan from Citibank Europe plc.
Tangible fixed assets, land	362	Loan from Citibank Europe plc.
Tangible fixed assets, land	12 186	Investment loan from Československá obchodní banka, a.s.
Tangible fixed assets, land	15	Investment loan from Československá obchodní banka, a.s.
Land	13 089	Loan from Citibank Europe plc.
Technology	36 231	
Total	3 688 853	

Note: *translated using the exchange rate of the Czech National Bank as of 31 December 2016

6.5. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2017
Equity investments – controlled or controlling entity	189 725	203 499	123	2 430	0	395 531
Equity investments in associates	26 201	0	0	0	0	26 201
Other non-current securities and equity investments	2 991	0	902	0	0	2 089
Total	218 917	203 499	1 025	2 430	0	423 821

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2016	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2017
Equity investments – controlled or controlling entity	30 515	4 240	0	0	0	34 755
Equity investments in associates	18 057	0	0	0	0	18 057
Other non-current securities and equity investments	989	0	901	0	0	88
Total	49 561	4 240	901	0	0	52 900

The most significant additions to non-current financial assets in the year ended 31 December 2017 include as follows:

- Acquisition of a 100% equity investment in IMOPRA s.r.o.; and
- Increase of the equity investment in DALSELV DESIGN a.s. from 68% to 100%.

6.6. SUMMARY OF UNCONSOLIDATED FINANCIAL INVESTMENTS

6.6.1. Equity Investments – Controlled or Controlling Entity

31 December 2017

(CZK THOUSAND)

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

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

31 December 2016

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100,00	50 484	2 384	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100,00	46 220	2 678	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100,00	18 919	273	0	0
Moravia Security, a.s., Kinská, Třinec	12 000	12	100,00	26 079	3 624	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90,00	47 298	-2 032	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	1 360	12	68,00	12 661	-8 316	-21 391	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83,18	21 886	3 686	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88,00	46 150	-49	-9 124	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66,00	50 953	-1 709	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	10 914	-	80,00	13 643	2 005	0	2 162
JuBo Jeseník s. r. o., Jeseník	1 537	-	80,00	1 921	446	0	0
Řetězárna servis s.r.o., Jeseník	100	-	100,00	*	0	0	0
Total						-30 515	2 162

Note: *the data were not available as of the date of preparing the consolidated financial statements

6.6.2. Equity Investments – Associates

31 December 2017

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Ocelářská unie a.s., Nové Město, Praha 1**	16 427	27 379	39,28	45 856	6 035	-18 057	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23,26	949	323	0	0
Total						-18 057	0

Note: preliminary results as of 31 December 2017

*preliminary results for the period from 1 April 2017 – 31 March 2018

**former Hutnictví železa, a.s.

31 December 2016

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Hutnictví železa, a.s., Strašnice, Prague 10	16 427	27 379	39.28	38 897	-200	-18 057	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	626	-1 104	0	0
Total						-18 057	0

Note: *results for the period from 1 April 2016 – 31 March 2017

6.6.3. Other Current Securities and Equity Investments**31 December 2017**

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Valuation difference	Financial income
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	0	2,08	794	828	0	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33,33	3 823	-294	0	-34	0
Střední odborná škola Třineckých železáren Kanada, Třinec	2 000	0	100,00	137 769	-1 582	0	0	0
Unirelex, a.s. v likvidaci, Praha	2,22	2 000	0,04306	*	*	0	-4	0
Veolia Energie ČR, a.s., Ostrava	0,89	1 700	0,00216	*	*	0	0	24
TOTAL						0	-58	24
„Huta Stalowa Wola“ w Stalowej Woli (POL)**	13 900	1 390	0,0054	*	*	-13 900	0	0
RZPS „Radoskór“ w Radomiu (POL)**	530	53	*	*	*	-530	0	0
TOTAL**						-14 430	0	0
TOTAL***						-88	-58	24

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

*the data were not available as of the date of preparing the consolidated financial statements

**data in PLN

***translated using the exchange of the Czech National Bank as of 31 December 2017

31 December 2016

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Valuation difference	Financial income
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	0	2,08	665	-147	0	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33,33	4 051	-606	0	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100,00	144 007	131	0	0	0
Unirelex, a.s. v likvidaci, Praha	2,22	2 000	0,04306	*	*	0	-4	0
Veolia Energie ČR, a.s., Ostrava	0,89	1 700	0,00216	*	*	0	0	24
Českomoravské nemovitosti, a.s., Praha**	*	*	*	*	*	-901	0	0
TOTAL						-901	-58	24
„Huta Stalowa Wola“ w Stalowej Woli (POL)***	13 900	1 390	0,0054	*	*	-13 900	0	0
RZPS „Radoskór“ w Radomiu (POL)***	530	53	*	*	*	-530	0	0
TOTAL***						-14 430	0	0
TOTAL****						-989	-58	24

Note: *the data were not available as of the date of preparing the consolidated financial statements

**until 20 July 2017, the Company was recorded in the Register of Companies under the name of Casino Playing Games a.s. in liquidation

***data in PLN

****translated using the foreign exchange rate of the Czech National Bank as of 31 December 2016

6.7. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2017

(CZK THOUSAND)

Goodwill arising on consolidation	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
ŽDB DRÁTOVNA a.s.	251 029	0	251 029	0	0	0
Total	251 029	0	251 029	0	0	0

The gross value of the goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 251,029 thousand as of 31 December 2017. The goodwill arising on consolidation includes the deferred tax arising from the difference from revaluation of assets and liabilities. In 2017, the Company recognised a year-on-year change in this deferred tax of CZK 62 thousand, total deferred tax in 2017 amounts to CZK 9,952 thousand.

2016

(CZK THOUSAND)

<i>Goodwill arising on consolidation</i>	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
ŽDB DRÁTOVNA a.s.	250 967	0	250 967	0	0	0
"D&D" Drótáru Zrt.	0	0	0	4 088	2 443	0
Total	250 967	0	250 967	4 088	2 443	0

The gross value of the goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 250,967 thousand as of 31 December 2016. The goodwill arising on consolidation includes the deferred tax arising from the difference from revaluation of assets and liabilities. In 2016, the Company recognised a year-on-year change in this deferred tax of CZK 206 thousand, total deferred tax in 2016 amounts to CZK 9,890 thousand.

Based on the analysis of impairment, the goodwill arising on consolidation of "D&D" Drótáru Zrt. as of 31 December 2015 was written off in 2016. The part of goodwill relating to deferred tax arising from the difference from revaluation of assets and liabilities was charged against equity – Gains or losses from revaluation of assets and liabilities. In previous years, this deferred tax arising from the difference from revaluation of assets and liabilities was reported against the goodwill arising on consolidation; in 2016, the Group reports it in the line 'Gains or losses from revaluation of assets and liabilities'.

6.8. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK THOUSAND)

Securities and equity investments under equity accounting	2017	2016
VESUVIUS ČESKÁ REPUBLIKA, a.s.	136 871	152 309
Total	136 871	152 309

6.9. PLEDGED NON-CURRENT FINANCIAL ASSETS

As of 31 December 2017 and 2016, the Consolidated Group has non-current financial assets pledged as collateral in the nominal value of CZK 130,000 thousand and CZK 132,000 thousand, respectively.

6.10. INVENTORY

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

6.11. RECEIVABLES

6.11.1. Short-Term Receivables

As of 31 December 2017 and 2016, gross short-term trade receivables past their due dates amounted to CZK 411,974 thousand (net CZK 338,549 thousand) and CZK 330,677 thousand (net CZK 253,798 thousand), respectively.

Other Receivables

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

As of 31 December 2017 and 2016, State – tax receivables predominantly include a receivable arising from value added tax, prepayments for corporate income tax and prepayments for fees under Act No. 201/2012, Coll., on Air Protection.

Other receivables principally include a receivable arising from an indisputable claim for a subsidy and receivables from individuals. In 2016, other receivables principally included a receivable arising from a safekeeping agreement and receivables from individuals.

As of 31 December 2017 and 2016, estimated receivables principally include amounts due from anticipated insurance proceeds and an amount due from the refund of the value added tax paid abroad.

Receivables typically mature within 30 days.

6.11.2. Pledged Receivables

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

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

6.11.3. Intercompany Receivables

Short-term Receivables

(CZK THOUSAND)

Name of the entity	Relation	Balance at 31 Dec 2017	Balance at 31 Dec 2016
• Trade receivables			
Doprava TŽ, a.s.	Controlled entity	1 026	1 746
JuBo Jeseník s.r.o.	Controlled entity	3 846	4 549
Moravia Security, a.s.	Controlled entity	93	118
MORAVIA STEEL a.s.	Controlling entity	1 809 831	1 924 423
TRIALFA, s.r.o.	Controlled entity	4 005	1 920
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	154	53
DALSELV DESIGN a.s.	Controlled entity	535	45
Třinecké gastroslužby, s.r.o.	Controlled entity	1 282	1 188
TRISIA, a.s.	Controlled entity	13	13
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	4 224	4 564
Beskydská golfová, a.s.	Fellow subsidiary	281	2 848
NEOMET Sp. z o.o.	Fellow subsidiary	126	31

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MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	Controlled entity	19	30
M Steel Projects a.s.	Fellow subsidiary	10 663	4 252
Security Morava, s.r.o.	Controlled entity	11	9
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	3 189	2 081
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	6 141
Kovárna VIVA a.s.	Fellow subsidiary	6	0
MINERFIN a.s.	Group company	452	451
Barrandov Studio a.s.	Fellow subsidiary	107	107
Retáže Slovakia, s.r.o.	Controlled entity	538	1 247
AHP HYDRAULIKA, a.s.	Fellow subsidiary	7 727	1 378
IMOPRA s.r.o.	Controlled entity	1	0
Total		1 848 129	1 957 194
• Receivables – controlled or controlling entity			
IMOPRA s.r.o.	Controlled entity	24 040	0
Total		24 040	0
• Other receivables			
MORAVIA STEEL a.s.	Controlling entity	11	0
Total		11	0
• Short-term prepayments provided			
TRISIA, a.s.	Controlled entity	2	0
Total		2	0
Total short-term intercompany receivables		1 872 182	1 957 194
Other than intercompany receivables		2 538 166	3 091 435
Total short-term receivables		4 410 348	5 048 629

As of 31 December 2017 and 31 December 2016, the Consolidated Group recorded long- term receivables past their due dates by more than 5 years of CZK 4,814 thousand and CZK 2,262 thousand, respectively.

As of 31 December 2017, no long-term intercompany receivables were recorded.

6.12. EQUITY

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

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.

Proposal for the Allocation of Profit for 2017

In 2017, the Company generated net profit after tax of CZK 1,424,138 thousand.

The Company's Board of Directors proposes dividing it as follows:

- Profit share allocated to the sole shareholder: CZK 1,200,000 thousand
- Retained earnings brought forward: CZK 224,138 thousand

6.13. RESERVES

Other reserves principally consist of reserves for employee bonuses, risks arising from business relations, including warranty claims.

6.14. PAYABLES

6.14.1. Long-Term Payables

Long-term trade payables as of 31 December 2017 primarily include payables arising from retention fees from suppliers according to concluded contracts.

As of 31 December 2017, no long-term trade payables with maturities exceeding 5 years were recorded. As of 31 December 2016, the Consolidated Group recorded long-term trade payables with maturities exceeding 5 years in the amount of CZK 5,121 thousand.

6.14.2. Short-Term Trade Payables

As of 31 December 2017, short-term trade payables past their due dates amount to CZK 42,421 thousand (2016: CZK 86,404 thousand).

Payables typically fall due for settlement within 30 days.

6.14.3. Other Payables

As of 31 December 2017, payables associated with social security and the state employment policy contribution amounted to CZK 126,288 thousand (2016: CZK 118,741 thousand), health insurance payables totalled CZK 57,365 thousand (2016: CZK 53,798 thousand). Payables arising from the additional pension scheme amounted to CZK 5,385 thousand (2016: CZK 4,892 thousand). No social securities and health insurance payables past their due dates were recorded.

In the years ended 31 December 2017 and 2016, the category "State – tax payables and subsidies" principally comprised received subsidies for emission allowances and a payable arising from personal income taxes.

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 comprise payables arising from guarantees and employee contributions.

6.14.4. Intercompany Payables

Long-Term Payables

As of 31 December 2017, the Consolidated Group recorded no long-term intercompany payables.

Other than intercompany long-term payables as of 31 December 2017 and 2016 primarily include a deferred tax liability of CZK 1,539,322 thousand and CZK 1,491,282 thousand, respectively, and payables to credit institutions of CZK 2,208,306 thousand and CZK 1,724,604 thousand, respectively.

Short-term Payables

(CZK THOUSAND)

Name of the entity	Relation to the Company	Balance at 31 Dec 2017	Balance at 31 Dec 2016
• Trade payables			
JuBo Jeseník s.r.o.	Controlled entity	65	400
Reťaze Slovakia, s.r.o.	Controlled entity	81	0
Doprava TŽ, a.s.	Controlled entity	13 511	10 879
Ocelářská unie, a.s.	Associate	37	563
MORAVIA STEEL a.s.	Controlling entity	2 253 920	2 148 442
Moravia Security, a.s.	Controlled entity	9 164	7 346
Security Morava, s.r.o.	Controlled entity	1 396	1 234
TRIALFA, s.r.o.	Controlled entity	14 404	16 221
TRISIA, a.s.	Controlled entity	942	1 183
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	3 984	2 900
Třinecké gastroslužby, s.r.o.	Controlled entity	10 002	10 090
VESUVIUS ČESKA REPUBLIKA, a.s.	Associate	8 498	8 359
Beskydská golfová, a.s.	Fellow subsidiary	3 025	3 025
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	2 158	1 329
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	103	103
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	166 009	173 035
HRAT, s.r.o.	Associate	37	36
DALSELV DESIGN a.s.	Controlled entity	3 162	3 314
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	366	370
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	133	79
MORAVIA STEEL UK LIMITED	Fellow subsidiary	107	29
Moravia Steel Deutschland GmbH	Fellow subsidiary	1 237	0
NEOMET Sp. z o.o.	Fellow subsidiary	88 613	70 202
MINERFIN, a.s.	Group company	4 210	1 026
Total		2 585 164	2 460 165

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• Other payables			
MORAVIA STEEL, a.s.	Controlling entity	62 026	0
Total		62 026	0
• Estimated payables			
MORAVIA STEEL a.s.	Controlling entity	5 023	280
Total		5 023	280
Total short-term intercompany payables		2 652 213	2 460 445
Other than intercompany payables		5 415 189	4 447 664
Total short-term payables		8 067 402	6 908 109

Short-term payables outside of the group as of 31 December 2017 and 2016 predominantly include payables to credit institutions of CZK 1,734,625 thousand and CZK 898,701 thousand, respectively.

6.15. DEFERRED INCOME TAX

6.15.1. Deferred Tax Liability

In determining the deferred tax liability amount, the Group used the tax rate in line with the legislation of each state 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 2017	Balance at 31 Dec 2016
Difference between tax and accounting net book value of fixed assets	19	-9 588 440	-9 161 162
Difference between tax and accounting net book value of fixed assets	9	-75 023	-100 034
Remeasurement of securities available for sale	19	58	58
Remeasurement of assets to fair value charged against equity	19	-141 415	-156 768
Remeasurement of assets to fair value charged against equity	9	-36 895	-38 551
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	19	-52 379	-52 050
Accounting reserves	19	405 850	215 313
Provisions	19	799 777	910 596
Provisions	9	3 490	5 927
Outstanding default interest	19	40	714
Expenses to be allowable in subsequent periods	19	196 830	159 652
Expenses to be allowable in subsequent periods	9	493	0
Unrealised gains on the intragroup sale of inventory	19	29 728	28 961
Unrealised gains on intragroup sales of tangible fixed assets	19	299 384	268 673
Total tax base		-8 158 502	-7 918 671
Deferred tax liability		-1 539 322	-1 491 282

(CZK THOUSAND)

Analysis of movements	
31 Dec 2016	-1 491 282
Current changes charged to the profit and loss account	-51 477
Current changes recognised in equity	3 499
Recognition against the goodwill arising on consolidation	-63
Other	1
31 Dec 2017	-1 539 322

6.15.2. Deferred Tax Asset

(CZK THOUSAND)

	Tax rate in%	Balance at 31 Dec 2017	Balance at 31 Dec 2016
Difference between the tax and accounting net book value of fixed assets	19	-251	369
Accounting reserves	19	1 590	900
Provisions	19	97	184
Total tax base		1 436	1 453
Deferred tax asset		273	276

(CZK THOUSAND)

Analysis of movements	
31 Dec 2016	276
Current changes charged to the profit and loss account	-3
31 Dec 2017	273

6.16. PAYABLES TO CREDIT INSTITUTIONS

Long-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Form of collateral at 31 Dec 2017
Investment loan	CZK	748 980	0	Immovable and movable assets, securities, promissory note
Investment loan	EUR	73 523	95 069	Hermes guarantee insurer
Investment loan	CZK	0	60 000	Securities, promissory note
Investment loan	EUR	99 070	134 757	ODL guarantee insurer
Investment loan	CZK	0	189 474	Immovable and movable assets, securities, insurance receivables, promissory note
Investment loan	CZK	120 000	240 000	Immovable and movable assets, promissory note
Investment loan	CZK	60 000	135 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	720 000	610 319	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	4 512	0	Pledge of real estate
Investment loan	EUR	27 464	0	Pledge of real estate
Investment loan	CZK	0	37 500	Pledge of movable assets, blank promissory note
Investment loan	CZK	72 200	57 400	Pledge of assets, blank promissory note
One-time investment loan	CZK	100 892	55 137	Movable and immovable assets
One-time investment loan	EUR	84 674	74 909	Movable and immovable assets
Investment loan	EUR	43 194	0	Blank promissory note, pledge of movable assets
Investment loan	EUR	5 108	10 808	
Investment loan	EUR	7 662	0	
Investment loan	EUR	0	1 635	
Investment loan	PLN	16 110	22 596	Secured with tangible assets (machinery, equipment) and insurance
Investment loan	CZK	24 917	0	Two blank promissory notes
Total		2 208 306	1 724 604	

Short-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2017	Balance at 31 Dec 2016	Form of collateral at 31 Dec 2017
Investment loan	EUR	16 339	16 973	Hermes guarantee insurer
Investment loan	CZK	0	63 140	Immovable and movable assets, securities, promissory note
Investment loan	EUR	5 108	5 404	
Investment loan	EUR	3 831	0	
Investment loan	EUR	0	2 000	
Investment loan	EUR	1 545	3 270	

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Overdraft loan	PLN	50 314	3 785	Pledge– goods, material, products and insurance
Investment loan	PLN	6 443	6 456	Secured with tangible assets (machinery, equipment) and insurance
Overdraft loan	PLN	42 757	6 348	Pledge– machinery, equipment and insurance, assignment of trade receivables
Investment loan	PLN	23 741	0	Pledge – machinery
Investment loan	EUR	0	1 955	Pledge of real estate
One-time loan	CZK	25 223	11 905	Movable and immovable assets
Revolving loan	EUR	25 540	0	Receivables
One-time investment loan	EUR	21 168	0	Movable and immovable assets
Overdraft – credit cards	CZK	5	0	Not secured
Investment loan	CZK	240 000	152 580	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	28 306	29 946	ODL guarantee insurer
Investment loan	CZK	60 000	60 000	Securities, promissory note
Investment loan	CZK	189 474	252 631	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment loan	CZK	75 000	60 000	Immovable and movable assets, insurance receivables, promissory note,
Investment loan	CZK	187 245	0	promissory note
Overdraft loan	CZK	257 909	0	Promissory note
Overdraft loan	CZK	248 046	0	Promissory note
Investment loan	EUR	0	2 860	Pledge of real estate
Overdraft loan	CZK	0	4 000	Promissory note
Investment loan	CZK	2 497	0	Pledge of real estate
Investment loan	EUR	410	0	Pledge of real estate
Passive balance of a current account (including accounts in foreign currency)	CZK	1	0	Promissory note
Investment loan	CZK	15 200	7 600	Pledge of assets, blank promissory note
Investment loan	EUR	0	3 054	Pledge of real estate, pledge for receivables from immovable asset insurance
Investment loan	CZK	0	2 000	Pledge of real estate, pledge for receivables from immovable asset insurance
Investment loan	EUR	13 926	0	Promissory note, pledge of movable assets
Overdraft loan	CZK	1 812	0	Not secured
Overdraft loan	CZK	10 024	0	Blank promissory note
Operating overdraft loan	CZK	0	45 286	Blank promissory note
Investment loan	CZK	0	37 500	Pledge of movable assets, blank promissory note
Sweep accounts	HUF	0	8	
Overdraft loan	CZK	60 981	0	Pledge of real estate
Investment loan	CZK	1 780	0	Two promissory notes
Total		1 734 625	898 701	

Repayments of long-term payables to credit institutions with maturities exceeding five years amount to CZK 79,146 thousand.

6.17. OFF BALANCE SHEET LIABILITIES AND LEGAL DISPUTES

TŘINECKÉ ŽELEZÁRNY, a. s.

Provided Guarantees

31 December 2017

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

31 December 2016

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

Received Guarantees

31 December 2017

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

31 December 2016

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

Legal Disputes

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

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

Environmental Liabilities

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

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

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

ENERGETIKA TŘINEC, a.s.

Collateral for loans

(CZK THOUSAND)

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

Environmental Liabilities

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

VÚHŽ a.s.

Easements

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

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

Environmental Liabilities

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

ŽDB DRÁTOVNA a.s.

Environmental Liabilities

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

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

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

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

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

Strojírny a stavby Třinec, a.s.

Legal Disputes

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

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

HŽP a.s.

Liabilities related to construction and to the acquisition of assets

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

Environmental Liabilities

The re-certification audit “Bureau Veritas Certification” under ISO 14001 was accomplished in April 2017. No defects were identified during the audit and it was confirmed that HŽP a.s.’s environmental management system is in compliance with the requirements of ISO 14001:2004 in the area of certification – design, development and manufacturing of screw, leaf and parabolic springs. The certificate is valid until 15 September 2018.

Řetězárna a.s.

Derivatives

As of 31 December 2017, Řetězárna a.s. has concluded contracts on currency derivatives to hedge against the risks arising from exchange rate changes until February 2019. Řetězárna a.s. does not maintain hedge accounting; as a result, changes in fair values are recorded in the profit and loss account as of the balance sheet date.

7. ADDITIONAL 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 2017

(CZK THOUSAND)

Activities	Domestic	Export	Total
Metallurgic production	35 924 329	4 456 338	40 380 667
Other production	1 706 314	2 241 779	3 948 093
Sale of goods	5 082	87 988	93 070
Services	825 503	71 223	896 726
Total	38 461 228	6 857 328	45 318 556

7.1.2. The Group's Income from Ordinary Activities and Sale of Goods for 2016

(CZK THOUSAND)

Activities	Domestic	Export	Total
Metallurgic production	32 462 157	4 304 143	36 766 300
Other production	1 417 520	2 075 695	3 493 215
Sale of goods	9 160	78 115	87 275
Services	642 590	71 056	713 646
Total	34 531 427	6 529 009	41 060 436

7.2. GRANTS AND SUBSIDIES

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

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

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

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

7.3. TOTAL REMUNERATION CHARGED BY THE AUDITOR

(CZK THOUSAND)

	Year ended 31 December 2017	Year ended 31 December 2016
Obligatory audit of the financial statements	9 605	8 853
Other assurance services	313	193
Tax advisory	138	75
Other non-audit services	6	6
Total	10 062	9 127

7.4. OTHER EXPENSES AND INCOME

Other operating income as of 31 December 2017 and 2016 predominantly includes the drawing of the grant for allowances of CZK 470,578 thousand and CZK 493,617 thousand, respectively.

Other financial income in 2017 and 2016 predominantly includes foreign exchange rate gains of CZK 92,747 thousand and CZK 44,631 thousand, respectively.

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

Other financial expenses as of 31 December 2017 predominantly include foreign exchange rate losses of CZK 125,992 thousand and financial gifts of CZK 27,343 thousand. As of 31 December 2016, Other financial expenses included foreign exchange rate losses of CZK 57,253 thousand and financial gifts of CZK 210 thousand.

7.5. TOTAL RESEARCH AND DEVELOPMENT COSTS

(CZK THOUSAND)

	31 Dec 2017	31 Dec 2016
Research and development costs (less grants)	104 895	95 197

7.6. RELATED PARTY TRANSACTIONS

7.6.1. Income Generated with Related Parties

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

2017								(CZK THOUSAND)
Entity	Relation to the company	Fixed assets	Inventory – material, products and goods	Services	Other income	Financial income	Total	
Reťaze Slovakia s.r.o.	Controlled entity	0	16 984	8	486	0	17 478	
JuBo Jeseník s.r.o.	Controlled entity	0	6 973	1	0	0	6 974	
Řetězárna servis, s.r.o.	Controlled entity	0	0	93	0	0	93	
Doprava TŽ, a.s.	Controlled entity	0	21 864	4 300	5	0	26 169	
TRIALFA, s.r.o.	Controlled entity	0	26 175	3 981	8	0	30 164	
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	343	958	3	0	1 304	
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 009	6 249	500	0	10 758	
Security Morava, s.r.o.	Controlled entity	0	0	62	0	0	62	
TRISIA, a.s.	Controlled entity	0	5	192	0	0	197	
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	19 006	8 112	92	0	27 210	
Moravia Security, a.s.	Controlled entity	0	238	1 467	2	0	1 707	
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	293	321	3	0	617	
DALSELV DESIGN a.s.	Controlled entity	0	535	0	2	0	537	
IMOPRA, s.r.o.	Controlled entity	262	0	245	3	9	519	
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	1 815	0	0	0	1 815	
MORAVIA STEEL a.s.	Controlling entity	0	34 402 041	168 546	367	0	34 570 954	
Moravia Steel Deutschland GmbH *	Fellow subsidiary	0	32	0	0	0	32	
Barrandov Studio, a.s.	Fellow subsidiary	0	0	1 058	0	0	1 058	
Beskydská golfová, a.s.	Fellow subsidiary	0	2	374	0	0	376	
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	872	1 370	18 398	0	20 640	
Kovárna VIVA a.s.	Fellow subsidiary	0	0	5	588	0	593	
M Steel Projects a.s.	Fellow subsidiary	0	63 302	162	0	0	63 464	
NEOMET Sp. z o.o.	Fellow subsidiary	0	0	706	254	0	960	
AHP HYDRAULIKA, a.s.*	Fellow subsidiary	0	36 817	0	0	0	36 817	
Hotel Golf Ropice, a.s.	Fellow subsidiary	0	0	4	0	0	4	
MSPProjects International, s.ro.	Fellow subsidiary	0	0	4	0	0	4	
MINERFIN, a.s.	Group company	0	15 578	0	0	0	15 578	
Total		262	34 616 884	198 218	20 711	9	34 836 084	

Note: *foreign currency was translated using an average exchange rate

Revenues from profit shares of Group entities for the period from 1 January 2017 to 31 December 2017 are disclosed in Note 6.6.

2016

(CZK THOUSAND)

Entity	Relation to the company	Fixed assets	Inventory – material, products and goods	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	19 540	26	411	0	19 977
JuBo Jeseník s.r.o.	Controlled entity	0	5 904	3	0	0	5 907
Doprava TŽ, a.s.	Controlled entity	140	23 424	4 306	3	0	27 873
TRIALFA, s.r.o.	Controlled entity	0	22 034	4 202	22	0	26 258
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	357	654	2	0	1 013
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 078	5 393	546	6	10 023
Security Morava, s.r.o.	Controlled entity	0	0	55	0	0	55
TRISIA, a.s.	Controlled entity	0	6	194	0	0	200
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	7 956	19 518	51	0	27 525
Moravia Security, a.s.	Controlled entity	0	243	1 542	2	0	1 787
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	73	415	0	0	488
“ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	393	0	0	393
DALSELV DESIGN a.s.	Controlled entity	0	20 569	0	0	0	20 569
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	172	0	0	0	172
MORAVIA STEEL a.s.	Controlling entity	0	31 004 307	168 052	793	0	31 173 152
Moravia Steel Deutschland GmbH*	Fellow subsidiary	0	252 501	270	0	0	252 771
Beskydská golfová, a.s.	Fellow subsidiary	0	1	2 941	0	0	2 942
Barrandov Studio a.s.	Fellow subsidiary	0	0	1 058	0	0	1 058
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	401	1 135	12 628	0	14 164
Kovárna VIVA a.s.	Fellow subsidiary	0	0	12	0	0	12
M Steel Projects a.s.	Fellow subsidiary	0	59 358	198	0	0	59 556
NEOMET Sp. z o.o.*	Fellow subsidiary	0	0	701	0	0	701
AHP HYDRAULIKA, a.s.*	Fellow subsidiary	0	22 394	0	0	0	22 394
Hotel Golf Ropice a.s.	Fellow subsidiary	0	0	4	0	0	4
MSPProjects International s.r.o.	Fellow subsidiary	0	0	4	0	0	4
R.F.G., a.s. – v likvidaci	Fellow subsidiary	0	0	8	0	0	8
MINERFIN, a.s.*	Group entity	0	1 392	1	0	0	1 393
Total		140	31 444 710	211 085	14 458	6	31 670 399

Note: *foreign currency was translated using an average exchange rate

Revenues from profit shares of Group entities for the period from 1 January 2016 to 31 December 2016 are disclosed in Note 6.6.

7.6.2. Purchases from Related Parties

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

2017

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory – material, products and goods	Services	Other expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	680	883	0	1 563
JuBo Jeseník s.r.o.	Controlled entity	0	336	0	0	336
Řetězárna servis, s.r.o.	Controlled entity	0	0	8 380	0	8 380
Doprava TŽ, a.s.	Controlled entity	408	22 632	66 168	76	89 284
TRIALFA, s.r.o.	Controlled entity	0	6 000	19 008	50 166	75 174
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	42 738	139	11 244	0	54 121
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 710	9 687	93 992	121 389
Ocelářská unie, a.s.	Associate	0	0	2 820	138	2 958
TRISIA, a.s.	Controlled entity	0	9	9 374	148	9 531
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	150	24	78 633	0	78 807
Moravia Security, a.s.	Controlled entity	626	225	71 965	60	72 876
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	6	1 637	7 363	0	9 006
"ZAMECZEK BĚLOGOCICE" Sp. z o.o.*	Associate	0	0	1 246	0	1 246
HRAT, s.r.o.	Controlled entity	0	0	123	0	123
DALSELV DESIGN a.s.	Controlled entity	35 967	4 726	631	0	41 324
Security Morava, s.r.o.	Controlling entity	0	0	13 609	0	13 609
MORAVIA STEEL a.s.	Fellow subsidiary	142	23 091 649	371 628	232	23 463 651
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	0	0	233	0	233
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	892	0	892
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	5 613	0	5 613
MORAVIA STEEL UK LIMITED *	Fellow subsidiary	0	0	211	24	235
Beskydská golfová, a.s.	Fellow subsidiary	0	0	8 369	0	8 369
Moravskoslezský kovošrot	Fellow subsidiary	0	1 396 015	0	0	1 396 015
Kovárna VIVA a.s.	Fellow subsidiary	0	527	0	0	527
NEOMET Sp. z o.o. *	Fellow subsidiary	0	1 050 735	0	0	1 050 735
AHP HYDRAULIKA, a.s. *	Fellow subsidiary	0	129	0	0	129
MINERFIN, a.s.	Group company	0	16 006	0	0	16 006
Total		80 037	25 609 179	688 080	144 836	26 522 132

Note: *foreign currency was translated using an average exchange rate

2016

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory – material, products and goods	Services	Other expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	507	1 140	0	1 647
JuBo Jeseník s.r.o.	Controlled entity	0	784	0	0	784
Doprava TŽ, a.s.	Controlled entity	5	23 348	70 926	17	94 296
TRIALFA, s.r.o.	Controlled entity	0	6 961	22 972	60 698	90 631
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	40 471	0	13 624	0	54 095
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 537	9 248	91 931	118 716
Hutnictví železa, a.s.	Associate	0	0	5 784	132	5 916
TRISIA, a.s.	Controlled entity	0	1	11 965	153	12 119
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	121	81 787	0	81 908
Moravia Security, a.s.	Controlled entity	2 635	58	69 713	0	72 406
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	5	5 611	0	5 616
“ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 247	0	1 247
HRAT, s.r.o.	Associate	127	0	120	0	247
DALSELV DESIGN a.s.	Controlled entity	144 215	69	3 810	0	148 094
Security Morava, s.r.o.	Controlled entity	0	0	8 630	0	8 630
MORAVIA STEEL a.s.	Controlling entity	418	18 326 206	389 200	50 978	18 766 802
MORAVIA STEEL ITALIA s.r.l.*	Fellow subsidiary	0	0	240	0	240
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	995	0	995
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	297	1 675	1 972
MORAVIA STEEL UK LIMITED*	Fellow subsidiary	0	0	179	0	179
Barrandov Studio a.s.	Fellow subsidiary	0	0	0	0	0
Beskydská golfová, a.s.	Fellow subsidiary	0	0	7 368	0	7 368
Moravskoslezský kovošrot	Fellow subsidiary	0	1 033 016	5	0	1 033 021
Kovárna VIVA a.s.	Fellow subsidiary	0	0	0	0	0
NEOMET Sp. z o.o.*	Fellow subsidiary	0	804 177	0	0	804 177
AHP HYDRAULIKA, a.s.*	Fellow subsidiary	0	0	1 001	0	1 001
MINERFIN, a.s.*	Group entity	0	9 644	0	0	9 644
Total		187 871	20 222 434	705 862	205 584	21 321 751

Note: *foreign currency was translated using an average exchange rate

8. EMPLOYEES, MANAGEMENT AND SUPERVISORY BOARDS

8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

31 December 2017

(CZK THOUSAND)

	Number	Total staff costs
Employees	12 160	6 158 757
Management	53	241 078
Total	12 213	6 399 835

31 December 2016

(CZK THOUSAND)

	Number	Total staff costs
Employees	12 174	5 865 402
Management	54	141 055
Total	12 228	6 006 457

The remuneration to members of the Supervisory Boards in the years ended 31 December 2017 and 2016 amounted to CZK 14,978 thousand and CZK 18,606 thousand, respectively.

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

For the purposes of these notes to the consolidated financial statements, the category of management includes the members of the statutory bodies and the specialised directors of the companies of the consolidation group.

8.2. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

The amount of other supplies provided to managers and members of the Supervisory Boards:

(CZK THOUSAND)

	2017	2016
Use of management cars (the figure increases the tax base of employees)	5 554	5 648
Contribution for life insurance	157	151
Liability insurance	742	675

9. POST BALANCE SHEET EVENTS

9.1. TŘINECKÉ ŽELEZÁRNY, a. s.

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

XI

REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR 2017

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 2017 reporting period (hereinafter the "reporting period").

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

A. CONTROLLING ENTITIES

MORAVIA STEEL a.s., registered office: Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 63474808
Relation: In the reporting period, MORAVIA STEEL a.s. was in the position of the controlling entity of TŽ.

FINITRADING, a.s., registered office: nám. Svobody 526, Lyžbice, 739 61, Třinec, corporate ID: 61974692
Relation: In the reporting period, FINITRADING, a.s. was in the position of the controlling entity of MORAVIA STEEL a.s.

B. ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

B1. OTHER ENTITIES CONTROLLED BY FINITRADING, a.s.

R.F.G., a.s. "in liquidation", registered office: nám. Svobody 526, Lyžbice, 739 61 Třinec, Corporate ID: 63079658
Relation: In the reporting period, FINITRADING, a.s. was in the position of the controlling entity of R.F.G., a.s. "in liquidation". The entity entered into liquidation on 1 January 2016 and was dissolved on 11 January 2017 following its removal from the Register of Companies.

B2. OTHER ENTITIES CONTROLLED BY MORAVIA STEEL a.s.

Moravskoslezský kovošrot, a.s., registered office: Božkova 936/73, Přívoz, 702 00 Ostrava, Corporate ID: 26855097
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

M Steel Projects a.s., registered office: Průmyslová 1000, Staré Město, 739 61 Třinec, Corporate ID: 28602331

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

Barrandov Studio a.s., registered office: Prague 5-Hlubočepy, Kříženeckého nám. 322/5, 15200, Corporate ID: 28172469

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

Beskydská Golfová, a.s., registered office: no. 415, 739 61 Ropice; Corporate ID: 25352920

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

MS – Slovensko s.r.o., registered office: Námestie Ľudovíta Štúra 2, Bratislava 811 02, Slovakia, Corporate ID: 35900601

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

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

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

MORAVIA STEEL ITALIA s.r.l., registered office: Corso Sempione 39, 20145 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- Herweg, 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.

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.

Moravia Steel Middle East FZCO, registered office: Jebel Ali Free Zone, Jafza 17, office no. 325, P.O.Box: 263224, Dubai, U.A.E.

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s. pursuant to Section 75 (2) of the Act on Business Corporations.

“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.

MORAVIA MINING PLC, registered office: Addis Ababa, Bole 03, 5/001 – 405 A, Ethiopia

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, Slovakia, Corporate ID: 46685570

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

AHP HYDRAULIKA, a.s., registered office: Vojtecha Tvrdeho 793/21, Žilina 010 01, Slovakia, Corporate ID: 31563104

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

MSProjects International s.r.o., registered office at nám. Svobody 526, Lyžbice, 739 61 Třinec, Corporate ID: 03587649

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

Barrandov Productions s.r.o., registered office: Kříženeckého náměstí 322/5, Hlubočepy, 152 00 Prague 5, Corporate ID: 25621025

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

FILMOVÁ NADACE, registered office: Kříženeckého náměstí 322/5, Hlubočepy, 152 00 Prague 5, Corporate ID: 27437213

Relation: The sole founder of the entity is Barrandov Studio a.s. which was controlled by MORAVIA STEEL a.s. in the reporting period.

Barrandov Studios Productions s.r.o. registered office: Kříženeckého náměstí 322/5, Hlubočepy, 152 00 Prague 5, Corporate ID: 03160378

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.

Hotel Golf Ropice a.s., registered office: no. 415, 739 61 Ropice, Corporate ID: 27844919

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

Moravia Steel Nepremičnine d.o.o., registered office: Ljubljanska cesta 3A, 3000 Celje, Slovenia

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.

Slévárny Třinec, a.s., registered office: registered office: Průmyslová 1001, Staré Město, 739 61 Třinec, Corporate ID: 25830716

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

Třinecké gastroslužby, s.r.o., registered office: Průmyslová 1035, Staré Město, 739 61 Třinec, Corporate ID: 25838148

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

Doprava TŽ, a.s., registered office: Třinec-Staré Město, Průmyslová 1008, 73965, 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, 73965, Corporate ID: 25839888

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

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

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

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

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

JuBo Jeseník s. r. o., registered office: U Jatek 600/2, 79001 Jeseník, Corporate ID: 48391514

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

Řetězárna servis s.r.o. registered office: U Jatek 600/2, 790 01 Jeseník, Corporate ID: 05644267

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

TRISIA, a.s., registered office: nám. Svobody 526, Lyžbice, 739 61 Třinec, Corporate ID: 64610152

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

REFRASIL, s.r.o., registered office: Průmyslová 720, Kanská, 739 61 Třinec, Corporate ID: 48395862

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

VÚHŽ a.s., registered office: Dobrá 240, 739 51 Dobrá, 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: Jiráskova 987/50, 697 01 Kyjov, Corporate ID: 42293588

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

Moravia Security, a.s., registered office: Průmyslová 725, Kanská, 739 61 Třinec, Corporate ID: 27835481

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

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

“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. STEFANA ZEROMSKIEGO 1, 43-400 Cieszyn, Poland

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

“D&D” Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság, registered office: Sajósziget utca 4, 3527 Miskolc, Hungary

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

TŘINECKÁ PROJEKCE, a.s., registered office: Míru 274, Kanada, 739 61 Třinec, 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: Slévárenská 403/11, Mariánské Hory, 709 00 Ostrava, Corporate ID: 28262913

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

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

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

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

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

IMOPRA s.r.o., registered office: U Dvora 217, 687 51 Nivnice, Corporate ID: 26277697

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

The registered office addresses disclosed in Chapter I have been outlined in accordance with the status as of 31 December 2017.

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. (hereinafter also "MS"). In the reporting period, MS was the controlling entity of TŽ and its sole shareholder with 100% equity investment and 100% of TŽ's voting rights. MS exercised controlling influence over TŽ in its role as the sole shareholder acting in the capacity of the General Meeting of TŽ.

In the reporting period, MS was controlled by FINITRADING, a.s, (hereinafter also "FINITRADING") as its sole shareholder owning 100% equity investment and 100% of voting rights.

TŽ acts as a controlling entity in relation to a part of a business group which primarily includes other manufacturing companies. TŽ exercised controlling influence over these entities that are directly controlled by TŽ in its role as the majority shareholder under Sections 73 and 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 owner or the sole shareholder acting in the capacity as the General Meeting of the relevant controlled entities.

III. LIST OF ACTS AND CONTRACTS

A. List of acts and mutual contracts between TŽ and the controlling entities and between TŽ and entities controlled by the same controlling entity:

a) In the reporting period, TŽ recorded no acts 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 2016 in accordance with Section 82 (2) d) of the Act on Business Corporations.

b) The list of contracts for the reporting period between TŽ and FINITRADING as the controlling entity and between TŽ and entities controlled by FINITRADING as the same controlling entity in accordance with Section 82 (2) e) of the Act on Business Corporations, except for entities controlled by TŽ under Section C Chap. I., is listed below in Sections B. through M. of this Chapter, ie a list of such contracts between TŽ and

- MS in is given in part B.;
- Beskydská golfová, a.s., in part C;
- Moravskoslezský kovošrot, a.s., in part D;
- M Steel Projects a.s. in part E.;
- “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ in part F.;
- FINITRADING in part G.;
- Barrandov Studio a.s in part H.;
- Hotel Golf Ropice a.s. in part I.;
- MSProjects International s.r.o. in part J.;
- MORAVIA STEEL UK LIMITED in part K.;
- AHP HYDRAULIKA, a.s., in part L.;
- R.F.G., a.s. “in liquidation” in part M.

c) 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 subject to the report on relations of each of these entities.

B. List of Contracts between TŽ and MS

B.1. Introduction

The principal contract applicable to the day-to-day business relations between TŽ and MS 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.

These relations were further amended in the reporting period:

- by the Master Contracts mentioned below of 30 June 2002, 30 December 2002, 23 February 2004, 29 December 2005 and 26 February 2009;
- in the purchase area by the Purchase Contract for the Supply of Materials and Raw Materials mentioned below of 12 January 1999, and the Master Contracts mentioned below of 29 December 2005 and 1 July 2008.

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.2. Contracts the subject of which relates to the provision of products or services by TŽ in favour of MS

1. Master contracts concluded on 30 June 2002, 30 December 2002, 23 February 2004, 29 December 2005 and 26 February 2009 and partial purchase agreements concluded pursuant to some of these master contracts – sale of metallurgical products.
2. Licence contract for using the trademark “Three hammers in a circle” of 30 June 2002.
3. Service level agreement of 2 January 2004 – provision of security and asset guards, fire protection, postal services, pricing services, dispatching management, environmental protection and selected accounting services.
4. Lease contract of 9 March 2000 – lease of the administrative building of the management, commercial services building, a garage in the commercial services building, land and movable assets and lease of parking places in the area of TŽ in Třinec.
5. Lease contract of 1 January 2004 – lease of offices in the administration building in Buštěhrad and lease of movable assets – office equipment.
6. Contracts for lease of non-residential premises of 23 January 1997 – lease of garage parking in the area of TŽ in Třinec.
7. Contract for lease of non-residential premises of 22 July 2002 – lease of non-residential premises and the parking place in the area of TŽ in Bohumín.
8. Lease contract of 1 January 2011 – lease of non-residential premises and movable assets in the area of TŽ in Ostrava-Vítkovice.
9. Contract for the placement of equipment of 1 April 2011 – placement of the technology equipment for the transfer of data within the telecommunications building in the area of TŽ in Třinec.
10. Contract for lease of non-residential premises of 20 December 2011 – lease of non-residential services in a building located in Staré Město.
11. Accommodation contract of 28 April 2005 – accommodation in a building of TŽ in Prague 4 – Nusle.

12. Contract on the provision of telecommunication services of 31 December 1998.
13. Contract on Internet connection via the network of TŘINECKÉ ŽELEZÁRNY, a.s., of 20 July 1999.
14. Consignment agreement of 13 August 2007 – customs proceedings services.
15. Consignment agreement of 3 January 2005 – customs proceedings services.
16. Contract on the supply of the Třinecký hutník newsletter in 2017 (order of 13 December 2016).
17. Contract on transport using passenger cars in 2017 (order of 9 December 2016).
18. Contract on business cooperation in the supplies of rails for ŽSR of 11 November 2014.
19. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 21 March 2016.
20. Contract on business cooperation in the supplies of rails for Dopravní podnik hl.m. Prahy, a.s., of 7 April 2016.
21. Contract on business cooperation in the supplies of semi-circular track fastenings for Správa železniční dopravní cesty, state organisation, of 17 June 2016.
22. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 31 October 2016.
23. Master purchase contract of 30 January 2008 and partial purchase contracts concluded pursuant to this master contract – sale of goods from inventory.
24. Contract on the supply of consumption material for fax machines and printers and maintenance of IT networks (order of 13 December 2016).
25. Contract on the supply of norms (order of 15 November 2016).
26. Contract on the supply of Czech printed material and magazines for 2017 (order of 19 September 2016).
27. Contract on the supply of Czech printed material and magazines for 2018 (order of 28 November 2017).
28. Contract on securing services related to the launch of new telephone lines and the maintenance thereof in 2017 (order of 13 December 2016).
29. Contract on the provision of services of 11 August 2003 – services related to smart cards.
30. Contract on business cooperation in the supplies of rails – steel class R 260 for Správa železniční dopravní cesty, state organisation, of 28 August 2017.
31. Contract on business cooperation in the supplies of semi-circular track fastenings for Správa železniční dopravní cesty, state organisation, of 22 May 2017.
32. Assignment contract on representation in customs proceedings of 19 July 2017.

B.3. Contracts the subject of which relates to the provision of products or services by MS in favour of TŽ

1. Purchase contract on the supplies of raw material and materials of 12 January 1999 – purchase of essential metallurgical material.
2. Master contracts on the supply conditions of continuous castings, ingots, rolled material (burdens) of 29 December 2005 and 1 July 2008.
3. Master contract on the conditions of the freight transportation of goods of 30 December 2002 and partial contracts concluded based on this master contract – securing the transportation of goods and acts necessary for such transportation.
4. Mandate contracts of 1 July 2005, 29 June 2007, 19 November 2012 and 28 February 2013 – arrangement of business matters related to the purchase of work and services, technical and operational material, spare components, metal waste and fuel.
5. Master purchase contract of 6 January 2014 and partial purchase contracts concluded in line with this master contract – supplies of advertising items.
6. Contract for the purchase of insurance related to business activity (order of 16 January 2017).
7. Contracts for securing accommodation services (orders of 14 February 2017, 14 July 2017 and 20 December 2017).
8. Contract on securing the lease of a conference room (order of 16 November 2017).
9. Contract for the provision of services in terms of invoicing of 1 January 2017.

B.4. Other Contracts

1. Master contract on the supplies related to the organisation and implementation of the events entitled “Královna ocel 2017” and “Hutnický den 2017” of 30 March 2017 and partial contracts concluded pursuant to this master contract.
2. Agreement on the method of payment of trade payables dated 17 December 2008.
3. Agreement on publishing contracts pursuant to Act No. 340/2015 of 9 May 2017.
4. Agreement on mutual rights and obligations of VAT Group members of 3 January 2017.

C. List of Contracts between TŽ and Beskydská golfová, a.s.**C.1. Contracts the subject of which relates to the provision of products or services by TŽ in favour of Beskydská golfová, a.s.**

1. Contract on the maintenance of network and telecommunication devices (order of 9 June 2017).
2. Contract on the provision of services of 1 January 2011 – filing office, IT and HR services.
3. Contract on the provision of access to Internet services via the network of TŘINECKÉ ŽELEZÁRNY, a.s. of 31 July 2009.
4. Contract on the provision of a service – advertisement (order of 4 August 2017).
5. Contract on the provision of postal services – arrangement of recipient cards of 31 March 2017.

C.2. Contracts the subject of which relates to the provision of products or services by Beskydská golfová, a.s. in favour of TŽ

1. Advertising contract of 29 December 2016 – securing advertising at the golf course in Ropice between 1 January 2017 and 31 December 2017.
2. Lease contract of 31 May 2016 – lease of an apartment in the clubhouse located at the golf course Ropice.

D. List of Contracts between TŽ and Moravskoslezský kovošrot, a.s.**D.1. Contracts the subject of which relates to the provision of products or services by TŽ in favour of Moravskoslezský kovošrot, a.s.**

1. Lease contract of 10 June 2013 – lease of scrap yard and non-residential premises in a building in Třinec.
2. Master contracts of 4 January 2010 and partial contracts concluded based on one of these master contracts – sale of waste.
3. Lease contract and contract on the placement of containers of 1 June 2013 – lease of warehousing premises in Třinec.
4. Contract No. 10 0006 9514 on takeover, utilisation or removal of waste of 18 January 2017 – sale of scrap – iron metal filings and chips.
5. Contract No. 10 0006 9515 on takeover, utilisation or removal of waste of 18 January 2017 – sale of scrap – iron and steel.
6. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles (orders of 23 December 2016, 13 January 2017, 12 April 2017, 4 August 2017, 18 August 2017, 22 September 2017, 26 September 2017 and 10 November 2017).
7. Contract on securing the lease of a conference room (order of 16 November 2017).

D.2. Contracts the subject of which relates to the provision of products or services by Moravskoslezský kovošrot, a.s. in favour of TŽ

1. Master contract on the supplies of metal waste of 7 January 2015 and partial purchase contracts concluded pursuant to this master contract.

E. List of Contracts between TŽ and M Steel Projects a.s.**E.1. Contracts the subject of which relates to the provision of products or services by TŽ in favour of M Steel Projects a.s.**

1. Lease contract of 1 October 2010 – lease of non-residential services and movable assets in the area of TŽ in Třinec.
2. Contract on the provision of services of 1 October 2010 – filing office services, IT services, asset security and protection and road maintenance.
3. Mandate contract of 30 December 2009 – procurement of matters related to customs clearance.
4. Contract on the provision of access to internet services through the computer network of TŘINECKÉ ŽELEZÁRNY, a.s., of 15 March 2016.
5. Contract on the provision of postal services of 2 January 2017.

F. List of Contracts between TŽ and “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**F.1. Contracts the subject of which relates to the provision of products or services by TŽ in favour of “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**

1. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles (orders of 7 October 2016, 16 February 2017, 11 May 2017, 11 September 2017 and 26 October 2017).
2. Contract on securing the lease of a conference room (order of 16 November 2017).

F.2. Contract the subject of which relates to the provision of products or services by “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ in favour of TŽ

1. Master contract on the conditions of supplies of scrap waste dated 7 January 2015 and other partial contracts concluded pursuant to this master contract.

G. List of Contracts between TŽ and FINITRADING**G.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of FINITRADING**

1. Mandate contract of 29 June 2011 – arrangement of matters related to the monitoring of movements of goods between EU member states.

H. List of Contracts between TŽ and Barrandov Studio a.s.**H.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of Barrandov Studio a.s.**

1. Contract on the provision of services of 31 December 2015 – IT services.

I. List of Contracts between TŽ and Hotel Golf Ropice a.s.**I.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of Hotel Golf Ropice a.s.**

1. Contract on the provision of services of 31 December 2015 – filing office services.

J. List of Contracts between TŽ and MSProjects nternational s.r.o.**J.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of MSProjects International s.r.o.**

1. Contract on the provision of services of 31 December 2015 – filing office services.

K. List of Contracts between TŽ and MORAVIA STEEL UK LIMITED**K.1. Contract the subject of which relates to the provision of products or services by MORAVIA STEEL UK LIMITED in favour of TŽ**

1. Contract on the settlement of damage of 28 February 2017.

L. List of Contracts between TŽ and AHP HYDRAULIKA a.s.**L.1. Contract the subject of which relates to the provision of products or services by AHP HYDRAULIKA a.s. in favour of TŽ**

1. Contract on the delivery of goods (orders from 30 November 2016 and 21 December 2016).

M. List of Contracts between TŽ and R.F.G., a.s. “in liquidation”**M.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of H. R.F.G., a.s. “in liquidation”**

1. Contract on the storage of documentation in the registry of 15 August 2016.

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 on the basis of contracts listed in parts B. through M. of Part III. of this Related Party Transactions Report, were provided under standard business conditions.

The prices agreed between TŽ and controlling entities and between TŽ 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 the controlling entities and between TŽ and entities controlled by the same controlling entity 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 26 March 2018



.....
Jan Czudek

Chairman of the Board of Directors
TŘINECKÉ ŽELEZÁRNY, a. s.



.....
Radomíra Pekárková

Member of the Board of Directors
TŘINECKÉ ŽELEZÁRNY, a. s.