



MORAVIA STEEL

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**General
Section**

I Opening Statement of the Chairman of the Supervisory Board

To shareholders, business partners and employees

2019 was not an easy year for our company. MORAVIA STEEL a.s. had to face a substantial slowdown in economic growth, both on an international and national level.

The performance of all sectors of the Czech economy described through gross value added grew only by 2.4% in the whole of 2019. The domestic economy gradually lost resilience to persistent adverse external factors. In particular, there was a significant slowdown in economic

growth in key export territories, which was further strengthened by increasing regulatory measures in international trade and the persisting uncertainty concerning the future of relations between the United Kingdom and the EU.

The key driver of the domestic economy was the services sector, which accounted for four-fifths of the total gross value added growth. However, in connection with the economic development of Germany and the EU, the slowdown in domestic industry continued. The considerable cooling of its per-

formance is also evidenced by the detailed data from company statistics. While in 2018 the value of industrial production grew by 3.1%, last year it decreased by 0.4%.

> 2,336 kt
The total volume of production sold exceeded 2,336 kilotons.

Domestic exporters were negatively affected by the weaker demand dynamics in Asian countries and the stronger recession of German industry. The difficulties of the domestic industry

escalated during the year; in the 4th quarter of 2019, industrial production decreased by 2.2%, as the key sector of manufacture of transport equipment ceased to contribute to its growth. Decrease in foreign and domestic demand also had a negative effect on metallurgical production.

Despite all this, MORAVIA STEEL a.s. managed to generate a profit of CZK 1.143 billion in 2019. In the given period, sales of goods amounted to CZK 61.773 billion. The total volume of production sold exceeded 2,336 kilotons.

Considering the overall economic development and the situation in the steel industry, the economic results of MORAVIA STEEL a.s. in 2019 can be termed successful. They reflect an appropriately selected long-term strategy of the entire MS/TŽ Group, focused on products with a higher degree of processing and the creation of product chains.

In the next period, however, we will face even greater challenges and tests, including a completely new and unexpected global phenomenon – the coronavirus. The year 2020 will therefore test not only the success of our strategy, but also the cohesion of all our employees and relations with business and institutional partners.

Yours sincerely



Tomáš Chrenek

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



I

Company Profile



MORAVIA STEEL a.s. holds a stable and strong position among the leading sellers of metallurgical products in the Czech Republic as well as foreign markets, primarily in EU countries.

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

The key economic indicators of MORAVIA STEEL a.s. between 2015 and 2019 prove the Company's ability to cope with less favourable periods in global economic development and

in the metallurgical and steel industry.

ECONOMIC INDICATORS BETWEEN 2015–2019 (in CZK million)

INDICATOR	2015	2016	2017	2018	2019
Sales of goods	56 903	49 845	57 202	64 012	61 773
Sales of own products and services	639	611	584	626	607
Operating profit or loss	1 588	1 167	1 675	1 866	1 331
Financial profit or loss	1 484	1 386	1 344	1 280	87
Profit or loss for the reporting period	2 776	2 326	2 737	2 773	1 143
Total assets	19 388	19 966	20 553	22 392	19 743
Fixed assets	8 643	8 619	8 694	8 743	8 624
Equity	14 529	14 854	15 591	16 366	15 536
Share of liabilities including accrued expenses	25.06%	25.60%	24.14%	26.91%	21.31%
EBITDA	1 612	1 196	1 703	1 895	1 365

III

Statutory Bodies and Management of the Company

Supervisory Board of the Company as of 31 December 2019

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



Tomáš Chrenek



Ján Moder



Evžen Balko



Mária Blašková

Board of Directors of the Company as of 31 December 2019

POSITION	NAME
Chairman	Petr Popelář
Vice-Chairman	Krzysztof Roch Ruciński
Member	Mojmír Kašpiříš
Member	Uršula Novotná



Petr Popelář



Krzysztof Roch Ruciński

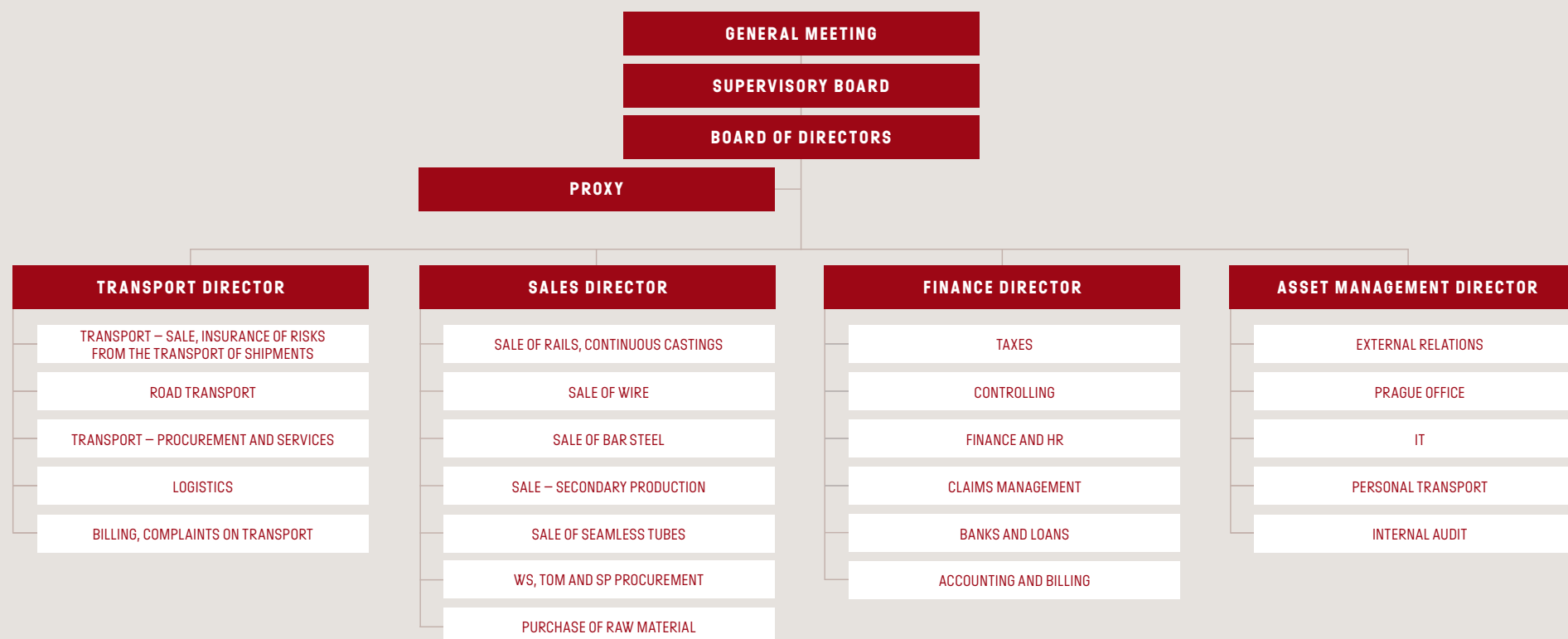


Mojmír Kašpiříš



Uršula Novotná

Organisational Structure



IV

Report of the Board of Directors

DEVELOPMENT OF THE INDUSTRY

Global steel production grew by 3.4% in 2019, reaching a level of 1,869.9 million tons. However, the sole contributor was the Asian continent, with other territories experiencing a decrease instead. Asia produced more than 1,342 million tons of steel, with a year-on-year growth of 5.7%. China, which has long been the largest global steel producer, even recorded an 8.3% growth in 2019, producing more than 996 million tons of steel. China's share in global production therefore increased to 53.3%.

In 2019, EU states noticed a decline in the volume of steel produced by almost 5% to 159.4 million tons. North America remained roughly at the same level, with production slightly falling by almost one percent to 120 million tons. Another important steel territory – Commonwealth of Independent States – narrowly exceeded 100 million tons of produced steel, while experiencing a decrease of half a percent. The production in South America fell substantially in 2019, specifically by 8.4%, reaching a volume of 41.2 million tons of steel.

The Czech Republic produced almost 4.6 million tons of steel in 2019, which represents a year-on-year decrease by more than 7%. Our subsidiary TRINECKÉ ŽELEZÁRNY, a.s. (TŽ), contributed to this production with a volume of 2.51 million tons, maintaining its position as the largest domestic producer.

DEVELOPMENT OF THE COMPANY

MORAVIA STEEL a.s. has operated in the metallurgical production market since 1996. Since then, it has held a strong and stable position both in the Czech Republic and in foreign markets. In addition, MORAVIA

STEEL a.s. provides intrastate and international transportation, and the purchase and sale of raw materials, including other inputs necessary for metallurgical production.

In the period ended 31 December 2019, the Company generated a profit of CZK 1.143 billion. Sales of goods amounted to CZK 61.773 billion. In the prior year, the Company generated a profit of CZK 2.773 billion, with sales slightly exceeding CZK 64 billion.



The Company prepares consolidated financial statements. The consolidation group profit amounted to CZK 2.204 billion. In the prior year, the consolidated profit amounted to CZK 5.156 billion.

In 2019, MORAVIA STEEL a.s. sold more than 2,336 kt of metallurgical production. Exported products amounted to almost 1,575 kt, domestic products to almost 762 kt.

EU countries have long been the key export territory for MORAVIA STEEL a.s. The Company also focuses on the North American market.

Within the EU, Germany plays a crucial role, with an almost 30% share in our export to the EU. Italy received almost 16%, Slovakia 16.4% and Poland 12% of our total EU export. Important cus-

tomers in terms of the EU also include Hungary (more than 7%) and the United Kingdom (4.5%).

> 1,575 kt

In 2019 exported products amounted to almost 1,575 kt, domestic products to almost 762 kt.

The 2019 results of MORAVIA STEEL a.s. reflect the long-term strategy of the MS/TŽ Group. This strategy focuses on products with a higher processing grade and the creation of product chains, with a focus on products intended for the engineering, energy, oil or automotive industries. For this reason, the group prefers the production of rolled wire for the production of screws, springs, bearings and cords, special bar steel, steel treated in the final phase, and wide and flat tool steel.

Development in sales between 2015–2019 MORAVIA STEEL a.s.

SUPPLIES IN TONS	2015	2016	2017	2018	2019
Export	1 592 029	1 616 696	1 553 141	1 616 550	1 574 912
Domestic	774 651	744 822	748 337	751 150	761 967
TOTAL	2 366 680	2 361 518	2 301 478	2 367 700	2 336 879

Structure of exports as a percentage of total supplies of MORAVIA STEEL a.s.

STRUCTURE OF EXPORTS IN %	2015	2016	2017	2018	2019
European Union	75.7	75.7	75.6	75.6	77.2
Other European countries	0.6	0.7	0.4	0.5	0.5
Africa	0.0	0.0	0.1	0.1	0.1
Asia	1.6	2.7	1.7	1.4	0.1
America	9.2	7.4	6.9	7.8	7.0
Australia	0.0	0.0	0.0	0.0	0.0
Slovakia	12.9	13.5	15.3	14.6	15.1
TOTAL	100.0	100.0	100.0	100.0	100.0

Development in the product range structure of metallurgical product sales of MORAVIA STEEL a.s.

SALES IN TONS	2015	2016	2017	2018	2019
Rolled wire (including drawn, annealed and phosphated wires)	944 588	981 702	997 418	982 156	999 180
Billets and continuous castings	274 855	276 517	259 762	277 194	281 943
Reinforcing steel	3 957	0	0	0	26 118
Rails	253 560	216 900	169 503	245 880	234 878
Products of the Kladno factory	298 741	276 273	286 109	275 158	266 050
UT Bohumín	45 863	47 831	37 958	43 672	41 932
Products of VF – Staré Město facility	81 650	86 985	92 200	92 300	75 519
Other (bars, sections, etc.)	354 147	368 716	350 445	335 725	302 156
Pipes – VT TŽ Ostrava	91 663	95 492	94 808	98 907	94 830
Rail fastenings	17 656	11 102	13 275	16 708	14 273
TOTAL	2 366 680	2 361 518	2 301 478	2 367 700	2 336 879

Accounting for 42.5% of the total production, **rolled wire** has been the most significant item of TŽ's production programme in the long term.

In 2019, the Company sold over 992 kt of rolled wire, of which approx. 883.6 kt were produced at the Wire Rolling Mill (KDT) and approx. 108.8 kt at the Continuous Fine Rolling Mill (KJT). This represents a year-on-year increase of approximately 31.4 kt at the KDT and a decrease of 14.2 kt at the KJT. However, given the unfavourable situation on the market, it actually represents a decrease in sales of 2% at the KDT and 17.2% at the KJT.

In terms of the structure of individual steel groups produced at the KDT, the total volume of medium- and high-carbon steel amounted to 55.7%, i.e. a

slight decrease in comparison with the prior year (-2.7%). With 18.5%, the second biggest item is low-carbon steel, i.e. a 1.5% increase compared to 2018. The share of electrode steel grew slightly from 10% to 12.2%. The share of screw types of steel increases and in 2019 it amounted to 9%. The remaining 4.6% is attributed to other types – spring, chain, bearing and alloy steel.

➤ **992 kt**

In 2019, the Company sold over 992 kt of rolled wire

The most significant commodity of the KJT are screw-type wires with a share of 42% (-1% year-on-year), followed by carbon steel with 20% (year-on-year increase of 1.5%), low-carbon with 18.7% (+1% year-on-year), free-cutting with 10.5% (-0.8%) and spring-type with 6.6%. The rest con-



sists of a minor amount of chain and bearing steel.

The second most important portfolio item in terms of volume is **bar steel**. It includes the production of the Medium Rolling Mill and the Continuous Fine Rolling Mill in Třinec and the rolling mill at the TŽ Kladno plant. The sales of bar steel in 2019 amounted to 569 kt.

Compared to previous years, the demand for bar steel was significantly lower. There was a decrease in demand especially in the automotive industry, engineering and related industries. Alongside the lower demand, the situation on the market in 2019 was characterised by the high level of stocks of material in the distributors' warehouses, or more precisely in the entire supply chain. This

combination, together with the non-functional EU market protection from imports and underutilised capacities of steel producers, led to immense pressure on price reduction throughout 2019.

569 kt
The sales of bar steel in 2019 amounted to 569 kt

Compared to 2018, the sales of bar steel decreased by 7% in volume, or more precisely by 12% in revenues. As for the structure of steel bars sold according to the individual rolling mills, the Medium Rolling Mill accounted for 5.4 kt (-2.7 kt year-on-year), KJT 297.6 kt (-31.1 kt) and the Kladno plant 266.1 kt (-9.1 kt). The lower sales of bars were partially compensated for by the

sales of reinforcing steel in the volume of 26.1 kt.

The demand for bar steel improved shortly before the end of 2019.

As in previous years, major bar steel consumers included subcontractors to the automotive industry, blacksmith's workshops, producers of bearings, springs, screws, etc.

The sale of **wide and flat steel** from the Universal Rolling Mill in Bohumín (UT) amounted to approx. 42 kt in 2019. A decent beginning of the year in terms of orders was replaced with a gradually falling demand in the third quarter and a plunging demand and orders in the 4th quarter. Due to interruption of production in the last two months of 2019, we did not meet

the annual plan by 1 kt. The exercise price decreased by approx. CZK 600 per ton, due to the lower volumes produced in alloy and tool brands and also due to the plunge in prices of basic steel brands. Total sales were lower by approx. CZK 60 million year-on-year, amounting to CZK 850 million.

42 kt
The sale of wide and flat steel amounted to approx. 42 kt in 2019

All sales in 2019 were attributable to European countries, again with Germany being the most significant market and with approx. 80% of all supplies comprised basic construction steel brands.



Despite all our efforts, the share in supplies to warehouses and traders was approx. 75%. For 2020, we plan to sell 44 kt.

Drawn steel is characterised by achieving higher added value. Unfortunately, we were unable to maintain it throughout the entire 2019. A strong pressure from the competitors on the price level forced us to reduce prices already from the second quarter. Therefore, the produced volume amounted to 75.5 kt in 2019, i.e. by 16.8 kt lower than in the prior year.

The lower demand, mainly from car manufacturers, also had a significant impact on the volumes produced. Failure to meet the deadline for starting the operation of the shelf stacker also had a negative effect. Issues with the start of this machine negatively affected sales and dis-

patching from free stock. It was practically impossible to create stock for free sale.

Despite the aforementioned issues, the quality of drawn steel bars produced by the TŽ plant in Staré Město helped the MS/TŽ Group strengthen its position on the domestic and European markets.

➤ **75.5 kt**
The produced volume of drawn steel amounted to 75.5 kt in 2019

Sales of drawn, annealed and phosphatised wire in coils amounted to 6.81 kt in 2019. This amount was 0.1 kt lower than the previous year and it was primarily directed at automotive customers and bearing producers.

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

The total volume of **seamless tubes** supplied by the Company in 2019 amounted to 94.83 kt. The demand for mechanical tubes in Central and Western Europe between the first and the third quarter continued to be driven by heavy engineering. The market situation in the OCTG and Line Pipe segments (especially in the USA) was influenced by the decrease in oil prices.

➤ **94.83 kt**
The total volume of seamless tubes supplied in 2019 amounted to 94.83 kt



The gradual slowdown of economy and postponement of new projects weakened the demand for warehouses, especially in the fourth quarter of 2019. This led to a gradual postponement of purchases from our customers in all categories of products.

In 2019, the **sale of rails** built on an increasing production growth after the reconstruction of the blooming mill. In the second half of the year, the demand weakened slightly, mainly in the markets of North America and Poland. In other European countries but also in other territories, an ever increasing focus on heat-treated rails is becoming more and more prominent, which manifests itself in the technical specifications of competitive tenders. Customers in the USA and Canada also demand only rails with a minimum hardness of 363 HB,

or more precisely 370 HB in case of the USA. TŽ has partially met these parameters with the minimum value of 360 HB, thereby complying with the requirements of Canadian customers. For other markets, it will be necessary to introduce the production of 350HT rails, i.e. a minimum of 370 HB for the USA.

> 234 kt
The value of supplies exceeded 234 kt in 2019

The value of supplies exceeded 234 kt in 2019. The production was mainly based on contracts with Deutsche Bahn (Germany), contracts with SŽDC (Czech Republic), Poland and North America. Apart from these destinations, we also exported rails to Denmark, Finland, Israel and other European countries. In terms of utilising the capaci-

ties of rail production, 2020 will be more difficult due to stricter rules of competitive tenders, which require heat-treated rails 100 m long or longer. Germany, the Czech Republic, Poland, Denmark and Canada still remain the main customers, but we are starting to produce small volumes for Bulgaria as well.

In 2019, rail fastenings experienced a weaker demand mainly from Poland, where individual railway projects are being reviewed. We therefore focus on supplies into other traditional destinations, such as the Czech Republic, Hungary, Slovakia, Spain, Switzerland, or Romania. Production of rail fastenings reached the volume of over 14 kt in 2019. In the following year, we will focus on increasing supplies to Poland again, depending on the situation of construction works on the railway. We are

also putting maximum effort into re-establishing supplies to the German market, where Deutsche Bahn are expected to make a new competitive tender.

The total volume of **continuous castings and billets** sold in 2019 amounted to almost 282 kt. As usual, the main customers in the sectors of rail wheelsets, wheels and half-shafts remain the same and their requirements relatively stable.

➤ **282 kt**

The total volume of continuous castings and billets sold in 2019 amounted to almost 282 kt

In the second key segment, wind power industry and engineering, we also achieved a standard volume of supplies, which were mainly delivered to our

subsidiary Bohemia Rings and traditional customers in Italy, Germany, Spain and Poland. The production of 600 mm continuous castings on all casting lines will have a great influence on maintaining the current level of production for manufacturers of rings for wind turbines, as the current 525 mm combination is currently becoming very unfavourable for customers.

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

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





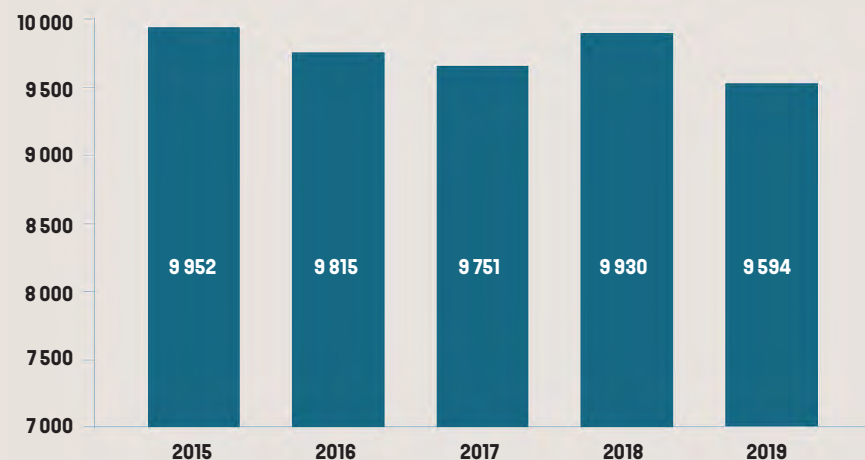
LOGISTICS, FREIGHT TRANSPORTATION

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

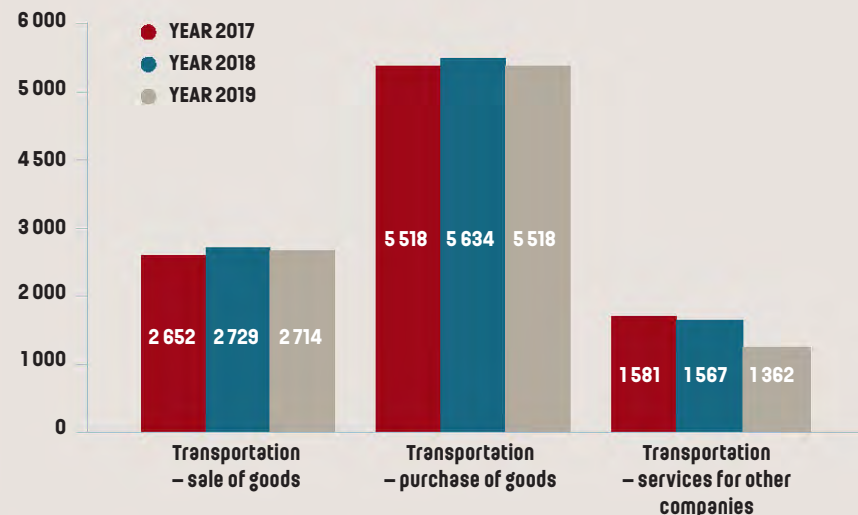
The logistics in 2019 showed the constantly growing importance of innovation. Future development focuses on the customer, sustainability, technology and qualified human resources.

The weaker economic growth affected logistics in the last year. In 2019, transportation on a pan-European scale experienced a drop in transport supply by 8.3% in comparison with 2018 (TIMOCOM). Transportation for the needs of supply producers was significantly affected by declining demand, prices of input raw materials and CO₂ emissions costs.

Development of the total transportation volume of MORAVIA STEEL a.s. (kt)



Transportation volume structure (kt)





Project activities primarily focused on the following areas:

PROCESS AND CAPACITY OPTIMISATION

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

- Administration of documents related to shipments – computerisation of service billing and accompanying documents.

INCREASE IN LOGISTICS PERFORMANCE

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

RISK MANAGEMENT

- Elimination of risks of long-term supplier chain failures;
- Higher segmentation and

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

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

During 2019, intensive cooperation continued with manufacturers of the MS/TŽ Group in the following strategic areas:

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



MANAGEMENT SYSTEM, HUMAN RESOURCES

The Company's approach towards employees is based on openness and mutual respect. During 2019, no significant changes were made in the HR strategy, where there is an ongoing process of improvement and increasing efficiency in the area of HR management.

The Company supports the education and professional development of its employees on an ongoing basis, primarily in

the form of specialised training, workshops, language courses and IT courses. The Company also provides its employees with above-standard benefits, e.g. in the form of contribution for company catering, or the provision of elective employee benefits, which it endeavours to continuously expand.

The basic principles of the Company's conduct, including its relation to employees, corporate culture and corporate social responsibility, are set out in the

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

In relation to the EU personal data protection regulation, the Company puts a great emphasis on ensuring compliance with the General Regulation (Regulation of the EP and the EU Council No. 2016/679), or "GDPR", in processing the personal data of all its employees, along with a constant control and updates of the related individual areas.

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

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

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

As a result of a domestic merger by amalgamation of MORAVIA STEEL a.s., as the successor company, and FINITRADING, a.s., as the dissolving company, in accordance with the Project of a Domestic Merger by Amalgamation of 2 August 2019, MORAVIA STEEL a.s., as the successor company, assumed the net assets of the dissolving company FINITRADING, a.s.

On 28 February 2020, based on the contract on the purchase and sale of securities, MORAVIA STEEL a.s. acquired a 100% equity interest in MSV Metal Studénka, a.s. By this, MORAVIA STEEL a.s. became the 100% owner of the aforementioned company.

After the balance sheet date, in relation to the spread of the SARS CoV-2 coronavirus (which causes the COVID-19 disease), the management of the Company

has been taking necessary steps to minimise the risk of infection for its employees. The Company introduced a series of safety and methodical measures, reacting to the emergency measures adopted by the Government of the Czech Republic and other public authorities to prevent the spread of the coronavirus. The management of the Company is currently evaluating and assessing the quantitative and qualitative impacts on the Company's financial position and future financial results. The Company will continue to closely follow the current development and react as necessary to protect the health of its employees and minimise the impact on its business activities.

Apart from the aforementioned, no other significant events occurred after the balance sheet date that would affect the purpose of the annual report.



V

Report of the supervisory board

➤ **The Supervisory Board of MORAVIA STEEL a.s. reviewed the general-purpose financial statements and the general-purpose consolidated financial statements of MORAVIA STEEL a.s. for the year ended 31 December 2019 based on the presented documents discussed by the Board of Directors of MORAVIA STEEL a.s. and discussed the proposed allocation of profit for 2019.**

Based on the audit of the consolidated annual report of MORAVIA STEEL a.s. as of 31 December 2019 performed by Deloitte Audit s.r.o. and their Report, which includes unqualified opinions, the Supervisory Board recommends that the above document, including the proposal of the Board of Directors for the allocation of profit for 2019, be approved by the general meeting.

The Supervisory Board also reviewed the Report on Relations for the year ended 31 December 2019 and, with

regard to the opinion of Deloitte Audit s.r.o., it has come to the conclusion that the Report on Relations was prepared in accordance with the Act on Business Corporations and the true state of the relations between the controlling and the controlled entities.

Tomáš Chrenek

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

VI Auditor's report

Deloitte.

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Tax ID. No.: CZ49620592

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

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

Opinion

We have audited the accompanying financial statements of MORAVIA STEEL a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2019, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We have audited the accompanying consolidated financial statements of the MORAVIA STEEL a.s. consolidation group (hereinafter also the "Group") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the consolidated balance sheet as of 31 December 2019, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

The accompanying financial statements give a true and fair view of the financial position of MORAVIA STEEL a.s. as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the MORAVIA STEEL a.s. consolidation group as of 31 December 2019, 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.

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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 and Supervisory Board 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 is 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 22 May 2020

Audit firm:

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



Statutory auditor:

Václav Loubek
registration no. 2037





**Financial
Section**

IX

Financial Part I.

– Regular Financial Statements

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NAME OF THE COMPANY:	MORAVIA STEEL a.s.
REGISTERED OFFICE:	Průmyslová 1000, Staré Město, 739 61 Třinec
LEGAL STATUS:	Joint Stock Company
CORPORATE ID:	63474808
RECORD IN THE REGISTER OF COMPANIES	Recorded in File 1297, Section B of the Register of Companies held by the Regional Court in Ostrava

Components of the Financial Statements:

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

These financial statements were prepared on 23 March 2020.

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

BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	31. 12. 2019			31. 12. 2018
	Gross	Adjustment	Net	Net
TOTAL ASSETS	20 623 952	880 456	19 743 496	22 391 883
B. Fixed assets	9 251 625	627 678	8 623 947	8 742 893
<i>B.I. Intangible fixed assets</i>	185 054	90 156	94 898	118 847
B.I.1. Development	72	72		
B.I.2. Valuable rights	184 282	89 384	94 898	118 847
B.I.2.1. Software	1 678	1 678		55
B.I.2.2. Other valuable rights	182 604	87 706	94 898	118 792
B.I.4. Other intangible fixed assets	700	700		
<i>B.II. Tangible fixed assets</i>	91 315	64 358	26 957	23 275
B.II.1. Land and structures	907	2	905	
B.II.1.2. Structures	907	2	905	
B.II.2. Tangible movable assets and sets of tangible movable assets	90 408	64 356	26 052	23 275
<i>B.III. Non-current financial assets</i>	8 975 256	473 164	8 502 092	8 600 771
B.III.1. Equity investments – controlled or controlling entity	8 970 132	473 164	8 496 968	8 595 647
B.III.3. Equity investments in associates	2 886		2 886	2 886
B.III.7. Other non-current financial assets	2 238		2 238	2 238
B.III.7.2. Prepayments for non-current financial assets	2 238		2 238	2 238

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BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	31. 12. 2019			31. 12. 2018
	Gross	Adjustment	Net	Net
C. Current assets	11 372 327	252 778	11 119 549	13 648 990
<i>C.I. Inventories</i>	631 414		631 414	809 347
C.I.1. Material	1 783		1 783	1 751
C.I.3. <i>Products and goods</i>	629 631		629 631	807 596
C.I.3.2. Goods	629 631		629 631	807 596
<i>C.II. Receivables</i>	8 170 035	252 778	7 917 257	9 721 696
C.II.1. Long-term receivables	3		3	3
C.II.1.5. <i>Receivables – other</i>	3		3	3
C.II.1.5.2. Long-term prepayments made	3		3	3
<i>C.II.2. Short-term receivables</i>	8 148 314	252 778	7 895 536	9 705 879
C.II.2.1. Trade receivables	7 683 039	237 981	7 445 058	9 284 159
C.II.2.2. Receivables – controlled or controlling entity	12 781	12 781		59 000
C.II.2.3. Receivables – associates				
C.II.2.4. <i>Receivables – other</i>	452 494	2 016	450 478	362 720
C.II.2.4.3. State – tax receivables	162 000		162 000	70 974
C.II.2.4.4. Short-term prepayments made	12 459		12 459	10 305
C.II.2.4.5. Estimated receivables	122 673		122 673	123 308
C.II.2.4.6. Sundry receivables	155 362	2 016	153 346	158 133
<i>C.II.3. Other assets</i>	21 718		21 718	15 814
C.II.3.1. Deferred expenses	4 156		4 156	7 459
C.II.3.3. Accrued income	17 562		17 562	8 355
<i>C.IV. Cash</i>	2 570 878		2 570 878	3 117 947
C.IV.1. Cash on hand	356		356	617
C.IV.2. Cash at bank	2 570 522		2 570 522	3 117 330

BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
TOTAL LIABILITIES & EQUITY	19 743 496	22 391 883
A. Equity	15 535 591	16 366 478
<i>A.I. Share capital</i>	3 159 000	3 159 000
A.I.I. Share capital	3 159 000	3 159 000
<i>A.III. Funds from profit</i>	631 400	631 400
A.III.1. Other reserve funds	631 400	631 400
<i>A.IV. Retained earnings (+/-)</i>	10 601 976	9 802 840
A.IV.1. Accumulated profits or losses brought forward (+/-)	10 601 976	9 802 840
<i>A.V. Profit or loss for the current period (+/-)</i>	1 143 215	2 773 238
B.+C. Liabilities	4 207 905	6 025 405
B. Reserves	975	968
B.IV. Other reserves	975	968
C. Payables	4 206 930	6 024 437
<i>C.I. Long-term payables</i>	2 178	550
C.I.8. Deferred tax liability	2 178	550
<i>C.II. Short-term payables</i>	4 175 450	5 998 137
C.II.3. Short-term prepayments received	227 224	210 764
C.II.4. Trade payables	3 766 311	5 496 745
<i>C.II.8. Other payables</i>	181 915	290 628
C.II.8.1. Payables to partners		45 650
C.II.8.3. Payables to employees	11 110	10 061
C.II.8.4. Social security and health insurance payables	5 243	4 732
C.II.8.5. State – tax payables and subsidies	2 261	119 245
C.II.8.6. Estimated payables	163 218	110 873
C.II.8.7. Sundry payables	83	67
<i>C.III. Other liabilities</i>	29 302	25 750
C.III.1. Accrued expenses	28 907	25 102
C.III.2. Deferred income	395	648

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
I. Sales of products and services	606 568	625 832
II. Sales of goods	61 773 062	64 012 446
A. Purchased consumables and services	60 510 456	62 409 255
A.1. Costs of goods sold	59 032 109	61 018 503
A.2. Consumed material and energy	10 229	9 097
A.3. Services	1 468 118	1 381 655
D. Staff costs	371 565	361 124
D.1. Payroll costs	289 599	283 183
D.2. Social security and health insurance costs and other charges	81 966	77 941
D.2.1. Social security and health insurance costs	78 877	74 988
D.2.2. Other charges	3 089	2 953
E. Adjustments to values in operating activities	45 363	112 017
E.1. <i>Adjustments to values of intangible and tangible fixed assets</i>	33 903	28 685
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	33 903	28 685
E.3. Adjustments to values of receivables	11 460	83 332
III. Other operating income	19 872	177 152
III.1. Sales of fixed assets	1 489	1 081
III.2. Sales of material	3 995	2 768
III.3. Sundry operating income	14 388	173 303

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PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
F. Other operating expenses	140 840	67 125
F.1. Net book value of sold fixed assets	202	
F.2. Material sold	3 770	2 530
F.3. Taxes and charges	680	546
F.4. Reserves relating to operating activities and complex deferred expenses	8	12
F.5. Sundry operating expenses	136 180	64 037
* Operating profit or loss (+/-)	1 331 278	1 865 909
IV. Income from non-current financial assets – equity investments	114 410	1 353 566
IV.1. Income from equity investments – controlled or controlling entity	114 410	1 353 566
VI. Interest income and similar income	8 780	8 223
VI.1. Interest income and similar income – controlled or controlling entity	790	2 438
VI.2. Other interest income and similar income	7 990	5 785
I. Adjustments to values and reserves relating to financial activities	-11 328	68 632
VII. Other financial income	355 528	462 761
K. Other financial expenses	403 331	476 008
* Financial profit or loss (+/-)	86 715	1 279 910
** Profit or loss before tax (+/-)	1 417 993	3 145 819
L. Income tax	274 778	372 581
L.1. Due income tax	273 150	372 661
L.2. Deferred income tax (+/-)	1 628	-80
** Profit or loss net of tax (+/-)	1 143 215	2 773 238
*** Profit or loss for the current period (+/-)	1 143 215	2 773 238
* Net turnover for the current period	62 878 220	66 639 980

STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits or losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2017	3 157 000		631 400	9 065 845	2 736 995	15 591 240
Distribution of profit or loss				736 995	-736 995	0
Change in share capital	2 000					2 000
Profit shares paid					-2 000 000	-2 000 000
Profit or loss for the current period					2 773 238	2 773 238
Balance at 31 December 2018	3 159 000		631 400	9 802 840	2 773 238	16 366 478
Impact of the transformation				2 901 627	-2 773 238	128 389
Balance at 1 January 2019 – opening balance sheet	3 159 000		631 400	12 704 467		16 494 867
Profit shares paid				-2 102 490		-2 102 490
Rounding				-1		-1
Profit or loss for the current period					1 143 215	1 143 215
Balance at 31 December 2019	3 159 000		631 400	10 601 976	1 143 215	15 535 591

CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
P.		
Opening balance of cash and cash equivalents	3 117 947	3 341 648
Impact of the merger as of 1 January 2019	175 929	
Opening balance of cash and cash equivalents	3 293 876	
Cash flows from ordinary activities (operating activities)		
Z.		
Profit or loss before tax	1 417 993	3 145 819
A.1.		
Adjustments for non-cash transactions	-88 165	-1 170 534
A.1.1.		
Depreciation of fixed assets	33 903	28 685
A.1.2.		
Change in provisions and reserves	138	151 976
A.1.3.		
Profit/(loss) on the sale of fixed assets	-1 489	-1 081
A.1.4.		
Revenues from profit shares	-114 410	-1 353 566
A.1.5.		
Interest expense and interest income	-8 780	-8 223
A.1.6.		
Adjustments for other non-cash transactions	2 473	11 675
A.*		
Net operating cash flow before changes in working capital	1 329 828	1 975 285
A.2.		
Change in working capital	296 681	-1 143 120
A.2.1.		
Change in operating receivables and other assets	1 868 276	-1 650 581
A.2.2.		
Change in operating payables and other liabilities	-1 749 528	991 716
A.2.3.		
Change in inventories	177 933	-484 255
A.**		
Net cash flow from operations before tax	1 626 509	832 165
A.4.		
Interest received	8 780	8 223
A.5.		
Income tax paid from ordinary operations	-468 207	-274 119
A.6.		
Received profit shares	114 410	1 353 566
A.***		
Net operating cash flows	1 281 492	1 919 835
Cash flows from investing activities		
B.1.		
Fixed assets expenditures	-112 368	-146 617
B.2.		
Proceeds from fixed assets sold	1 493	1 081
B.4.		
Refunded equity contribution	208 875	
B.***		
Net investment cash flows	98 000	-145 536
Cash flow from financial activities		
C.2.		
Impact of changes in equity	-2 102 490	-1 998 000
C.2.1.		
Cash increase in share capital		2 000
C.2.6.		
Profit shares paid	-2 102 490	-2 000 000
C.***		
Net financial cash flows	-2 102 490	-1 998 000
F.		
Net increase or decrease in cash and cash equivalents	-722 998	-223 701
R.		
Closing balance of cash and cash equivalents	2 570 878	3 117 947

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1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

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

As of 31 December 2019, the Company’s issued share capital is CZK 3,159,000 thousand.

The Company’s financial statements have been prepared as of and for the year ended 31 December 2019.

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

Shareholder	Ownership percentage
MINERFIN, a.s., Námestie Ľudovíta Štúra 2, 811 02 Bratislava, Slovakia	48.57%
Total	48.57%

The Company is primarily engaged in purchasing goods for resale and sale, which accounts for 99.03% of its revenues. The Company is additionally involved in providing domestic and international shipping services.

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

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

1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

As a result of the domestic merger by amalgamation of MORAVIA STEEL a.s., as the successor company, and FINITRADING, a.s., as the dissolving company, in line with the domestic merger project of 2 August 2019, the net assets of the dissolving company FINITRADING, a.s., with its registered office at nám. Svobody 526, Lyžbice, 739 61 Třinec, corporate ID 619 74 692, were transferred to MORAVIA STEEL a.s., as the successor company. This matter was recorded in the Register of Companies on 31 December 2019.

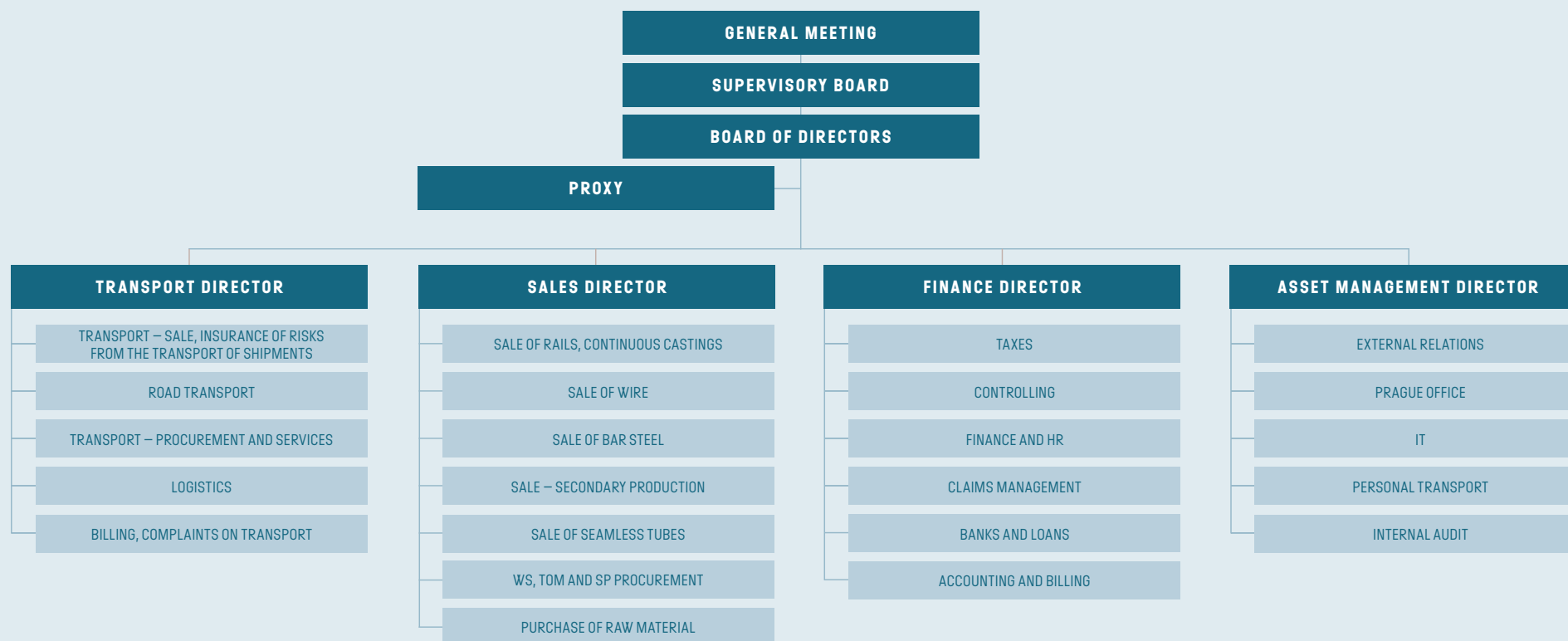
The effective date of the merger is 1 January 2019.

1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2019

Board of Directors	
Position	Name
Chairman	Petr Popelář
Vice Chairman	Krzysztof Ruciński
Member	Mojmír Kašpříšín
Member	Uršula Novotná

Supervisory Board	
Position	Name
Chairman	Tomáš Chrenek
Vice Chairman	Ján Moder
Vice Chairman	Evžen Balko
Member	Mária Blašková

1.4. ORGANISATIONAL STRUCTURE OF THE COMPANY AS OF 31 DECEMBER 2019



2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

The Company's financial statements are prepared as of 31 December 2019.

As a result of the domestic merger by amalgamation of MORAVIA STEEL a.s., as the successor company, and FINITRADING, a.s., as the dissolving company, in line with the domestic merger project of 2 August 2019, the net assets of the dissolving company FINITRADING, a.s., were transferred to MORAVIA STEEL a.s., as the successor company.

The effective date of the merger is 1 January 2019.

Given the merger, the Company's statements for the year ended 31 December 2019 were prepared as follows:

- The balance sheet comprises comparative balances as of 31 December 2018 taken over from the financial statements of MORAVIA STEEL a.s. as of 31 December 2018;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2018 taken over from the financial statements of MORAVIA STEEL a.s. as of 31 December 2018;
- The statement of changes in equity contains comparative amounts for the year ended 31 December 2018 taken over from the financial statements of MORAVIA STEEL a.s. as of 31 December 2018. The impact of the demerger by spin-off by amalgamation on equity accounts is evident from this statement.

Where the impact of the demerger by spin-off by amalgamation was material for the individual groups of assets and liabilities, it is described in the relevant notes to the financial statements.

It follows from the above that the figures taken over from the financial statements of MORAVIA STEEL a.s. as of 31 December 2018 are not fully comparable with the figures of the current reporting period ended 31 December 2019.

To ensure comparability between the current and prior periods, the Company's opening balance sheet after the transformation as of 1 January 2019 is provided below:

Opening balance sheet as of 1 January 2019:

	Gross	Adjustment	Net
TOTAL ASSETS	23 427 688	859 644	22 568 044
Fixed assets	9 361 356	618 327	8 743 029
Intangible fixed assets	185 054	66 207	118 847
Development	72	72	
Software	1 678	1 623	55
Valuable rights	182 604	63 812	118 792
Other intangible fixed assets	700	700	
Tangible fixed assets	91 039	67 628	23 411
Tangible movable assets and sets of tangible movable assets	90 903	67 628	23 275
Other tangible fixed assets	136		136
Non-current financial assets	9 085 263	484 492	8 600 771
Equity investments – controlled or controlling entity	9 080 139	484 492	8 595 647
Equity investments in associates	2 886		2 886
Other non-current financial assets	2 238		2 238
Current assets	14 066 332	241 317	13 825 015
Inventories	809 347		809 347
Material	1 751		1 751
Products and goods	807 596		807 596
Goods	807 596		807 596
Receivables	9 963 109	241 317	9 721 792
Long-term prepayments made	3		3
Short-term receivables	9 947 247	241 317	9 705 930
Trade receivables	9 510 793	226 634	9 284 159
Receivables – controlled or controlling entity	71 693	12 693	59 000
Receivables – other	364 761	1 990	362 771
State – tax receivables	70 995		70 995
Short-term prepayments made	10 335		10 335
Estimated receivables	123 308		123 308
Sundry receivables	160 123	1 990	158 133
Other assets	15 859		15 859
Deferred expenses	7 504		7 504
Accrued income	8 355		8 355
Current financial assets	3 293 876		3 293 876
Cash on hand	622		622
Cash at bank	3 293 254		3 293 254

	Net
TOTAL LIABILITIES & EQUITY	22 568 044
Equity	16 494 867
Share capital	3 159 000
Share capital	3 159 000
Reserve funds, indivisible fund and other funds from profit	631 400
Statutory reserve fund/indivisible fund	631 400
Profit or loss of prior years	12 704 467
Accumulated profits brought forward	12 704 467
Liabilities	6 073 177
Reserves	968
Other reserves	968
Payables	6 072 209
Long-term payables	550
Deferred tax liability	550
Short-term payables	6 045 822
Short-term prepayments received	210 764
Trade payables	5 529 522
Payables to partners	45 650
Payables to employees	10 292
Social security and health insurance payables	4 812
State – tax payables and subsidies	133 794
Estimated payables	110 873
Sundry payables	115
Other liabilities	25 837
Accrued expenses	25 189
Deferred income	648

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. TANGIBLE FIXED ASSETS

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

Purchased tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses. The Company carried no internally developed tangible fixed assets during the year ended 31 December 2019.

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

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

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

Provisioning

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

The Company recorded no provisions against tangible and intangible fixed assets in the year ended 31 December 2019.

3.2. INTANGIBLE FIXED ASSETS

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

Purchased intangible fixed assets are stated at cost.

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

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

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

3.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments.

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

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

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

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

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

Provisioning

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

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

3.4. INVENTORY

Valuation

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

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

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

Provisions

No provisions were recognised in respect of inventory in 2019.

3.5. CURRENT FINANCIAL ASSETS

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

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

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

3.6. RECEIVABLES

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

Provisioning

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

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

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

3.7. TRADE PAYABLES

Trade payables are stated at their nominal value.

3.8. LOANS

Loans are stated at nominal value.

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

3.9. FOREIGN CURRENCY TRANSLATION

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

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

3.10. RESERVES

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

3.11. FINANCE LEASES

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

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

3.12. TAXATION

3.12.1. Tax Depreciation of Fixed Assets

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

3.12.2. Current Tax Payable

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

3.12.3. Deferred Tax

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

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

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

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

3.13. IMPAIRMENT

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

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

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

3.14. USE OF ESTIMATES

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

3.15. REVENUE RECOGNITION

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

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

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

3.16. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

	(CZK THOUSAND)	
	31 Dec 2019	31 Dec 2018
Cash on hand	356	617
Cash at bank and cash in transit	2 570 522	3 117 330
Total current financial assets	2 570 878	3 117 947
Total cash and cash equivalents	2 570 878	3 117 947

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

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

No changes in the classification or designation of balance sheet and profit and loss account items were made in 2019.

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

4.1. FIXED ASSETS

4.1.1. Intangible Fixed Assets

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Development	72	0	0	72	0	0	72
Software	1 678	0	0	1 678	0	0	1 678
Valuable rights	172 604	10 000	0	182 604	0	0	182 604
Other intangible FA	926	0	226	700	0	0	700
Intangible FA under construction	0	10 000	10 000	0	0	0	0
Prepayments and advances for intangible FA	0	0	0	0	0	0	0
Total	175 280	20 000	10 226	185 054	0	0	185 054

Accumulated Amortisation

(CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Development	72	0	0	72	0	0	72
Software	1 521	102	0	1 623	55	0	1 678
Valuable rights	44 918	18 894	0	63 812	23 894	0	87 706
Other intangible FA	860	66	226	700	0	0	700
Total	47 371	19 062	226	66 207	23 949	0	90 156

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Development	0	0
Software	55	0
Valuable rights	118 792	94 898
Other intangible FA	0	0
Intangible FA under construction	0	0
Prepayments and advances for intangible FA	0	0
Total	118 847	94 898

Amortisation of intangible fixed assets was CZK 23,949 thousand and CZK 19,062 thousand as of 31 December 2019 and 31 December 2018, respectively.

4.1.2. Tangible Fixed Assets**Cost**

(CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Impact of the merger	Additions	Disposals	Balance at 31 Dec 2019
Structures	0	0	0	0	0	907	0	907
Tangible movable assets	90 855	9 218	10 861	89 212	1 962	10 834	11 600	90 408
– <i>Machines and equipment</i>	13 828	0	926	12 902	0	847	2 518	11 231
– <i>Vehicles</i>	71 194	9 218	8 159	72 253	1 962	9 915	8 193	75 937
– <i>Furniture and fixtures</i>	5 833	0	1 776	4 057	0	72	889	3 240
Works of art and collections	0	0	0	0	136	0	136	0
Tangible FA under construction	0	8 525	8 525	0	0	13 294	13 294	0
Prepayments for tangible FA	0	0	0	0	0	0	0	0
Total	90 855	17 743	19 386	89 212	2 098	25 035	25 030	91 315

Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Impact of the merger	Additions	Disposals	Balance at 31 Dec 2019
Structures	0	0	0	0	0	2	0	2
Tangible movable assets	67 175	9 623	10 861	65 937	1 962	9 952	13 495	64 356
– <i>Machines and equipment</i>	13 152	388	926	12 614	0	298	2 500	10 412
– <i>Vehicles</i>	48 258	9 221	8 159	49 320	1 962	9 638	10 106	50 814
– <i>Furniture and fixtures</i>	5 765	14	1 776	4 003	0	16	889	3 130
Total	67 175	9 623	10 861	65 937	1 962	9 954	13 495	64 358

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Structures	0	905
Tangible movable assets	23 275	26 052
– <i>Machines and equipment</i>	288	819
– <i>Vehicles</i>	22 933	25 123
– <i>Furniture and fixtures</i>	54	110
Tangible FA under construction	0	0
Prepayments for tangible FA	0	0
Total	23 275	26 957

The Company principally acquired cars in 2018 and 2019.

The Company acquired tangible assets that were charged directly to expenses in the amounts of CZK 5,383 thousand and CZK 3,696 thousand for the years ended 31 December 2019 and 2018, respectively. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported within fixed assets. These assets are directly expensed on a one-off basis.

Depreciation of tangible fixed assets amounted to CZK 9,954 thousand and CZK 9,623 thousand as of 31 December 2019 and 31 December 2018, respectively.

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

(CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018	Additions	Disposals	Balance at 31 Dec 2019
Equity investments – controlled or controlling entities	8 633 541	417 767	0	9 051 308	32 774	208 875	8 875 207
Equity investments – associates	178 197	0	175 311	2 886	0	0	2 886
Acquisition of non-current financial assets	17 729	371 935	360 833	28 831	98 868	32 774	94 925
Prepayments for non-current financial assets	128 397	0	126 159	2 238	0	0	2 238
Total	8 957 864	789 702	662 303	9 085 263	131 642	241 649	8 975 256

4.2.1. Equity Investments – Controlled or Controlling Entities**2019**

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s. *)	Třinec	7 163 300	8 109 863	100	28 500 102	609 943	0	0
Barrandov Studio a.s.	Prague	746 439	197 112	99.85	950 774	88 753	150 000	0
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	11 358	683	0	0
Moravia Steel Italia, srl	Milano	2 580	2 075	66	67 089	24 202	0	13 601
Moravia Steel Ibéria, s.a.	Lisabon	10 850	2 533	99.33	13 213	3 440	0	1 285
MS – Slovensko s.r.o.	Bratislava	161	160	100	14 950	121	0	0
Moravia Steel Israel Ltd.	Petach Tikva	605	466	100	0	0	0	0
Beskydská golfová, a.s.	Ropice	254 342	230 000	100	203 062	1 226	100 000	0
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	254 997	48 423	120 011	30 000
M Steel Projects a.s. **)	Třinec	10 000	10 000	100	132 831	-12 100	0	0
Moravia Steel UK Ltd	Cheshire	1 449	728	100	18 114	5 928	0	14 229
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	67 350	52 318	100 000	25 595
NEOMET Sp. z o.o. ***)	Radomsko	33 972	4 856	100	171 602	13 992	0	0
Moravia Mining Plc	Addis Ababa	3 153	3 157	76	-2 931	-377	3 153	0
Kovárna VIVA a.s.	Zlín	417 667	33 000	66	1 016 556	103 964	0	29 700
MSV Metal Studénka ****)	Studénka	8 692	0	0	0	0	0	0
Total		8 970 132	8 598 442	0	31 419 067	940 516	473 164	114 410

*) During 2019, the investment increased by CZK 2,930 thousand consisting court fees related to the conclusion of a legal dispute on the correct valuation of the shares of TŘINECKÉ ŽELEZÁRNY, a.s., based on the ruling of the High Court in Olomouc of 11 September 2019. The amount also includes the amount of CZK 86,233 thousand, which will be paid to minority shareholders based on the court ruling.

**) In the course of 2019, the contribution above and beyond the share capital balance of Steel Projects a.s. in the amount of CZK 208,875 thousand was refunded.

***) Share capital increased in 2019.

****) Prepayment for the acquisition of MSV Metal Studénka.

2018

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s. *)	Třinec	7 091 640	8 109 863	100	27 890 159	3 334 039	0	1 200 000
Barrandov Studio a.s.	Prague	746 439	197 112	99.85	880 892	77 461	150 000	0
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	10 814	2 431	0	0
Moravia Steel Italia, srl	Milano	2 580	2 075	66	64 715	24 940	0	16 925
Moravia Steel Ibéria, s.a.	Lisbon	10 850	2 533	99.33	11 223	2 227	0	1 285
MS – Slovensko s.r.o.	Bratislava	161	160	100	15 013	5 927	0	0
Moravia Steel Israel Ltd.	Petach Tikva	605	466	100	0	0	0	0
Beskydská golfová, a.s.	Ropice	254 342	230 000	100	201 837	-9 018	100 000	0
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	236 573	32 787	120 011	40 000
M Steel Projects a.s.	Třinec	218 875	10 000	100	352 454	17 236	100 000	0
Moravia Steel UK Ltd	Cheshire	1 449	728	100	25 997	5 980	0	14 496
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	41 485	22 247	0	51 160
NEOMET Sp. Z o.o.	Radomsko	4 127	4 856	100	128 666	17 313	0	0
Moravia Mining Plc **)	Addis Ababa	3 153	3 157	76	-2 773	-1 579	3 153	0
Kovárna VIVA a.s.	Zlín	417 667	33 000	66	959 817	140 384	0	29 700
Total		9 068 810	8 598 442	0	30 816 872	3 672 375	473 164	1 353 566

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

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

4.2.2. Equity Investments – Associates**2019**

(CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
Moravia Steel Middle East FZCO	Dubai	2 886	2 841	40	315 281	-25 771	0	0
Total		2 886	2 841		315 281	-25 771	0	0

2018

(CZK THOUSAND)

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

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

None of the Company's non-current financial assets or current equity securities were pledged in 2019 and 2018.

4.3. INVENTORY

(CZK THOUSAND)

	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Material	1 783	1 751
Inventory – raw material	30 751	204 212
Inventory – metallurgical products	598 880	603 384
Total	631 414	809 347

In the year ended 31 December 2019, the Company recognised no provision against inventory.

No prepayments for inventory were provided in the reporting periods.

4.4. RECEIVABLES

4.4.1. Long-Term Receivables

As of 31 December 2019, the Company reports long-term receivables of CZK 3 thousand.

As of 31 December 2019 and 2018, the Company records no long-term receivables with maturity exceeding 5 years.

4.4.2. Trade Receivables

(CZK THOUSAND)

	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Short-term		
– Customers	7 679 695	9 507 449
– Bills of exchange to be collected	3 344	3 344
– Provisions – customers	–234 637	–223 290
– Provisions – bills of exchange to be collected	–3 344	–3 344
Total	7 445 058	9 284 159

4.4.3. Aging of Receivables from Customers

(CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2019	Gross	6 838 335	841 360	7 679 695
	Provisions	341	234 295	234 637
31 Dec 2018	Gross	8 258 041	1 249 408	9 507 449
	Provisions	386	222 904	223 290

Receivables typically mature within 30 days.

Past due receivables:

(CZK THOUSAND)

Year ended	Local	Cross-border	Total
31 Dec 2019	136 584	704 776	841 360
31 Dec 2018	232 731	1 016 677	1 249 408

4.4.4. Intercompany Trade Receivables

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Short-term trade receivables		
TŘINECKÉ ŽELEZÁRNY, a.s.	1 573 653	2 137 570
Strojírny a stavby Třinec, a.s.	38	53
ENERGETIKA TŘINEC, a.s.	54 698	16 894
Slévárny Třinec, a.s.	21 762	45 049
Moravia Steel Deutschland GmbH, Germany	0	-44
Řetězárna a.s.	10 562	23 059
HŽP a.s.	34 531	34 662
Moravia Steel UK Ltd	0	1
DOPRAVA TŽ, a.s.	0	0
Beskydská golfová, a.s.	60	60
VÚHŽ, a.s.	4 455	7 575
Šroubárna Kyjov spol. s r.o.	13 499	43 007
Kovárna VIVA a.s.	80 345	111 594
M STEEL PROJECTS a.s.	121	107 442
ŽDB DRÁTOVNA a.s.	256 640	278 677
"NEOMET" sp.z o.o.	0	142
BOHEMIA RINGS s.r.o.	16 440	42 170
Total short-term intercompany receivables	2 066 804	2 847 911
Receivables outside the Group	5 616 235	6 662 882
Receivables outside the Group	7 683 039	9 510 793

4.4.5. State – Tax Receivables

State – tax receivables principally comprise a receivable arising from VAT of CZK 83,923 thousand as of 31 December 2019 (2018: a receivable arising from VAT of CZK 70,974 thousand) as well as a receivable arising from corporate income tax of CZK 78,077 thousand.

4.5. SHAREHOLDERS' EQUITY

4.5.1. Share Capital

The Company's share capital in the aggregate amount of CZK 3,159,000 thousand as of 31 December 2019 is composed of 315,900 registered shares in book-entry form with a nominal value of CZK 10,000 each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's General Meeting.

4.5.2. Changes in Equity

Based on the decision of the General Meeting of Shareholders held on 24 June 2019, the profit of CZK 2,773,239 thousand for the year ended 31 December 2018 was allocated as follows:

- CZK 773,239 thousand was transferred to retained earnings; and
- CZK 2,000,000 thousand was used for the payment of dividends.

It is anticipated that the profit of CZK 1,143,215 thousand for the year ended 31 December 2019 will be allocated to retained earnings brought forward.

Impact of the merger:

The dividends paid out by MORAVIA STEEL a.s. to FINITRADING a.s. of CZK 2,000,000 were offset.

The profit of FINITRADING a.s. for 2018 of CZK 2,043,556 thousand was distributed based on the decision of the General Meeting of 24 June 2019 as follows:

- CZK 2,043,556 thousand was used to pay out a dividend from the profit of the current period;
- CZK 58,934 thousand was used to pay out a dividend from prior years.

The total amount of dividends paid out to shareholders from FINITRADING a.s. amounted to CZK 2,102,490 thousand.

4.6. PAYABLES

4.6.1. Long-Term Payables

The Company records no long-term trade payables with maturities exceeding five years as of 31 December 2019.

4.6.2. Aging of Payables to Suppliers

(CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2019	Short-term	3 764 430	1 881	3 766 311
31 Dec 2018	Short-term	5 495 484	1 261	5 496 745

Payables typically mature within 45 days.

Trade payables increased as a result of the transformation in the amount of CZK 200,151 thousand.

4.6.3. Intercompany Payables

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Short-term trade payables		
TŘINECKÉ ŽELEZÁRNY, a.s.	1 547 141	1 871 637
Strojírny a stavby Třinec, a.s.	24	17
Řetězárna a.s.	0	0
REFRASIL, s.r.o.	13 493	12 184
FINITRADING, a.s.	0	167 374
Moravia Steel Italia, srl	15 814	18 733
Moravia Steel Ibéria, s.á.	1 744	0
Moravia Steel Slovenija, d.o.o.	3 676	4 411
DOPRAVA TŽ, a.s.	17	20
VESUVIUS ČESKÁ REPUBLIKA, a.s.	23 248	25 452
ŽDB DRÁTOVNA a.s.	0	0
Beskydská golfová a.s.	1 455	0
Třinecké gastroslužby, s.r.o.	755	290
Minerfin a.s.	259 723	228 397
Moravia Steel Deutschland GmbH	11 075	26 654
Moravia Steel UK Ltd	14 629	15 200
Kovárna VIVA a.s.	1	0
Total intercompany short-term payables	1 892 795	2 370 369
Payables to other than Group companies	1 873 516	3 126 376
Total short-term trade payables	3 766 311	5 496 745

4.6.4. Collateralised Payables or Otherwise Covered

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

4.6.5. Payables to Partners and Association Members

As of 31 December 2019, the Company recorded no payables to partners and association members.

4.6.6. Estimated Payables

Estimated payables principally consist of unbilled supplies of raw materials amounting to CZK 30,816 thousand (2018: CZK 52,144 thousand), unbilled supplies of work and services amounting to CZK 126,419 thousand (2018: CZK 53,476 thousand) and an estimated payable for staff costs in the amount of CZK 5,983 thousand (2018: CZK 5,253 thousand).

4.6.7. Due Amounts from Social Security and Health Insurance

As of 31 December 2019, the aggregate amount of due amounts related to social security, state employment policy and health insurance contributions was CZK 5,243 thousand (2018: CZK 4,732 thousand). These payables were fully settled as of the balance sheet date.

4.6.8. State – Tax Payables

State – tax payables as of 31 December 2018 principally comprise a payable arising from corporate income tax net of the anticipated income tax for 2018 amounting to CZK 119,245 thousand.

4.6.9. Short-term Bank Loans

During the years ended 31 December 2019 and 2018, the Company used no bank loans.

4.6.10. Short-Term Prepayments Received

In the year ended 31 December 2019, the Company recorded short-term prepayments received of CZK 227,224 thousand (2018: CZK 210,764 thousand).

4.6.11. Accrued Expenses

Accrued expenses largely comprise costs related to the year ended 31 December 2019 for transportation and other services paid in 2020 in the amount of CZK 28,906 thousand (2018: CZK 25,099 thousand) and banking fees and bank interest payable on short-term and long-term operating loan facilities in the amount of CZK 1 thousand (2018: CZK 3 thousand).

4.6.12. Deferred Taxation

The deferred tax asset/liability is analysed as follows:

Deferred Tax Arising from

(CZK THOUSAND)

	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Accumulated depreciation and amortisation of fixed assets	-11 062	-8 649
Estimated payable arising from outstanding vacation days	1 120	998
Unpaid penalties	1 001	760
Provisions – receivables	7 281	6 879
Unpaid (un-received) penalty	-518	-538
Total recognised tax asset (+) / liability (-)	- 2 178	-550

4.7. INCOME TAX ON ORDINARY AND EXTRAORDINARY ACTIVITIES

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

(CZK THOUSAND)

	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Profit before tax	1 417 993	3 145 819
Tax at the domestic income tax rate of 19%	269 419	597 706
Tax effect of permanent differences	-4 456	-225 386
Deferred tax liability	1 628	-80
Additional taxes of prior years	8 187	181
Total income tax on ordinary activities	274 778	372 581

4.8. DETAILS OF INCOME

(CZK THOUSAND)

	2019			2018		
	Local	Cross-border	Total	Local	Cross-border	Total
Goods – raw material	20 982 050	0	20 982 050	20 835 027	0	20 835 027
Goods – metallurgical products	13 044 444	27 746 568	40 791 012	13 503 057	29 674 362	43 177 419
Sales of goods	34 026 494	27 746 568	61 773 062	34 338 084	29 674 362	64 012 446
Sales of services	544 887	61 681	606 568	531 037	94 795	625 832
Total sales of own products and services	544 887	61 681	606 568	531 037	94 795	625 832

The line entitled 'Goods – raw material' represents the income from the purchases of input raw material for TŘINECKÉ ŽELEZÁRNY, a.s., and its subsidiaries.

The line entitled 'Goods – metallurgical products' largely relates to sales of products purchased from TŘINECKÉ ŽELEZÁRNY, a.s.

Sales of services principally comprise the provision of forwarding services of CZK 486,023 thousand for the year ended 31 December 2019 (2018: CZK 491,685 thousand). The sales of services also comprise revenues arising from remuneration and commissions based on mandatory contracts.

4.9. COSTS OF GOODS SOLD

(CZK THOUSAND)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Purchase of goods – raw materials	20 292 920	20 213 974
Purchase of goods – metallurgical products	36 972 287	39 058 602
Costs for transport of goods – metallurgical products	1 766 902	1 745 927
Total costs of goods sold	59 032 109	61 018 503

4.10. SERVICES

(CZK THOUSAND)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Transportation costs – services	550 456	540 384
Lease of trademark	123 000	123 000
Commissions	304 108	311 433
Advertising	121 284	125 693
Rental fees	10 958	7 984
Telecommunications	11 259	11 388
Legal advisory and auditing activities	27 456	34 005
Other services	319 597	227 768
Total	1 468 118	1 381 655

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

(CZK THOUSAND)

	Year ended 31 Dec 2019	Year ended 31 Dec 2018
Settlement of complex deferred expenses	0	0
Change in reserves	8	12
Reserves relating to operating activities and complex deferred expenses	8	12
Changes in provisions under special legislation	9 345	74 628
– <i>provisions against receivables</i>	9 345	74 628
Changes in tax non-deductible provisions:	2 115	8 704
– <i>provisions against receivables</i>	2 115	8 704
Changes in receivables	11 460	83 332
Total	11 468	83 344

4.12. OTHER OPERATING EXPENSES AND INCOME

Other operating expenses primarily include the costs of the write-off of receivables due to the completed insolvency proceedings and sale of receivables of CZK 2,473 thousand (2018: CZK 3,701 thousand) and the costs of insurance of supplies and other insurance in the aggregate amount of CZK 45,505 thousand (2018: CZK 46,596 thousand). Other operating income primarily includes discounts and rebates of CZK 10 thousand (2018: CZK 19 thousand) and supplies of insurance companies arising from insurance of receivables of CZK 11,395 thousand (2018: CZK 168,588 thousand).

4.13. OTHER FINANCIAL EXPENSES AND INCOME

Other financial income is composed of foreign exchange rate gains of CZK 355,528 thousand (2018: CZK 462,761 thousand).

Other financial expenses principally comprise foreign exchange rate losses of CZK 399,652 thousand (2018: CZK 471,389 thousand). The remaining balance consists of other financial expenses such as fees under letters of credit, fees under loan agreements, banking fees and other financial costs of CZK 3,679 thousand (2018: CZK 4,619 thousand).

4.14. RELATED PARTY TRANSACTIONS

4.14.1. Income Generated with Related Parties

2019

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Services	Other income	Fin. income	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	20 355 280	335 320	2 956	0	20 693 556
Barrandov Studio a.s.	Subsidiary	0	0	0	451	451
Beskydská golfová, a.s.	Subsidiary	0	600	0	0	600
Hanácké železářny a pérovny, a.s.	Subsidiary of a subsidiary	309 311	6 761	0	0	316 072
Moravia Steel Italia s.r.l.	Subsidiary	0	0	7	0	7
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	0	0	0
Moravia Steel UK Ltd	Subsidiary	0	0	0	0	0
Kovárna VIVA a.s.	Subsidiary	494 858	708	0	0	495 566
M STEEL PROJECTS a.s.	Subsidiary	0	1 200	0	0	1 200
Strojírny a stavby Třinec, a.s.	Subsidiary of a subsidiary	56	179	0	0	235
ENERGETIKA TŘINEC, a.s.	Subsidiary of a subsidiary	487 769	2 436	0	0	490 205
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	144 946	9 585	0	0	154 531
REFRASIL, s.r.o.	Subsidiary of a subsidiary	0	0	0	0	0
Řetězárna a.s.	Subsidiary of a subsidiary	205 706	0	0	0	205 706
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary	-5	0	0	0	-5
VÚHŽ, a.s.	Subsidiary of a subsidiary	49 241	5 107	0	0	54 348
Šroubárna Kyjov, spol. s r.o.	Subsidiary of a subsidiary	417 068	10 607	0	0	427 675
ŽDB DRÁTOVNA a.s.	Subsidiary of a subsidiary	1 874 247	107 032	0	0	1 981 279
FINITRADING, a.s.	Controlling entity	0	0	0	0	0
NEOMET Sp. Z o.o.	Subsidiary	0	7 282	0	0	7 282
Minerfin a.s.	Group entity	0	281	0	0	281
"Metalurgia" Spółka akcyjna	Subsidiary of a subsidiary	94 800	0	0	0	94 800
"D&D" Drótáru	Subsidiary of a subsidiary	979 270	0	-5	0	979 265
Moravskoslezský kovošrot, a.s.	Subsidiary	3 478	0	0	0	3 478
Moravia Mining	Subsidiary	0	0	0	339	339
BOHEMIA RINGS s.r.o.	Subsidiary of a subsidiary	412 817	26 444	0	0	439 261
Total		25 828 842	513 542	2 958	790	26 346 132

2018

(CZK THOUSAND)

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

4.14.2. Purchases

2019

(CZK THOUSAND)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	36 649 720	670	171 676	485	0	36 822 551
Moravia Steel Italia, s.r.l.	Subsidiary	0	0	76 653	0	0	76 653
Moravia Steel Ibéria, s.a.	Subsidiary	0	0	14 969	0	0	14 969
Moravia Steel Slovenija, d.o.o.	Subsidiary	0	0	12 240	0	0	12 240
Barrandov Studio, a.s.	Subsidiary	0	0	0	0	0	0
Moravia Steel Deutschland GmbH	Subsidiary	0	0	160 278	0	0	160 278
Moravia Steel UK Ltd.	Subsidiary	0	0	36 566	0	0	36 566
Beskydská golfová, a.s.	Subsidiary	0	0	8 304	12	0	8 316
HŽP, a.s.	Subsidiary of a subsidiary	0	0	0	0	0	0
Strojírny a stavby Třinec, a.s.	Subsidiary of a subsidiary	3	0	151	0	0	154
REFRASIL, s.r.o.	Subsidiary of a subsidiary	84 827	0	0	0	0	84 827
DOPRAVA TŽ, a.s.	Subsidiary of a subsidiary	177	0	0	0	0	177
TRISIA, a.s.	Subsidiary of a subsidiary	0	0	4 662	26	0	4 688
Třinecké gastroslužby, s.r.o.	Subsidiary of a subsidiary	0	0	949	3 899	0	4 848
FINITRADING, a.s.	Controlling entity	0	0	0	0	0	0
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Subsidiary of a subsidiary	106 756	0	0	0	0	106 756
Minerfin a.s.	Group entity	1 124 075	0	0	0	0	1 124 075
Slévárny Třinec, a.s.	Subsidiary of a subsidiary	0	0	0	0	0	0
Total		37 965 558	670	486 448	4 422	0	38 457 098

2018

(CZK THOUSAND)

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

5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The average number of the Company's employees and managers and staff costs for the years ended 31 December 2019 and 2018 are as follows:

2019

(CZK THOUSAND)

	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Employees	275	195 813	57 784	3 089	256 686
Management	33	93 786	21 093	0	114 879
Total	308	289 599	78 877	3 089	371 565

2018

(CZK THOUSAND)

	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs
Employees	266	146 758	37 782	2 953	187 493
Management	33	136 425	37 206	0	173 631
Total	299	283 183	74 988	2 953	361 124

The number of employees is based on the average recalculated headcount. As of 31 December 2019, management includes the Finance Director and Board Chairman, Sales Director and Board Vice Chairman, Asset Management Director and Board member, Transportation Director and Board member, Raw Material Procurement Director, PS, TRM and SP Procurement Director, Sale of Wires Director, Re-processing Director, Bar Steel Director for TŽ, Sale of Rails and Semi-Finished Products Director, Sale of Seamless Tubes Director, Audit Committee Chairman, Supervisory Board Chairman, two Supervisory Board Vice Chairmen, Supervisory Board member, two proxies and Transportation Deputy Directors, Head of Transportation – sale, shipment transportation risk insurance, Head of Road Transportation, Head of Transportation – procurement and services, Head of Logistics, Head of Billing and Transport Complaints, Head of Taxes, Head of Controlling, Head of Funding and HR, Head of Accounting and Billing, Head of Receivable Administration, Head – Banks and Loans, Head of External Relations, Head of IT, Head of Passenger Transportation, Head of Internal Audit.

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

5.2. LOANS, BORROWINGS AND OTHER BENEFITS PROVIDED

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

	(CZK THOUSAND)	
	2019	2018
Board of Directors	1 221	1 160
Supervisory Board	325	190
Members of management bodies	2 479	2 409
Total	4 025	3 759

Management of the Company includes the Board of Directors.

Benefits provided to the members of the Supervisory Board and Board of Directors also included the payment of premiums under the liability insurance for damage caused in performing professional duties of a statutory member. Insurance for 2019 for all members of the Board of Directors and the Supervisory Board totalled CZK 1,180 thousand (2018: CZK 1,051 thousand).

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

As of 31 December 2019, the Company was involved in no legal dispute, the outcome of which would significantly impact the Company.

As of 31 December 2019, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 44,293 thousand.

The dispute held since 2013 based on the petition of former minority shareholders of TŘINECKÉ ŽELEZÁRNY, a.s. to review of the adequacy of the consideration attributable to the minority shareholders based on the decision of the General Meeting of TŘINECKÉ ŽELEZÁRNY, a.s. of 31 July 2013, was effectively concluded by the ruling of the High Court in Olomouc on 11 September 2019. This appellate court confirmed the ruling of the Regional Court in Ostrava of 8 June 2018, which set the amount of adequate consideration for each share with the nominal value of CZK 1,000 at CZK 2,284 (compared to CZK 1,815, which was the amount awarded by the company to minority shareholders based on an expert opinion prepared for the purposes of the squeeze-out).

Following the conclusions of the appellate court's ruling, the Company recognised an anticipated payable to the minority shareholder as of the effective date in the amount of the consideration of CZK 76,060 thousand as well as interest as of 31 December 2019 in the amount of CZK 10,173 thousand.

MORAVIA STEEL a.s., as well as TŘINECKÉ ŽELEZÁRNY, a.s. as another participant in the proceedings and some former shareholders, filed an appeal against the ruling of the High Court in Olomouc with the Supreme Court of the Czech Republic. No decision on this appeal has been made yet.

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

The legal dispute is still in the phase of first-instance procedures and only the first court hearing has taken place so far, where the court focused on procedural matters concerning the place of holding the dispute, and on 25 September 2019 the State Court made a decision regarding the relevant court in terms of location and competence. MORAVIA STEEL a.s. filed an appeal against this decision on 20 December 2019. No decision on this appeal has been made yet.

The dispute initiated in October 2019 by the plaintiff – insurance company Mapfre España Compañía de Seguros y Reseguros, S.A. against MORAVIA STEEL a.s., as well as against TŘINECKÉ ŽELEZÁRNY, a.s. (jointly and severally). The subject of the action is the claim for compensation for damage that was allegedly suffered when the plaintiff covered a loss on behalf of the customer MORAVIA STEEL a.s. arising from alleged faulty performance provided by MORAVIA STEEL a.s./TŘINECKÉ ŽELEZÁRNY, a.s. District Court in Frýdek-Místek issued a payment order which was cancelled after both defendants filed a-protest against it. Trial proceedings will be conducted in respect of the claim arising from the legal action.

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

7. POST BALANCE EVENTS

On 28 February 2020, MORAVIA STEEL a.s. acquired a 100% share in MSV Metal Studénka, a.s. based on a share purchase agreement. MORAVIA STEEL a.s. thereby became the 100% owner of the aforementioned company.

Subsequent to the balance sheet date, in relation to the SARS CoV-2 coronavirus (causing COVID-19) circulation, the Company took and continues to take necessary steps to minimise the risk of contagion to its employees. The Company implemented numerous safety and methodological measures, in line with the emergency measures of the Czech government and other public authorities to prevent the spread of the coronavirus. The Company's management is currently assessing and estimating the quantitative and qualitative impacts on the financial position and future results of the Company. The Company will continue to carefully monitor current developments and will flexibly respond in order to protect the health of its employees and reduce the impacts on its financial results.

IX

Financial Part II.

– Consolidated Financial Statements

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

NAME OF THE COMPANY:	MORAVIA STEEL a.s.
REGISTERED OFFICE:	Průmyslová 1000, Staré Město, 739 61 Třinec
LEGAL STATUS:	Joint Stock Company
CORPORATE ID:	63474808
RECORD IN THE REGISTER OF COMPANIES	Recorded in File 1297, Section B of the Register of Companies held by the Regional Court in Ostrava

Components of the Consolidated Financial Statements:

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

These consolidated financial statements were prepared on 19 April 2020.

STATUTORY BODY OF THE REPORTING ENTITY	SIGNATURE
Petr Popelář Chairman of the Board of Directors	
Mojmír Kašpříšín Member of the Board of Directors	

CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	Year ended 31. 12. 2019		Year ended 31. 12. 2018	
	Gross	Adjustment	Net	Net
TOTAL ASSETS	99 374 615	42 368 259	57 006 356	58 050 347
B. Fixed assets	70 790 605	40 987 904	29 802 701	27 998 554
<i>B.I. Intangible fixed assets</i>	2 784 913	884 568	1 900 345	1 190 380
B.I.1. Development	6 405	6 405		20
B.I.2. Valuable rights	1 105 991	860 397	245 594	271 094
B.I.2.1. Software	342 415	284 089	58 326	29 286
B.I.2.2. Other valuable rights	763 576	576 308	187 268	241 808
B.I.3. Goodwill	24 770	1 569	23 201	24 463
B.I.4. Other intangible fixed assets	1 630 667	15 887	1 614 780	883 788
B.I.5. Prepayments for intangible fixed assets and intangible fixed assets under construction	17 080	310	16 770	11 015
B.I.5.2. Intangible fixed assets under construction	17 080	310	16 770	11 015
<i>B.II. Tangible fixed assets</i>	66 538 384	39 894 336	26 644 048	25 560 375
B.II.1. Land and structures	18 203 050	8 602 993	9 600 057	9 310 820
B.II.1.1. Land	1 286 554	1 521	1 285 033	1 287 178
B.II.1.2. Structures	16 916 496	8 601 472	8 315 024	8 023 642
B.II.2. Tangible movable assets and sets of tangible movable assets	45 838 870	31 075 398	14 763 472	14 589 029
B.II.4. Other tangible fixed assets	240 139	211 570	28 569	32 268
B.II.4.3. Other tangible fixed assets	240 139	211 570	28 569	32 268
B.II.5. Prepayments for tangible fixed assets and tangible fixed assets under construction	2 256 325	4 375	2 251 950	1 628 258
B.II.5.1. Prepayments for tangible fixed assets	278 490		278 490	237 533
B.II.5.2. Tangible fixed assets under construction	1 977 835	4 375	1 973 460	1 390 725
<i>B.III. Non-current financial assets</i>	520 435	101 009	419 426	354 414
B.III.1. Equity investments – controlled or controlling entity	491 488	84 616	406 872	340 923
B.III.3. Equity investments in associates	26 936	16 393	10 543	11 480
B.III.5. Other non-current securities and investments	2 011		2 011	2 011
<i>B.IV. Goodwill on consolidation</i>	673 312	107 991	565 321	604 418
B.IV.1. Positive goodwill on consolidation	687 876	108 961	578 915	618 741
B.IV.2. Negative goodwill on consolidation	-14 564	-970	-13 594	-14 323

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CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	Year ended 31. 12. 2019		Year ended 31. 12. 2018	
	Gross	Adjustment	Net	Net
B.V. Securities and equity investments under equity accounting	273 561		273 561	288 967
C. Current assets	28 584 010	1 380 355	27 203 655	30 051 793
C.I. Inventories	14 691 055	967 108	13 723 947	14 495 548
C.I.1. Material	6 496 520	385 380	6 111 140	6 160 149
C.I.2. Work in progress and semifinished goods	4 604 911	402 634	4 202 277	4 501 715
C.I.3. <i>Products and goods</i>	3 580 185	179 094	3 401 091	3 816 654
C.I.3.1. Products	3 519 824	177 285	3 342 539	3 757 576
C.I.3.2. Goods	60 361	1 809	58 552	59 078
C.I.5. Prepayments for inventories	9 439		9 439	17 030
C.II. Receivables	9 353 050	410 214	8 942 836	10 281 230
C.II.1. Long-term receivables	78 215		78 215	150 283
C.II.1.1. Trade receivables	20 000		20 000	23 842
C.II.1.4. Deferred tax asset	36 799		36 799	105 186
C.II.1.5. <i>Receivables – other</i>	21 416		21 416	21 255
C.II.1.5.2. Long-term prepayments made	1 211		1 211	7 019
C.II.1.5.4. Sundry receivables	20 205		20 205	14 236
C.II.2. Short-term receivables	9 025 420	410 214	8 615 206	9 897 377
C.II.2.1. Trade receivables	7 666 065	336 125	7 329 940	8 942 277
C.II.2.2. Receivables – controlled or controlling entity	27 355	18 286	9 069	21 087
C.II.2.4. <i>Receivables – other</i>	1 332 000	55 803	1 276 197	934 013
C.II.2.4.1. Receivables from partners	1 191		1 191	
C.II.2.4.3. State – tax receivables	915 801		915 801	557 751
C.II.2.4.4. Short-term prepayments made	56 673	25 848	30 825	40 766
C.II.2.4.5. Estimated receivables	131 906		131 906	156 528
C.II.2.4.6. Sundry receivables	226 429	29 955	196 474	178 968

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CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	Year ended 31. 12. 2019		Year ended 31. 12. 2018	
	Gross	Adjustment	Net	Net
C.II.3. Other assets	249 415		249 415	233 570
C.II.3.1. Deferred expenses	100 346		100 346	85 567
C.II.3.2. Complex deferred expenses	133 219		133 219	136 299
C.II.3.3. Accrued income	15 850		15 850	11 704
C.III. Current financial assets	20 745	3 033	17 712	28 222
C.III.2. Other current financial assets	20 745	3 033	17 712	28 222
C.IV. Cash	4 519 160		4 519 160	5 246 793
C.IV.1. Cash on hand	5 614		5 614	8 117
C.IV.2. Cash at bank	4 513 546		4 513 546	5 238 676

CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
TOTAL LIABILITIES & EQUITY	57 006 356	58 050 347
A. Equity	40 900 302	40 783 569
A.I. Share capital	3 159 000	3 159 000
A.I.1. Share capital	3 159 000	3 159 000
A.II. Share premium and capital funds	-127 350	-110 309
A.II.2. <i>Capital funds</i>	-127 350	-110 309
A.II.2.1. Other capital funds	19 323	19 324
A.II.2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	-146 673	-129 633
A.III. Funds from profit	1 799 457	1 800 333
A.III.1. Other reserve funds	1 800 153	1 800 143
A.III.2. Statutory and other funds	-696	190
A.IV. Retained earnings (+/-)	33 257 102	30 199 093
A.IV.1. Accumulated profits or losses brought forward (+/-)	33 257 102	30 210 329
A.IV.2. Other profit or loss from prior years (+/-)		-11 236
A.V. Profit or loss for the current period net of minority interests	2 204 362	5 155 857
A.VI. Profit or loss for the current period (+/-)	2 198 814	5 093 506
A.V.2. Share in the profit/(loss) of equity accounted investments	5 548	62 351
VII. Consolidation reserve fund	607 731	579 595
B.+C. Liabilities	15 445 212	16 631 317
B. Reserves	758 029	877 300
B.I. Reserve for pensions and similar liabilities	10 611	9 938
B.III. Reserves under special legislation	1 113	9 928
B.IV. Other reserves	746 305	857 434

THE TABLE CONTINUES ON THE NEXT PAGE

CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
C. Payables	14 687 183	15 754 017
C.I. Long-term payables	4 715 706	4 436 288
C.I.2. Payables to credit institutions	2 850 642	2 653 037
C.I.4. Trade payables	39 523	38 752
C.I.8. Deferred tax liability	1 809 626	1 744 364
C.I.9. Payables – other	15 915	135
C.I.9.3. Sundry payables	15 915	135
C.II. Short-term payables	9 898 865	11 224 014
C.II.2. Payables to credit institutions	2 258 259	1 719 136
C.II.3. Short-term prepayments received	261 614	298 636
C.II.4. Trade payables	4 508 248	6 231 300
C.II.8. Other payables	2 870 744	2 974 942
C.II.8.1. Payables to partners	40 884	46 350
C.II.8.2. Short-term financial borrowings	106	15 608
C.II.8.3. Payables to employees	592 953	552 873
C.II.8.4. Social security and health insurance payables	243 702	237 570
C.II.8.5. State – tax payables and subsidies	1 695 685	1 582 203
C.II.8.6. Estimated payables	263 548	509 099
C.II.8.7. Sundry payables	33 866	31 239
C.III. Other liabilities	72 612	93 715
C.III.1. Accrued expenses	44 688	62 143
C.III.2. Deferred income	27 924	31 572
E. Minority equity	660 842	635 461
E.I.1. Minority share capital	76 957	76 957
E.I.2. Minority capital funds	4 518	4 530
E.I.3. Minority funds from profit, including retained earnings and losses	520 462	465 818
E.IV. Minority profit or loss before acquisition		29 045
E.V. Minority profit or loss for the current period	58 905	59 111

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

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
I. Sales of products and services	51 097 072	53 820 655
II. Sales of goods	327 184	892 174
A. Purchased consumables and services	37 968 552	39 526 432
A.1. Costs of goods sold	282 078	801 101
A.2. Consumed material and energy	32 440 179	33 453 385
A.3. Services	5 246 295	5 271 946
B. Change in internally produced inventory (+/-)	713 084	-1 186 585
C. Own work capitalised (-)	-1 125 018	-1 075 197
D. Staff costs	8 030 304	8 176 852
D.1. Payroll costs	5 718 431	5 863 418
D.2. Social security and health insurance costs and other charges	2 311 873	2 313 434
D.2.1. Social security and health insurance costs	2 008 667	2 018 202
D.2.2. Other charges	303 206	295 232
E. Adjustments to values in operating activities	2 552 792	2 395 709
E.1. Adjustments to values of intangible and tangible fixed assets	2 350 663	2 313 382
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	2 328 712	2 284 750
E.1.A. Amortisation of positive goodwill on consolidation	31 934	28 165
E.1.B. Amortisation of negative goodwill on consolidation	-728	-243
E.1.2. Adjustments to values of intangible and tangible fixed assets – temporary	-9 255	710
E.2. Adjustments to values of inventories	231 667	-4 593
E.3. Adjustments to values of receivables	-29 538	86 920
III. Other operating income	1 678 531	1 213 674
III.1. Sales of fixed assets	47 384	73 447
III.2. Sales of material	181 266	187 152
III.3. Sundry operating income	1 449 881	953 075

THE TABLE CONTINUES ON THE NEXT PAGE

CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

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

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
F. Other operating expenses	2 027 741	1 440 527
F.1. Net book value of sold fixed assets	12 003	30 784
F.2. Material sold	148 529	168 301
F.3. Taxes and charges	71 269	73 504
F.4. Reserves relating to operating activities and complex deferred expenses	-90 051	91 792
F.5. Sundry operating expenses	1 885 991	1 076 146
* Operating profit or loss (+/-)	2 935 332	6 648 765
IV. Income from non-current financial assets – equity investments	16 782	5 799
IV.1. Income from equity investments – controlled or controlling entity	16 481	5 714
IV.2. Other income from equity investments	301	85
G. Costs of equity investments sold	300	
VI. Interest income and similar income	12 217	8 411
VI.1. Interest income and similar income – controlled or controlling entity	726	695
VI.2. Other interest income and similar income	11 491	7 716
I. Adjustments to values and reserves relating to financial activities	-62 076	51 671
J. Interest expenses and similar expenses	96 144	67 656
J.2. Other interest expenses and similar expenses	96 144	67 656
VII. Other financial income	462 147	591 021
K. Other financial expenses	534 141	685 912
* Financial profit or loss (+/-)	-77 363	-200 008
** Profit or loss before tax (+/-)	2 857 969	6 448 757
L. Income tax	600 250	1 296 143
L.1. Due income tax	454 208	1 288 986
L.2. Deferred income tax (+/-)	146 042	7 157
** Profit or loss net of tax (+/-)	2 257 719	5 152 614

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CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

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

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
** Consolidated profit or loss net of share of income of associates	2 257 719	5 152 614
Consolidated profit or loss net of share of minority interests	2 198 814	5 093 503
Minority share in profit or loss	58 905	59 111
Profit or loss before acquisition		3
** Share of profit or loss of equity accounted investments	5 548	62 354
*** Profit or loss for the current period (+/-)	2 263 267	5 214 968
*** Profit or loss for the current period net of minority interests (+/-)	2 204 362	5 155 857
*** Profit or loss for the current period incl. minority interests (+/-)	2 263 267	5 274 079
*** Profit or loss for the current period net of minority interests before tax (+/-)	2 804 612	6 452 000
* Net turnover for the current period	53 593 933	56 531 734

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits or losses brought forward	Other profit or loss from prior years	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2017	3 157 000	-104 210	1 800 143	28 954 873	-11 236	2 856 494	830 775	142 112	37 625 951
Distribution of profit or loss		4 951		851 543		-856 494	142 112	-142 112	
Change in share capital	2 000								2 000
Profit shares paid						-2 000 000			-2 000 000
Change in consolidation method				402 352			-402 352		
Impact of changes in the consolidation group		453		2 025					2 478
Revaluation of assets and liabilities		-11 503					9 166		-2 337
Payments from the social fund			-351						-351
Profit or loss for the current period						5 093 506		62 351	5 155 857
Other			541	-464			-106		-29
Balance at 31 December 2018	3 159 000	-110 309	1 800 333	30 210 329	-11 236	5 093 506	579 595	62 351	40 783 569
Impact of the transformation				2 878 638		-2 780 574			98 064
Balance at 1 January 2019	3 159 000	-110 309	1 800 333	33 088 967	-11 236	2 313 932	579 595	62 351	40 882 633
Distribution of profit or loss		-289	604	2 348 953		-2 313 932	26 015	-62 351	-1 000
Profit shares paid				-2 102 490					-2 102 490
Revaluation of assets and liabilities		-16 752					2 121		-14 631
Payments from the social fund			-1 480						-1 480
Profit or loss for the current period						2 198 814		5 548	2 204 362
Other				-78 328	11 236				-67 092
Balance at 31 December 2019	3 159 000	-127 350	1 799 457	33 257 102		2 198 814	607 731	5 548	40 900 302

CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
P.		
Opening balance of cash and cash equivalents	5 260 324	5 214 274
Impact of the merger as of 1 January 2019	179 597	
Cash flows from ordinary activities (operating activities)		
Z.		
Profit or loss before tax	2 857 969	6 448 757
A.1.		
Adjustments for non-cash transactions	2 440 466	2 579 131
A.1.1.		
Depreciation of fixed assets	2 359 918	2 312 672
A.1.2.		
Change in provisions and reserves	40 747	226 500
A.1.3.		
Profit/(loss) on the sale of fixed assets	-35 381	-42 664
A.1.4.		
Revenues from profit shares	-16 782	-5 799
A.1.5.		
Interest expense and interest income	78 734	59 245
A.1.6.		
Adjustments for other non-cash transactions	13 230	29 177
A.*	5 298 435	9 027 888
Net operating cash flow before changes in working capital		
A.2.		
Change in working capital	90 274	-1 871 763
A.2.1.		
Change in operating receivables and other assets	1 617 836	-659 474
A.2.2.		
Change in operating payables and other liabilities	-2 053 487	689 087
A.2.3.		
Change in inventories	515 063	-1 901 272
A.2.4.		
Change in current financial assets	10 862	-104
A.**	5 388 709	7 156 125
Net cash flow from operations before tax		
A.3.		
Interest paid	-96 539	-69 885
A.4.		
Interest received	12 725	10 392
A.5.		
Income tax paid from ordinary operations	-1 406 962	-507 743
A.6.		
Received profit shares	39 858	11 077
A.***	3 937 791	6 599 966
Net operating cash flows		
Cash flows from investing activities		
B.1.		
Fixed assets expenditures	-3 514 022	-3 036 630
B.2.		
Proceeds from fixed assets sold	39 233	75 313
B.3.		
Loans and borrowings to related parties	12 000	3 032
B.4.		
Cash flows from the purchase of business or its part		-1 311 702
B.***	-3 462 789	-4 269 987
Net investment cash flows		

 THE TABLE CONTINUES ON THE NEXT PAGE

CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2019	Year ended 31. 12. 2018
Cash flow from financial activities		
C.1. Change in payables from financing	756 017	–247 788
C.2. Impact of changes in equity	–2 137 976	–2 036 141
C.2.1. Cash increase in share capital		2 000
C.2.5. Payments from capital funds	–2 407	–534
C.2.6. Profit shares paid	–2 135 569	–2 037 607
C.*** Net financial cash flows	–1 381 959	–2 283 929
F. Net increase or decrease in cash and cash equivalents	–906 957	46 050
R. Closing balance of cash and cash equivalents	4 532 964	5 260 324

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1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

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

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

The Company’s share capital is CZK 3,159,000 thousand.

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

Shareholder	Ownership percentage
MINERFIN, a.s., Námestie Ľudovíta Štúra 2, 811 02 Bratislava, Slovakia	48.57%
Total	48.57%

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

1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

As a result of the domestic merger by amalgamation of MORAVIA STEEL a.s., as the successor company, and FINITRADING, a.s., as the dissolving company, in line with the domestic merger project of 2 August 2019, the net assets of the dissolving company FINITRADING, a.s., with its registered office at nám. Svobody 526, Lyžbice, 739 61 Třinec, corporate ID 619 74 692, were transferred to MORAVIA STEEL a.s., as the successor company. This matter was recorded in the Register of Companies on 31 December 2019.

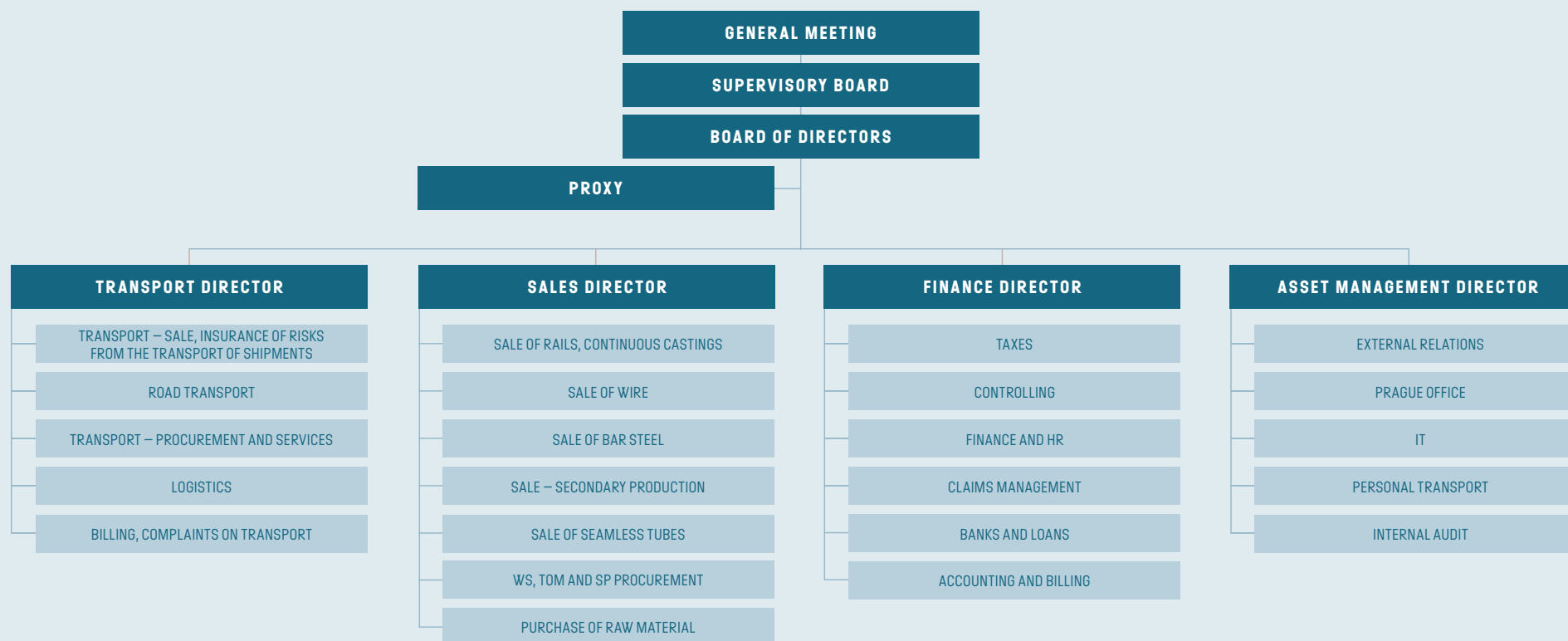
The effective date of the merger is 1 January 2019.

1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS RECORDED IN THE REGISTER OF COMPANIES AS OF 31 DECEMBER 2019

Board of Directors	
Position	Name
Chairman	Petr Popelář
Vice Chairman	Krzysztof Ruciński
Member	Mojmír Kašpříšín
Member	Uršula Novotná

Supervisory Board	
Position	Name
Chairman	Tomáš Chrenek
Vice Chairman	Ján Moder
Vice Chairman	Evžen Balko
Member	Mária Blašková

1.4. ORGANISATIONAL STRUCTURE OF THE PARENT COMPANY



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

2.1. DEFINITION OF THE CONSOLIDATED GROUP

2.1.1. Consolidation Method

The consolidation was performed using the proportionate consolidation method.

2.1.2. Names and Registered Offices of Subsidiaries and Associates Included in the Consolidated Group

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

Subsidiaries

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2019	Share of share capital at 31 Dec 2018
TŘINECKÉ ŽELEZÁRNY, a. s.	Průmyslová 1000, Staré Město, 739 61 Třinec	Manufacture of metallurgical products	100.00 %	100.00 %
Barrandov Studio a.s.	Prague 5, Hlubočepy Kříženeckého nám. 322/5	Creation and production of films and other audio-visual material	99.85 %	99.85 %
MORAVIA STEEL ITALIA S.R.L.	Milan, Italy	Distribution of metallurgical products	66.00 %	66.00 %
Beskydská golfová, a.s.	Ropice 415, 739 56	Provision of sport services	100.00 %	100.00 %
Hotel Golf Ropice a.s.	Ropice 415, 739 56	Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
MS – Slovensko s.r.o.	Námestie Ludovíta Štúra 2 811 02 Bratislava	Purchase and sale of goods in retail and wholesale, mediation services in the extent of notifiable trade	100.00 %	100.00 %
Moravskoslezský kovošrot a.s.	Božkova 936/73, Přívoz, 702 00 Ostrava	Purchase, processing and sales of metal scrap and non-ferrous metals	100.00 %	100.00 %
M Steel Projects a.s.	Průmyslová 1000, Staré Město, 739 61 Třinec	Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
Moravia Steel Deutschland GmbH	Kürten, Germany	Distribution of metallurgical products	100.00 %	100.00 %
MORAVIA STEEL UK LIMITED	Sandbach, United Kingdom	Distribution of metallurgical products	100.00 %	100.00 %
“NEOMET” Sp.z o.o.	Św. Rozalii 10,97-500 Radomsko, Poland	Trading with metal scrap and metal processing	100.00 %	100.00 %
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00 %	100.00 %
Slévárny Třinec, a.s.	Průmyslová 1001, Staré Město, 739 61 Třinec,	Foundry industry	100.00 %	100.00 %
VÚHŽ a.s.	240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00 %	100.00 %
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00 %	100.00 %

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SUBSIDIARIES

Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00 %	100.00 %
"METALURGIA" S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00 %	100.00 %
"D&D" Drótaru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	100.00 %	100.00 %
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00 %	100.00 %
HŽP a.s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00 %	100.00 %
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00 %	100.00 %
BOHEMIA RINGS s.r.o.**	no. 10, 565 43 Zámorsk	Blacksmithing and machining	100.00 %	100.00 %
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51,00 %	51,00 %
REFRASIL, s.r.o.	Průmyslová 720, Konská, 739 65 Třinec	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
M Steel Projects, s.r.o.	Žilina, 010 01, Vojtecha Tvrdeho 793/21	Purchase of goods for sale, mediation activities, advertising Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
MSPProjects International s.r.o.	nám.Svobody 526, Lyžbice, 739 61 Třinec	Purchase of goods for sale, mediation activities, advertising Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00 %	100.00 %
MPS International AZ llc	SEYID AZIM SHIRVANI STREET, bldg. 1, apt. 115 AZ1142, BAKU city	Production, trade and services pursuant to the legislative of the Republic of Azerbaijan	95.00 %	95.00 %
Moravia Mining Plc*)	Bole 03, Addis Ababa 5/001-405A, Ethiopia	Mining and extraction of mineral materials	76.00 %	76.00 %
Kovárna VIVA a.s.**)	Zlín, Vavrečkova 5333, 76001	Blacksmithing, farriering, machining, bookkeeping, tax record keeping	66.00 %	66.00 %
ALPER a.s.**)	Prostějov, Vrahovická 4530, 796 01	Blacksmithing, farriering, locksmithing, tool-making, machining,	66.00 %	66.00 %

*) Deconsolidation as of 1 July 2018.

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

Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2019	Equity share at 31 Dec 2018
Moravia Steel Middle East FZCO	Jebel Ali Free Zone, Dubai, U.A.E.	Distribution of metallurgical products	40.00 %	40.00 %
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 715, Konská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00 %	40.00 %

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

The financial statements of the companies included in the Group were prepared as of and for the years ended 31 December 2019 and 2018. The companies included in the Group are based in the Czech Republic, with the exception of Moravia Steel Deutschland GmbH, which is based in Germany, MORAVIA STEEL ITALIA S.R.L., based in Italy, MORAVIA STEEL UK LIMITED based in the UK, “D&D” Drótáru Zrt. based in Hungary, METALURGIA S.A. and NEOMET Sp. Z o.o. based in Poland, Moravia Steel Middle East FZCO based in the United Arab Emirates, M Steel Projects, s.r.o. and MS – Slovensko s.r.o. based in Slovakia, MSP International AZ based in Azerbaijan.

2.1.4. Companies Excluded from Consolidation

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

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

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

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

3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

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

The consolidated financial statements of the Group for the year ended 31 December 2019 were prepared as follows:

- The balance sheet comprises comparative balances as of 31 December 2018;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2018;
- The statement of changes in equity contains comparative amounts for the year ended 31 December 2018; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2018.

As a result of the domestic merger by amalgamation of MORAVIA STEEL a.s., as the successor company, and FINITRADING, a.s., as the dissolving company, in line with the domestic merger project of 2 August 2019, the net assets of the dissolving company FINITRADING, a.s., were transferred to MORAVIA STEEL a.s., as the successor company.

The effective date of the merger is 1 January 2019.

Given the merger, the Company's statements for the year ended 31 December 2019 were prepared as follows:

The balance sheet comprises comparative balances as of 31 December 2018 taken over from the consolidated financial statements of MORAVIA STEEL a.s. as of 31 December 2018;

The profit and loss account comprises comparative amounts for the year ended 31 December 2018 taken over from the consolidated financial statements of MORAVIA STEEL a.s. as of 31 December 2018;

The statement of changes in equity contains comparative amounts for the year ended 31 December 2018 taken over from the financial statements of MORAVIA STEEL a.s. as of 31 December 2018. The impact of the demerger by spin-off by amalgamation on equity accounts is evident from this statement.

Where the impact of the demerger by spin-off by amalgamation was material for the individual groups of assets and liabilities, it is described in the relevant notes to the financial statements.

It follows from the above that the figures taken over from the consolidated financial statements of MORAVIA STEEL a.s. as of 31 December 2018 are not fully comparable with the figures of the current reporting period ended 31 December 2019.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

Valuation

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation for Accounting Purposes

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

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

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

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

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

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

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

Provisioning

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

Impairment

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

4.2. NON-CURRENT FINANCIAL ASSETS

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

Valuation

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

At the consolidated balance sheet date, the Group records:

Equity investments at cost less any provisions against equity investments.

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

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

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

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

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

Provisioning against Equity Investments

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

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

4.3. DERIVATIVE FINANCIAL TRANSACTIONS

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

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

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

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

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

4.4. CURRENT FINANCIAL ASSETS

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

Current financial assets are carried at cost upon acquisition.

4.5. INVENTORY

Valuation

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

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

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

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

Provisioning

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

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

4.6. RECEIVABLES

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

Provisioning

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

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

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

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

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

4.7. PAYABLES

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

4.8. LOANS AND BORROWINGS

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

4.9. RESERVES

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

4.10. FOREIGN CURRENCY TRANSLATION

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

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

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

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

4.11. FINANCE LEASES

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

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

4.12. TAXATION

4.12.1. Depreciation of Fixed Assets for Tax Purposes

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

4.12.2. Current Tax Payable

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

4.12.3. Deferred Tax

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

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

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

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

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

4.13. BORROWING COSTS

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

4.14. COSTS RELATING TO EMPLOYEES HIRED THROUGH AN EMPLOYMENT AGENCY

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

4.15. REVENUE RECOGNITION

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

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

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

4.16. USE OF ESTIMATES

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

4.17. RESEARCH AND DEVELOPMENT EXPENDITURE

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

4.18. GRANTS

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

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

4.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

(CZK THOUSAND)

	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Cash at hand	5 614	8 117
Current accounts	4 513 546	5 238 676
Current accounts with restricted handling of the balance	0	0
Term deposits	0	0
Short-term securities	20 745	40 770
Total current financial assets (gross)	4 539 905	5 287 563
Cash and cash equivalents not included in the cash flow	-3 908	-14 691
Provision against short-term securities and investments	-3 033	-12 548
Total cash and cash equivalents	4 532 964	5 260 324

Comments on the Cash Flow Statement:

The difference between cash and cash equivalents as of 31 December 2019 and 2018 in the cash flows statement in comparison with the current financial assets in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

4.20. CONSOLIDATION RULES

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

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

Goodwill arising on consolidation represents the difference between the cost of an investment in the consolidated entity and its value determined on the basis of the Company’s interest in the fair value of equity which arises as a difference between the fair values of assets and the fair values of liabilities as of the

acquisition date or as of the date of a further capital increase (a further increase in securities or investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated entity.

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

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

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

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

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

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

The financial statements for the years ended 31 December 2019 and 2018 prepared by the companies included in the consolidated group, as well as the financial statements

of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statements date are available in the registered office of the Parent Company.

The consolidation rules for 2019 and 2018 (definition of the consolidated group, method of transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Parent Company.

5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

5.1. CONSOLIDATED PROFIT/LOSS FOR 2019

5.1.1. Structure of the Consolidated Profit/Loss for 2019

	(CZK THOUSAND)
Current year's profit made by MORAVIA STEEL a.s.	1 143 215
Current year's profit made by M Steel Projects a.s.	-12 100
Current year's profit made by M Steel Projects s.r.o.	2 307
Current year's profit made by MSProjects International s.r.o.	4 303
Current year's profit made by Beskydská golfová, a.s.	1 226
Current year's profit made by Hotel Golf Ropice a.s.	-14
Share in current year's profit made by Barrandov Studio a.s.	88 753
Share in current year's profit made by MORAVIA STEEL ITALIA S.R.L.	16 213
Current year's profit made by Moravia Steel Deutschland, GmbH	52 318
Current year's profit made by MORAVIA STEEL UK LIMITED	5 928
Share in current year's profit made by Kovárna VIVA a.s.	103 964
Current year's profit made by ALPER a.s.	4 383
Current year's profit made by the consolidation group of TŽ, a.s.	630 044
Current year's profit made by MS – Slovensko s.r.o.	94
Share in current year's profit made by MSPI AZ	-3 961
Current year's profit made by Moravskoslezský kovošrot a.s.	48 423
Current year's profit made by "NEOMET" Sp.z o.o.	13 992
Share in profit of equity accounted investments	5 548
Adjustments under full consolidation (see Note 4.1.2.)	99 726
Adjustments under the equity method (see Note 4.1.3.)	0
Consolidated profit	2 204 362

5.1.2. Profit/(Loss) Adjustments under Full Consolidation for 2019

	(CZK THOUSAND)
Elimination of profit from unrealised inventory from intercompany sale, including the deferred tax impact and elimination of minority profit or loss	246 188
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	-14 035
Other consolidation adjustments	-14 107
Elimination of dividends paid by MS ITALIA, Kov. VIVA, MSK,TŽ, MS UK, MSD, MSPI AZ	-118 318
Total adjustments	99 728

5.1.3. Adjustments under Equity Consolidation for 2019

(CZK THOUSAND)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	0
Total adjustments	0

5.2. CONSOLIDATED PROFIT/LOSS FOR 2018**5.2.1. Structure of the Consolidated Profit/Loss for 2018**

(CZK THOUSAND)

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

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

(CZK THOUSAND)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact and elimination of minority profit or loss	-300 189
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	56 805
Other consolidation adjustments	-68 876
Elimination of dividends paid by MORAVIA STEEL ITALIA S.R.L. TŽ, a.s., Moravskoslezský kovošrot a.s., Kovárna VIVA a.s., MS UK, MSD, MSPI AZ	-1 356 968
Total adjustments	-1 669 228

5.2.3. Adjustments under Equity Consolidation for 2018

(CZK THOUSAND)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	3 669
Total adjustments	3 669

6. ADDITIONAL INFORMATION ON THE BALANCE SHEET**6.1. INTANGIBLE FIXED ASSETS****Cost**

(CZK THOUSAND)

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

(CZK THOUSAND)

	Balance at 1 Jan 2019	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2019
Development	6 405	0	0	0	0	6 405
Start-up costs	0	0	0	0	0	0
Goodwill	24 812	0	0	0	-42	24 770
Software	376 734	2 664	47 529	84 261	-251	342 415
Valuable rights	801 362	0	2 427	39 646	-567	763 576
Other intangible FA	898 783	0	2 100 895	1 368 995	-16	1 630 667
Intangible FA under construction	11 015	0	951 069	944 999	-5	17 080
Prepayments for intangible FA	0	0	0	0	0	0
Total	2 119 111	2 664	3 101 920	2 437 901	-881	2 784 913

Accumulated Amortisation and Provisions

(CZK THOUSAND)

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

(CZK THOUSAND)

	Balance at 1 Jan 2019	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2019
Development	6 385	0	20	0	0	6 405
Start-up costs	0	0	0	0	0	0
Goodwill	349	0	1 223	0	-3	1 569
Software	347 448	2 664	16 907	82 681	-249	284 089
Valuable rights	559 554	0	37 502	20 308	-440	576 308
Other intangible FA	14 995	0	936	83	39	15 887
Intangible FA under construction	0	0	310	0	0	310
Total	928 731	2 664	56 898	103 072	-653	884 568

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Development	20	0
Start-up costs	0	0
Software	29 286	58 326
Valuable rights	241 808	187 268
Goodwill	24 463	23 201
Other intangible FA	883 788	1 614 780
Intangible FA under construction	11 015	16 770
Prepayments for intangible FA	0	0
Total	1 190 380	1 900 345

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

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets charged to expenses amounted to CZK 55,276 thousand and CZK 58,733 thousand for the years ended 31 December 2019 and 2018, respectively.

Other intangible assets include greenhouse gas emission allowances.

In the year ended 31 December 2019, the Company acquired 3,542,570 emission allowances for 2019 in the amount of CZK 1,960,289 thousand free of charge. As of the balance sheet date of 31 December 2019, the Company recognised a disposal of emission allowances for 2019 of CZK 1,366,663 thousand. In 2019, the disposal of emission allowances for 2018 was adjusted by CZK 73,156 thousand.

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

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

The aggregate balance of low-value intangible assets not reported on the face of the balance sheet was CZK 45,081 thousand and CZK 41,577 thousand as of 31 December 2019 and 2018, respectively.

6.2. TANGIBLE FIXED ASSETS

Cost

(CZK THOUSAND)

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

(CZK THOUSAND)

	Balance at 1 Jan 2019	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2019
Land	1 288 464	0	3 571	4 625	-856	1 286 554
Structures	16 185 786	0	782 300	46 320	-5 270	16 916 496
Individual tangible movable assets	44 155 605	3 616	2 057 756	362 473	-15 634	45 838 870
Other tangible FA	240 260	136	5 350	4 497	-1 110	240 139
Tangible FA under construction	1 413 301	0	3 352 417	2 785 762	-2 121	1 977 835
Prepayments	237 533	0	887 516	846 546	-13	278 490
Total	63 520 949	3 752	7 088 910	4 050 223	-25 004	66 538 384

Accumulated Depreciation and Provisions

(CZK THOUSAND)

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

(CZK THOUSAND)

	Balance at 1 Jan 2019	New acquisition	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2019
Land	1 286	0	251	0	-16	1 521
Structures	8 162 144	0	487 479	46 824	-1 327	8 601 472
Individual tangible movable assets	29 566 576	3 582	1 857 065	339 399	-12 426	31 075 398
Other tangible FA	207 992	0	7 479	3 180	-721	211 570
Tangible FA under construction	22 576	0	854	19 055	0	4 375
Prepayments	0	0	0	0	0	0
Valuation difference on acquired assets	0	0	0	0	0	0
Total	37 960 574	3 582	2 353 128	408 458	-14 490	39 894 336

Net Book Value

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2018	Balance at 31 Dec 2019
Land	1 287 178	1 285 033
Structures	8 023 642	8 315 024
Individual tangible movable assets	14 589 029	14 763 472
Other tangible FA	32 268	28 569
Tangible FA under construction	1 390 725	1 973 460
Prepayments for tangible FA	237 533	278 490
Valuation difference on acquired assets	0	0
Total	25 560 375	26 644 048

Principal additions to tangible fixed assets for the year ended 31 December 2019 were as follows:

(CZK THOUSAND)

Technical improvements on the square billet straightening line at the VZ – billet rolling mill plant	140 217
Technical improvements on continuous casting facility no. 1 for casting of the 600 format	122 216
RT4 – 110 kV GIS SIEMENS distribution room	95 102
Moulding line 2500 tonnes L10	46 071
Reconstruction of building A1 – façade and window panes	34 649
KER/KEH 5.1. production line	31 682
CNC 40 B	31 444
CNC 40 A	31 398
Technical improvements of the roof of the distribution room T4	27 262
HCW 1000 horizontal and boring workstation	25 494
Reconstruction of building A1 – roof	3 580
BMW passenger car	2 198

Principal additions to tangible fixed assets under construction for the year ended 31 December 2019 were as follows:

(CZK THOUSAND)

Modernisation of VF – the steel drawing mill plant	234 778
Acquisition of refining line no. 2	200 272
Acquisition of hot blast recuperator no. 61	183 676
Scrapyard	18 843
Extension of the processing hall	8 811
Measuring equipment for inspection of cams no. 5	7 829

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

(CZK THOUSAND)

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

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

CZK THOUSAND

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

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 2,273,102 thousand and CZK 2,226,017 thousand for the years ended 31 December 2019 and 2018, respectively.

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

The aggregate cost of low-value tangible fixed assets not included in the balance sheet totalled CZK 979,927 thousand and CZK 891,073 thousand as of 31 December 2019 and 2018, respectively.

Fair Value

In 2019 and 2018, no assets were revalued to fair value at any of the entities.

6.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS

Finance Leases

(CZK THOUSAND)

31 December 2019	Passenger cars	Machinery and equipment	Balance at 31 Dec 2019
Total estimated sum of lease instalments	722	50 922	51 644
Payments made as of 31 Dec 2019	160	50 922	51 082
Due in the following years	0	0	0

(CZK THOUSAND)


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

Operating Leases

In the years ended 31 December 2019 and 2018, rental amounted to CZK 66,609 thousand and CZK 65,076 thousand, respectively.

6.4. FIXED ASSETS PLEDGED AS SECURITY**31 December 2019**

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA	229 889	Loan from Česká spořitelna, a.s.
Land	23 663	
TFA	396 235	Loan from Česká spořitelna, a.s.
Land	3 444	
TFA	614 890	Loan from Česká spořitelna, a.s.
Structures	128 298	
Land	3 458	
TFA	2 330	Loan from Československá obchodní banka, a.s.
Land	39 986	
TFA	767 381	Loan from Československá obchodní banka, a.s.
TFA	817 691	Loan from Československá obchodní banka, a.s.
TFA	364 982	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	643	
TFA	262 130	Loan from ING BANK N. V.
Land	12 218	
TFA	78 619	Collateral for investment bank loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Technology	73 759	Raiffeisenbank a.s. – security for long-term bank loan for financing the MoRe distribution point T4 – 110kV
TFA	84 586	Investment loan from ING Bank N.V.
TFA*	89 550	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, secured with machinery up to PLN 15,000 thousand
TFA*	56 154	Loan from Bank BGŻ BNP Paribas S.A., secured with machinery up to PLN 9,406 thousand
TFA*	88 324	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, secured with machinery up to PLN 14,795 thousand
TFA, land	271	Investment loan from Raiffeisenbank a.s.
TFA, land	1 007	Investment loan from Raiffeisenbank a.s.
TFA, land	1 404	Investment loan from Raiffeisenbank a.s.
TFA, land	559	Investment loan from Raiffeisenbank a.s.
TFA, land	13 482	Investment loan from Raiffeisenbank a.s.
TFA, land	1 652	Investment loan from Raiffeisenbank a.s.

 TABLE CONTINUES ON THE FOLLOWING PAGE

CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

31 DECEMBER 2019

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA, land	1 641	Investment loan from Raiffeisenbank a.s.
TFA, land	908	Investment loan from Raiffeisenbank a.s.
TFA, land	7 394	Investment loan from Raiffeisenbank a.s.
TFA, land	460	Investment loan from Raiffeisenbank a.s.
TFA	3 281	Investment loan from Raiffeisenbank a.s.
TFA	1 162	Investment loan from Raiffeisenbank a.s.
TFA	1 809	Investment loan from Raiffeisenbank a.s.
TFA	36 419	Investment loan from Raiffeisenbank a.s.
TFA	9 556	Investment loan from Raiffeisenbank a.s.
TFA	7 752	Investment loan from Raiffeisenbank a.s.
TFA	170 168	Loan from Citibank Europe plc.
Land	4 166	
Technology	192 598	
TFA*	53 999	Investment loan from ERSTE Bank Hungary Zrt.
TFA*	23 668	Investment loan from K&H Bank Zrt.
Land	6 709	Loan from Raiffeisenbank a.s.
TFA	125 897	
Land	281	Loan from České spořitelny, a.s.
TFA	58 396	
Plot no. 884/11	1 022	Contractual pledge, loan guarantee
Building without number on land no. 884/11, 88522, 88523	119 049	Contractual pledge, loan guarantee
Plot no. 884/18	57	Contractual pledge, loan guarantee
Plot no. 885/22	24	Contractual pledge, loan guarantee
Plot no. 885/23	26	Contractual pledge, loan guarantee
Plot no. 886/53	1 123	Contractual pledge, loan guarantee
Total	4 984 170	

* translated using the exchange rate promulgated by the Czech National Bank as of 31 December 2019

31 December 2018

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

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CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

31. 12. 2018

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA, Land	3474	Investment loan from Raiffeisenbank a.s.
TFA	131 187	Investment and overdraft loan from Raiffeisenbank a.s.
TFA, Land	170 467	Loan from Citibank Europe plc.
Land	4871	
Technology	187 734	
TFA, Land	15 468	Loan from UniCredit Bank a.s.
TFA, Land, buildings	131 825	Loan from Raiffeisenbank, a.s.
Total	4 776 769	

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

As of 31 December 2019, the Company records a pledged equity investment of CZK 1,142,302 thousand (2018: 1,144,302 CZK thousand).

6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

6.5.1. Summary of Unconsolidated Investments in 2019

Balance at 31 December 2019

(CZK THOUSAND)

Company name	Equity investments – subsidiaries						
	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	867	51	10 814	2 431	0	1 573
Moravia Steel Ibéria, s.a.	10 850	2 533	99.33	11 223	2 227	0	10 850
AHP HYDRAULIK A, a.s.**)	90 058	1 000	100	**)	**)	-90 058	0
Moravia Steel Israel Ltd. **)	605	466	100	**)	**)	0	605
Barrandov Productions s.r.o.	100	100	100	1 349	-45	0	100
FILMOVÁ NADACE *)	500	500	100	1 422	-495	0	500
SwissCentrum Engineering s.r.o.	10 000	10 000	100	7 462	***)	-4252	5 748
Total	113 686	15 466				-94 310	19 376

*) Balance at 31 December 2019, reporting period ended 28 February 2020

***) As of the end of 2019, Moravia Steel Israel Ltd. and AHP HYDRAULIKA, a.s. reported a deficit on equity. The companies reported a loss in 2019.

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

(CZK THOUSAND)

Company name	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	100.00	57 447	2 643	0	0
Doprava TŽ, a.s., Třinec-Staré Město	100.00	51 550	2 352	0	0
TRIALFA, s.r.o., Třinec-Kanada	100.00	19 945	340	0	0
Moravia Security, a.s., Kanská, Třinec	100.00	41 826	2 513	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	90.00	47 722	2 698	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	84.54	33 060	3 539	0	3 463
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	88.00	45 836	439	-9 414	0
TRISIA, a.s., Lyžbice, Třinec	66.00	40 870	-7 178	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	80.00	11 587	1 933	0	1 641
JuBo Jeseník s. r. o., Jeseník	80.00	4 006	1 599	0	400
Řetězárna servis s.r.o., Jeseník	100.00	4 538	2 969	0	3 000
IMOPRA s.r.o., Nivnice	100.00	112 115	6 969	-19 452	0
EKOSTROJÍRENSTVÍ TŘINEC, a.s., Staré Město, Třinec	100.00	49 501	-499	0	0
Total				-28 866	8 504

Note: In italics – preliminary results as of 31 December 2019

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

Company name	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
MSK Polska Sp.z.o.o	48 345	48 345	84	-24 368	0	-48 345	0
Total	48 345	48 345	0		0	-48 345	0

In 2019 (2018) the Company held a 84% equity investment in a subsidiary in Poland called MSK Polska Sp. z.o o., which entered liquidation and bankruptcy on 21 December 2012. As of the balance sheet date 31 December 2019 (31 December 2018), the equity investment was recalculated to the amount of CZK 0.

The Group did not generate any material financial income from the unconsolidated investments in the year ended 31 December 2019.

6.5.2. Summary of Unconsolidated Investments in 2018**Balance at 31 December 2018**

(CZK THOUSAND)

Equity investments – subsidiaries							
Company name	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	867	51.00	10 814	2 431	0	1 573
Moravia Steel Ibéria, s.a.	10 850	2 533	99.33	11 223	2 223	0	10 850
AHP HYDRAULIKA, a.s.**)	90 058	1 000	100.00	**)	**)	-90 058	0
Moravia Steel Israel Ltd. **)	605	466	100.00	**)	**)	0	605
Barrandov Productions s.r.o.	100	100	100.00	1 349	-101	0	100
Barrandov Studios Productions s.r.o.	200	200	100.00	1 006	-51	0	200
FILMOVÁ NADACE *)	500	500	100.00	1 422	-84	0	500
SwissCentrum Engineering s.r.o.	10 000	10 000	100.00	7 462	571	-118	9 882
Total	113 886	15 666				-90 176	23 710

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

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

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

(CZK THOUSAND)

Equity investments – subsidiaries							
Company name	Nominal value	Number of securities	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	54 803	2 822	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	49 198	207	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	19 605	195	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	39 313	3 643	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	45 025	1 821	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava*	2 000	20	100.00	4 030	-7 286	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 790	186	84.54	33 617	4 097	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	45 482	362	-9 725	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	48 000	-1 600	0	0
Retaze Slovakia s.r.o., Skalica (SK)	9 465	0	80.00	11 831	1 957	0	1 631
JuBo Jeseník s. r.o., Jeseník	2 325	0	80.00	2 907	766	0	800
Řetězárna servis s.r.o., Jeseník	4 469	0	100.00	4 569	3 578	0	2 000
IMOPRA s.r.o., Nivnice	2 000	0	100.00	105 811	13 534	-64 446	0
Total						-74 171	4 431

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

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

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

Company name	Cost	Nominal value	Share in %	Equity	Profit/ loss	Provision	Net cost
MSK Polska Sp.z.o.o	48 345	48 345	84	-24 368	0	-48 345	0
Total	48 345	48 345		0	0	-48 345	0

In 2018 (2017) the Company held a 84% equity investment in a subsidiary in Poland called MSK Polska Sp. z.o o., which entered liquidation and bankruptcy on 21 December 2012. As of the balance sheet date 31 December 2018 (31 December 2017), the equity investment was recalculated to the amount of CZK 0.

The Group did not generate any material financial income from the unconsolidated investments in the year ended 31 December 2018.

6.6. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2019

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in income	Recognition in equity
Positive goodwill arising on consolidation						
ŽDB DRÁTOVNA a.s.	249 609	-24 989	224 620	0	12 479	0
BOHEMIA RINGS s.r.o.	107 258	-9 644	97 614	0	5 348	0
MS UK	1 234	-123	1 111	0	62	0
HŽP a.s.	130 506	-26 101	104 405	0	5 800	0
Kovárna VIVA	164 907	-13 742	151 165	0	8 245	0
Barrandov Studio a.s.	34 362	-34 362	0	0	0	0
Total	687 876	-108 961	578 915	0	31 934	0
Negative goodwill arising on consolidation						
REFRASIL, s.r.o.	-14 564	970	-13 594	0	0	728
Total	673 312	-107 991	565 321	0	31 934	728

2018

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in income	Recognition in equity
Positive goodwill arising on consolidation						
ŽDB DRÁTOVNA a.s.	250 199	-12 510	237 689	12 510	0	0
Kovárna VIVA	164 908	-5 497	159 411	5 497	0	0
BOHEMIA RINGS s.r.o.	114 559	-4 296	110 263	4 296	0	0
HŽP a.s.	130 506	-20 300	110 206	5 800	0	0
Moravia Steel UK LIMITED	1 234	-62	1 172	62	0	0
Barrandov Studio a.s.	34 362	-34 362	0	0	0	0
Total	695 768	-77 027	618 741	28 165	0	0
Negative goodwill arising on consolidation						
REFRASIL, s.r.o.	-14 566	243	-14 323	0	243	0
Total	681 202	-76 784	604 418	28 165	243	0

6.7. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK THOUSAND)

Securities and equity investments under equity accounting	2019	2018
VESUVIUS ČESKÁ REPUBLIKA, a.s.	147 449	154 669
Moravia Steel Middle East FZCO	126 112	134 298
Total	273 561	288 967

6.8. INVENTORY

As of 31 December 2019, “METALURGIA” S.A. has pledged inventory up to PLN 13,000 thousand (CZK 77,610 thousand) with Bank BGŻ BNP Paribas S.A. in relation to the loan drawn and inventory up to PLN 10,500 thousand (CZK 62,685 thousand) with Bank Polska Kasa Opieki Spółka Akcyjna in relation to the loan drawn. In 2018, the inventory was pledged up to PLN 13,000 thousand (CZK 77,740 thousand).

6.9. RECEIVABLES**6.9.1. Structure of Short-Term Receivables**

As of 31 December 2019, gross short-term trade receivables past their due dates amounted to CZK 1,325,769 thousand (net CZK 995,675 thousand). As of 31 December 2018, gross short-term trade receivables past their due dates amounted to CZK 1,854,179 thousand (net CZK 1,523,112 thousand).

Other Short-Term Receivables

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

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

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

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

Receivables typically mature within 30 days.

6.9.2. Receivables Pledged as Security

As of 31 December 2019, “METALURGIA” SPÓŁKA AKCYJNA records pledged receivables of PLN 5,071 thousand (CZK 30,276 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o. and pledged receivables of PLN 1,907 thousand (CZK 11,388 thousand) with Pekao Faktoring Sp. z o.o. As of 31 December 2018, the pledged receivables amounted to PLN 4,080 thousand (CZK 24,398 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o. and PLN 2,328 thousand (CZK 13,919 thousand) with Pekao Faktoring Sp. z o.o.

6.9.3. Intercompany Receivables

Short-Term Receivables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Moravia Security, a.s.	169	162
Security Morava, s.r.o.	9	12
TRIALFA, s.r.o.	1 564	3 419
TRISIA, a.s.	17	1 219
TŘINECKÁ PROJEKCE, a.s.	189	121
Třinecké gastroslužby, s.r.o.	2 400	1 286
VESUVIUS ČESKA REPUBLIKA, a.s.	6 400	5 211
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	10	18
IMOPRA s.r.o.	9 069	21 088
AHP Hydraulika, a.s.	0	18
JuBo Jeseník s.r.o.	6 562	5 945
Refaze Slovakia, s.r.o.	2 717	1 812
MINERFIN a.s.	0	2 050
Total short-term intercompany receivables	29 106	42 361
Other than intercompany receivables	7 300 834	9 245 923
Total short-term receivables	7 329 940	9 288 284

Long-Term Receivables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2019	Balance at 31 Dec 2018
TŘINECKÉ ŽELEZÁRNY, a.s.	19 945	23 842
NEOMET	55	0
Total long-term intercompany receivables	20 000	23 842
Other than intercompany receivables	58 215	126 441
Total long-term receivables	78 215	150 283

As of 31 December 2019, the Group records long-term receivables with due dates of more than 5 years of CZK 1,099 thousand; as of 31 December 2018, the Group recorded long-term receivables with due dates of more than 5 years of CZK 1,713 thousand.

6.10. EQUITY AND SHARE CAPITAL**6.10.1. Equity**

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

In the year ended 31 December 2019, dividends in the amount of CZK 2,102,490 thousand were declared and paid out.

Proposal for the allocation of profit for 2019

In 2019, the consolidation group generated net profit after tax of CZK 2,257,719 thousand. The profit will be transferred to retained earnings brought forward and the consolidated reserve fund.

6.10.2. Share Capital

As of 31 December 2019, the share capital amounted to CZK 3,159,000 thousand. The Company's share capital is composed of 315,900 ordinary registered shares in book-entry form with a nominal value of CZK 10,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board.

6.11. RESERVES

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

6.12. PAYABLES

6.12.1. Long-Term Payables

As of 31 December 2019 and 2018, primarily payables arising from retention fees to suppliers according to concluded contracts are reported under long-term trade payables.

6.12.2. Short-Term Trade Payables

As of 31 December 2019, short-term trade payables past their due dates amount to CZK 65,029 thousand (2018: CZK 162,511 thousand).

6.12.3. Other Payables

As of 31 December 2019 and 2018, due amounts arising from social security and state employment policy contributions and public health insurance amounted to CZK 243,702 thousand and CZK 237,570 thousand, respectively. These payables were duly settled as of the balance sheet date.

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

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

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

6.12.4. Intercompany Payables

Short-Term Payables

(CZK THOUSAND)

Entity	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Doprava TŽ, a.s.	17	20
Moravia Security, a.s.	7 551	3 575
Třinecké gastroslužby, s.r.o.	755	290
VESUVIUS ČESKÁ REPUBLIKA, a.s.	23 248	25 452
FINITRADING, a.s.	0	167 374
Moravia Steel Ibéria, s.a.	1 744	0
MORAVIA STEEL SLOVENIJA d.o.o.	3 676	4 411
MINERFIN, a.s.	259 723	228 397
Total short-term intercompany payables	296 714	429 519
Other than intercompany payables	9 602 151	10 794 495
Total short-term payables	9 898 865	11 224 014

6.13. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET**6.13.1. Deferred Tax Liability**

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

(CZK THOUSAND)

Deferred tax arising from	Tax rate in %	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Difference between the tax and accounting carrying values of fixed assets	19	10 839 068	10 667 736
Difference between the tax and accounting carrying values of fixed assets	9	66 291	110 786
Revaluation of securities available for sale	9	-100	1 080
Revaluation of assets to fair value charged to equity	19	110 231	124 410
Revaluation of assets to fair value charged to equity	9	33 571	35 256
Revaluation of assets to fair value charged to consolidation goodwill	19	0	0
Revaluation of assets to fair value charged to consolidation goodwill	19	217 034	258 563
Accounting reserves	19	-422 830	-553 363
Provisions	19	-1 009 675	-775 544
Provisions	10	0	0
Provisions	9	-3 705	3 523
Outstanding default interest	19	483	222
Expenses deductible for tax purposes in the following years	19	-60 194	-397 167
Expenses deductible for tax purposes in the following years	9	-26 091	0
Utilisable tax loss	19	-6 675	-6 528
Unrealised profit on the sale of inventory within the Group	19	-10 024	-31 091
Unrealised profit on the sale of tangible FA within the Group	19	-166 213	-177 731
Total temporary differences		9 561 171	9 260 152
Deferred tax liability		1 809 626	1 744 364

(CZK THOUSAND)

Analysis of movements	
1 Jan 2018	1 569 233
Current changes charged to the profit and loss account	139 555
Current changes charged to equity	-3 598
Charge against positive goodwill on consolidation	-1
31 Dec 2018	1 744 364
Current changes charged to the profit and loss account	76 315
Current changes charged to equity	-3 163
Charge against positive goodwill on consolidation	-7 891
Other	1
31 Dec 2019	1 809 626

6.13.2. Deferred Tax Asset

(CZK THOUSAND)

	Tax rate (%)	Balance at 31 Dec 2019	Balance at 31 Dec 2018
Difference between the tax and accounting net book value of fixed assets	19	-1 269	-255
Accounting reserves	19	1 333	1 800
Provisions	19	3 158	169
Expenses deductible for tax purposes in the following years	19	0	0
Unrealised profit on the sale of inventory and assets within the Group	19	190 458	551 895
Deferred expenses	19	0	0
Total temporary differences		193 680	553 609
Deferred tax asset		36 799	105 186

(CZK THOUSAND)

Analysis of movements	
1 Jan 2018	47 385
Current changes charged to the profit and loss account	57 801
Current changes charged to equity	0
31 Dec 2018	105 186
Current changes charged to the profit and loss account	-68 387
Current changes charged to equity	0
31 Dec 2019	36 799

6.14. BANK LOANS AND BORROWINGS

Long-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Form of collateral at 31 Dec 2019
Investment loan	CZK	480 000	720 000	Immovable and movable assets, securities, promissory note
Investment loan	EUR	40 639	57 599	Hermes guarantee insurer
Investment loan	EUR	42 242	71 277	ODL guarantee insurer
Term loan	CZK	240 000	480 000	Immovable and movable assets, insurance receivables, promissory note
Acquisition loan	EUR	465 850	643 125	Securities, promissory note
Investment loan	CZK	857 143	0	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	8 748	11 189	Pledge of real estate
Investment loan	EUR	31 065	40 226	Pledge of real estate
Investment loan	CZK	98 864	118 562	Blank promissory note, pledge of movable assets,
Investment loan	CZK	41 800	57 000	Pledge of assets, blank promissory note
One-time investment loan	EUR	0	75 669	Movable and immovable assets
One-time investment loan	EUR	42 121	63 965	Movable and immovable assets
One-time investment loan*	EUR	49 702	0	Movable and immovable assets
One-time investment loan	EUR	69 104	0	Movable and immovable assets
Investment loan	EUR	24 247	38 574	Blank promissory note, pledge of movable assets
Investment loan	EUR	6 379	0	Blank promissory note, pledge of movable assets
Investment loan	PLN	0	3 859	Secured with tangible assets
Investment loan	EUR	12 705	0	
Investment loan	CZK	42 245	58 087	Two blank promissory notes
Investment loan	EUR	19 693	46 794	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	10 164	14 148	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	10 890	14 700	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	21 153	0	Mortgage, insurance pledge
Investment loan	EUR	11 716	0	Mortgage, insurance pledge
Operating loan	EUR	3 489	3 670	Financing of cars
Raiffeisenbank a.s.	CZK	8 250	19 250	Pledge of financed asset

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CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

LONG-TERM BANK LOANS

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Form of collateral at 31 Dec 2019
Raiffeisenbank a.s.	CZK	10 000	18 000	Pledge of financed asset
Investment loan	EUR	60 840	81 343	Real estate, production equipment
Investment loan	EUR	103 479	0	Technology
Investment loan	CZK	0	16 000	Real estate, production equipment
Investment loan	CZK	38 114	0	Expansion of production
Total		2 850 642	2 653 037	

Short-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Form of collateral at 31 Dec 2019
Investment loan	EUR	16 255	16 457	Hermes guarantee insurer
Investment loan	EUR	0	5 145	KEH8, KER8 line
Investment loan	EUR	3 811	3 859	KPH 600 machine, KLM measurement system
Investment loan	EUR	6 353	0	
Overdraft loan	PLN	54 290	52 851	Pledge
Investment loan	PLN	9 438	15 756	Secured with tangible assets (machinery, equipment) and insurance
Overdraft loan	PLN	39 473	39 806	Pledge – machinery, equipment and receivables
Investment loan	PLN	12 221	17 121	Pledge – machinery
One-time loan	CZK	0	25 223	Movable and immovable assets
One-time investment loan	EUR	21 061	21 322	Movable and immovable assets
Overdraft	EUR	0	4 134	Receivables
Overdraft – credit cards	CZK	91	125	Not secured
One-time investment loan*	EUR	24 851	0	Movable and immovable assets
One-time investment loan	EUR	6 655	0	Movable and immovable assets
Investment loan	CZK	240 000	240 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	28 162	28 511	ODL guarantee insurer
Investment loan	CZK	0	120 000	Immovable and movable assets, promissory note

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CONTINUATION OF THE TABLE FROM THE PREVIOUS PAGE

SHORT-TERM BANK LOANS

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Form of collateral at 31 Dec 2019
Investment loan	CZK	0	60 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	240 000	240 000	Immovable and movable assets, insurance receivables, promissory note
Acquisition loan	EUR	169 400	171 500	Securities, promissory note
Investment loan	CZK	228 571	0	Immovable and movable assets, insurance receivables, promissory note
Overdraft loan	CZK	84 177	0	Promissory note
Overdraft loan	CZK	84 356	0	Promissory note
Overdraft loan	CZK	82 322	0	Promissory note
Overdraft loan	CZK	82 864	0	Promissory note
Overdraft loan	CZK	85 073	0	Promissory note
Overdraft loan	CZK	84 825	0	Promissory note
Investment loan	EUR	2 441	2 645	Pledge of real estate
Investment loan	CZK	8 669	9 508	Pledge of real estate
Investment loan	CZK	15 200	15 200	Pledge of assets, blank promissory note
Credit cards	CZK	65	0	No security
Investment loan	CZK	26 364	19 773	Blank promissory note, pledge of movable assets
Investment loan	EUR	13 855	14 027	Promissory note, pledge of movable assets
Overdraft loan	CZK	6 102	12 153	Not secured
Overdraft loan	CZK	7 580	8 165	Blank promissory note
Overdraft loan	CZK/EUR	87 431	62 468	Blank promissory note
Overdraft loan	CZK	20 316	31 552	Blank promissory note, pledge of real estate
Overdraft loan	CZK	485	0	Not secured
Investment loan	CZK	15 842	15 842	Two promissory notes
Operating loan	CZK	7 977	145 329	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Operating loan	EUR	7 385	33 076	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	26 528	26 857	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	3 812	3 858	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance

TABLE CONTINUES ON THE FOLLOWING PAGE

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SHORT-TERM BANK LOANS

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Form of collateral at 31 Dec 2019
Investment loan	EUR	3 630	3 675	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Operating loan	CZK	208 109	0	Blank promissory note
Operating loan	EUR	19 609	0	Blank promissory note
Investment loan	EUR	6 509	0	Mortgage, insurance pledge
Investment loan	EUR	3 132	0	Mortgage, insurance pledge
Current bank loan	EUR	5	480	Credit cards
Overdraft	CZK	1 615	1 704	Pledge of real estate, bill of exchange
Operating loan	CZK	11 000	11 000	Pledge of real estate
Investment loan	CZK	8 000	8 000	Pledge of the financed object
Operating loan	CZK	43 639	0	Receivables
Investment loan	EUR	28 586	28 941	Real estate, production machinery
Investment loan	CZK	16 000	24 000	Real estate, production machinery
Operating loan	EUR	0	70 818	Receivables
Operating loan	CZK	28 829	44 388	Receivables
Investment loan	EUR	6 768	0	Real estate technology
Investment loan	EUR	10 339	0	None
Overdraft	PLN	0	63 867	Pledge of receivables
Operating loan	CZK	2 820	0	Financing of net working capital
Investment loan	CZK	5 368	0	Expansion of production
Total		2 258 259	1 719 136	

Short-Term Financial Borrowings

(CZK THOUSAND)

Purpose	Currency	Balance at 31 Dec 2019	Balance at 31 Dec 2018	Provider
Short-term	EUR	0	15 028	COMPRO
Short-term	EUR	0	0	Slovenská plavka a prístavy a.s.
Short-term	EUR	0	88	ANGLONA s.r.o.
Short-term	EUR	0	390	Loan from Michal Krnáč
Short-term	PLN	106	102	MSA Radomsko
Total		106	15 608	

6.15. OTHER OFF-BALANCE SHEET LIABILITIES, LEGAL DISPUTES**MORAVIA STEEL a.s.**

As of 31 December 2019, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 44,293 thousand.

The dispute held since 2013 based on the petition of former minority shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. to review the adequacy of the consideration attributable to the minority shareholders based on the decision of the General Meeting of TŘINECKÉ ŽELEZÁRNY, a. s. of 31 July 2013, was effectively concluded by the ruling of the High Court in Olomouc on 11 September 2019. This appellate court confirmed the ruling of the Regional Court in Ostrava of 8 June 2018, which set the amount of adequate consideration for each share with the nominal value of CZK 1,000 at CZK 2,284 (compared to CZK 1,815, which was the amount awarded by the company to minority shareholders based on an expert opinion prepared for the purposes of the squeeze-out).

Following the conclusions of the appellate court's ruling, the Company recognised an anticipated payable to the minority shareholders as of the effective date in the amount of the consideration of CZK 76,060 thousand as well as interest as of 31 December 2019 in the amount of CZK 10,173 thousand.

MORAVIA STEEL a.s., as well as TŘINECKÉ ŽELEZÁRNY, a. s. as another participant in the proceedings and some former shareholders, filed an appeal against the ruling of the High Court in Olomouc with the Supreme Court of the Czech Republic. No decision on this appeal has been made yet.

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

The legal dispute is still in the phase of first-instance procedures and only the first court hearing has taken place so far, where the court focused on procedural matters concerning the place of holding the dispute, and on 25 September 2019 the State Court made a decision regarding the relevant court in terms of location and competence. MORAVIA STEEL a.s. filed an appeal against this decision on 20 December 2019. No decision on this appeal has been made yet.

The dispute initiated in October 2019 by the plaintiff – insurance company Mapfre España Compañía de Seguros y Reseguros, S.A. against MORAVIA STEEL a.s., as well as against TŘINECKÉ ŽELEZÁRNY, a. s. (jointly and severally). The subject of the action is the claim for compensation for damage that was allegedly suffered when the plaintiff covered a loss on behalf of the customer MORAVIA STEEL a.s. arising from alleged faulty performance provided by MORAVIA STEEL a.s./TŘINECKÉ ŽELEZÁRNY, a. s. District Court in Frýdek-Místek issued a payment order which was cancelled after both defendants filed a protest against it. Trial proceedings will be conducted in respect of the claim arising from the legal action.

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

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

Moravia Steel Deutschland GmbH

On 26 February 2013, MORAVIA STEEL DEUTSCHLAND GMBH received a legal action filed by the group entities of Deutsche Bahn with the State Court in Frankfurt am Main. The Company records a reserve for this legal dispute of CZK 325,984 thousand.

TŘINECKÉ ŽELEZÁRNY, a. s.**Provided Guarantees****31 December 2019**

Type	Total amount	Balance at 31 Dec 2019
Guarantees – To other entities	EUR 2,249 thousand	CZK 57,154 thousand

31 December 2018

Type	Total amount	Balance at 31 Dec 2018
Guarantees – To other entities	EUR 2,652 thousand	CZK 68,218 thousand

Received Guarantees**31 December 2019**

Type	Total amount	Balance at 31 Dec 2019
Guarantees – From other entities	USD 61 thousand	CZK 1,380 thousand
	EUR 2,839 thousand	CZK 72,132 thousand
	CZK 121,280 thousand	CZK 121,280 thousand

31 December 2018

Type	Total amount	Balance at 31 Dec 2018
Guarantees – From other entities	EUR 3,789 thousand	CZK 97,462 thousand
	CZK 119,876 thousand	CZK 119,876 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. The Company is referred to as another participant in the proceedings. Through its ruling of 8 June 2018, the Regional Court in Ostrava determined that the amount of an adequate payment per each share with the nominal value of CZK 1,000 thousand issued by the Company is CZK 2,284. The High Court in Olomouc confirmed the above ruling on 11 September 2019 in an appellate proceedings and the ruling is final and conclusive. The dispute is ongoing in an appellate proceedings with the Supreme Court.

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. The Regional Court in Ostrava rejected the lawsuit. On 23 May 2018, the High Court in Olomouc revoked the ruling of the Regional Court in Ostrava and referred the matter back to the court for additional proceedings. Following the completion of the debtor's restructuring, the dispute is ongoing after the insolvency trustee of VÍTKOVICE POWER ENGINEERING a.s. became the new plaintiff. The Regional Court in Ostrava rejected the legal action again on 17 April 2019. The High Court in Olomouc cancelled the judgement of the Regional Court in Ostrava on 17 December 2019 and referred the matter back to the court for further proceedings.

The dispute initiated by Mapfre España Compañía de Seguros y Reseguros, S.A. ("Mapfre") against the Company and against MORAVIA STEEL a.s. ("MS") for the payment (jointly and severally) of an amount including fees and interest, representing, as claimed by Mapfre, the damage suffered by Mapfre by paying damages on behalf of a customer of MS caused by alleged defective performance provided by the Company and MS. The District Court in Frýdek-Místek issued a payment order which was cancelled after the Company and MS filed a protest against it. Trial proceedings will be conducted in respect of the claim arising from legal action.

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 2019, the Company used up funds in the amount of CZK 538,698 thousand (2018: CZK 534,964 thousand).

Other

In 2019, the Company was involved in the project “Education of REGRADA members as a joint path to the region’s development”, which is co-funded by the European Union. Education as part of the project was provided at a discounted price and the remaining costs were funded by the subsidy’s recipient, which is the Regional Development and Cooperation Council based in Třinec.

Other entities included in the TŽ consolidation group

Payables and receivables not discussed in the accounting records and legal disputes of entities included in the TŽ consolidation group are described in detail in the separate financial statements of these entities.

7. ADDITIONAL INFORMATION ON THE PROFIT AND LOSS ACCOUNT**7.1. INCOME FROM CURRENT ACTIVITIES OF THE GROUP****2019**

(CZK THOUSAND)

Activities	Inland	Cross-Border	Total
Metallurgic production	13 936 694	29 763 074	43 699 768
Energy production	1 928 611	4 170 501	6 099 112
Sale of goods	106 896	220 288	327 184
Services	828 907	469 285	1 298 192
Total	16 801 108	34 623 148	51 424 256

2018

(CZK THOUSAND)

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

7.2. OTHER INCOME AND EXPENSES

Costs of advisory, consulting and audit activities amounted to CZK 58,740 thousand and CZK 61,469 thousand as of 31 December 2019 and 2018, respectively.

Other operating income as of 31 December 2019 and 2018 predominantly included the use of the grant for greenhouse gas emission allowances in the amounts of CZK 1,299,707 thousand and CZK 638,005 thousand, respectively.

Other operating expenses as of 31 December 2019 and 2018 predominantly included the use of greenhouse gas emission allowances in the amounts of CZK 1,439,819 thousand and CZK 765,496 thousand, respectively.

Other financial income and expenses in the years ended 31 December 2019 and 2018 predominantly included foreign exchange rate gains and losses.

7.3. GRANTS AND SUBSIDIES

In the year ended 31 December 2019, the Company drew a subsidy for the acquisition of environmental investments of CZK 161,320 thousand.

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

In 2019, ENERGETIKA TŘINEC, a.s., received subsidies for the following projects: (i) Optimisation of production of industrial water Vodárna 1 in the amount of CZK 1,729 thousand, (ii) Replacement of compressed air source – Vodárna 1 in the amount of CZK 3,898 thousand and (iii) Renewal of a compressor – Vodárna 3 in the amount of CZK 2,126 thousand.

In 2019, Strojírny a stavby Třinec, a.s. received a subsidy for the Energy savings in SaS (CZ.01.3.10/0.0/17_101/0014009) project in the amount of CZK 3,068 thousand.

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

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

Subsidies for operating purposes of CZK 5,807 thousand utilised for the year ended 31 December 2019 include subsidies for development, a subsidy for implementing the “Werkperspektiva” project, a subsidy for museum operations, subsidies for environmental projects and subsidies for education of employees.

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

7.4. AGGREGATE RESEARCH AND DEVELOPMENT EXPENDITURE

	(CZK THOUSAND)	
	31 Dec 2019	31 Dec 2018
Research and development expenditure (net of grants)	46 126	91 266

7.5. RELATED PARTY TRANSACTIONS

7.5.1. Income Generated with Related Parties

Income generated with related parties that are not consolidated amounted to CZK 226,547 thousand in 2019, of which income from MINERFIN amounted to CZK 447 thousand (CZK 218,217 thousand for 2018, of which income from MINERFIN in the amount of CZK 21,472 thousand). All related party transactions took place under arm's length conditions.

Income from profit shares from related parties for 2019 and 2018 is disclosed in Note 6.5.

7.5.2. Purchases from Related Parties

Total purchases from related parties that are not consolidated amounted to CZK 1,851,963 thousand in 2019, of which purchases from MINERFIN amounted to CZK 1,133,122 thousand (CZK 4,215,130 thousand for 2018, of which purchase from MINERFIN in the amount of CZK 1,314,277 thousand). All related party transactions took place under arm's length conditions.

8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

8.1.1. Staff Costs and Number of Employees for 2019

The number of employees as of 31 December 2019 was 13,504, of which 162 managers. The number of employees as of 31 December 2018 was 13,692, of which 171 managers.

The staff costs of employees in the year ended 31 December 2019 amounted to CZK 8,030,415 thousand, of which staff costs of managers amounted to CZK 483,757 thousand. The staff costs of employees in the year ended 31 December 2018 amounted to CZK 8,176,852 thousand, of which staff costs of managers amounted to CZK 571,544 thousand. The remuneration to members of the Board of Directors and Supervisory Board in the years ended 31 December 2019 and 2018 amounted to CZK 2,520 thousand and CZK 74,518 thousand, respectively.

The number of employees is based on the average headcount.

8.2. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

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

(CZK THOUSAND)

	2019	2018
Use of management cars (the figure increases the tax base of employees)	17 328	12 366
Contribution for life insurance	2 570	4 698
Liability insurance	1 764	3 848
Total	21 662	20 912

9. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, in relation to the SARS CoV-2 coronavirus (causing COVID-19) circulation, the Company took and continues to take necessary steps to minimise the risk of contagion to its employees. The Company implemented numerous safety and methodological measures, in line with the emergency measures of the Czech government and other public authorities to prevent the spread of the coronavirus. The Company's management is currently assessing and estimating the quantitative and qualitative impacts on the financial position and future results of the Company. The Company will continue to carefully monitor current developments and will flexibly respond in order to protect the health of its employees and reduce the impacts on its financial results.

MORAVIA STEEL a.s.

On 28 February 2020, MORAVIA STEEL a.s. acquired a 100% share in MSV Metal Studénka, a.s. based on a share purchase agreement. MORAVIA STEEL a.s. thereby became the 100% owner of the aforementioned company.

VÚHŽ a.s.

In January 2020, VÚHŽ a.s. was informed by a German court about the initiation of bankruptcy proceedings of its customer Hoesch Schwerter Profile GmbH. VÚHŽ a.s. recognised a provision against receivables from this customer and a provision against inventory in stock intended for the customer in the consolidated financial statements.

IX

Report on Related Party Transactions for The Year Ended 31 December 2019

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

This report on related party transactions has been prepared for the reporting period from 1 January 2019 to 31 December 2019 (hereinafter the “reporting period”).

I. Structure of Relations in the Business Group, Role of the Controlled Entity, Method and Means of Control

A. CONTROLLING ENTITY

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

Relation: Throughout the reporting period, FINITRADING, a.s., as the sole shareholder, pursuant to Sections 73 (1) and 74 (3) of the Act on Business Corporations, acted as the Controlling Entity towards the Company. As the majority shareholder holding a 100% share in the share capital and voting rights, it controlled the Company by making decisions of the sole owner acting in the capacity of the General Meeting and, thus, the Company was subject to its direct control. On 31 December 2019, FINITRADING, a.s. ceased to exist following its removal from the Register of Companies as a result of a merger by amalgamation with MORAVIA STEEL a.s. as the successor company and its assets were transferred to MORAVIA STEEL a.s., which thereby became its universal legal successor.

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

B. ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

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

C. ENTITIES CONTROLLED BY THE COMPANY

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

Beskydská golfová, a.s. with its registered office at Ropice 415, 739 56, corporate ID 25352920 (100% share)

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

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

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

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

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

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

II. Description of Relations

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

A. 1. Sales

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

A. 2. Purchases

A. 2.1. Purchase of Zaporizhia aglo-ore

On 31 December 2018, the Company concluded Master Purchase Contract No. S-180010 with FINITRADING, a.s., for the period from 1 January 2019 to 31 December 2019, the subject matter of which is the controlling entity's obligation to provide supplies of Zaporizhia aglo-ore for the Company. During 2019, the purchase prices were regulated by amendments to the contract, namely Amendment 1 of 31 January 2019, Amendment 2 of 28 February 2019, Amendment 3 of 29 April 2019, Amendment 4 of 31 May 2019, Amendment 5 of 28 June 2019, Amendment 6 of 31 July 2019, Amendment 7 of 31 July 2019, Amendment 8 of 28 August 2019, Amendment 9 of 30 September 2019, Amendment 10 of 31 October 2019 and Amendment 11 of 29 November 2019.

A. 2.2. Purchase of Krivbas aglo-ore 61%

On 31 December 2018, the Company concluded Master Purchase Contract No. S-180011 with FINITRADING, a.s., for the period from 1 January 2019 to 31 December 2019, the subject matter of which is the controlling entity's obligation to provide supplies of Krivbas aglo-ore 61% for the Company. During 2019, the purchase prices were regulated by amendments to the contract, namely Amendment 1 of 31 January 2019, Amendment 2 of 28 February 2019, Amendment 3 of 29 April 2019, Amendment 4 of 31 May 2019, Amendment 5 of 28 August 2019, Amendment 6 of 30 September 2019, Amendment 7 of 31 October 2019 and Amendment 8 of 29 November 2019.

A. 2.2. Purchase of Krivbas aglo-ore 57%

On 15 May 2019, the Company concluded Master Purchase Contract No. S-190005 with FINITRADING, a.s., for the period from 15 May 2019 to 31 December 2019, the subject matter of which is the controlling entity's obligation to provide supplies of Krivbas aglo-ore 57% for the Company. During 2019, the purchase prices and the amount of algo-ore were regulated by amendments to the contract, namely Amendment 1 of 31 May 2019, Amendment 2 of 26 June 2019, Amendment 3 of 31 July 2019, Amendment 4 of 28 August 2019, Amendment 5 of 30 September 2019, Amendment 6 of 31 October 2019 and Amendment 7 of 29 November 2019.

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

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

A.4. Assessment of Detriment

The Report on Related Party Transactions lists all contracts concluded in the reporting period between the Company and the controlling entity (FINITRADING, a.s.). The contracts were concluded on the mutual benefits principle and all supplies were provided under the arm's length principle. Prices of goods and services are standard prices based on prices achieved on the market. The Company incurred no detriment from its relations with the controlling entity.

III. Assessment of Relations between Entities in the Business Group according to Section 82 (4) of the Act on Business Corporations

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

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

In Třinec on 31 March 2020



Petr Popelář

Chairman of the Board of Directors



Krzysztof Roch Ruciński

Vice-Chairman of the Board of Directors

Board of Directors of MORAVIA STEEL a.s.