

2015

ANNUAL REPORT



**TŘINECKÉ ŽELEZÁRNY**



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# COMPANY PROFILE

**T**ŘINECKÉ ŽELEZÁRNY, a. s. (Třinecké železářny) is a successor of a long tradition of steelmaking in Těšín Silesia. The Třinec Iron and Steel Works was established by the Chamber of Těšín of the archduke Karl von Habsburg in 1839. At present, Třinecké železářny is the most significant subsidiary of the commercial company MORAVIA STEEL a.s., which is its sole shareholder. Třinecké železářny is the largest Czech steel producer, even though it does not dispose of the largest capacity. The strategy of Třinecké železářny is a dynamic increase in the growth of the share of long products with higher added value and its control within the up- and downstream product chains.

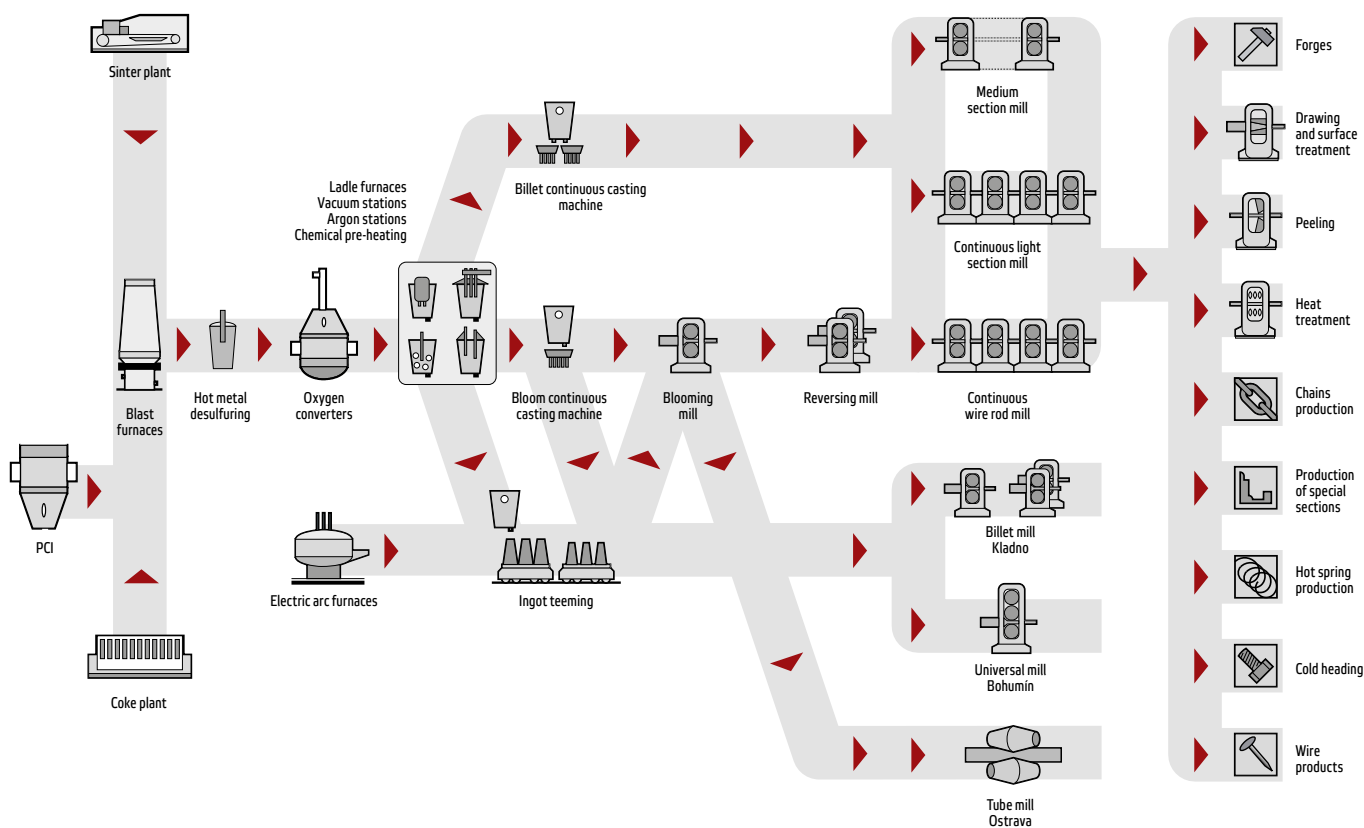
TŘINECKÉ ŽELEZÁRNY, a. s. produces approximately 2.5 million tonnes of steel annually in an integrated metallurgical cycle. This represents almost half of current total production of steel in the Czech Republic. The main product portfolio consists of long rolled products – wire rod, sections, special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

Our production plants comprise the comprehensive cycle from coke production to the final hot rolled steel product. The coke-chemical production plant includes two coke-oven batteries. Produced coke is used in our own blast furnaces together with the sinter charge prepared in two sinter plants. Since 2013, part of the blast furnace coke consumption has been substituted by the pulverised coal injection (PCI) into the blast furnace hearth. More than 98% of Třinec steel is produced in the BOF converter plant, on the basis of oxygen refining of iron. The BOF plant is equipped with complete ladle metallurgy enabling chemical and thermal homogenisation, additional alloying as well as vacuum treatment. The BOF steel is largely cast in two machines for the continuous casting of blooms and billets. Steel is also produced in the EAF steel plant. Blooms, billets and ingots from steel plants form a charge for the rolling mill plants in Třinec – a rolling mill of blooms and heavy profiles, medium section mill, rolling mill of wire rod and light sections – as well as for the tube mill in Ostrava, for the universal strip rolling mill in Bohumín or for the billet mill located in Kladno. The accompanying products, resulting from metallurgical production, are processed into artificial normal weight aggregate and further construction material at the secondary raw material plant.

To date, Třinecké železářny has produced more than 180 million tonnes of steel. Our products have been placed on the domestic market as well as bought by customers all over the world. More than half of the annual production of high-quality steel products bearing the trademark of three hammers in a circle has been directed to customers in more than 60 countries worldwide.

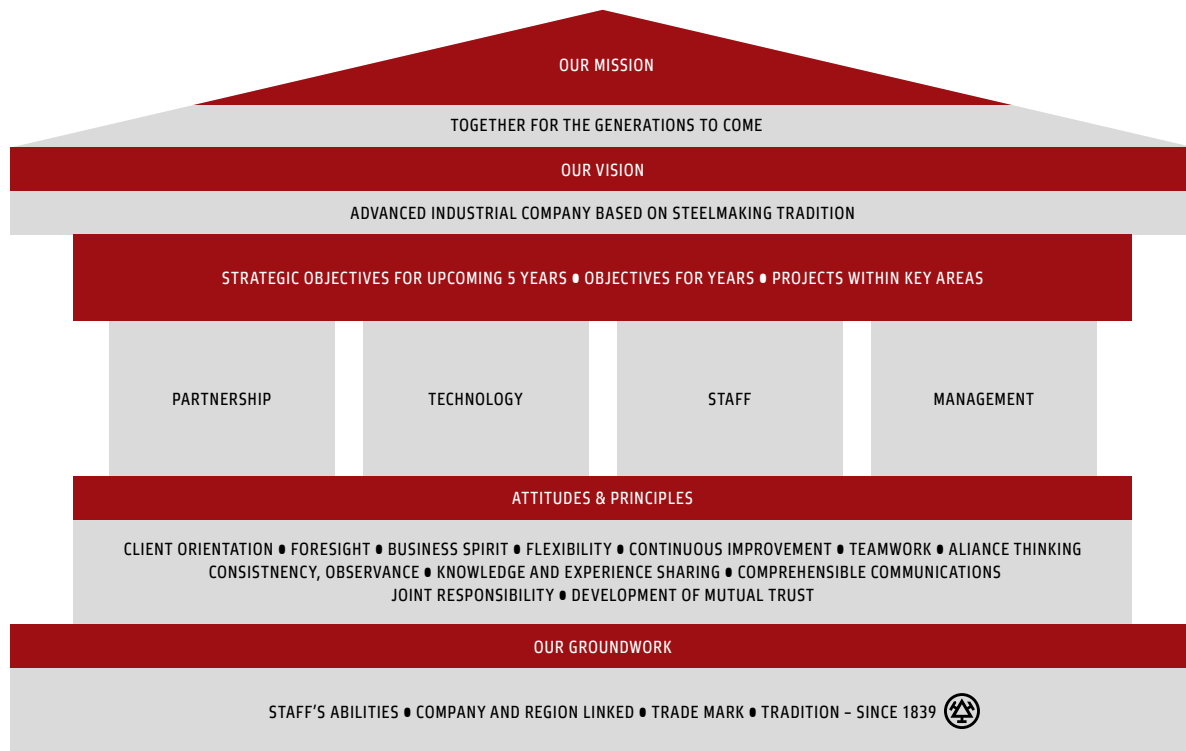


## MATERIAL FLOWS AND TECHNOLOGY





## OUR STRATEGIC FRAMEWORK



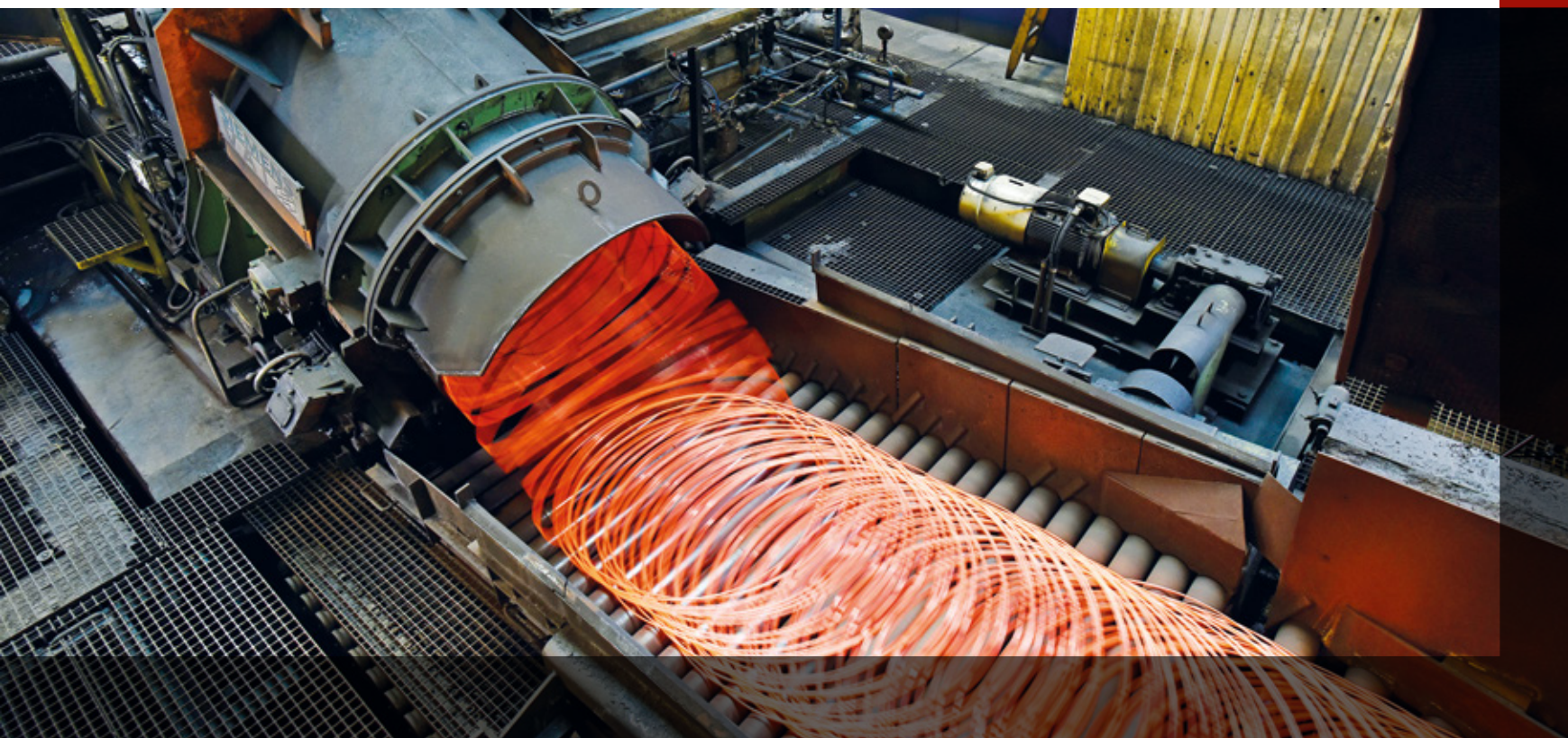




# KEY PERFORMANCE INDICATORS 2011 – 2015

Indicator	Unit	2011	2012	2013	2014	2015
Pig iron production	kt	2,029	2,005	2,068	2,061	2,070
Crude steel production	kt	2,480	2,493	2,553	2,540	2,532
Of which continuous castings	kt	2,360	2,389	2,440	2,424	2,409
Sales of rolled products including steel	kt	2,302	2,332	2,405	2,272	2,379
Total revenues	CZK mil.	41,327	38,425	37,765	40,849	37,695
Income from sales of products, goods and services	CZK mil.	38,897	37,111	36,701	38,354	36,921
Export share	%	56.7	56.9	58.4	66.6	66.6
Total costs excluding income tax	CZK mil.	39,641	37,421	36,378	37,077	34,350
Net profit or loss	CZK mil.	1,377	793	1,082	3,048	2,780
Consolidated profit or loss	CZK mil.	1,376	1,055	1,376	3,518	3,026
Net total assets	CZK mil.	26,914	26,967	30,378	33,462	32,948
Brute tangible fixed assets	CZK mil.	27,816	28,388	29,934	33,372	34,301
Adjustments	CZK mil.	17,639	18,370	19,204	20,479	21,087
Equity	CZK mil.	19,361	20,155	21,264	24,512	25,692
Capital investments	CZK mil.	545	744	1,653*	2,007*	1,518*
Other capital including other liabilities	CZK mil.	7,552	6,812	9,115	8,950	7,255
Employees (average adjusted total)	Persons	5,943	5,962	6,099	6,909	7,014
Average monthly wage	CZK/person	27,402	27,500	27,750	28,396	29,100

\*without subsidies



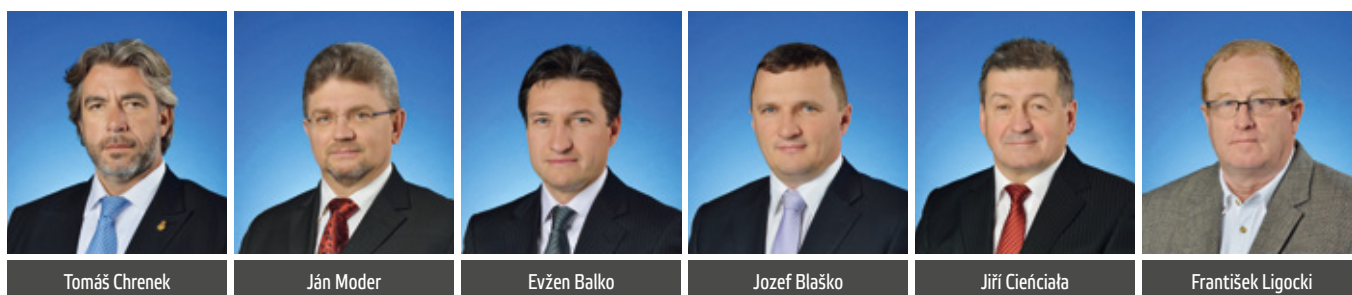








# SUPERVISORY BOARD AND BOARD OF DIRECTORS



Tomáš Chrenek

Ján Moder

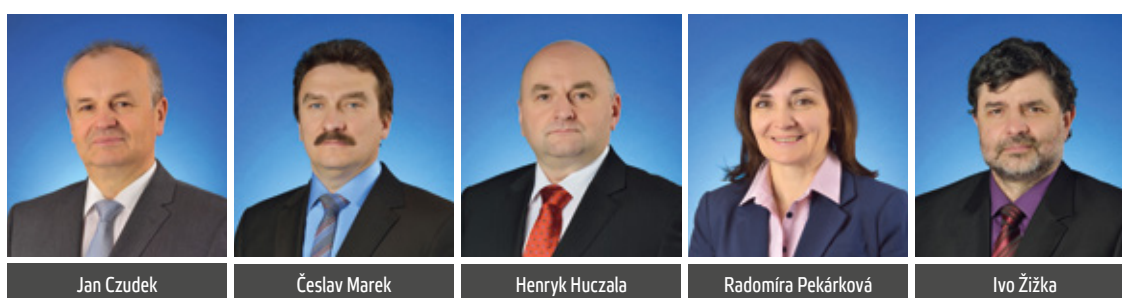
Evžen Balko

Jozef Blaško

Jiří Cieňciała

František Ligocki

Title	Name
Chairman	Tomáš Chrenek
1 <sup>st</sup> Vice-Chairman	Ján Moder
2 <sup>nd</sup> Vice-Chairman	Evžen Balko
Member	Jozef Blaško
Member	Jiří Cieňciała
Member	František Ligocki



Jan Czudek

Česlav Marek

Henryk Huczala

Radomíra Pekárková

Ivo Žižka

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



# INTRODUCTORY WORD

## OF THE CHAIRMAN OF THE SUPERVISORY BOARD

### TO OUR CUSTOMERS, PARTNERS AND EMPLOYEES.

The year 2015 is another milestone for the global steel industry. Global steel production as well as its use dropped slightly after the period of its precipitous growth, which lasted since the beginning of the millennium with the exception of the crisis years of 2008–2009. The main cause of the latest trends is the situation in China, which was the main driver of steel production and nearly doubled global steel production within the last 15 years. The consequences of the drop in Chinese demand for steel put worldwide markets at risk, as China is trying to export the steel not consumed within.

Other countries of the group denominated by the abbreviation BRICS also face a certain degree of stagnation. The only exception is India with continuous growth of steel production as well as its use.

The export of Chinese steel together with recognition of China as a market economy, which is expected at the end of 2016, can have negative consequences for steel companies in the countries of the EU and North America. Restructuring of the steel industry with all its implications has been under way since the last half of the previous century and the latest global trends in steel production and consumption can result in further cuts of production of European steel with all the associated economic and social impacts. We can fight the recognition of China as a market economy at the political level, but the only sustainable option is to offer our customers products that cannot simply be substituted with steel from China.

Moreover, EU countries produce the environmentally cleanest and energy efficient steel, which requires additional costs.

*Despite the difficult situation our profit reached the amount of CZK 2.78 billion after tax.*

The ever demanding markets with steel products are recently becoming more complicated and success in this area cannot stand on the good results of the past.



To sustain the top standard of our ability to compete, we have to create a balanced portfolio of products with properties which fully correspond with the requirements of our clients. Furthermore, we have to carefully diversify our investments for modernisation, technological development, as well as the environmental protection. Motivated employees, who contribute with their dedicated and creative work to your common success, are our paramount asset. Proof that we are succeeding in combining those factors is evidenced by the fact that in the period when the excessive capacities are a global problem, we run our facilities almost at 100%.





The investment project of modernisation of the Wire Rod Mill from 2014 put us among the absolute world leaders in the production of wire rod after one year of operation. Environmental projects, especially at the BOF Steel Plant and Sinter Plant, contribute to the further reduction of air pollution. In 2015, we also started an investment project of reconstruction and modernisation of Coke Oven Battery No. 11, which will further improve our economic and environmental parameters.

Our results on global markets, the professionalism of our staff, as well as the care we put into strategic development were also appreciated by President Miloš Zeman during his visit to our company.



Dear friends, I am pleased to announce that despite difficulty our profit reached the amount of CZK 2.78 billion after tax, which is significantly more than we expected at the beginning of the year.

Dear employees, customers and partners. On behalf of the Supervisory Board, the Board of Directors and the management of our company, I would like to thank you for the dedication, concern and support you gave us during the whole year. We managed to handle the complicated situation this year thanks to you. For that, you all deserve our sincere gratitude. I believe that Třinecké železářny will belong among the leading companies of the Czech Republic in the future and that our products will continue to be acclaimed worldwide.

**Tomáš Chrenek**

Chairman of the Supervisory Board





# BOARD OF DIRECTORS' REPORT

## DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

In 2015, the Czech economy maintained strong growth and kept its position among the leaders of European countries, where the proportion of gross domestic product, employment and inflation recorded one of the best indicators ever. GDP growth throughout last year was the highest in the last eight years, reaching 4.3%. The rising dynamics of the Czech economy were influenced by the record amount of funds drawn from the European Union, unexpectedly cheap oil and growth in household consumption due to a stable labor market and solid consumer confidence. The growth rate of the gross domestic product of the Czech economy was a reflection of virtually all sectors, led by the manufacturing and automotive industry. The rocketing of the Czech economy has led to a significant increase in job vacancies and rapid decline in unemployment. The inflation rate last year reached only 0.3%, the lowest since 2003 and is the second lowest level in the history of an independent Czech Republic. Although many of the reasons for excellent economic indicators achieved last year may be described as temporary, disposable prediction of growth of real gross domestic product for 2016 and 2017 remains at almost three percent.

Crude steel production in the Czech Republic dropped year-on-year by nearly two percent from 5.36 million tonnes to 5.26 million tonnes. The main reason for this decrease was the closure of the steel plant at Vitkovice Steel in Ostrava. Třinecké železářny produced almost as much crude steel as in the previous year and maintained its position as the largest steel producer in the Czech Republic, which it holds since 2009. Consumption of steel products in the Czech Republic recorded an increase mainly due to the volume of imports, whose share in the total volume of domestic consumption of steel products is around 75 percent.

In 2015, world crude steel production amounted to 1.62 billion tons. For the first time since 2009, it recorded a decrease by 2.8% compared with the previous year. Slight reduction in steel production was reflected in almost all regions of the world including China, where annual steel production fell by 2.3%. Still, the share of China's steel production in global production slightly increased from 49.3% in 2014 to 49.5% in the previous year. For the past few years, the problem of oversupply remains in the steel industry; this pushes down the prices of final steel products. The European steel industry is also under growing pressure from cheap and subsidised Chinese steel. It is obvious that the European steel industry can only remain competitive if it chooses an investment strategy that will bring product portfolio range with higher finalising and growing parameters of quality and added value.

## PRODUCTION AND POSITION ON THE MARKET

According to worldsteel, global steel production reached 1,662 million tonnes in the previous year, a decrease of 2.8% compared to 2014. Asia recorded a volume drop of 2.3% last year as well. Achieved level of crude steel in Asia was 1,113 million tonnes. Also China reduced steel production to 803 million tonnes. North America oscillates at a volume of 110 million tonnes, out of which the USA produced 78.9 million tonnes. Steel production in the EU countries fell slightly by 1.8% year-on-year to 166 million tonnes.

Average use of the world's steel production capacity in 2015 was 69.7%, compared to 73.4% in 2014. CIS (Commonwealth of Independent States) countries recorded a decrease in production by 4.3% year-on-year to 101.5 million tonnes as well, out of which Russia produced 71.1 million tonnes.







The European steel market will be favourably influenced by the positive growth trend in major consumer segments (construction, machinery and transport equipment). Total production in the construction sector is expected to increase by 2.3% in 2016 and 2.5% in 2017. Satisfactory prospects have also been foreseen in the field of engineering for 2016 and 2017. Favourable economic indicators and lower fuel costs are the basis for desired growth in automobile transport in EU countries. Automotive production development is predicted at a future level of around 3% in 2016 and 2017. Steel consumption in EU countries will grow by 1.3% and should reach 151 million tonnes next year.

### *Třinecké železářny defended the first place in the total domestic steel production with the share of 49%.*

The threat to the European steel industry from a global point of view would again be an increase in the amount of cheap Chinese steel while its prices are lower than the production costs. China's imports have doubled since 2014 to 4.5 million tonnes. Furthermore, 7 million tonnes were recorded last year.

Crude steel production in the Czech Republic amounted to 5.26 million tonnes in 2015, which is a drop of 1.9% from the previous year. Production of rolled products grew by 1.27% year-on-year, ie. 4.89 million tonnes.

In 2015, Třinecké železářny produced a total of 2.532 million tonnes of crude steel and our share of domestic production reached 49%, therefore first place in the overall domestic steel production has been defended. We have ranked among the top European manufacturer of long products, mainly in the production of SBQ steel, wire rod, and drawn steel due to our modern technological equipment and high professional skills of our employees in the manufacturing-technological flow. These high quality products are presented on the European market, mainly in the automotive and engineering field.

The sales of rolled products and semis increased by 4.7% year-on-year to 2,379 kilo tonnes. The volume intended for exports was 66.8% and 33.2% was delivered to domestic customers. Germany, Italy, Poland, Slovakia, and the USA have remained the main export territories.

In the long term, the best selling product has been wire rod, whose share of total sales in 2015 amounted to 39.4%. The entire sales of wire rod reached the level of 937 kilo tonnes last year, 68% of which was exported abroad.

Sales in the range of bars and profiles amounted to 571 kilo tonnes, 64% of this was exported. The assortment regarding the investment of new refining and processing capacity has been delivered to the customers according to their requirements, i. e. rolled steel, heat-treated steel, peeled or drawn. The greater degree of finalisation also improves the sales product range with higher added val-

## SALES OF LONG PRODUCTS 2013–2015

Sales (tonnes)	Domestic			Export			Total		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Wire rod	338,919	285,794	300,805	608,610	529,630	636,343	947,529	815,424	937,148
Semis	458,059	176,250	175,954	146,156	199,853	190,639	604,215	376,103	366,593
Profiles and bars	157,010	215,067	208,115	190,052	354,733	362,831	347,062	569,800	570,946
Rails <sup>1</sup>	22,049	39,397	55,851	261,370	244,693	222,484	283,419	284,090	278,335
Tubes	11,413	11,437	10,543	83,772	84,862	81,009	95,185	96,299	91,552
Wide steel	6,454	7,091	5,872	40,911	37,652	40,071	47,365	44,742	45,943
Drawn bars	23,672	27,567	29,157	49,837	51,070	52,500	73,508	78,637	81,657
Drawn wire rod	3,773	4,259	4,109	2,825	2,752	2,702	6,598	7,011	6,811
<b>Total</b>	<b>1,021,348</b>	<b>766,862</b>	<b>790,406</b>	<b>1,383,533</b>	<b>1,505,245</b>	<b>1,588,579</b>	<b>2,404,881</b>	<b>2,272,107</b>	<b>2,378,985</b>

<sup>1</sup> sales of rails together with railway superstructure accessories





ue, which is used mainly in the automotive and engineering industry.

Sales of semis amounted to 367 kilo tonnes. The share of semi-block casting accounted for 63%, e. g. 21% of rolled blocks and 15% of rolled billets. A one percent share was completed by sales of ingots and rolled slabs. Export volume of 191 kilo tonnes accounted for 52% of total sales.

#### OUR EXPORT TERRITORIES

Export share in %	2013	2014	2015
European Union	89.2	86.4	86.6
- Germany	26.6	25.3	25.2
- Slovak Republic	13.5	11.7	11.4
- Italy	12.9	12.9	13.6
- Poland	12.3	12.7	12.5
Other Europe	1.6	0.8	1.0
America	7.7	11.1	9.4
Africa	1.0	0.8	0.6
Asia	0.5	0.9	2.4
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Třinecké železářny is the only producer of rails and railway accessories in the Czech Republic. Sales of rails and railway accessories reached the total volume of 278 kilo tonnes, of which 102 kilo tonnes rails were exported to Canada and the U.S., 83 kilo tonnes of rails and railway accessories were sent to EU countries and 56 kilo tonnes was sold on the domestic market. Total exports of this product range accounted for 80% last year.

The volume of sales of seamless tubes reached 96 kilo tonnes in the past year, the biggest share of tubes, 78%, was delivered to the domestic market. The domestic supply of tubes amounted to approximately 12%. Seamless tubes produced in Třinecké železářny are intended particularly for building constructions and for further processing in machinery, energies and for raw material extraction and transport.

The volume of sales of wide steel produced in the universal strip mill in Bohumín is an integral part of the Třinecké železářny sales range. In 2015, 46 kilo tonnes of wide flat steel were sold, mainly in the range of structural steel, of which 40 kilo tonnes were exported mainly to the countries of the EU. Of the remaining 6 kilo tonnes supplied to the domestic market, 27% were represented by tool steel.

## INVESTMENTS AND MODERNISATIONS

The technical development projects plan for 2015, which is a part of the business plan, fully corresponds with our commercial – production strategy defined as “Increasing growth in the share of long products with higher added value and its control within the product chains.” Our investment projects were aimed at modernising, through environmental projects resulting from the conclusions of integrated permits, projects to cut costs as well as renew current facilities.



Třinecké železářny invested CZK 2,406 million. The state aid to the commenced environmental projects provided by the State Environmental Fund was CZK 888 million.

In 2015, 31 running projects were ongoing. The most significant of them are:

- Reconstruction of a gas cleaning facility of converter No. 1 and No. 2,
- Construction of two STC furnaces.

Třinecké železářny newly commenced 71 modernisation projects. The most significant of them are:

- Coke Oven Battery No. 11 major overhaul,
- third Strand Bloom Caster No. 1 modification for continuous steel casting of cross-section 525 mm.

In 2015, we continued the implementation of 19 environmental projects using funds from state and EU aid. The total amount invested in 2015 reached CZK 1,017 mil., broken down into CZK 138 million of investment funds of Třinecké železářny and CZK 879 million covered by state aid. The most significant of them are:

- Secondary de-dusting of the BOF hall,
- De-dusting of the flue gases and sinter plants nodes No. 2,
- Decreasing the fugitive emissions at the facility for production of the blast furnace charge,
- De-dusting of the multifunctional equipment for production of the steel plant sinter.

## TECHNOLOGY AND RESEARCH

The objective of the technological activities is to achieve the strategic aims of the company and the full satisfaction of customers. The main role of technology is the further management and total stabilisation of the production process with an emphasis put on production efficiency which represents for example the reduction of costs of production together with the improvement of qualitative parameters of the manufactured semis, which is essential for strengthening our competitiveness. Modern technology not only significantly reduces manufacturing and processing costs, but the environmental burden as well as. Třinecké železářny is perceived as a major leader of steel production in Central Europe due to the added value of its final products.

One of the main technological activities is the constant quality control of production in conjunction with customer requirements through 12 key production programs, which are the following:

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

The field of technology is managed by the technological regulations and measures. It is aimed at managing this process in the production material flow from pig iron and steel production to final treatment operations in particular rolling mills as peeling, drawing or hot treatment where needed. Technological regulations and measures mentioned above are closely connected with the requirements of customers in synergy with the possibilities of production facilities and they are continuously updated with regard to research and development activities, eventually with innovation technology.

The implemented “Quality Plans” and “Programme of Continual Improvement” as a part of the “Quality Objectives” are tools for guarantee of the most significant customers, eventually for the implementation of new technologies or new product. These activities are aimed at lowering or eliminating non-conformity of production and achieving maximum satisfaction in the midst of the still growing number of quality demands of customers.

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*We have decreased significantly the amount of solid emission at a record low of 310 t/year.*

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Technological activity is finally focused on improving the quality of interaction with subsidiaries in the group Třinecké železářny – Moravia Steel. Active cooperation helps optimise and link together new technologies or innovations with new developing cutting-edge products.

In 2015 the Research and Development (R&D) concentrated on the issue of present quality of the whole product portfolio and at the same time on secondary raw materials and waste treatment recycling, repeatedly used in production of steel semis, which was concentrated in several areas and may be briefly specified as:

- Utilisation of special tools to improve the surface quality of wire and bars with peritectic grades, screw, electrode, chain, spring and carbon steel grades (eg., laser triangulation methods, mathematical-statistics tools),
- Utilisation of the metal-bearing component of waste and secondary raw materials in technological cycles, or substitution of synthetic slags of these materials with respect to the environment,
- Development and testing of the technologies of heat treatment steel bars (refining) on the induction refining line,
- Development and verification of the technology to remove organic tar substances from the coke mill plant wastewater,
- Development and validation of the new technologies to increase the productivity of the sinter plants,
- Development and validation of controlled wire rolling and wire cooling after the continuous wire rod mill reconstruction.

These activities are aimed at lowering or eliminating non-conformity of production and achieving maximum satisfaction of the still growing list of quality demands of customers. These activities are carried out by a number of company employees. Particularly involved are the engineers (researchers) of the Department of Technology and Research, operational technologists in close cooperation with the departments of environment, controlling etc.

The main partners of Třinecké železářny involving projects in the field of basic research are their subsidiaries as MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s. r. o. and VÚHŽ a. s., further Universities and research organisations, i.e. Technical University of Ostrava, Brno University of Technology, University of Chemistry and Technology in Prague, Technical University of Liberec in the Czech republic, regarding foreign countries, i.e. University of Silesia and University of Freiburg in Germany. All the projects with state aid have the same measure of cooperation as in the prior years.

A suitable consensus of basic and applied research can bring about successful application of new or modified technologies used not only for improving the quality of products in Třinecké železářny, but also for reducing cost and lowering negative impacts on the environment.



In 2015, Třinecké železářny managed 31 research projects, 5 of which were with state aid and 26 of them were internal projects.



## ENVIRONMENT

### Air protection

Compared to 2014, Třinecké železářny achieved a further decrease of solid emission by more than 45%, at a record low of 310 t/year. The highest decline of emission was recorded due to completion of several investment projects focused on decreasing pollutants in the steel-works in 2015. The most significant investment projects are "De-dusting of the flue gases and sinter plants nodes No. 2" and "Secondary de-dusting of the BOF hall". For other pollutants any significant annual changes in limited quantities have not occurred.

### Greenhouse gas emissions

For the year 2015, the emissions of greenhouse gases from installations in the Třinec area of TŽ were in the amount of 2,497,507 tonnes. The value of carbon dioxide from the tube mill in Ostrava were 23,481 tonnes and the value of carbon dioxide from the Billet Mill Kladno reached 47,718 tonnes. The total amount of greenhouse gases from Třinecké železářny installations in the year 2015 amounted to 2,568,706 tonnes of carbon dioxide. This year-on-year decrease by 4.38% is mainly due to the ongoing major overhaul of coke-oven battery No. 11.

For the year 2015, the Ministry of Environment has allocated 24,638 pieces of emission allowances for the Tube Rolling Mill in Ostrava, 51,666 pcs was designated for the Billet Mill Plant in Kladno and 3,705,508 pcs for other plants in the Třinecké železářny.

### Water protection

The amount of industrial wastewater discharged into the Olše River watercourse and the pollution of water has not recorded any significant change in 2015 compared to 2014. This corresponds to the long term stabilised state of our water management. The quality of wastewater is achieving a sustainable level with respect to compliance with specified limits of pollution.

Also, in terms of the production of wastewater per tonne of produced steel the situation is constantly stable. Compared to 2014, when production of waste water was 1.57 cubic metres, there was only a slight increase to 1.64 cubic metres in 2015.

During 2015, there was no instance of emergency that would result in the deterioration of, or threat to, the quality of groundwater or surface water.

### Waste management

Třinecké železářny strives to minimise the impacts of its operations on the environment, particularly with regard to its production programme and risk of a negative influence on the environment.

The total amount of waste in Třinecké železářny premises reached 140,693 tonnes, a 11.3% decrease in comparison with the previous year 2014 (158,602 tonnes). The drop in the category "Other" was 11.4%. In the category "Hazardous produced waste" a drop of 10.9% was recorded compared to 2014.

## POLLUTANTS IN 2015 COMPARED TO 2014

Year	Solid pollutants (t/year)	Sulphur dioxide (t/year)	Nitrogen oxides (t/year)	Carbon monoxide (t/year)
2014	560	2,566	1,362	62,999
2015	310	2,521	1,423	59,649

## POLLUTION DISCHARGED INTO WATER FLOWS FROM 2014 TO 2015

Year	Volume of waste water (m <sup>3</sup> /year)	Undissolved substance (t/year)	Non-polar extracted substance (t/year)	Dissolved inorganical salts (t/year)	Chemical oxygen consumption using dichromatic method (t/year)	Total iron (t/year)
2014	3,992,219	28.0	0.42	2,047	44.3	3.7
2015	4,153,968	33.6	0.81	1,979	62.5	3.5

Note: data refers to the area of TŽ in Třinec



The indicator of the amount of waste per one tonne of produced steel amounted to 62.4 kg/tonne in 2014 and, the assessed year 2015 reached the level 55.6 kg/tonne (a drop of 10.9%) compared to the previous year.

The reason for the decrease in the category “Other“ compared to 2014 was the higher share of slags, which were newly processed or reused in an integrated metallurgical cycle.

The decline of “Hazardous waste“ was caused by the growth of fine sludge from the BOF steel plant’s former by-product, it was not possible this year to handle it to the certified product – Fe correction, and waste – oily Mill scale from the Billet Mill in Kladno.

The drop of the amount in the category of “Hazardous waste“ and “Other“ has a positive tendency in a waste production in the area of TŽ compared to 2014.

#### **Environmental projects**

In 2015 the environmental investment projects and environmental projects were implemented, for which Třinecké železářny has received state subsidy from the State Environmental Fund (call No. 36, 38 and 48) in accordance with the technical plan:

- Modernisation and reconstruction of coke oven battery No. 11,
- De-dusting of the coal unloading pit,
- De-dusting of the flue gases and sinter plant nodes No. 2,
- Reconstruction of exhaustion of casting bay BF4 and BF6,
- Secondary de-dusting of the BOF plant,
- De-dusting of the workplace for flame cutting the continuously cast blooms/billets,
- Decrease of emissions at the facility for production the blast furnace charge,
- De-dusting of multi-functional facility for production of the steel plant sinter,
- De-dusting of the iron ore pellet sorting line in the premises of Třinecké železářny,
- Mobile de-dusting equipment,
- Multi-purpose de-dusting units,
- De-dusting of tipplers No. 3 and 4,
- Decreasing the fugitive emissions at the mobile industrial vacuum cleaners,
- Decreasing the fugitive emissions at the iron ore belt conveyor – mist visor,
- Purchase of the universal spray-sweeper car,

- Decreasing the fugitive emissions at the crushing lines and slag handling,
- Decreasing the fugitive emissions at the multifunctional environmental area,
- De-dusting the vacuuming station RH 2,
- De-dusting of the tundish section equipment of continuously casting No. 1 and 2,
- Insulating greenery.

The total costs of environmental projects amounted to CZK 1 368.75 mil. in 2015 (endowment of environmental projects – proclamation No. 36, 38 and 48 including the major overhaul of the coke oven battery.

#### **Environmental aims for 2016**

- Modernisation and reconstruction of coke oven battery No. 11,
- Ammonia stripping,
- Dedusting renewal of internal and external transfer additions,
- Desulphurisation at the sinter plant No. 2,
- Adding active coal to the fumes of Sinter plants No. 1 and 2,
- Construction of hot stove No. 64,
- Adjusting the distribution of air to cloth filters exhaust skipping pits,
- Central vacuuming of sinter plant No. 1 and garble station No. 2,
- Central vacuuming system of coke transport and coke stone separator,
- Purchase of the universal spray-sweeper car.

## **EMPLOYEES**

Our company bases its approach to employees on openness and mutual respect, promotes their development, increasing employment qualifications and career growth. The key manners of behaviour of the employees of our company are codified in the Code of Ethics. The Code of Ethics, principles of corporate culture and corporate social responsibility are then defined by the Conditions of Employment, which set the duties of employees. The essential as well as extraordinary benefits of the employees are codified in the Corporate Collective Agreement and related Social Code. These documents are then elaborated in the related internal regulations that are obligatory for all the employees when they perform their occupational duties.

In 2015, attention within the human resources department was paid to acquiring technically educated graduates of high schools and universities in order to ensure the generation exchange and ordinary fluctuation, and to maintain and further develop the qualifications of employees with respect to maximum cost savings.

Graduates of technical fields of education or with previous experience were preferred in recruitment. A significant portion of newly recruited employees were graduates of Střední odborná škola Třineckých železáren, secondary technical school of our company. In order to accommodate the needs of the university graduates, the 14th round of the training centre for university graduates was concluded and the 15th round has started. Co-operation with the schools in all the various grades went on.

The education and training of employees reflected the organisational and personnel changes in order to ensure the qualification standard of employees within the whole range of professions. The education events focused especially on the professional preparation of employees and education regarding quality. The language courses as well as management training went on, workshops for adopting the specialist knowledge were organised. For managers in selected operations there were training courses to support communication skills that contribute to professional conflict management in the workplace and improving interpersonal relationships. To implement educational activities internal trainers were used by Corporate Academy, which is also an instrument for mutual discussion and shared learning.

As in previous years, attention was paid to the premium health care of the employees. Using the financial support of Czech Industrial Health Insurance company, the wellness stays in spas as well as outpatient remedial were organised. As part of the anti-flu measures, preventive vaccination has been offered to employees as well as the provision of vitamins. Additional reconditioning care (the new of 2014) went on, where employees were offered activity packages that include various combinations of physical activity, relaxation and rehabilitation procedures and advice on healthy eating. Within the newly conceived Health Days, organised by the Podlesí Hospital, a selected group of employees underwent specific preventive examinations.







The field of preventing risks of health damage caused by work is ensured according to Czech legislation and the conditions for obtaining the prize Safe Company, awarded by the State Authority of Labour Safety of the Czech Republic.

In 2015, a total of 22 work accidents were recorded in Třinecké železářny with lost time accident longer than 3 days. No fatal accident occurred. The level of the accident rate for 2015 is 0.31 per 100 employees of Třinecké železářny, which represents a drop of 3% year-on-year. There were no occupational diseases recorded in 2015.

In 2015 the technological development as well as environmental projects continued affecting the increase in the number of employees, such as flue gas dust removal of nodes Sinter Plant No. 2, dedusting tipplers, iron ore sorting and so on. Some facilities required replenishing employee numbers due to increased production, such as new STC furnaces, modernised wire rod mill, grinding center and the medium section mill; production also increased in the Wire Drawing Plant in Staré Město near Uherské Hradiště.

Fulfilling and exceeding the financial goals enabled the achievement of average salary in the amount of CZK 29,100, which represents a significant growth of salary than it was concluded in the Corporate Collective Agreement as well as slight growth year-on-year. All other obligations contained in the Collective Agreement and Social Code were met. The high standards of care for employees and their health together with provision of employee benefits were enhanced. All those results strengthened the principles of mutual co-operation with the TŽ basic unit of KOVO Unions and lead up to consolidation of social peace.

In 2015, the average adjusted headcount of Třinecké železářny grew to 7,014 employees.

## MANAGEMENT SYSTEM

The company management system is instrumental in implementing the business strategy with the aim of gradually increasing the proportion of high-grade steel products, creating and developing product chains and intensively using assets while increasing the return on sales. The efforts of all employees are aimed at increasing the added value of long rolled products, the predominant part of our production.

The basic principles of the management include the linear organisational structure as well as process and project management including the risk analyses at all management subsystems. None of the principles are applied in isolation; management is based on their well-considered combination.

During 2015, a series of measures were adopted to support the strategic objectives in all strategic areas (Partnership, Technology, Staff, and Management). The company managers, who are responsible for the strategy, attended the educational events regarding the legislation changes, presentation skills, and prevention of health damage due to the excessive stress.

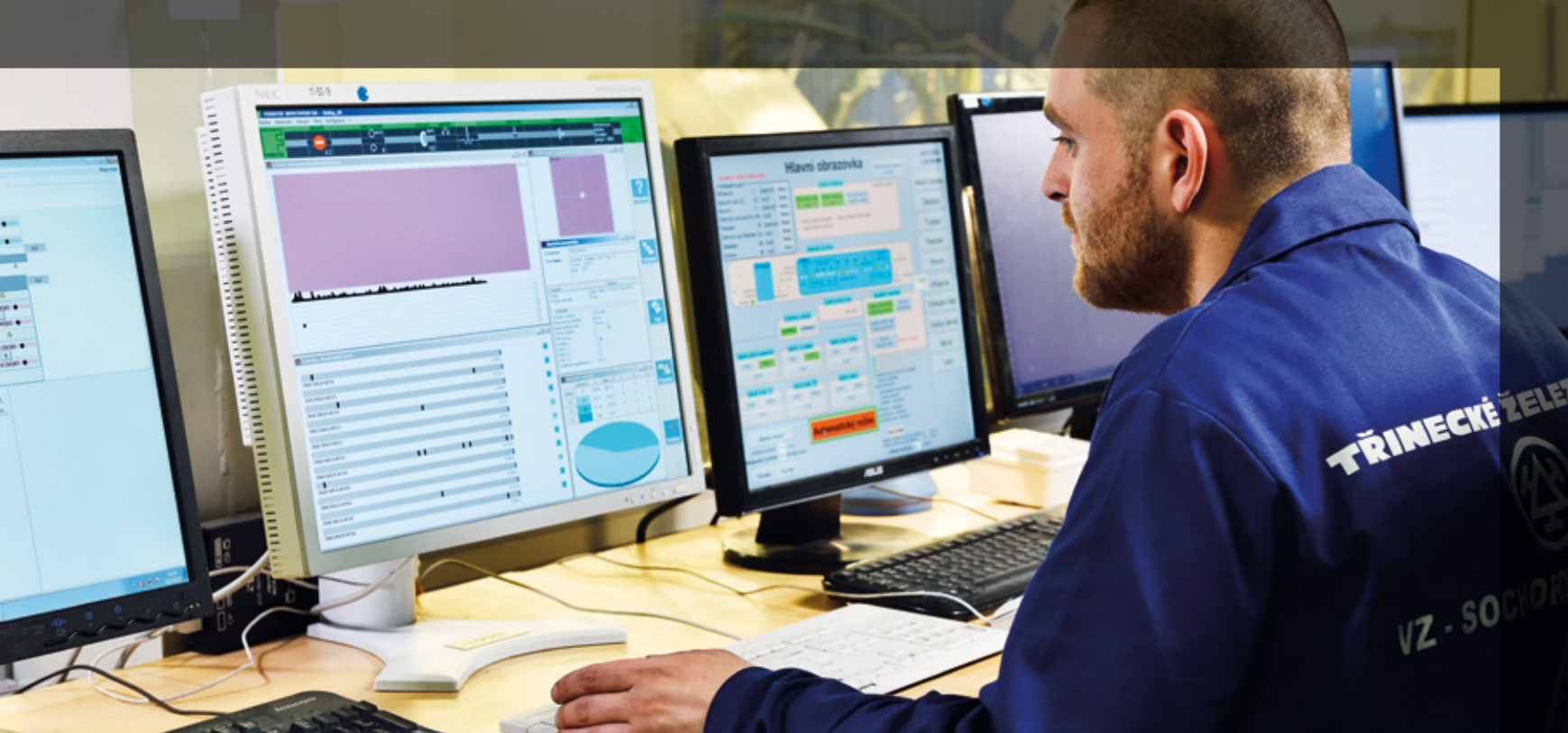
The management system, including the information systems, did not change in 2015. The information platform still consists of SAP and Lotus Notes.

The corporate governance includes social responsibility towards the environment in the region, therefore we decided on applying the energy saving system. The system pursuant to the EN ISO 50001 standard was implemented at the beginning of 2015 and has become an integral part since 1 January 2016. The plan of certification by the third independent party is planned for the first half of 2016.

Long term targeted effort on responsible behaviour towards the environment and people of the region continued in 2015 as events like cleaning the Olše riverbed, organising our employees to help NGOs, by financial support of selected NGO projects within the region or sponsoring various sport teams.

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

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



## FINANCIAL INFORMATION

In 2015, the pre-tax profit amounted to CZK 3,344 million.

Nevertheless, this good financial result is lower by CZK 427 million compared to 2014, this was due to decreased revenues towards the drop of charge consumption because of adverse price trends of rolled goods (sales prices decreased faster than the prices of the input commodities) and decrease of inventories of own activities.

The financial result was also negatively affected by the modernisation of Coke Oven Battery No. 11.

The production of the company amounted to CZK 36,456 million representing a year-on-year decrease of CZK 3,126 million. The following aspects influenced the drop:

- Our revenues for sales of rolled goods (CZK -1,160 million) because of the average sales price drop,
- Our revenues for sales of other products and services (CZK -271 million) due to the shut down of Coke Oven Battery No. 11,
- A drop of the inventories of own activities (CZK -1,170 million) due to the drop of the prices of input commodity prices and lower amount of semi-products in the stock.

## DEVELOPMENT OF REVENUES

Indicator (in CZK thousands)	2014	2015
Rolled goods incl. steel	36,956	35,796
Other products	930	691
Sales of own products	37,886	36,487
Revenues from services	466	433
Sale of own production, services and goods	38,352	36,920

The purchased consumables were lower by CZK 2,702 million compared to 2014. The most significant influence on the year-on-year decline was the consumption of the raw materials in relation to decreasing prices of the decisive input commodities and lower steel production.

The added value amounted to CZK 7,987 million in 2014, which is CZK 424 million less than in 2014. The labour productivity from the added value was CZK 1,139 thousand per employee in 2015 (CZK 1,217 thousand in 2014).

The operating profit was partly influenced by higher personnel costs, higher depreciation and lower sales of emission allowances, it dropped by CZK 819 million year-on-year.

The financial result grew by CZK 391 million compared to 2014 in relation to the dividends from the subsidiaries.



As of 31. 12. 2015, our company reported assets in the total amount of CZK 32,948 million, which is CZK 514 million less than on 31. 12. 2014.

The year-on-year drop was due to the decrease in current assets and accrual of CZK 1,059 million, fixed assets grew by CZK 545 million.

Long term tangible assets grew by CZK 354 million (investments were higher than depreciation). Long term intangible assets grew by CZK 187 million compared to 2014 due to the higher balance of emission permits.

The decrease in inventories of CZK 863 million has been due to a decrease in the volume of semi-finished and finished products (high inventories as of 31. 12. 2014 were related to the modernisation of the continuous wire rod mill) and the decrease of the prices of inputs.

Receivables decreased by CZK 388 million due to a decrease in trade receivables.

Short term financial assets grew by CZK 151 million, other assets grew by CZK 41 million.

Within liabilities, the own resources grew by CZK 1,180 million year-on-year thanks to the achieved profit after taxation. External resources including the other liabilities dropped by CZK 1,694 million, especially due to the decrease of payables (especially the trade ones), bank loans and reserves. Long-term liabilities grew due to the increase of deferred tax liability.

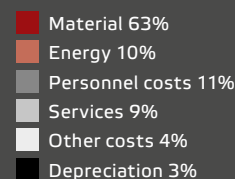
## STRATEGIC OBJECTIVES

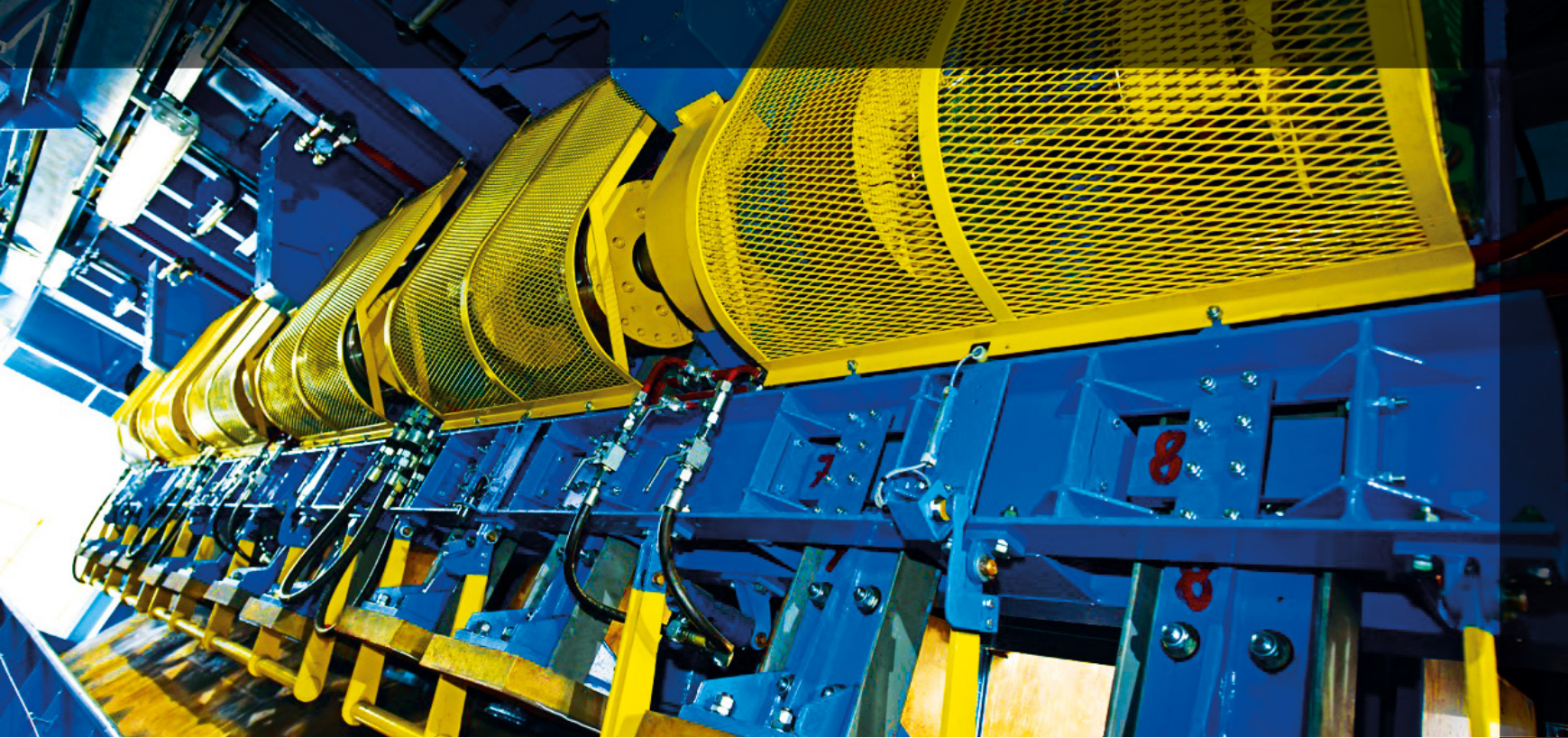
The steel industry apparently reached the peak of cyclic growth, which has mainly been supported by the significant economic development of China in recent years. World steel demand in 2015 was lower by 1.7 % than in 2014. In addition to China's slowdown, there are other factors that the steel industry is facing such as: low public investment, fluctuations in financial markets and conflicts in many developing regions. In 2016 slight growth in global consumption is expected, which should reach 1,523 million tonnes.

Therefore, in order to maintain the competitiveness of Třinecké železářny in accordance with the accepted corporate strategy we are developing the production of products with higher quality and utility parameters. The year 2015 was very efficient: we managed to stabilise the production in modernised wire rod mill and heat treatment wire furnaces were built. However, investing requires an existing technology as well. In the autumn, we started the shutdown of coke oven battery no. 11 due to its overhaul. The return to production is scheduled in October 2016. Another significant investment project undertaken was the reconstruction of the BOF gas cleaning station relating to the completion of the de-dusting technology nodes operation.

In the next phase, we have planned the modernisation and reconstruction of the blooming mill and the billet stool, in order to increase the cleaning capacity of the billet plant. Furthermore, our intention is to boost the capacity of heat treatment and non-destructive testing defects in final products of the TŽ premises. Another one of the most crucial plant investment of hot iron and steel production is modernising and increasing the capacity of hot air blown into the blast furnaces, the ore preparation charge restoration and, sub-investment projects within the equipment of the continuous casting machine.

## COST STRUCTURE IN 2015





# REPORT OF THE SUPERVISORY BOARD

**T**he Supervisory Board regularly checked the compliance of the business activities with legal regulations, the Articles of Association of TŘINECKÉ ŽELEZÁRNY, a. s., and resolutions of the General Meeting and the Supervisory Board. During the course of 2015, the Board of Directors informed it of the current economic situation of TŘINECKÉ ŽELEZÁRNY, a. s., as well as on fulfilling the Business Plan.

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

At its meeting on 11 April 2016, the Supervisory Board reviewed the regular financial statements and the regular consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. for 2015, the proposal for the distribution of profit generated in 2015 and the report of the Board of Directors on the business activity and the assets

of the Company, and recommends that the General Meeting approve the above-mentioned documents, i. e. the sole shareholder of TŘINECKÉ ŽELEZÁRNY, a. s. in the scope of the General Meeting powers.

The Supervisory Board also reviewed the Report on Relations for the 2015 accounting period and concluded that it was prepared in conformity with Law No. 90/2012 Sb. and the actual state of relations between TŘINECKÉ ŽELEZÁRNY, a. s., and controlling entities, as well as between TŘINECKÉ ŽELEZÁRNY, a. s., and entities controlled by the same controlling entity.

**Tomáš Chrenek**

Chairman of the Supervisory Board



# REPORT OF THE AUDIT COMMITTEE

The Audit Committee of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter “TŽ”) monitored the procedure of preparing the financial statements and the consolidated financial statements of TŽ in accordance with the schedule of the Audit Committee. The Audit Committee also monitored the course of the statutory audit of individual regular financial statements of individual companies controlled by TŽ in 2015 and the consolidated financial statements of TŽ for 2015. The procedure of preparing the individual and consolidated financial statements of TŽ for 2015 took place in accordance with Czech as well as International Accounting Standards; these financial statements are audited.

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

The Audit Committee evaluated the independence and objectivity of the auditor, co-operated with the auditor and reviewed the nature and extent of the complementary services provided by the auditor.

The following persons were invited to the committee meetings: main members of the auditor team, TŽ Financial Director, Manager of the TŽ Internal Audit Department, and TŽ employees who are responsible for or participating in activities, which were focused by the Audit Committee in its work.

Moreover, the Audit Committee discussed the information on risk management and outcomes of the internal audit department as well as the plan of activities for the internal audit department for 2016.

In conclusion, the Audit Committee is able to state that in regard to the activities that are entrusted by the applicable laws and the Articles of TŽ at:

- (i) Monitoring the procedure of preparation of financial statements and consolidated financial statements,
- (ii) Monitoring the efficiency of internal auditing of TŽ and risk control systems,
- (iii) Monitoring the process of the obligatory audit of the financial statement and consolidated financial statement,
- (iv) Evaluation of the independence of statutory auditor including providing complementary services.

It did not find any significant facts on the company's activities in the course of 2015 or in the existing part of 2015 until the General Meeting, about which the General Meeting of TŽ, or the sole TŽ shareholder, should be informed at the General Meeting.

**Dana Trezziová**

Audit Committee Chairwoman





# AUDITOR'S REPORT

**Deloitte.**

Deloitte Audit s.r.o.  
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Prague, Section C, File 24349  
Id. Nr.: 49620592  
Tax Id. Nr.: CZ49620592

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

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

### Report on the Financial Statements

We have audited the accompanying financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2015, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

### Auditor's Responsibility

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

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

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

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2015, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

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

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#### Auditor's Responsibility

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

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

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

#### Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the TŘINECKÉ ŽELEZÁRNY, a. s. consolidation group as of 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

#### Other Information

The other information comprises the information included in the annual report (including the report on related party transactions which is contained therein), but does not include the financial statements, the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

Our opinions on the financial statements and the consolidated financial statements do not cover the other information and we do not express any form of opinion thereon. However, in connection with our audit of the financial statements and consolidated financial statements, our responsibility is to read the other information and consider whether the other information in the annual report is not materially inconsistent with the financial statements and consolidated financial statements or our knowledge obtained in the audit, the annual report has been prepared in accordance with the applicable legal requirements, or the other information does not otherwise appear to be materially misstated. If, based on the work we have performed, we conclude that the above is not true, we are required to report such facts.

Based on the work we have performed, we have nothing to report in this regard.

In Prague on 11 April 2016

Audit firm:

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



Statutory auditor:

Václav Loubek  
registration no. 2037





# FINANCIAL PART I.

## – FINANCIAL STATEMENTS

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

### Components of the Financial Statements:

Balance Sheet


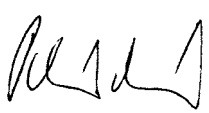
Profit and Loss Account

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 21 March 2016.

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



# BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

		31.12.2015			31.12.2014
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>55 460 635</b>	<b>-22 512 960</b>	<b>32 947 675</b>	<b>33 461 990</b>
<b>B.</b>	<b>Fixed assets</b>	<b>41 972 430</b>	<b>-21 776 235</b>	<b>20 196 195</b>	<b>19 650 771</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<b>705 031</b>	<b>-232 672</b>	<b>472 359</b>	<b>285 178</b>
B.I.2.	Research and development	4 553	-4 553		
B.I.3.	Software	206 417	-177 449	28 968	27 566
B.I.4.	Valuable rights	100 492	-45 530	54 962	38 381
B.I.6.	Other intangible fixed assets	393 484	-5 140	388 344	195 502
B.I.7.	Intangible fixed assets under construction	85		85	23 729
<i>B.II.</i>	<i>Tangible fixed assets</i>	<b>34 301 038</b>	<b>-21 095 618</b>	<b>13 205 420</b>	<b>12 851 626</b>
B.II.1.	Land	516 595		516 595	517 376
B.II.2.	Structures	8 340 004	-4 420 202	3 919 802	3 801 586
B.II.3.	Individual tangible movable assets and sets of tangible movable assets	24 710 341	-16 671 380	8 038 961	7 858 370
B.II.6.	Other tangible fixed assets	1 499		1 499	1 499
B.II.7.	Tangible fixed assets under construction	699 850	-4 036	695 814	613 484
B.II.8.	Prepayments for tangible fixed assets	32 749		32 749	59 311
<i>B.III.</i>	<i>Non-current financial assets</i>	<b>6 966 361</b>	<b>-447 945</b>	<b>6 518 416</b>	<b>6 513 967</b>
B.III.1.	Equity investments - subsidiary (controlled entity)	6 913 364	-430 294	6 483 070	6 478 832
B.III.2.	Equity investments in associates	50 995	-17 651	33 344	33 133
B.III.3.	Other securities and investments	2 002		2 002	2 002
<b>C.</b>	<b>Current assets</b>	<b>13 371 820</b>	<b>-736 725</b>	<b>12 635 095</b>	<b>13 735 832</b>
<i>C.I.</i>	<i>Inventories</i>	<b>9 181 488</b>	<b>-675 811</b>	<b>8 505 677</b>	<b>9 368 773</b>
C.I.1.	Material	3 803 979	-309 972	3 494 007	3 289 802
C.I.2.	Work in progress and semifinished goods	2 944 420	-260 034	2 684 386	3 515 753
C.I.3.	Products	2 430 199	-105 805	2 324 394	2 559 647
C.I.5.	Goods	101		101	536
C.I.6.	Prepayments for inventory	2 789		2 789	3 035
<i>C.II.</i>	<i>Long-term receivables</i>	<b>4 079</b>		<b>4 079</b>	<b>5 036</b>
C.II.1.	Trade receivables				147
C.II.5.	Long-term prepayments made	640		640	640
C.II.7.	Other receivables	3 439		3 439	4 249
<i>C.III.</i>	<i>Short-term receivables</i>	<b>2 814 793</b>	<b>-45 866</b>	<b>2 768 927</b>	<b>3 156 789</b>
C.III.1.	Trade receivables	1 911 865	-26 403	1 885 462	2 605 170
C.III.2.	Receivables - controlled or controlling entity	184 400		184 400	253 426
C.III.6.	State - tax receivables	671 983		671 983	171 075
C.III.7.	Short-term prepayments made	4 743		4 743	29 345
C.III.8.	Estimated receivables	4 004		4 004	1 930
C.III.9.	Other receivables	37 798	-19 463	18 335	95 843
<i>C.IV.</i>	<i>Current financial assets</i>	<b>1 371 460</b>	<b>-15 048</b>	<b>1 356 412</b>	<b>1 205 234</b>
C.IV.1.	Cash on hand	1 131		1 131	1 053
C.IV.2.	Cash at bank	1 355 218		1 355 218	1 204 117
C.IV.3.	Short-term securities and investments	15 111	-15 048	63	64
<b>D. I.</b>	<b>Other assets</b>	<b>116 385</b>		<b>116 385</b>	<b>75 387</b>
D.I.1.	Deferred expenses	45 504		45 504	33 847
D.I.2.	Complex deferred expenses	70 832		70 832	41 493
D.I.3.	Accrued income	49		49	47

## BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

		31.12.2015	31.12.2014
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>32 947 675</b>	<b>33 461 990</b>
<b>A.</b>	<b>Equity</b>	<b>25 692 415</b>	<b>24 512 264</b>
<i>A.I.</i>	<i>Share capital</i>	<i>8 109 863</i>	<i>8 109 863</i>
A.I.1.	Share capital	8 109 863	8 109 863
<i>A.II.</i>	<i>Capital funds</i>	<i>103 740</i>	<i>103 739</i>
A.II.2.	Other capital funds	103 787	103 786
A.II.3.	Gains or losses from the revaluation of assets and liabilities	-47	-47
<i>A.III.</i>	<i>Funds from profit</i>	<i>2 858 219</i>	<i>2 858 219</i>
A.III.1.	Reserve fund	2 858 219	2 858 219
<i>A.IV.</i>	<i>Retained earnings</i>	<i>11 840 443</i>	<i>10 392 475</i>
A.IV.1.	Accumulated profits brought forward	11 840 443	10 392 475
<i>A.V.1.</i>	<i>Profit or loss for the current period (+ -)</i>	<i>2 780 150</i>	<i>3 047 968</i>
<b>B.</b>	<b>Liabilities</b>	<b>7 252 058</b>	<b>8 948 345</b>
<i>B.I.</i>	<i>Reserves</i>	<i>82 513</i>	<i>110 968</i>
B.I.1.	Reserves under special legislation	1 989	1 966
B.I.4.	Other reserves	80 524	109 002
<i>B.II.</i>	<i>Long-term liabilities</i>	<i>1 056 093</i>	<i>977 677</i>
B.II.1.	Trade payables	31 226	21 537
B.II.9.	Other payables	1 408	
B.II.10.	Deferred tax liability	1 023 459	956 140
<i>B.III.</i>	<i>Short-term liabilities</i>	<i>4 004 906</i>	<i>5 221 963</i>
B.III.1.	Trade payables	2 898 587	3 853 301
B.III.5.	Payables to employees	344 970	358 641
B.III.6.	Social security and health insurance payables	115 434	124 168
B.III.7.	State – tax payables and subsidies	571 348	808 956
B.III.8.	Short-term prepayments received	480	
B.III.10.	Estimated payables	35 238	50 981
B.III.11.	Other payables	38 849	25 916
<i>B.IV.</i>	<i>Bank loans and borrowings</i>	<i>2 108 546</i>	<i>2 637 737</i>
B.IV.1.	Long-term bank loans	1 442 354	1 819 459
B.IV.2.	Short-term bank loans	666 192	818 278
<b>C. I.</b>	<b>Other liabilities</b>	<b>3 202</b>	<b>1 381</b>
C.I.1.	Accrued expenses	551	1 072
C.I.2.	Deferred income	2 651	309



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

(IN CZK THOUSAND)

		Year ended 31.12.2015	Year ended 31.12.2014
I.	Sales of goods	1 077	2 391
A.	Costs of goods sold	1 059	2 346
+	<b>Gross margin</b>	<b>18</b>	<b>45</b>
II.	Production	36 455 615	39 581 841
II.1.	Sales of own products and services	36 920 409	38 351 779
II.2.	Change in internally produced inventory	-939 185	770 652
II.3.	Own work capitalised	474 391	459 410
B.	Purchased consumables and services	28 468 951	31 170 731
B.1.	Consumed material and energy	25 426 244	28 165 226
B.2.	Services	3 042 707	3 005 505
+	<b>Added value</b>	<b>7 986 682</b>	<b>8 411 155</b>
C.	Staff costs	3 677 543	3 512 897
C.1.	Payroll costs	2 472 490	2 361 363
C.2.	Remuneration to members of business corporation bodies	61 372	61 887
C.3.	Social security and health insurance costs	886 613	845 934
C.4.	Social costs	257 068	243 713
D.	Taxes and charges	29 029	28 899
E.	Depreciation of intangible and tangible fixed assets	1 167 416	1 096 345
III.	Sales of fixed assets and material	132 217	127 892
III.1.	Sales of fixed assets	12 460	2 873
III.2.	Sales of material	119 757	125 019
F.	Net book value of fixed assets and material sold	122 526	121 818
F.1.	Net book value of sold fixed assets	4 605	1 852
F.2.	Book value of sold material	117 921	119 966
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	47 746	20 026
IV.	Other operating income	689 875	1 084 653
H.	Other operating expenses	761 929	1 022 247
*	<b>Operating profit or loss</b>	<b>3 002 585</b>	<b>3 821 468</b>
VII.	Income from non-current financial assets	384 040	34 056
VII.1.	Income from equity investments in subsidiaries and associates	384 003	34 016
VII.2.	Income from other non-current securities and investments	37	40
IX.	Income from the revaluation of securities and derivatives	81	84
M.	Change in reserves and provisions relating to financial activities	-23 448	10 571
X.	Interest income	3 844	6 233
N.	Interest expenses	46 680	62 495
XI.	Other financial income	27 870	11 542
O.	Other financial expenses	50 985	28 647
*	<b>Financial profit or loss</b>	<b>341 618</b>	<b>-49 798</b>
Q.	Income tax on ordinary activities	564 053	723 702
Q 1.	- due	496 734	621 896
Q 2.	- deferred	67 319	101 806
**	<b>Profit or loss from ordinary activities</b>	<b>2 780 150</b>	<b>3 047 968</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>2 780 150</b>	<b>3 047 968</b>
****	<b>Profit or loss before tax</b>	<b>3 344 203</b>	<b>3 771 670</b>

## STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Reserve fund	Statutory and other funds	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2013	8 109 863	103 743	873 952	1 984 267	9 109 639	1 082 057	21 263 521
Impact of merger at 1 January 2014					200 779		200 779
Balance at 1 January 2014	8 109 863	103 743	873 952	1 984 267	9 310 418	1 082 057	21 464 300
Profit or loss for the current period						3 047 968	3 047 968
Distribution of profit or loss					1 082 057	-1 082 057	
Reclassification of funds			1 984 267	-1 984 267			
Change in revaluation of securities		-3					-3
Other		-1					-1
Balance at 31 December 2014	8 109 863	103 739	2 858 219		10 392 475	3 047 968	24 512 264
Profit or loss for the current period						2 780 150	2 780 150
Distribution of profit or loss					1 447 968	-1 447 968	
Profit shares paid						-1 600 000	-1 600 000
Other		1					1
Balance at 31 December 2015	8 109 863	103 740	2 858 219		11 840 443	2 780 150	25 692 415

## CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31.12.2015	Year ended 31.12.2014
<b>P.</b> Opening balance of cash and cash equivalents	1 178 677	342 921
<i>Cash flows from ordinary activities</i>		
<b>Z.</b> Profit or loss from ordinary activities before tax	3 344 203	3 771 670
<b>A.1.</b> Adjustments for non-cash transactions	886 935	1 148 229
A.1.1. Depreciation of fixed assets	1 167 416	1 096 345
A.1.2. Change in provisions, reserves and complex deferred expenses	24 298	99 738
A.1.3. Profit/(loss) on the sale of fixed assets	-7 855	-1 021
A.1.4. Revenues from profit shares	-384 040	-34 056
A.1.5. Interest expense and interest income	42 836	56 262
A.1.6. Adjustments for other non-cash transactions	44 280	102
A.1.7. Adjustments for non-cash transactions - merger		-69 141
<b>A.*</b> Net operating cash flow before changes in working capital	4 231 138	4 919 899
<b>A.2.</b> Change in working capital	-8 736	-1 039 435
A.2.1. Change in operating receivables and other assets	283 574	108 163
A.2.2. Change in operating payables and other liabilities	-1 046 480	-56 677
A.2.3. Change in inventories	744 383	-1 089 805
A.2.4. Change in current financial assets	9 787	-1 116
<b>A.**</b> Net cash flow from operations before tax and extraordinary items	4 222 402	3 880 464
<b>A.3.</b> Interest paid	-47 175	-66 673
<b>A.4.</b> Interest received	4 295	6 545
<b>A.5.</b> Income tax paid from ordinary operations	-909 766	-96 810
<b>A.7.</b> Received dividends and profit shares	384 040	34 056
<b>A.***</b> Net operating cash flows	3 653 796	3 757 582
<i>Cash flows from investing activities</i>		
<b>B.1.</b> Fixed assets expenditures	-1 453 341	-1 998 303
<b>B.2.</b> Proceeds from fixed assets sold	13 520	2 948
<b>B.3.</b> Loans and credits provided to related parties	63 871	55 293
<b>B.5.</b> Increase in cash - merger		207 209
<b>B.***</b> Net investment cash flows	-1 375 950	-1 732 853
<i>Cash flow from financial activities</i>		
<b>C.1.</b> Change in payables from financing	-516 881	-1 188 973
<b>C.2.</b> Impact of changes in equity		
C.2.6. Profit shares paid	-1 600 000	
<b>C.***</b> Net financial cash flows	-2 116 881	-1 188 973
<b>F.</b> Net increase or decrease in cash and cash equivalents	160 965	835 756
<b>R.</b> Closing balance of cash and cash equivalents	1 339 642	1 178 677

# NOTES TO THE FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE COMPANY

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

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

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

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

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

In the year ended 31 December 2015, no major changes in the Company’s corporate details were recorded in the Register of Companies.

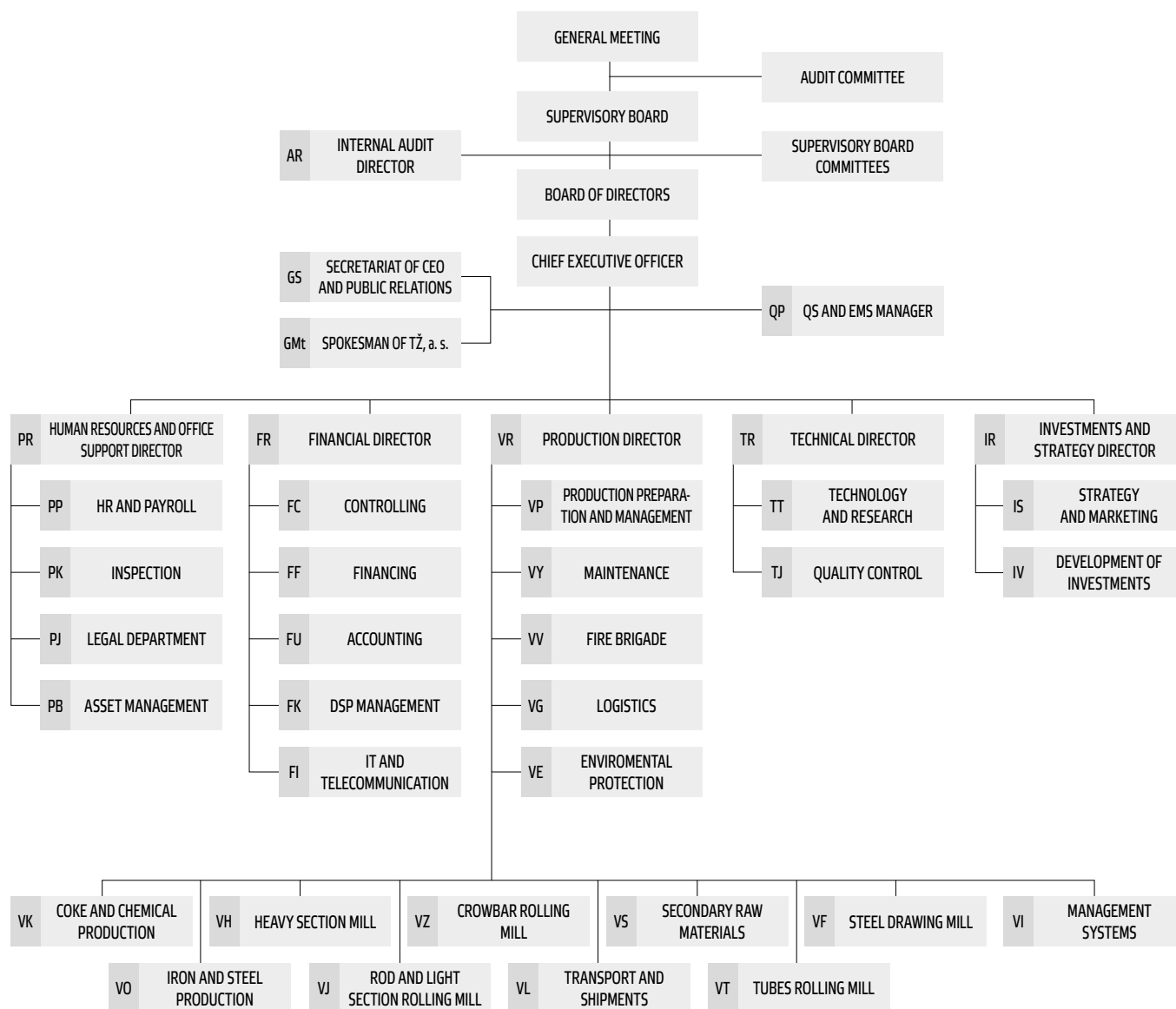
### 1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

Bodies of the Company are as follows:

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



The general organisational structure of the Company effective as of 31 December 2015:



In the year ended 31 December 2015, no significant changes were made in the Company's organisational structure.

#### 1.4. GROUP IDENTIFICATION

For the purposes of these notes to the financial statements, the Group includes (i) the Company, (ii) entities controlling the Company and/or entities holding an equity investment in the Company that is classified as part of “Equity investments in associates”, (iii) entities controlled by the same controlling entity, (iv) entities in which the Company holds an equity investment that is classified as part of “Equity investments – controlled entity”, and (v) business companies in which the Company holds an equity investment that is classified as part of “Equity investments in associates”.

In the year ended 31 December 2015, the Company was controlled by MORAVIA STEEL a.s. MORAVIA STEEL a.s. is controlled by FINITRADING, a.s., which is its sole shareholder.

#### 1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2015

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

In the year ended 31 December 2015, no changes were made in the composition of the Company's Board of Directors and the Supervisory Board.

## 2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

These financial statements are presented in thousands of Czech crowns (“CZK”).

#### 2.1. REPORTING PERIOD

The Company's financial statements as of 31 December 2015 have been prepared as follows:

- The balance sheet includes comparative figures as of 31 December 2014;
- The profit and loss account includes comparative figures for the year ended 31 December 2014;
- The statement of changes in equity includes comparative figures as of 31 December 2014; and
- The cash flow statement includes comparative figures as of 31 December 2014.

With effect from 30 June 2014, the Company took over aggregate net assets (including the rights and obligations arising from labour relations) of the dissolving company Sochorová válcovna TŽ, a.s. which was dissolved as a result of the merger by amalgamation with TŘINECKÉ ŽELEZÁRNY, a. s., as the successor company, with the effective date on 1 January 2014.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 3.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

#### Valuation

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

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

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

The following tangible and intangible fixed assets are stated at replacement cost: tangible and intangible fixed assets acquired through donation, intangible fixed assets internally generated, assets recently entered in the accounting records and an investment of intangible and tangible fixed assets, except for cases where the investment is valued differently pursuant to a Memorandum of Association or a Foundation Deed.

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

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

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

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

The results of the Company's research and development activities, if designed for trading or resale, are recognised through the balance sheet line 'Research and development'. Research and development results designed for internal purposes are not classified as intangible fixed assets for financial reporting purposes and are held in off balance sheet records at internal costs of production.

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

As of the balance sheet date, emission allowances are valued according to the EUROPEAN ENERGY EXCHANGE rate. The decrease in the valuation of emission allowances acquired on a free-of-charge basis as of the balance sheet date is recognised in the balance sheet lines 'Other intangible fixed assets' and 'State – tax payables and subsidies'. The Company does not recognise an upward revaluation of the emission allowances. If there is a lack of allowances at the balance sheet date, the Company recognises a reserve 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.

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



### Depreciation for Accounting Purposes

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

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

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

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

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

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

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

### Provisioning

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

### Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

## 3.2. NON-CURRENT FINANCIAL ASSETS

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

### Valuation

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

#### At the balance sheet date, the Company records:

Equity investments are measured at cost less any provisions.

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

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

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

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

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

#### **Provisioning against Equity Investments**

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

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

### **3.3. CURRENT FINANCIAL ASSETS**

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

Current financial assets are carried at cost upon acquisition.

### **3.4. INVENTORY**

#### **Valuation**

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

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

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

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

#### **Provisioning**

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

Provisions against the inventory of finished products and semi-finished products are charged based on their realisability.

### **3.5. RECEIVABLES**

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

#### **Provisioning**

The Company recognises provisions against receivables, the recoverability of which is doubtful.

Tax deductible provisions against receivables are made pursuant to the Income Taxes Act and the Provisioning Act.

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

- a) Receivables past due by 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 receivables based on an individual assessment of their collectability.

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

### 3.6. PAYABLES

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

### 3.7. LOANS

#### Valuation

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

### 3.8. RESERVES

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

### 3.9. FOREIGN CURRENCY TRANSLATIONS

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

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

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

### 3.10. TAXATION

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

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/1992 Coll., on Income Taxes, with the exception of assets used in the Tube Rolling Mill (the VT operation), VZ – Sochorová válcovna plant and the Univerzální trať plant and the Track Fastenings Plant which are depreciated using the straight line and accelerated methods.

#### 3.10.2. Current Tax Payable

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

#### 3.10.3. Deferred Tax

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

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

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

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



### **3.11. BORROWING COSTS**

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

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

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

### **3.13. REVENUE RECOGNITION**

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

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

Profit share income is recognised when the shareholders’ rights to receive payment have been declared.

### **3.14. USE OF ESTIMATES**

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

### **3.15. RESEARCH AND DEVELOPMENT EXPENDITURE**

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

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

Starting from 2016, the Company has determined the limit for recognising items related to multiple reporting periods on an accrual basis; the limit is CZK 20 thousand or more and excludes research and development expenses. In prior years, the limit was up to CZK 10 thousand.

Starting from 2014, the Company has determined that the cost of intangible asset improvements exceeding CZK 60 thousand on an individual basis increases the cost of the related intangible fixed asset for the taxation period.

Starting from 2014, the Company has reported the remuneration to members of statutory bodies, including the remuneration to the CEO, which was reported in ‘Payroll costs’ in 2013, in ‘Remuneration to members of business corporation bodies’.

### **3.17. SUBSIDIES**

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

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

### **3.18. CASH FLOW STATEMENT**

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

(CZK THOUSAND)

	31 Dec 2015	31 Dec 2014
Cash on hand	1 131	1 053
Current accounts	1 355 218	1 204 117
Short-term securities and equity investments	15 111	15 112
Provisions against short-term securities and equity investments	-15 048	-15 048
<b>Total current financial assets</b>	<b>1 356 412</b>	<b>1 205 234</b>
Cash and cash equivalents not included in the cash flow	-16 770	-26 557
<b>Total cash and cash equivalents</b>	<b>1 339 642</b>	<b>1 178 677</b>

The difference between cash and cash equivalents as of 31 December 2015 and 2014 reported in the cash flow statement as opposed to the current financial assets disclosed in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

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

### 4.1. FIXED ASSETS

#### 4.1.1. Intangible Fixed Assets

##### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015
Research and development	4 553	0	0	4 553
Software	197 708	8 758	49	206 417
Valuable rights	73 622	26 870	0	100 492
Other intangible FA	200 642	769 401	576 559	393 484
Intangible FA under construction	23 729	11 984	35 628	85
<b>Total</b>	<b>500 254</b>	<b>817 013</b>	<b>612 236</b>	<b>705 031</b>

##### Accumulated Amortisation and Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015
Research and development	4 553	0	0	0
Software	170 142	7 356	49	177 449
Valuable rights	35 241	10 289	0	45 530
Other intangible FA	5 140	0	0	5 140
<b>Total</b>	<b>215 076</b>	<b>17 645</b>	<b>49</b>	<b>232 672</b>

##### Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2014	Balance at 31 Dec 2015
Software	27 566	28 968
Valuable rights	38 381	54 962
Other intangible FA	195 502	388 344
Intangible FA under construction	23 729	85
<b>Total</b>	<b>285 178</b>	<b>472 359</b>

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

Amortisation of intangible fixed assets amounted to CZK 17,645 thousand and CZK 14,094 thousand as of 31 December 2015 and 2014, respectively.

Other intangible fixed assets primarily include emission allowances.

In the year ended 31 December 2015, the Company acquired 5,291 emission allowances for 2014 in the amount of CZK 1,118 thousand and 3,781,812 emission allowances for 2015 in the amount of CZK 768,202 thousand free of charge. As of the balance sheet date

of 31 December 2015, the Company recognised a disposal of emission allowances for 2014 of CZK 1,006 thousand, and consumption of emission allowances for 2015 of CZK 489,334 thousand.

During the year ended 31 December 2015, the Company sold 450,000 emission allowances. The effect of the sale of the allowances was CZK 91,212 thousand. During the year ended 31 December 2015, the Company acquired 4,495 CER allowances of CZK 81 thousand and exchanged these CER allowances for 4,495 EUA allowances.

In the year ended 31 December 2014, the Company acquired 3,893,213 emission allowances for 2013 in the amount of CZK 679,522 thousand and 3,825,591 emission allowances for 2014 in the amount of CZK 732,968 thousand free of charge. As of the balance sheet date of 31 December 2014, the Company recognised a disposal of emission allowances for 2013 of CZK 406,067 thousand, consumption of emission allowances for 2013 of CZK 209 thousand and consumption of emission allowances for 2014 of CZK 514,665 thousand.

During the year ended 2014, the Company sold 1,694,500 emission allowances. The effect of the sale of the allowances was CZK 237,959 thousand. During 2014, the Company acquired 132,134 ERU allowances of CZK 761 thousand and exchanged these ERU allowances for 132,134 EUA allowances.

As of 31 December 2014, the Company was not allocated the emission allowances for the Tubes Rolling Mill (the VT operation) for 2014. The Company recognised the consumption of allowances and the use of the subsidy for allowances for this plant of CZK 1,048 thousand, to the debit and credit of account 347- Subsidies for emission allowances with a corresponding entry to the relevant expense and income account.

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 29,246 thousand and CZK 29,281 thousand as of 31 December 2015 and 2014, respectively.

#### 4.1.2. Tangible Fixed Assets

##### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015
Land	517 376	893	1 674	516 595
Structures	8 058 877	289 790	8 663	8 340 004
Individual tangible movable assets	24 092 441	1 156 082	538 182	24 710 341
Other tangible FA	1 499	0	0	1 499
Tangible FA under construction	642 615	1 532 942	1 475 707	699 850
Prepayments for tangible FA	59 311	52 862	79 424	32 749
<b>Total</b>	<b>33 372 119</b>	<b>3 032 569</b>	<b>2 103 650</b>	<b>34 301 038</b>

##### Accumulated Depreciation and Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015
Structures	4 257 291	178 491	15 580	4 420 202
Individual tangible movable assets	16 234 071	976 749	539 440	16 671 380
Tangible FA under construction	29 131	179	25 274	4 036
<b>Total</b>	<b>20 520 493</b>	<b>1 155 419</b>	<b>580 294</b>	<b>21 095 618</b>

##### Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2014	Balance at 31 Dec 2015
Land	517 376	516 595
Structures	3 801 586	3 919 802
Individual tangible movable assets	7 858 370	8 038 961
Other tangible FA	1 499	1 499
Tangible FA under construction	613 484	695 814
Prepayments for tangible FA	59 311	32 749
<b>Total</b>	<b>12 851 626</b>	<b>13 205 420</b>



Principal additions to tangible fixed assets for the year ended 31 December 2015 were as follows: (CZK THOUSAND)

Renovation of facilities for removal of exhaust gases and dust removal at sintering plant No. 2 (grant in the amount of CZK 327,277 thousand)	44 432
Acquisition of stowing machine No. 1 – a multifunctional device for the production of steelmaking sinter (grant in the amount of CZK 93, 809 thousand)	31 230
Acquisition of stowing machine No. 2 – a multifunction device for the production of steelmaking sinter (grant in the amount of CZK 92,357 thousand)	29 966
Construction of a gas cleaning plant (oxygen converter steel mill – Phase 1)	221 986
Renovation of facilities for the casting of D525 in a three-casting process	75 115
Renovation of roof girders, reinforcement of the roof on the oxygen converter steel mill	66 871

Principal additions to tangible fixed assets under construction for the year ended 31 December 2015 were as follows: (CZK THOUSAND)

Modernisation and renovation of coke battery No. 11	255 054
Construction of two STC furnaces	212 067
Use of waste heat from the VM carousel furnace	8 301

During the year ended 31 December 2015, the disposals of tangible fixed assets included assets with an aggregate net book value of CZK 17,505 thousand. Major disposals principally comprised the partial liquidation of the facility for removal of exhaust gases and dust removal at sintering plant No. 2, liquidation of extrusion machine No. 6 and liquidation of coke battery No. 11.

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

Depreciation of tangible fixed assets amounted to CZK 1,149,771 thousand and CZK 1,082,251 thousand as of 31 December 2015 and 2014, respectively.

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

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 526,805 thousand and CZK 509,845 thousand as of 31 December 2015 and 2014, respectively.

#### 4.1.3. Assets Held under Operating Lease Agreements

In the years ended 31 December 2015 and 2014, the Company made lease payments of CZK 47,423 thousand and CZK 47,314 thousand, respectively.

#### 4.1.4. Pledged Fixed Assets

##### 31 December 2015

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	261 371	Loan from Česká spořitelna, a.s.
Land	23 663	
Tangible FA	519 072	Loan from Česká spořitelna, a.s.
Tangible FA	186 285	Loan from Československá obchodní banka, a.s.
Land	10 513	
Tangible FA	2 811	Loan from Československá obchodní banka, a.s.
Land	40 484	
Tangible FA	973 686	Loan from Československá obchodní banka, a.s.
Land	664	
Tangible FA	503 391	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible FA	589 833	Loan from HSBC Bank plc – Prague branch
Land	110 496	
<b>Total</b>	<b>3 222 269</b>	

The year-on-year increase in the value of fixed assets pledged as collateral was principally attributable to the loan agreement with Československá obchodní banka, a.s.

31 December 2014

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	261 653	Loan from Česká spořitelna, a.s.
Land	26 630	
Tangible FA	445 066	Loan from Česká spořitelna, a.s.
Tangible FA	192 970	Loan from Československá obchodní banka, a.s.
Land	10 612	
Land	699	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible FA	601 396	Loan from HSBC Bank plc – Prague branch
Land	110 496	
<b>Total</b>	<b>1 649 522</b>	

#### 4.2. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2014	Disposals	Balance at 31 Dec 2015
Equity investments in subsidiaries	6 932 364	19 000	6 913 364
Equity investments in associates	50 995	0	50 995
Other non-current securities and equity investments	2 002	0	2 002
<b>Total</b>	<b>6 985 361</b>	<b>19 000</b>	<b>6 966 361</b>

In the year ended 31 December 2015 the disposals of non-current financial assets principally arose as a result of the dissolution of the equity investment in Steel Consortium Partners, a.s. which ceased to exist as of 12 May 2015 following its deletion from the Register of Companies, subsequent to the completion of liquidation.

##### 4.2.1. Equity Investments – Subsidiaries (Controlled Entities)

31 December 2015

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial income
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100.00	1 778 483	163 601	0	0
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	587 786	52 736	0	140 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 607 348	101 043	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	586 463	32 673	0	10 000
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	640 401	121 259	0	100 000
HŽP a.s., Prostějov	130 000	130 000	100.00	497 368	66 431	0	50 000
„D&D“ Drótaru Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100.00	77 164	14 001	-406 928	0
„METALURGIA“ Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100.00	232 906	1 151	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	294 684	33 865	0	50 000
Řetězárna a.s., Česká Ves	61 200	515	51.00	516 078	12 376	0	5 100
REFRASIL, s.r.o., Třinec-Konská	25 500	0	51.00	241 666	17 376	0	5 100
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	48 100	1 253	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	43 542	3 432	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 647	161	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	22 483	2 423	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 475	309	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	20 977	10 171	-15 703	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	18 199	2 278	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	48 796	-969	-7 663	0
TRISIA, a.s., Třinec	9 900	990	66.00	52 304	-1 930	0	0
<b>TOTAL</b>						<b>-430 294</b>	<b>360 200</b>

Note: *italics – preliminary results as of 31 December 2015*

## 31 December 2014

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial income
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100.00	1 614 882	145 389	0	0
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	675 050	41 113	0	0
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 506 305	69 252	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	563 791	19 857	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	619 142	99 242	0	0
Hanácké železářny a pérovný, a.s., Prostějov	130 000	130 000	100.00	480 936	41 533	0	0
„D&D“ Drótaru Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100.00	65 284	-6 830	-408 133	0
„METALURGIA“ Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100.00	237 345	3 221	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	310 820	41 631	0	0
Řetězárna a.s., Česká Ves	61 200	515	51.00	514 544	16 004	0	5 610
REFRASIL, s.r.o., Třinec-Konská	25 500	0	51.00	234 289	19 756	0	5 610
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	46 841	2 839	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	40 110	3 812	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 486	168	0	0
Moravia Security, a.s., Třinec-Konská	12 000	12	100.00	20 060	2 344	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 168	639	0	0
Ostrava-Mariánské Hory	1 360	12	68.00	10 805	4 437	-22 653	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	15 921	2 284	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	50 062	507	-4 875	0
TRISIA, a.s., Třinec	9 900	990	66.00	54 386	-1 730	0	0
Steel Consortium Partners, a.s., „in liquidation“, Třinec-Staré Město	19 000	117	100.00	1 129	-111	-17 871	0
<b>TOTAL</b>						<b>-453 532</b>	<b>11 220</b>

## 4.2.2. Equity Investments in Associates

## 31 December 2015

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	40.00	386 753	57 771	0	23 803
Hutnictví železa, a.s., Prague 10	16 221	27 036	38.78	35 892	390	-17 651	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 825	100	0	0
<b>TOTAL</b>						<b>-17 651</b>	<b>23 803</b>

Note: *italics* - preliminary results of operation as of 31 December 2015  
 \* preliminary results for the period from 1 April 2015 – 31 March 2016

## 31 December 2014

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	40.00	388 488	59 506	0	22 796
Hutnictví železa, a.s., Prague 10	16 221	27 036	38.78	40 102	703	-17 862	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 633	26	0	0
<b>TOTAL</b>						<b>-17 862</b>	<b>22 796</b>

Note: \*results for the period from 1 April 2014 – 31 March 2015



#### 4.2.3. Other Non-Current Securities and Equity Investments

31 December 2015

(CZK THOUSAND)

Name of the entity	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	0	2.08	645	109	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	4 289	16	-34	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100.00	77 371	-1 762	0	0
Unirelex, a.s. v likvidaci, Praha	2.22	2 000	0.04306	**	**	-4	0
Veolia Energie ČR, a.s., Ostrava*	0.89	1 700	0.00216	**	**	0	37
<b>TOTAL</b>						<b>-58</b>	<b>37</b>

Note: *italics* – preliminary results of operation as of 31 December 2015

\* formerly Dalkia Česká republika, a.s.

\*\* the values are not available

31 December 2014

(CZK THOUSAND)

Name of the entity	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	0	2.08	906	-341	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	11 012	-127	-34	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100.00	79 133	665	0	0
Unirelex, a.s. v likvidaci, Praha	2.22	2 000	0.04306	*	*	-4	0
Dalkia Česká republika, a.s., Ostrava	0.89	1 700	0.00216	9 260 131	2 045 629	0	40
<b>TOTAL</b>						<b>-58</b>	<b>40</b>

Note: \* the values are not available

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

As of 31 December 2015 and 2014, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 132,000 thousand and CZK 132,000 thousand, respectively.

### 4.3. INVENTORY

As a result of the merger (Note 2.1), the Company's inventory increased by the net amount of CZK 1,279,284 thousand as of 1 January 2014.

### 4.4. RECEIVABLES

#### 4.4.1. Short-Term Receivables

As of 31 December 2015 and 2014, the Company records short-term trade receivables past their due dates in the gross amount of CZK 29,411 thousand and CZK 43,043 thousand (net CZK 3,008 thousand and CZK 2,862 thousand), respectively.

#### Other Short-Term Receivables

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

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

Other receivables principally include a receivable arising from a loan agreement and receivables from individuals.

Estimated receivables principally include amounts due from anticipated insurance proceeds and an amount due from the refund of the value added tax paid abroad.

Receivables typically mature within 30 days.

#### 4.4.2. Intercompany Receivables

##### Short-Term Receivables

(CZK THOUSAND)

Company name	Balance at 31 Dec 2015	Balance at 31 Dec 2014
<b>● Trade receivables</b>		
Doprava TŽ, a.s.	2 119	968
ENERGETIKA TŘINEC, a.s.	15 477	40 935
Šroubárna Kyjov, spol. s r.o.	381	2 595
Strojírny a stavby Třinec, a.s.	12 044	18 820
MORAVIA STEEL a.s.	1 776 496	2 374 373
REFRASIL, s.r.o.	622	651
Řetězárna, a.s.	414	641
Slévárny Třinec, a.s.	35 683	46 630
TRIALFA, s.r.o.	2 230	3 038
TŘINECKÁ PROJEKCE, a.s.	37	37
Třinecké gastroslužby, s.r.o.	787	802
Steel Consortium Partners, a.s., „v likvidaci“	0	20
TRISIA, a.s.	15	15
VESUVIUS ČESKÁ REPUBLIKA, a.s.	343	335
Beskydská golfová, a.s.	37	37
VÚHŽ a.s.	423	3 562
Moravia Security, a.s.	63	69
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	21	17
Moravskoslezský kovošrot, a.s., „METALURGIA“ Spółka Akcyjna	601	590
HŽP a.s.	640	269
M Steel Projects a.s.	8	12
Kovárna VIVA a.s.	6	6
„NEOMET“ Sp. z o.o.	35	54
ŽDB DRÁTOVNA a.s.	2 048	1 607
<b>Total</b>	<b>1 850 648</b>	<b>2 496 313</b>
<b>● Receivables – controlled or controlling entity</b>		
„D&D“ Drótáru Zrt.	184 400	253 426
<b>Total</b>	<b>184 400</b>	<b>253 426</b>
<b>● Estimated receivables</b>		
MORAVIA STEEL a.s.	10	4
Slévárny Třinec, a.s.	1	0
<b>Total</b>	<b>11</b>	<b>4</b>
<b>Total short-term intercompany receivables</b>	<b>2 035 059</b>	<b>2 749 743</b>
Other than intercompany receivables	733 868	407 046
<b>Total short-term receivables</b>	<b>2 768 927</b>	<b>3 156 789</b>

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

#### 4.5. SHAREHOLDER'S EQUITY

As a result of the merger (Note 2.1), the Company's equity increased by CZK 200,779 thousand as of 1 January 2014.

##### 4.5.1. Share Capital

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

##### 4.5.2. Gains and Losses from Revaluation

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

#### 4.6. RESERVES

Other reserves principally consist of reserves for employee bonuses and liquidation of fixed assets.

#### 4.7. PAYABLES

##### 4.7.1. Long-Term Payables

Long-term trade payables as of 31 December 2015 include payables arising from retentions from suppliers under concluded contracts.

The Company records no long-term trade payables with maturities exceeding 5 years as of 31 December 2015 and 2014.

##### 4.7.2. Deferred Income Tax

The deferred tax liability is analysed as follows:

	(CZK THOUSAND)	
Deferred tax arising from	Balance at 31 Dec 2015	Balance at 31 Dec 2014
Difference between tax and accounting carrying values of fixed assets	-6 202 183	-5 782 181
Revaluation of available-for-sale securities	58	58
Accounting reserves	80 524	109 002
Provisions	686 116	575 321
Expenses that are tax deductible in the following periods	48 857	65 483
Utilisable tax losses carried forward	0	0
<b>Total</b>	<b>-5 386 628</b>	<b>-5 032 317</b>
Tax rate (in %)	19	19
<b>Deferred tax liability</b>	<b>-1 023 459</b>	<b>-956 140</b>

(CZK THOUSAND)	
Analysis of movements	
31 Dec 2014	-956 140
Current changes charged against the profit and loss account	-67 319
31 Dec 2015	-1 023 459

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

	(CZK THOUSAND)	
	Balance at 31 Dec 2015	Balance at 31 Dec 2014
Profit before tax	3 344 203	3 771 670
Tax at the domestic income tax rate of 19%	635 399	716 617
Tax effect of expenses that are not deductible in determining taxable profit	-71 346	7 085
<b>Total income tax on ordinary and extraordinary activities</b>	<b>564 053</b>	<b>723 702</b>
- recognised in deferred tax and income tax payable		

##### 4.7.4. Short-Term Payables

As of 31 December 2015 and 2014, the Company records short-term trade payables past their due dates of CZK 3,197 thousand and CZK 21,106 thousand, respectively.

Payables typically fall due for settlement within 30 days.

#### Other Payables

As of 31 December 2015, payables arising from social security and the state employment policy contribution amounted to CZK 77,805 thousand (2014: CZK 84,306 thousand), health insurance payables totalled CZK 34,850 thousand (2014: CZK 37,085 thousand), and pension insurance payables totalled CZK 2,779 thousand (2014: CZK 2,777 thousand). The Company has no past due social security or health insurance payables.

The category "State – tax payables and subsidies" principally comprises received subsidies for emission allowances and a payable arising from personal and corporate income taxes.

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

Other payables primarily comprise payables arising from group registration for value added tax, bank guarantees and employee contributions.



#### 4.7.5. Intercompany Payables

##### Short-Term Payables

(CZK THOUSAND)

Company name	Balance at 31 Dec 2015	Balance at 31 Dec 2014
● Trade payables		
Doprava TŽ, a.s.	10 643	11 249
ENERGETIKA TŘINEC, a.s.	243 234	332 137
Hutnictví železa, a.s.	677	563
Šroubárna Kyjov, spol. s r.o.	2 225	1 202
MORAVIA STEEL a.s.	1 180 181	1 714 340
REFRASIL, s.r.o.	40 940	12 545
Řetězárna, a.s.	278	789
Slévárny Třinec, a.s.	4 574	4 765
TRIALFA, s.r.o.	20 723	15 985
TRISIA, a.s.	712	1 028
TŘINECKÁ PROJEKCE, a.s.	3 767	5 544
Třinecké gastroslužby, s.r.o.	6 772	6 981
VESUVIUS ČESKÁ REPUBLIKA, a.s.	8 712	8 695
Beskydská golfová, a.s.	3 025	3 025
Strojírny a stavby Třinec, a.s.	137 870	188 886
VÚHŽ a.s.	647	785
Moravia Security, a.s.	6 566	7 827
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	406	232
Moravskoslezský kovošrot, a.s.	80 631	142 401
„METALURGIA“ Spółka Akcyjna	6	351
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	106	109
HRAT, s.r.o.	36	36
ŽDB DRÁTOVNA a.s.	850	850
„D&D“ Drótáru Zrt.	1 747	3 063
DALSELV DESIGN a.s.	8 725	3 640
„NEOMET“ Sp. z o.o.	26 520	24 515
Moravia Steel Deutschland GmbH	0	17
Kovárna VIVA a.s.	0	2
MINERFIN, a.s.	1 136	4 091
Security Morava, s.r.o.	719	765
<b>Total</b>	<b>1 792 428</b>	<b>2 496 418</b>
● Short-term pre-payments received		
HŽP a.s.	480	0
<b>Total</b>	<b>480</b>	<b>0</b>
● Estimated payables		
MORAVIA STEEL a.s.	938	5 068
ENERGETIKA TŘINEC, a.s.	140	0
<b>Total</b>	<b>1 078</b>	<b>5 068</b>
● Other payables		
ENERGETIKA TŘINEC, a.s.	24 416	0
<b>Total</b>	<b>24 416</b>	<b>0</b>
<b>Total short-term intercompany payables</b>	<b>1 818 402</b>	<b>2 501 486</b>
Other than intercompany payables	2 186 504	2 720 477
<b>Total short-term payables</b>	<b>4 004 906</b>	<b>5 221 963</b>

## Long-Term Payables

(CZK THOUSAND)

Company name	Balance at 31 Dec 2015	Balance at 31 Dec 2014
<i>Long-term payables</i>		
● Trade payables		
Refrasil, s.r.o.	2 523	0
Strojirny a stavby Trinec, a.s.	751	2 304
<b>Total</b>	<b>3 274</b>	<b>2 304</b>
● Other payables		
Strojirny a stavby Trinec, a.s.	1 408	0
<b>Total</b>	<b>1 408</b>	<b>0</b>
<b>Total long-term intercompany payables</b>	<b>4 682</b>	<b>2 304</b>
Other than intercompany payables	1 051 411	975 373
<b>Total long-term payables</b>	<b>1 056 093</b>	<b>977 677</b>

Other than intercompany long-term payables as of 31 December 2015 and 2014 primarily include a deferred tax liability of CZK 1,023,459 thousand and CZK 956,140 thousand, respectively.

## 4.7.6. Bank Loans

### Long-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2015	Balance at 31 Dec 2014	Interest rate % p.a.	Form of collateral at 31 Dec 2015
Investment loan	EUR	112 376	141 891	6M EURIBOR + 1.10	Hermes guarantee insurer
Investment loan	EUR	164 733	199 727	6M EURIBOR + 1.30	ODL guarantee insurer
Investment loan	CZK	63 140	189 460	3M PRIBOR + 1.60/FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment loan	CZK	120 000	180 000	3M PRIBOR + 1.40	Securities, promissory note
Investment loan	CZK	442 105	694 737	3M PRIBOR + 1.40	Immovable and movable assets, securities, insurance receivables, promissory note
Investment loan	CZK	360 000	413 644	3M PRIBOR + 1.30/FIXED 2.48	Immovable and movable assets, promissory note
Investment loan	CZK	180 000	0	3M PRIBOR + 0.70	Immovable and movable assets, , insurance receivables, promissory note
<b>Total</b>		<b>1 442 354</b>	<b>1 819 459</b>		

### Short-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2015	Balance at 31 Dec 2014	Interest rate % p.a.	Form of collateral at 31 Dec 2015
Overdraft	CZK	0	20 359	O/N PRIBOR + 0.95	Blank promissory note
Overdraft	CZK	0	20 035	O/N PRIBOR + 0.65	Blank promissory note
Overdraft	CZK	0	22 929	1T PRIBOR + 0.60	Blank promissory note
Overdraft	CZK	0	486	O/N PRIBOR + 0.45	Blank promissory note
Overdraft	CZK	0	20 142	O/N PRIBOR + 0.60	Blank promissory note
Overdraft	CZK	0	20 000	1M PRIBOR + 0.75	No collateral
Investment	EUR	17 288	8 868	6M EURIBOR + 1.10	Hermes guarantee insurer
Investment	EUR	29 952	30 727	6M EURIBOR + 1.30	ODL guarantee insurer
Investment	CZK	126 320	242 100	3M PRIBOR +1,6/ FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment	CZK	60 000	60 000	3M PRIBOR + 1.40	Securities, promissory note
Investment	CZK	252 632	252 632	3M PRIBOR + 1.40	Immovable and movable assets, securities, insurance receivables, promissory note
Investment	CZK	120 000	120 000	3M PRIBOR + 1,30/FIXED 2.48	Immovable and movable assets, promissory note
Investment	CZK	60 000	0	3M PRIBOR + 0.70	Immovable and movable assets, insurance receivables, promissory note
<b>Total</b>		<b>666 192</b>	<b>818 278</b>		

Repayments of long-term loans exceeding five years amount to CZK 88,149 thousand.

#### 4.8. DETAILS OF INCOME

(CZK THOUSAND)

	31 Dec 2015	31 Dec 2014
Proceeds of the sale of goods	1 077	2 391
Proceeds of the sale of products and services, of which:	36 920 409	38 351 779
- Products	36 487 052	37 886 004
- Services	433 357	465 775
Other*	-464 794	1 230 062
<b>Total sales of goods and products</b>	<b>36 456 692</b>	<b>39 584 232</b>

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

#### 4.9. SUBSIDIES

Other subsidies for operating purposes of CZK 14,921 thousand utilised for the year ended 31 December 2015 include subsidies for research and development, education, a subsidy for museum operations and subsidies for environmental projects. For the year ended 31 December 2014, the Company received subsidies for operating purposes in the amount of CZK 11,784 thousand including subsidies for research and development and environmental projects.

For the year ended 31 December 2015, the Company drew funding under a subsidy for the acquisition of environmental assets in the amount of CZK 887,539 thousand (of which CZK 887,175 thousand was used to acquire tangible fixed assets and CZK 364 thousand was used to acquire intangible fixed assets). For the year ended 31 December 2014, the Company used a subsidy for the acquisition of environmental assets (specifically to acquire tangible fixed assets) in the amount of CZK 1,229,909 thousand.

#### 4.10. OTHER OPERATING EXPENSES AND INCOME

Expenses for advisory, consulting and audit services as of 31 December 2015 and 2014 amounted to CZK 52,865 thousand and CZK 50,459 thousand, respectively.

As of 31 December 2015, other operating income of the Company mainly involves the use of the subsidy related to emission allowances including the income from the sale of emission allowances of CZK 666,003 thousand (2014: use of the subsidy related to emission allowances including the income from the sale of emission allowances of CZK 1,050,870 thousand).

Other financial income as of 31 December 2015 and 2014 predominantly includes foreign exchange rate gains of CZK 25,933 thousand and CZK 10,750 thousand, respectively.

As of 31 December 2015, other operating expenses primarily reflect the use of emission allowances, including the costs of the sale of emission allowances, of CZK 575,553 thousand. As of 31 December 2014, the Company reported the use of emission allowances including the costs of the sale of allowances in the amount of CZK 812,911 thousand.

Other financial expenses as of 31 December 2015 and 2014 predominantly include foreign exchange rate losses of CZK 27,529 thousand and CZK 19,773 thousand, respectively.

#### 4.11. RESEARCH AND DEVELOPMENT COSTS

(CZK THOUSAND)

	31 Dec 2015	31 Dec 2014
Research and development costs (net of subsidies)	33 595	57 118



## 4.12. RELATED PARTY TRANSACTIONS

### 4.12.1. Income Generated with Related Parties

The following table shows the income generated with related parties for the year ended 31 December 2015:

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Financial income	Other income	Total
Doprava TŽ, a.s.	Subsidiary	0	23 439	4 320	0	0	27 759
ENERGETIKA TŘINEC, a.s.	Subsidiary	*91 212	170 951	41 104	0	28	303 295
MORAVIA STEEL a.s.	Subsidiary	0	35 326 757	168 821	0	580	35 496 158
REFRASIL, s.r.o.	Subsidiary	0	1 703	4 900	0	7	6 610
Řetězárna, a.s.	Subsidiary	0	15	3 802	0	0	3 817
Slévárny Třinec, a.s.	Subsidiary	0	271 506	20 050	0	46	291 602
TRIALFA, s.r.o.	Subsidiary	0	23 819	3 939	0	139	27 897
TRISIA, a.s.	Subsidiary	0	37	150	0	0	187
TŘINECKÁ PROJEKCE, a.s.	Subsidiary	0	0	681		1	682
Třinecké gastroslužby, s.r.o.	Subsidiary	0	623	5 674	7	606	6 910
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	12	7 621	0	141	7 774
Beskydská golfová, a.s.	Fellow subsidiary	0	0	126	0	0	126
Šroubárna Kyjov, spol. s r.o.	Subsidiary	0	262	3 493	0	7	3 762
Moravia Security, a.s.	Subsidiary	0	4	1 517	0	0	1 521
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Subsidiary	0	46	251	0	0	297
Strojírny a stavby Třinec, a.s.	Subsidiary	821	176 251	38 250	0	185	215 507
VÚHŽ a.s.	Subsidiary	0	5 723	1 555	0	0	7 278
HŽP a.s.	Subsidiary	0	2 237	2 273	0	0	4 510
„METALURGIA“ Spółka Akcyjna	Subsidiary	0	5	2 383	0	0	2 388
M Steel Projects a.s.	Fellow subsidiary	0	0	101	0	0	101
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 812	989	0	0	2 801
„DBD“ Drátáru Zrt.**	Subsidiary	0	0	0	2 774	0	2 774
ŽDB DRÁTOVNA a.s.	Subsidiary	0	417	13 253	0	47	13 717
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	0	746	0	0	746
Kovárna VIVA a.s.	Fellow subsidiary	0	0	9	0	0	9
Security Morava s.r.o.	Subsidiary	0	0	11	0	0	11
MINERFIN, a.s.	Group entity	0	0	2	0	0	2
<b>TOTAL</b>		<b>92 033</b>	<b>36 005 619</b>	<b>326 021</b>	<b>2 781</b>	<b>1 787</b>	<b>36 428 241</b>

Note: \* Emission allowances sold

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

The income arising from intercompany profit shares for the year ended 31 December 2015 is reported in Note 4.2.1.

The following table shows the income generated with related parties for the year ended 31 December 2014:

(CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory of material, products and goods	Services	Financial income	Other income	Total
Doprava TŽ, a.s.	Subsidiary	0	21 457	4 269	0	1	25 727
ENERGETIKA TŘINEC, a.s.	Subsidiary	*237 198	271 245	38 988	0	17	547 448
MORAVIA STEEL a.s.	Subsidiary	1 025	36 323 031	169 505	0	431	36 493 992
REFRASIL, s.r.o.	Subsidiary	0	1 277	4 941	0	1	6 219
Řetězárna, a.s.	Subsidiary	0	15	3 402	0	0	3 417
Slévárny Třinec, a.s.	Subsidiary	0	281 350	18 385	0	52	299 787
TRIALFA, s.r.o.	Subsidiary	0	26 970	3 972	0	33	30 975
TRISIA, a.s.	Subsidiary	0	20	140	0	836	996
TŘINECKÁ PROJEKCE, a.s.	Subsidiary	0	1	728	0	0	729
Třinecké gastroslužby, s.r.o.	Subsidiary	0	708	5 328	0	679	6 715
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	1	7 597	0	146	7 744
Beskydská golfová, a.s.	Fellow subsidiary	0	0	148	0	0	148
Steel Consortium Partners, a.s. „in liquidation“	Subsidiary	0	0	72	0	0	72
Šroubárna Kyjov, spol. s r.o.	Subsidiary	0	5	5 558	0	5	5 568
Moravia Security, a.s.	Subsidiary	0	40	1 514	0	0	1 554
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Subsidiary	0	183	289	0	0	472
Strojírny a stavby Třinec, a.s.	Subsidiary	0	138 484	40 312	0	204	179 000
VÚHŽ a.s.	Subsidiary	0	21 544	1 533	0	0	23 077
Hanácké železářny a pérovny, a.s.	Subsidiary	0	0	2 499	0	1	2 500
„METALURGIA“ Spółka Akcyjna	Subsidiary	0	2	2 376	0	0	2 378
M Steel Projects a.s.	Fellow subsidiary	0	0	89	0	0	89
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	3 456	1 298	0	15	4 769
„D&D“ Drátáru Zrt.	Subsidiary	0	0	0	5 061	0	5 061
ŽDB DRÁTOVNA a.s.	Subsidiary	0	392	19 568	0	35	19 995
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	419	352	516	0	1 287
Kovárna VIVA a.s.	Fellow subsidiary	0	0	5	0	0	5
Security Morava s.r.o.	Subsidiary	0	0	10	0	0	10
<b>TOTAL</b>		<b>238 223</b>	<b>37 090 600</b>	<b>332 878</b>	<b>5 577</b>	<b>2 456</b>	<b>37 669 734</b>

Note: \* Emission allowances sold

The income arising from intercompany profit shares for the year ended 31 December 2014 is reported in Note 4.2.1.

#### 4.12.2. Purchases from Related Parties

The following table shows purchases from related parties in the year ended 31 December 2015:

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory of material, products and goods	Services	Other expenses	Total
Doprava TŽ, a.s.	Subsidiary	46	25 118	62 400	0	87 564
ENERGETIKA TŘINEC, a.s.	Subsidiary	10	2 128 334	96 940	0	2 225 284
MORAVIA STEEL a.s.	Subsidiary	102	16 894 729	268 631	43 154	17 206 616
REFRASIL, s.r.o.	Subsidiary	1 963	23 596	140 041	0	165 600
Řetězárna, a.s.	Subsidiary	0	5 772	0	0	5 772
Slévárny Třinec, a.s.	Subsidiary	6 008	97 442	678	0	104 128
TRIALFA, s.r.o.	Subsidiary	0	7 074	23 028	68 905	99 007
TRISIA, a.s.	Subsidiary	0	54	10 468	263	10 785
TŘINECKÁ PROJEKCE, a.s.	Subsidiary	26 531	0	9 359	0	35 890
Třinecké gastroslužby, s.r.o.	Subsidiary	0	12 708	1 567	65 968	80 243
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	78	80 541	0	80 619
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 370	0	5 370
Šroubárna Kyjov, spol. s r.o.	Subsidiary	0	13 400	0	0	13 400
Moravia Security, a.s.	Subsidiary	420	131	64 085	150	64 786
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Subsidiary	3 200	36	5 756	0	8 992
Strojírny a stavby Třinec, a.s.	Subsidiary	167 640	317 307	527 553	14	1 012 514
VÚHŽ a.s.	Subsidiary	2 088	3 675	1 739	0	7 502
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 082 588	0	0	1 082 588
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Subsidiary	0	0	1 313	0	1 313
„METALURGIA“ Spółka Akcyjna	Subsidiary	0	536		0	536
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótaru Zrt.*	Subsidiary	0	6 335	8	0	6 343
Hutnictví železa, a.s.	Associate	0	0	5 382	116	5 498
ŽDB DRÁTOVNA a.s.	Subsidiary	0	7 639	1 769	0	9 408
DALSELV DESIGN a.s.	Subsidiary	91 492	293	2 663	0	94 448
HŽP a.s.	Subsidiary	0	167	0	0	167
„NEOMET“ Sp. z o.o.*	Fellow subsidiary	0	927 935	0	0	927 935
Security Morava s.r.o.	Subsidiary	0	0	7 825	0	7 825
MORAVIA STEEL UK LIMITED	Fellow subsidiary	0	0	25	0	25
MINERFIN, a.s.*	Group entity	0	9 859	0	0	9 859
Barrandov Studio a.s.	Fellow subsidiary	0	25	0	0	25
<b>TOTAL</b>		<b>299 500</b>	<b>21 564 831</b>	<b>1 317 261</b>	<b>178 570</b>	<b>23 360 162</b>

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



The following table shows purchases from related parties in the year ended 31 December 2014:

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory of material, products and goods	Services	Other expenses	Total
Doprava TŽ, a.s.	Subsidiary	11	27 584	61 173	0	88 768
ENERGETIKA TŘINEC, a.s.	Subsidiary	0	2 003 413	90 416	0	2 093 829
MORAVIA STEEL a.s.	Subsidiary	415	19 051 853	294 495	45 727	19 392 490
REFRASIL, s.r.o.	Subsidiary	0	394	146 210	0	146 604
Řetězárna, a.s.	Subsidiary	0	6 510	0	0	6 510
Slévárny Třinec, a.s.	Subsidiary	5 181	96 541	666	0	102 388
TRIALFA, s.r.o.	Subsidiary	0	6 173	23 138	56 862	86 173
TRISIA, a.s.	Subsidiary	0	0	10 211	178	10 389
TŘINECKÁ PROJEKCE, a.s.	Subsidiary	19 575	0	8 099	38	27 712
Třinecké gastroslužby, s.r.o.	Subsidiary	0	12 576	2 191	65 360	80 127
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	80 918	0	80 918
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 375	0	5 375
Šroubárna Kyjov, spol. s r.o.	Subsidiary	0	12 413	0	0	12 413
Moravia Security, a.s.	Subsidiary	1 300	0	63 075	39	64 414
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Subsidiary	0	20	7 781	0	7 801
Strojírny a stavby Třinec, a.s.	Subsidiary	209 996	363 908	528 636	19	1 102 559
VÚHŽ a.s.	Subsidiary	0	3 838	1 870	0	5 708
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 168 181	0	0	1 168 181
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Subsidiary	0	0	1 324	0	1 324
„METALURGIA“ Spółka Akcyjna*	Subsidiary	0	713	0	0	713
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótaru Zrt.*	Subsidiary	0	7 002	0	0	7 002
Hutnictví železa, a.s.	Associate	0	0	5 336	123	5 459
ŽDB DRÁTOVNA a.s.	Subsidiary	0	7 887	2 634	0	10 521
DALSELV DESIGN a.s.	Subsidiary	23 203	1 356	344	0	24 903
Hanácké železářny a pérovny, a.s.	Subsidiary	0	170	11	0	181
„NEOMET“ Sp. z o.o.*	Fellow subsidiary	0	887 429	0	0	887 429
Moravia Steel Duetschland GmbH*	Fellow subsidiary	0	0	17	0	17
Kovárna VIVA a.s.	Fellow subsidiary	0	0	2	0	2
Security Morava s.r.o.	Subsidiary	0	0	5 390	0	5 390
MINERFIN, a.s.	Group entity	0	13 631	0	0	13 631
<b>TOTAL</b>		<b>259 681</b>	<b>23 671 592</b>	<b>1 339 432</b>	<b>168 346</b>	<b>25 439 051</b>

Note:

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

## 5. EMPLOYEES, MANAGEMENT, SUPERVISORY BOARD, AUDIT COMMITTEE

### 5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The number of the Company's employees as of 31 December 2015 was 7,014, of which 6 were managers. The number of the Company's employees as of 31 December 2014 was 6,909, of which 7.2 were managers.

The staff costs of employees in the year ended 31 December 2015 amounted to CZK 3,677,543 thousand and staff costs of managers amounted to CZK 70,805 thousand. The staff costs of employees in the year ended 31 December 2014 amounted to CZK 3,512,897 thousand and staff costs of managers amounted to CZK 71,701 thousand. The remuneration to members of the Supervisory Board in the years ended 31 December 2015 and 2014 amounted to CZK 3,696 thousand and CZK 3,884 thousand, respectively. The remuneration to members of the Audit Committee in the years ended 31 December 2015 and 2014 amounted to CZK 180 thousand and CZK 180 thousand, respectively.

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

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

The values relating to 2014 reflect the impact of the merger.

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

31 December 2015

(CZK THOUSAND)

	Management	Supervisory Board	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 134	204	0
Liability insurance	231	231	39

31 December 2014

(CZK THOUSAND)

	Management	Supervisory Board	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 115	204	0
Liability insurance	239	287	48

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

### Provided Guarantees

31 December 2015

Type of commitment	Total amount	Balance at 31 Dec 2015
<i>Guarantees</i>		
	EUR 2, 902 thousand	CZK 78,429 thousand
	CZK 4,000 thousand	CZK 4, 000 thousand

31 December 2014

Type of commitment	Total amount	Balance at 31 Dec 2014
<i>Guarantees</i>		
- to other entities	USD 550 thousand	CZK 12,559 thousand
	EUR 2,602 thousand	CZK 72,143 thousand
	CZK 4,000 thousand	CZK 4,000 thousand

### Legal Disputes

The proceedings related to the petition of a shareholder, Marek Veselý, regarding the invalidity of the resolution passed at the Company's ordinary general meeting held on 30 June 2010 were discontinued based on the ruling passed by the Regional Court in Ostrava. The ruling was passed subsequent to the shareholder's filing presented during the hearing before the Court on 28 April 2015, based on which the shareholder revoked his petition to declare the resolution of the ordinary general meeting invalid. The matter was effectively concluded on 21 May 2015.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association against the Company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TRINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the Company on 14 December 2012. The Company has not yet been summoned by the Court regarding this case or called on to undertake any procedural act. The substance of the legal dispute does not involve determining the amount of the Company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff or whether the former shareholders of the Company are the creditors. The Company has contacted the plaintiff with the objective of initiating negotiations on amicable settlement of the dispute; however, no agreement has been reached so far.

The petition of Aleš Hodina and Bohumil Hála for declaring the resolution of the extraordinary general meeting of the Company held on 31 July 2013 invalid. The resolution of the Regional Court in Ostrava dated 15 April 2014 rejected the petition. Based on the resolution passed by the Head Court in Olomouc of 11 February 2015, the ruling of the Regional Court in Ostrava on rejecting the

petition was confirmed. According to the ejustice information system, the case was effectively concluded on 26 February 2015.

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

On 14 and 15 October 2010, a trial before the Regional Court in Ostrava took place in terms of the matter named above. Principally, evidence was produced in the form of the reading of expert appraisals and hearing of experts. Further expert substantiation of facts is ongoing.

#### **Environmental Liabilities**

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

As of 31 December 2015 and 2014, the Company drew CZK 519,227 thousand and CZK 506,646 thousand, respectively.

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

## **7. POST BALANCE SHEET EVENTS**

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements as of 31 December 2015.



# FINANCIAL PART II.

## – CONSOLIDATED FINANCIAL STATEMENTS

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

### Components of the Consolidated Financial Statements:

Consolidated Balance Sheet

Consolidated Profit and Loss Account

Consolidated Statement of Changes in Equity

Consolidated Cash Flow Statement

Consolidated Notes to the Financial Statements

These consolidated financial statements were prepared on 21 March 2016.

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



# CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

		31.12.2015			31.12.2014
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>69 726 749</b>	<b>-32 369 792</b>	<b>37 356 957</b>	<b>38 022 558</b>
<b>B.</b>	<b>Fixed assets</b>	<b>52 132 105</b>	<b>-31 496 593</b>	<b>20 635 512</b>	<b>20 013 613</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<i>991 238</i>	<i>-362 148</i>	<i>629 090</i>	<i>403 824</i>
B.I.2.	Research and development	4 553	-4 553		
B.I.3.	Software	301 587	-258 557	43 030	38 554
B.I.4.	Valuable rights	201 776	-86 618	115 158	101 969
B.I.5.	Goodwill	370	-370		
B.I.6.	Other intangible fixed assets	477 390	-12 050	465 340	236 633
B.I.7.	Intangible fixed assets under construction	5 562		5 562	26 668
<i>B.II.</i>	<i>Tangible fixed assets</i>	<i>50 151 948</i>	<i>-30 734 052</i>	<i>19 417 896</i>	<i>19 014 505</i>
B.II.1.	Land	731 994		731 994	733 450
B.II.2.	Structures	12 512 969	-6 551 706	5 961 263	5 811 293
B.II.3.	Individual tangible movable assets and sets of tangible movable assets	35 758 063	-24 093 600	11 664 463	10 946 617
B.II.6.	Other tangible fixed assets	89 921	-77 990	11 931	12 566
B.II.7.	Tangible fixed assets under construction	965 429	-10 756	954 673	1 417 950
B.II.8.	Prepayments for tangible fixed assets	93 572		93 572	92 629
<i>B.III.</i>	<i>Non-current financial assets</i>	<i>218 679</i>	<i>-42 146</i>	<i>176 533</i>	<i>173 192</i>
B.III.1.	Equity investments in subsidiaries	189 484	-23 366	166 118	162 968
B.III.2.	Equity investments in associates	26 201	-17 788	8 413	8 203
B.III.3.	Other non-current securities and investments	2 994	-992	2 002	2 021
<i>B.IV.</i>	<i>Goodwill on consolidation</i>	<i>615 539</i>	<i>-358 247</i>	<i>257 292</i>	<i>266 697</i>
B.IV.1.	Positive goodwill on consolidation	615 539	-358 247	257 292	266 697
<i>B.V.</i>	<i>Securities and equity interests under equity accounting</i>	<i>154 701</i>		<i>154 701</i>	<i>155 395</i>
<b>C.</b>	<b>Current assets</b>	<b>17 464 258</b>	<b>-873 199</b>	<b>16 591 059</b>	<b>17 907 955</b>
<i>C.I.</i>	<i>Inventories</i>	<i>11 150 527</i>	<i>-749 517</i>	<i>10 401 010</i>	<i>11 237 018</i>
C.I.1.	Material	4 840 649	-356 238	4 484 411	4 274 915
C.I.2.	Work in progress and semifinished goods	3 398 413	-264 522	3 133 891	3 958 012
C.I.3.	Products	2 880 170	-128 468	2 751 702	2 974 149
C.I.5.	Goods	28 258	-289	27 969	26 359
C.I.6.	Prepayments for inventory	3 037		3 037	3 583
<i>C.II.</i>	<i>Long-term receivables</i>	<i>19 663</i>		<i>19 663</i>	<i>16 613</i>
C.II.1.	Trade receivables	12 334		12 334	6 499
C.II.5.	Long-term prepayments made	1 301		1 301	1 299
C.II.7.	Other receivables	6 009		6 009	7 584
C.II.8.	Deferred tax asset	19		19	1 231
<i>C.III.</i>	<i>Short-term receivables</i>	<i>4 420 745</i>	<i>-108 634</i>	<i>4 312 111</i>	<i>4 689 250</i>
C.III.1.	Trade receivables	3 572 031	-87 037	3 484 994	4 183 732
C.III.6.	State-tax receivables	787 221		787 221	330 830
C.III.7.	Short-term prepayments made	9 700	-26	9 674	33 763
C.III.8.	Estimated receivables	4 497		4 497	2 947
C.III.9.	Other receivables	47 296	-21 571	25 725	137 978
<i>C.IV.</i>	<i>Current financial assets</i>	<i>1 873 323</i>	<i>-15 048</i>	<i>1 858 275</i>	<i>1 965 074</i>
C.IV.1.	Cash on hand	3 806		3 806	3 609
C.IV.2.	Cash at bank	1 854 406		1 854 406	1 961 401
C.IV.3.	Short-term securities and investments	15 111	-15 048	63	64
<b>D.I.</b>	<b>Other assets</b>	<b>130 386</b>		<b>130 386</b>	<b>100 990</b>
D.I.1.	Deferred expenses	59 112		59 112	53 256
D.I.2.	Complex deferred expenses	70 835		70 835	41 501
D.I.3.	Accrued income	439		439	6 233

# CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

		31.12.2015	31.12.2014
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>37 356 957</b>	<b>38 022 558</b>
<b>A.</b>	<b>Equity</b>	<b>27 336 741</b>	<b>25 916 834</b>
<i>A.I.</i>	<i>Share capital</i>	<i>8 109 863</i>	<i>8 109 863</i>
A.I.1.	Share capital	8 109 863	8 109 863
<i>A.II.</i>	<i>Capital funds</i>	<i>112 098</i>	<i>117 671</i>
A.II.2.	Other capital funds	108 718	108 461
A.II.3.	Gains or losses from the revaluation of assets and liabilities	3 380	9 210
<i>A.III.</i>	<i>Funds from profit</i>	<i>3 312 852</i>	<i>3 312 469</i>
A.III.1.	Reserve fund	3 312 852	3 312 469
<i>A.IV.</i>	<i>Retained earnings</i>	<i>12 216 890</i>	<i>10 323 615</i>
A.IV.1.	Accumulated profits brought forward	12 250 984	10 367 168
A.IV.2.	Accumulated losses brought forward	-34 094	-43 553
<i>A.V.1</i>	<i>Profit or loss for the current period, net of minority interests</i>	<i>3 025 737</i>	<i>3 517 718</i>
A.V.1.1.	Profit or loss for the current period	3 002 629	3 493 915
A.V.1.2.	Share of income from associates	23 108	23 803
<i>A.VI.</i>	<i>Consolidation reserve fund</i>	<i>559 301</i>	<i>535 498</i>
<b>B.</b>	<b>Liabilities</b>	<b>9 614 606</b>	<b>11 700 252</b>
<i>B.I.</i>	<i>Reserves</i>	<i>261 774</i>	<i>281 966</i>
B.I.1.	Reserves under special legislation	10 621	14 164
B.I.2.	Reserve for pensions and similar liabilities	3 565	3 475
B.I.4.	Other reserves	247 588	264 327
<i>B.II.</i>	<i>Long-term liabilities</i>	<i>1 515 186</i>	<i>1 422 656</i>
B.II.1.	Trade payables	31 197	23 100
B.II.9.	Other payables	90	
B.II.10.	Deferred tax liability	1 483 899	1 399 556
<i>B.III.</i>	<i>Short-term liabilities</i>	<i>5 198 807</i>	<i>6 339 634</i>
B.III.1.	Trade payables	3 780 894	4 641 872
B.III.4.	Payables to partners		70
B.III.5.	Payables to employees	466 389	482 081
B.III.6.	Social security and health insurance payables	183 068	189 561
B.III.7.	State-tax payables and subsidies	618 286	853 455
B.III.8.	Short-term prepayments received	20 042	22 593
B.III.10.	Estimated payables	104 394	114 836
B.III.11.	Other payables	25 734	35 166
<i>B.IV.</i>	<i>Bank loans and borrowings</i>	<i>2 638 839</i>	<i>3 655 996</i>
B.IV.1.	Long-term bank loans	1 564 197	2 081 491
B.IV.2.	Short-term bank loans	1 074 553	1 574 420
B.IV.3.	Short-term borrowings	89	85
<b>C.I.</b>	<b>Other liabilities</b>	<b>35 722</b>	<b>40 142</b>
C.I.1.	Accrued expenses	15 141	14 962
C.I.2.	Deferred income	20 581	25 180
<b>D.</b>	<b>Minority equity</b>	<b>369 888</b>	<b>365 330</b>
D.I.	Minority share capital	83 300	83 300
D.II.	Minority capital funds	3 205	3 618
D.III.	Minority profit funds including accumulated profits and accumulated losses	268 612	261 124
D.IV.	Minority profit or loss for the current period	14 771	17 288

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

(IN CZK THOUSAND)

		Year ended 31.12.2015	Year ended 31.12.2014
I.	Sales of goods	103 502	103 821
A.	Costs of goods sold	87 826	84 911
+	<b>Gross margin</b>	<b>15 676</b>	<b>18 910</b>
II.	Production	46 494 421	49 505 732
II.1.	Sales of own products and services	46 625 896	47 892 428
II.2.	Change in internally produced inventory	-908 111	830 822
II.3.	Own work capitalised	776 636	782 482
B.	Purchased consumables and services	34 516 653	37 361 158
B.1.	Consumed material and energy	30 648 354	33 638 590
B.2.	Services	3 868 299	3 722 568
+	<b>Added value</b>	<b>11 993 444</b>	<b>12 163 484</b>
C.	Staff costs	5 957 985	5 734 623
C.1.	Payroll costs	4 023 846	3 874 649
C.2.	Remuneration to members of business corporation bodies	130 111	134 813
C.3.	Social security and health insurance costs	1 444 977	1 389 005
C.4.	Social costs	359 051	336 156
D.	Taxes and charges	59 303	58 228
E.	Depreciation of intangible and tangible fixed assets	1 743 158	1 689 617
KR A.	Release of consolidation difference (goodwill)	9 414	1 641
III.	Sales of fixed assets and material	144 098	142 571
III.1.	Sales of fixed assets	14 551	7 840
III.2.	Sales of material	129 547	134 731
F.	Net book value of fixed assets and material sold	119 468	118 663
F.1.	Net book value of sold fixed assets	4 767	3 266
F.2.	Book value of sold material	114 701	115 397
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	56 740	-105 626
IV.	Other operating income	804 696	1 000 427
H.	Other operating expenses	1 204 472	1 355 513
*	<b>Operating profit or loss</b>	<b>3 791 698</b>	<b>4 453 823</b>
VII.	Income from non-current financial assets	2 234	1 796
VII.1.	Income from subsidiaries and associates	2 196	1 756
VII.2.	Income from other non-current securities and investments	38	40
IX.	Income from the revaluation of securities and derivatives	355	3 116
M.	Change in reserves and provisions relating to financial activities	-22 243	-3 602
X.	Interest income	3 167	2 634
N.	Interest expenses	56 892	81 309
XI.	Other financial income	98 591	106 160
O.	Other financial expenses	150 030	141 087
*	<b>Financial profit or loss</b>	<b>-80 332</b>	<b>-105 088</b>
Q.	Income tax on ordinary activities	693 966	837 532
Q.1.	- due	604 570	712 371
Q.2.	- deferred	89 396	125 161
**	<b>Profit or loss from ordinary activities</b>	<b>3 017 400</b>	<b>3 511 203</b>
**	<b>Consolidated profit or loss net of share of income from associates</b>	<b>3 017 400</b>	<b>3 511 203</b>
	Consolidated profit or loss net of minority interests	3 002 629	3 493 915
	Minority profit or loss	14 771	17 288
*	<b>Share of income from associates</b>	<b>23 108</b>	<b>23 803</b>
	Profit or loss for the current period (+/-)	3 040 508	3 535 006
***	<b>Profit or loss for the current period, net of minority interests (+/-)</b>	<b>3 025 737</b>	<b>3 517 718</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Reserve fund	Statutory and other funds	Retained earnings	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2013	8 109 863	219 733	986 370	2 325 535	8 872 635	1 321 241	512 702	54 881	22 402 960
Profit for the current period						3 493 915		23 803	3 517 718
Distribution of profit or loss		686	578		1 319 977	-1 321 241	22 796	-22 796	
Reclassification/use of funds			2 325 521	-2 325 535					-14
Revaluation of assets		-3 904							-3 904
Impact of changes in the consolidation group		-98 843			131 292			-32 085	364
Other		-1			-289				-290
Balance at 31 December 2014	8 109 863	117 671	3 312 469		10 323 615	3 493 915	535 498	23 803	25 916 834
Profit for the current period						3 002 629		23 108	3 025 737
Distribution of profit or loss		257	383		1 893 275	-1 893 915	23 803	-23 803	
Profit shares paid						-1 600 000			-1 600 000
Revaluation of assets		-5 831							-5 831
Other		1							1
Balance at 31 December 2015	8 109 863	112 098	3 312 852		12 216 890	3 002 629	559 301	23 108	27 336 741

## CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31.12.2015	Year ended 31.12.2014
<b>P.</b> Cash and cash equivalents at the beginning of the accounting period	1 938 517	1 199 864
<i>Cash flows from ordinary activities</i>		
Z. Accounting profit/(loss) from ordinary activities before tax	3 711 366	4 348 735
A.1. Adjustments for non-cash transactions	1 866 188	1 693 300
A.1.1. Depreciation of fixed assets (+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 752 572	1 691 258
A.1.2. Change in provisions, reserves and complex deferred expenses	34 497	-109 228
A.1.3. Profit/(loss) on the sale of fixed assets (-/+)	-9 784	-4 574
A.1.4. Revenues from profit shares (-), except for those paid from consolidation entities	-2 234	-1 796
A.1.5. Interest expense (+) excluding capitalised interest and interest income (-)	53 725	78 675
A.1.6. FX differences and other non-cash transactions	37 412	38 965
<b>A.* Net cash flow from operating activities before tax, movements in working capital and extraordinary items</b>	<b>5 577 554</b>	<b>6 042 035</b>
A.2. Change in non-cash component of working capital	150 902	-1 121 009
A.2.1. Change in receivables from operating activities (+/-), deferred expenses, accrued income and estimated assets	346 246	-165 402
A.2.2. Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	-912 790	265 262
A.2.3. Change in inventory	707 659	-1 219 753
A.2.4. Change in current financial assets not included in cash and cash equivalents	9 787	-1 116
<b>A.** Net cash flow from operating activities before tax and extraordinary items</b>	<b>5 728 456</b>	<b>4 921 026</b>
A.3. Interest paid (-), except interest capitalised	-60 111	-90 505
A.4. Interest received (+)	5 889	7 749
A.5. Income tax paid from operating activities, additional tax paid for previous periods (-)	-1 007 244	-241 337
A.7. Received profit shares (+)	26 036	24 592
<b>A.*** Net cash flow from operating activities</b>	<b>4 693 026</b>	<b>4 621 525</b>
<i>Cash flows from investing activities</i>		
B.1. Fixed assets expenditures	-2 196 544	-2 746 449
B.2. Receipts from fixed assets sold	20 367	8 285
B.3. Loans and credits provided to related parties		36 000
<b>B.*** Net cash flow from investing activities</b>	<b>-2 176 177</b>	<b>-2 702 164</b>
<i>Cash flow from financial activities</i>		
C.1. Change in long-term or short-term payables which fall into cash and cash equivalent in financing activities	-1 004 061	-1 169 899
C.2. Impact on cash and cash equivalents due to change in equity	-1 609 800	-10 809
C.2.5. Payments made from funds (-)		-29
C.2.6. Profit shares paid, including withholding tax related to these claims and including financial settlement with partners (-), except for profit shares paid between Group entities	-1 609 800	-10 780
<b>C.*** Net cash flow from financial activities</b>	<b>-2 613 861</b>	<b>-1 180 708</b>
<b>F. Net increase or decrease of cash and cash equivalents</b>	<b>-97 012</b>	<b>738 653</b>
<b>R. Cash and cash equivalents at the end of the accounting period</b>	<b>1 841 505</b>	<b>1 938 517</b>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

### 1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

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

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

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

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

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

During the year ended 31 December 2015, no material changes were made in the Register of Companies.

### 1.3. GROUP IDENTIFICATION

For the purposes of these notes to the consolidated financial statements, the Group includes (i) the Company, (ii) business companies controlling the Company or holding an equity investment that is classified as part of ‘Equity investments in associates’, (iii) business companies controlled by the same controlling entity, (iv) business companies in which the Company holds an equity investment that is classified as part of ‘Equity investments in subsidiaries’ (hereinafter “subsidiaries”), and (v) business companies in which the Company holds an equity investment that is classified as part of ‘Equity investments in associates’ (hereinafter “associates”).

In 2015, the Company was controlled by MORAVIA STEEL a.s. MORAVIA STEEL a.s. was controlled by FINITRADING, a.s. as the sole shareholder.

### 1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2015

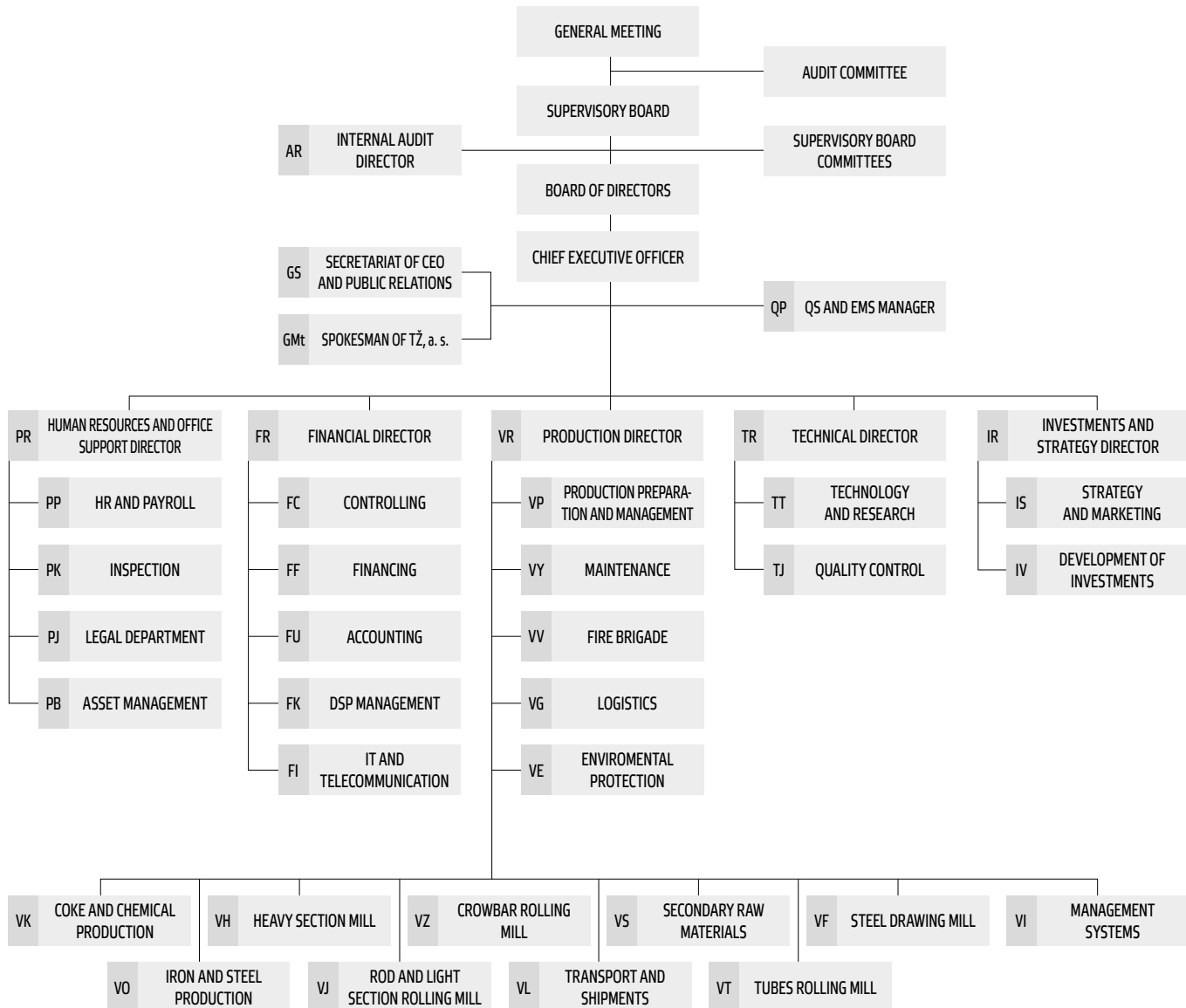
	Position	Name
<b>Board of Directors</b>	Chairman	Jan Czudek
	1st Vice Chairman	Česlav Marek
	2nd Vice Chairman	Henryk Huczala
	Member	Ivo Žižka
	Member	Radomíra Pekárková
<b>Supervisory Board</b>	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Evžen Balko
	Member	František Ligocki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

During the year ended 31 December 2015, no changes were made in the composition of the Company’s Board of Directors and Supervisory Board.

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

### 2.1. ORGANISATIONAL STRUCTURE

#### Basic Organisational Structure of the Company as of 31 December 2015



The bodies of the Company are as follows:

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

During the year ended 31 December 2015, no changes were made in the organisational structure of the Company.

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

The following companies were included in the consolidated group for the year ended 31 December 2015:

### Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2015
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00%
Slévárny Třinec, a.s.	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00%
VÚHŽ a.s.	No. 240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00%
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00%
"METALURGIA" S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00%
"D&D" Drótáru Zrt.	3527 Miskolc, Sajósziget utca 4, Hungary	Production of wire products	100.00%
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%
HŽP a.s.*	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00%
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00%
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00%
REFRASIL, s.r.o.**	Třinec-Konská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

Note:

\*the company was recorded in the Register of Companies as Hanácké železářny a pérovny, a.s. until 31 October 2015

\*\* until 18 September 2015, the registered office recorded in the Register of Companies was Třinec-Konská, Průmyslová 720, 739 65; it was changed to Průmyslová 720, Konská, 739 61 Třinec in the Register of Companies on 18 September 2015

### Associate:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2015
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 726, Konská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%

The following companies were included in the consolidated group for the year ended 31 December 2014:

### Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2014
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00%
Slévárny Třinec, a.s.*	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00%
VÚHŽ a.s.**	No. 240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00%
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00%
"METALURGIA" S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00%
"D&D" Drótáru Zrt.	3527 Miskolc, Sajósziget utca 4, Hungary	Production of wire products	100.00%
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%
Hanácké železářny a pérovny, a. s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00%
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00%
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00%
REFRASIL, s.r.o.	Třinec-Konská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

Note:

\* before 18 September 2014, the registered office recorded in the Register of Companies was Průmyslová 1001, Staré Město, 739 61 Třinec, delivery ZIP code: 739 65; it was changed to Průmyslová 1001, Staré Město, 739 61 Třinec in the Register of Companies on 18 September 2014

\*\* before 3 June 2014, the registered office recorded in the Register of Companies was Dobrá 240, 739 51; it was changed to no. 240, 739 51 Dobrá in the Register of Companies on 3 June 2014

**Associate:**

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2014
VESUVIUS ČESKÁ REPUBLIKA, a.s.*	Průmyslová 726, Kanská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%

Note:

\*before 2 February 2015, the registered office recorded in the Register of Companies was Průmyslová 715, Kanská, 739 61, Třinec; it was changed to Průmyslová 726, Kanská, 739 61 Třinec in the Register of Companies on 2 February 2015

During the year ended 31 December 2014, Sochorová válcovna TŽ, a.s. was removed from the consolidated group due to merger by amalgamation with TŘINECKÉ ŽELEZÁRNY, a. s.

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

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

The financial statements of the companies included in the consolidated group were prepared as of and for the years ended 31 December 2015 and 2014. “METALURGIA” S.A. is based in Poland, “D&D” Drótaru Zrt. in Hungary, and other companies in the consolidation group are based in the Czech Republic.

### 2.4. COMPANIES EXCLUDED FROM CONSOLIDATION

Entities in which the Company has control or substantial influence are not included in the consolidated group if the share in the consolidation group is not material in terms of giving a true and fair view of the financial position and performance of the consolidation group, when:

- The share of the recalculated assets of such subsidiary or associate in the total recalculated assets of the Company, subsidiaries and associates 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 the Company;
- The share of the recalculated equity of such subsidiary or associate in the total recalculated equity of the Company, subsidiaries, associates 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 the Company; 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 the Company, subsidiaries, associates 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 the Company.

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

The entities that meet the condition set out above for non-inclusion in the consolidated group, thereby not entering into consolidation based on individual assessment, must also meet the group materiality criterion for non-inclusion. Under the group materiality criterion, these entities are taken as one whole. This whole has to have (i) the share of the recalculated assets of this whole in the total recalculated assets of the Company, subsidiaries, associates 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 Company (ii) the share of recalculated equity in total recalculated equity of the Company, subsidiaries, associates less than 1.5 percent, while the value of equity for these purposes is recalculated using the percentage of the ownership share held by the Company, and

(iii) share of the recalculated net turnover (revenues of account class 6) in total recalculated net turnover of the Company, subsidiaries, associates 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 the Company.

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



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

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

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

For the purpose of preparing the consolidated financial statements of the TRINECKÉ železářny, a. s. Group, accounting principles and policies used within the Group were brought into line. Significant accounting principles and policies as they are used by individual companies are set out below.

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

#### 3.1. FINANCIAL REPORTING PERIOD

The consolidated financial statements for the year ended 31 December 2015 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2014;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2014;
- The statement of changes in equity contains comparative amounts as of 31 December 2014; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2014.

### 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 4.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

##### Valuation

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

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

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

The following tangible and intangible fixed assets are stated at replacement cost: tangible and intangible fixed assets acquired through donation, intangible fixed assets internally generated, assets recently entered in the accounting records and an investment of intangible and tangible fixed assets, except for cases where the investment is valued differently pursuant to a Memorandum of Association or a Foundation Deed.

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

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

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

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

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

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

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

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

### Depreciation for Accounting Purposes

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

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

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

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

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

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

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

### Provisioning

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

### Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

#### 4.2. NON-CURRENT FINANCIAL ASSETS

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

##### Valuation

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

##### At the consolidated balance sheet date:

Equity investments are valued at cost less provisions against equity investments.

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

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

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

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

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

##### Provisioning against Equity Investments

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

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

#### 4.3. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Derivative financial instruments are concluded for the contracted transaction volume.

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

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

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

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

Current financial assets are carried at cost upon acquisition.

#### **4.5. INVENTORY**

##### **Valuation**

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

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

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

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

##### **Provisioning**

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

Provisions against the inventory of finished products and semi-finished products are charged based on their realisability.

#### **4.6. RECEIVABLES**

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

##### **Provisioning**

The Group recognises provisions against receivables, the recoverability of which is doubtful.

Tax deductible provisions against receivables are made pursuant to 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 assessment of their collectability.

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

#### **4.7. PAYABLES**

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

#### **4.8. LOANS AND BORROWINGS**

##### **Valuation**

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



#### 4.9. RESERVES

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

#### 4.10. FOREIGN CURRENCY TRANSLATION

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

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

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

#### 4.11. FINANCE LEASES

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

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

#### 4.12. TAXATION

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

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/1992 Coll., on Income Taxes, with the exception of assets used by TŘINECKÉ ŽELEZÁRNY, a. s. in the Tube Rolling Mill (the VT operation), VZ – Sochorová válcovna plant and the Univerzální trať plant and the Track Fastenings Plant and assets used by Slévárny Třinec, a.s. and ŽDB DRÁTOVNÁ 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. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted by the balance sheet date.

##### 4.12.3. Deferred Tax

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

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

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

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

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

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

Borrowing costs arising from loans are included directly in expenses regardless of the purpose for which they were drawn.

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

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

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

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

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

Profit share income is recognised when the shareholders’ rights to receive payment have been declared.

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

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

#### **4.17. RESEARCH AND DEVELOPMENT EXPENDITURE**

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

#### **4.18. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES**

Starting from 2016, the Company has determined the limit for recognising items related to multiple reporting periods on an accrual basis; the limit is CZK 20 thousand or more and excludes research and development expenses. In prior years, the limit was up to CZK 10 thousand.

Starting from 2014, the Company has determined that the cost of intangible asset improvements exceeding CZK 60 thousand on an individual basis increases the cost of the related intangible fixed asset for the taxation period.

Starting from 2014, the Company has reported the remuneration to members of statutory bodies, including the remuneration to the CEO, which was reported in ‘Payroll costs’ in 2013, in ‘Remuneration to members of business corporation bodies’.

#### **4.19. SUBSIDIES**

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

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

#### **4.20. CASH FLOW STATEMENT**

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

(CZK THOUSAND)

	31 Dec 2015	31 Dec 2014
Cash on hand	3 806	3 609
Current accounts	1 854 406	1 961 401
Short-term securities and equity investments	15 111	15 112
Provisions against short-term securities and equity investments	-15 048	-15 048
<b>Total current financial assets</b>	<b>1 858 275</b>	<b>1 965 074</b>
Cash and cash equivalents not included in the cash flow	- 16 770	-26 557
<b>Total cash and cash equivalents</b>	<b>1 841 505</b>	<b>1 938 517</b>

The difference between cash and cash equivalents as of 31 December 2015 and 2014 in the cash flows statement in comparison with the current financial assets in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

#### 4.21. CONSOLIDATION RULES

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

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

Goodwill arising on consolidation represents the difference between the cost of an investment in the consolidated entity and its value determined on the basis of the Company's interest in the fair value of equity which arises as a difference between the fair values of assets and the fair values of liabilities as of the acquisition date or as of the date of a further capital increase (a further increase of investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated entity.

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

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

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

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

The financial statements for the years ended 31 December 2015 and 2014 prepared by the companies included in the consolidated group, as well as the financial statements of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statement preparation date are available in the registered office of the Company.

The consolidation rules for 2015 and 2014 (definition of the consolidated group, method of transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Company.

## 5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

### 5.1. CONSOLIDATED PROFIT/LOSS FOR 2015

#### 5.1.1. Structure of the Consolidated Profit/Loss for 2015

(CZK THOUSAND)

Profit/(loss) of the current period – TRINECKÉ ŽELEZÁRNY, a. s.	2 780 150
Profit/(loss) of the current period – ENERGETIKA TRINEC, a.s.	92 530
Profit/(loss) of the current period – Slévárny Třinec, a.s.	31 821
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	121 259
Profit/(loss) of the current period – Strojírny a stavby Třinec, a.s.	52 736
Profit/(loss) of the current period – VÚHŽ a.s.	34 222
Profit/(loss) of the current period – “METALURGIA” S.A.	1 111
Profit/(loss) of the current period – “D&D” Drátáru Zrt.	14 928
Profit/(loss) of the current period – ŽDB DRÁTOVNA a.s.	163 601
Profit/(loss) of the current period – HŽP a.s.	66 431
Profit/(loss) of the current period – SV servisní, s.r.o.	5 760
Share in profit of the current period – REFRASIL, s.r.o.	8 862
Share in profit of the current period – Řetězárna a.s.	6 312
Share in profit of the current period under the equity method	23 108
Adjustments within the full method of consolidation (see below)	-353 291
Adjustments within the equity method of consolidation (see below)	-23 803
<b>Consolidated profit</b>	<b>3 025 737</b>

#### 5.1.2. Adjustments within Full Consolidation for 2015

(CZK THOUSAND)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	4 864
Write-off of the revaluation of assets at fair value	1 141
Write-offs of the margin from the sale of assets value including the deferred tax impact	11 523
Elimination of declared profit shares of the consolidated group entities	-360 200
Elimination of provisioning against “D&D” Drátáru Zrt.	-1 205
Write-off of the positive goodwill on consolidation of “D&D” Drátáru Zrt.	-9 414
<b>Total adjustments</b>	<b>-353 291</b>

#### 5.1.3. Adjustments to the Profit or Loss within the Equity Method for 2015

(CZK THOUSAND)

Elimination of paid profit shares of VESUVIUS ČESKÁ REPUBLIKA, a.s.	-23 803
<b>Total adjustments</b>	<b>-23 803</b>

### 5.2. CONSOLIDATED PROFIT/LOSS FOR 2014

#### 5.2.1. Structure of the Consolidated Profit/Loss for 2014

(CZK THOUSAND)

Profit/(loss) of the current period – TRINECKÉ ŽELEZÁRNY, a. s.	3 047 968
Profit/(loss) of the current period – ENERGETIKA TRINEC, a.s.	69 252
Profit/(loss) of the current period – Slévárny Třinec, a.s.	19 857
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	99 242
Profit/(loss) of the current period – Strojírny a stavby Třinec, a.s.	41 113
Profit/(loss) of the current period – VÚHŽ a.s.	41 631
Profit/(loss) of the current period – “METALURGIA” S.A.	3 221
Profit/(loss) of the current period – “D&D” Drátáru Zrt.	-6 830
Profit/(loss) of the current period – ŽDB DRÁTOVNA a.s.	145 389
Profit/(loss) of the current period – Hanácké železářny a pérovny, a.s.	41 533
Profit/(loss) of the current period – SV servisní, s.r.o.	4 720
Share in profit of the current period – REFRASIL, s.r.o.	10 075
Share in profit of the current period – Řetězárna a.s.	8 162
Share in profit of the current period under the equity method	23 803
Adjustments within the full method of consolidation (see below)	-8 622
Adjustments within the equity method of consolidation (see below)	-22 796
<b>Consolidated profit</b>	<b>3 517 718</b>



### 5.2.2. Adjustments within Full Consolidation for 2014

(CZK THOUSAND)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	13 012
Write-off of the revaluation of assets at fair value	-28 890
Write-offs of the margin from the sale of assets value including the deferred tax impact	5 944
Elimination of declared profit shares of the consolidated group entities	-11 220
Elimination of provisioning against "D&D" Drótáru Zrt.	14 173
Write-off of the positive goodwill on consolidation of "D&D" Drótáru Zrt.	-1 641
<b>Total adjustments</b>	<b>-8 622</b>

### 5.2.3. Adjustments to the Profit or Loss within the Equity Method for 2014

(CZK THOUSAND)

Elimination of paid profit shares of VESUVIUS ČESKÁ REPUBLIKA, a.s.	-22 796
<b>Total adjustments</b>	<b>-22 796</b>

## 6. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

### 6.1. INTANGIBLE FIXED ASSETS

#### Cost

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2015
Research and development	4 553	0	0	0	4 553
Goodwill	379	0	0	-9	370
Software	286 716	16 346	1 361	-114	301 587
Valuable rights	175 746	27 376	1 040	-306	201 776
Other intangible FA	248 048	1 194 701	965 359	0	477 390
Intangible FA under construction	26 668	367 277	388 383	0	5 562
<b>Total</b>	<b>742 110</b>	<b>1 605 700</b>	<b>1 356 143</b>	<b>-429</b>	<b>991 238</b>

#### Accumulated Amortisation and Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2015
Research and development	4 553	0	0	0	4 553
Goodwill	379	0	0	-9	370
Software	248 162	11 901	1 363	-143	258 557
Valuable rights	73 777	14 061	966	-254	86 618
Other intangible FA	11 415	643	0	-8	12 050
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>338 286</b>	<b>26 605</b>	<b>2 329</b>	<b>-414</b>	<b>362 148</b>

#### Net Book Value

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2014	Balance at 31 Dec 2015
Research and development	0	0
Goodwill	0	0
Software	38 554	43 030
Valuable rights	101 969	115 158
Other intangible FA	236 633	465 340
Intangible FA under construction	26 668	5 562
<b>Total</b>	<b>403 824</b>	<b>629 090</b>

### Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 25,638 thousand and CZK 20,791 thousand as of 31 December 2015 and 2014, respectively.

Other intangible assets primarily include greenhouse gas emission allowances.

In the year ended 31 December 2015, the Company acquired 5,291 emission allowances for 2014 in the amount of CZK 1,118 thousand and 4,169,555 emission allowances for 2015 in the amount of CZK 855,270 thousand free of charge. As of the balance sheet date of 31 December 2015, the Company recognised a disposal of emission allowances for 2014 of CZK 1,006 thousand, consumption of emission allowances for 2014 of CZK 122 thousand and consumption of emission allowances for 2015 of CZK 875,065 thousand.

During the year ended 31 December 2015, the Company acquired 4,495 CER allowances of CZK 81 thousand and exchanged these CER allowances for 4,495 EUA allowances. In addition, the Company also acquired 948 CER allowances of CZK 23 thousand and 1,155,000 EUA allowances of CZK 249,042 thousand in the year ended 31 December 2015.

During 2014, the Company obtained 4,417,836 emission allowances for 2013 in the amount of CZK 774,366 thousand and 4,281,287 emission allowances for 2014 in the amount of CZK 812,574 thousand free of charge. As of the balance sheet date of 31 December 2014, the Company recognised a disposal of emission allowances for 2013 of CZK 499,849 thousand, consumption of emission allowances for 2013 of CZK 168,893 thousand and consumption of emission allowances for 2014 of CZK 824,167 thousand.

During 2014, the Company sold 5,000 emission allowances. The effect of the sale of the allowances was CZK 761 thousand. During 2014, the Company acquired 132,134 ERU allowances of CZK 761 thousand and exchanged these ERU allowances for 132,134 EUA allowances. In addition, the Company acquired 92,895 ERU allowances of CZK 535 thousand in the year ended 31 December 2014. During 2014, the Company additionally acquired 599,000 EUA allowances of CZK 102,433 thousand.

As of 31 December 2014, the Company was not allocated the emission allowances for the Tube Rolling Mill (the VT operation) for 2014. The Company recognised the consumption of allowances and the use of the subsidy for allowances for this plant of CZK 1,048 thousand, to the debit and credit of account 347- Subsidies for emission allowances with a corresponding entry to the relevant expense and income account.

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 46,737 thousand and CZK 45,147 thousand as of 31 December 2015 and 2014, respectively.

## 6.2. TANGIBLE FIXED ASSETS

### Cost

	Balance at 31 Dec 2014	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2015
Land	733 450	893	1 835	-514	731 994
Structures	12 104 292	428 493	11 948	-7 868	12 512 969
Individual movable assets	34 219 593	2 160 481	599 835	-22 176	35 758 063
Other tangible FA	89 435	1 691	629	-576	89 921
Tangible FA under construction	1 452 990	2 105 729	2 592 663	-627	965 429
Prepayments for tangible FA	92 629	172 805	171 862	0	93 572
<b>Total</b>	<b>48 692 389</b>	<b>4 870 092</b>	<b>3 378 772</b>	<b>-31 761</b>	<b>50 151 948</b>

### Accumulated Depreciation and Provisions

	Balance at 31 Dec 2014	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2015
Land	0	0	0	0	0
Structures	6 292 999	281 744	19 110	-3 927	6 551 706
Individual movable assets	23 272 976	1 438 796	601 304	-16 868	24 093 600
Other tangible FA	76 869	2 226	705	-400	77 990
Tangible FA under construction	35 040	989	25 273	0	10 756
Prepayments for tangible FA	0	0	0	0	0
<b>Total</b>	<b>29 677 884</b>	<b>1 723 755</b>	<b>646 392</b>	<b>-21 195</b>	<b>30 734 052</b>

**Net Book Value**

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2014	Balance at 31 Dec 2015
Land	733 450	731 994
Structures	5 811 293	5 961 263
Individual movable assets	10 946 617	11 664 463
Other tangible FA	12 566	11 931
Tangible FA under construction	1 417 950	954 673
Prepayments for tangible FA	92 629	93 572
<b>Total</b>	<b>19 014 505</b>	<b>19 417 896</b>

Principal additions to tangible fixed assets for the year ended 31 December 2015 are as follows:

(CZK THOUSAND)

Renovation of facilities for removal of exhaust gases and dust removal at sintering plant No. 2 (grant in the amount of CZK 327,277 thousand)	44 432
Acquisition of stowing machine No. 1 – a multifunctional device for the production of steelmaking sinter (grant in the amount of CZK 93,809 thousand)	31 230
Acquisition of stowing machine No. 2 – a multifunctional device for the production of steelmaking sinter (grant in the amount of CZK 92,357 thousand)	29 966
Renovation of a gas cleaning plant (oxygen converter steel mill – Phase 1)	221 986
Renovation of facilities for the casting of D525 in a three-casting process	75 115
Renovation of roof girders, reinforcement of the roof on the oxygen converter steel mill	66 871
The S 760/10 wire drawing machine with the BU 100 coil machine	20 732
CNC centre calibration lathe	9 447
Renovation of weighing of the substance line	11 910
NK14 – boiler (grant in the amount of CZK 362,410 thousand)	544 005
NK 14 – boiler room (building in which the boiler is located)	62 915
NK 14 – electric separator	26 509
NK 14 – electric separator (building)	10 754
Wire drawing line TS 560/7*	10 888
Wire drawing line TS 560/9*	12 362
Rolling line no. 12	8 768
19 pieces of filters (replacement of wet separators with dry filters)	8 546
Electric car hearth furnace RDO 20.60.11	8 058

Note:

\* translated using the exchange rate of the Czech National Bank as of 31 December 2015

Principal additions to tangible fixed assets under construction for the year ended 31 December 2015 were as follows:

(CZK THOUSAND)

Modernisation and renovation of coke battery No. 11	255 054
Construction of two STC furnaces	212 067
Utilisation of the waste heat from the rotary-hearth furnace	8 301

During the year ended 31 December 2015, the disposals of tangible fixed assets of the Company included assets with an aggregate net book value of CZK 17,505 thousand. Major disposals principally comprised the partial liquidation of the facility for removal of exhaust gases and dust removal at sintering plant No. 2, liquidation of extrusion machine No. 6 and liquidation of coke battery No. 11.

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

Depreciation of tangible fixed assets amounted to CZK 1,717,520 thousand and CZK 1,668,826 thousand as of 31 December 2015 and 2014, respectively.

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

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 768,849 thousand and CZK 743,077 thousand as of 31 December 2015 and 2014, respectively.

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

#### Finance Leases

#### 31 December 2015

During the year ended 31 December 2015, the Company reported no assets under finance leases.

#### 31 December 2014

(CZK THOUSAND)

	Cars	Machinery and equipment	Balance at 31 Dec 2014
Total anticipated lease payments	0	129	129
Actual lease payments made through 31 Dec 2014	0	129	129

#### Operating Lease

Lease payments of CZK 55,509 thousand and CZK 55,591 thousand were made in the years ended 31 December 2015 and 2014, respectively.

### 6.4. PLEDGED FIXED ASSETS

#### 31 December 2015

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	261 371	Loan from Česká spořitelna, a.s.
Land	23 663	
Tangible fixed assets	519 072	Loan from Česká spořitelna, a.s.
Tangible fixed assets	186 285	Loan from Československá obchodní banka, a.s.
Land	10 513	
Tangible fixed assets	2 811	Loan from Československá obchodní banka, a.s.
Land	40 484	
Tangible fixed assets	973 686	Loan from Československá obchodní banka, a.s.
Land	664	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	503 391	
Tangible fixed assets	589 833	Loan from HSBC Bank plc – Prague branch
Land	110 496	
Tangible fixed assets	21 955	Loan for investment from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	121 022	Overdraft from Československá obchodní banka, a.s.
Land	10 567	
Technology	128 227	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction
Tangible fixed assets	76 546	Loans from Česká spořitelna, a.s.
Land	5 346	
Technology	50 765	
Tangible fixed assets*	95 100	Loan from ING Bank Śląski S.A., collateralised by machinery up to PLN 15,000 thousand
Tangible fixed assets, land	1 226	Loan from Citibank Europe plc.
Tangible fixed assets, land	1 106	Loan from Citibank Europe plc.
Tangible fixed assets, land	453	Loan from Citibank Europe plc.
Tangible fixed assets, land	32	Loan from Citibank Europe plc.
Tangible fixed assets, land	12 922	Investment loan from Československá obchodní banka, a.s.
Tangible fixed assets, land	18	Investment loan from Československá obchodní banka, a.s.
<b>Total</b>	<b>3 747 554</b>	

Note:

\* translated using the exchange rate of the Czech National Bank as of 31 December 2015



31 December 2014

(CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	261 653	Loan from Česká spořitelna, a.s.
Land	26 630	
Tangible fixed assets	192 970	Loan from Československá obchodní banka, a.s.
Land	10 612	
Tangible fixed assets	601 396	Loan from HSBC Bank plc – Prague branch
Land	110 496	
Land	699	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	445 066	Loan from Česká spořitelna, a.s.
Tangible fixed assets	418 308	Loan from Československá obchodní banka, a.s., collateralised by assets up to CZK 926,452 thousand
Land	34 415	
Technology	544 554	
Tangible fixed assets	26 866	Loan for investment from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	24 984	Loan for investment from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	124 588	Overdraft from Československá obchodní banka, a.s.
Land	10 614	
Technology	141 844	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction
Tangible fixed assets	144 518	Loans from Česká spořitelna, a.s.
Tangible fixed assets*	77 904	Loan from ING Bank Śląski S.A., collateralised by machinery up to PLN 12,000 thousand
Tangible fixed assets*	12 335	Loan from ING Bank Śląski S.A., collateralised by fixed assets up to PLN 1,900 thousand
Tangible fixed assets*	29 928	State grant from the Ministry for National Economy (Hungary)
Tangible fixed assets, land	1 422	Loan from Citibank Europe plc.
Tangible fixed assets, land	1 242	Loan from Citibank Europe plc.
Tangible fixed assets, land	543	Loan from Citibank Europe plc.
Tangible fixed assets, land	65	Loan from Citibank Europe plc.
Tangible fixed assets, land	13 659	Investment loan from Československá obchodní banka, a.s.
Tangible fixed assets, land	57	Investment loan from Československá obchodní banka, a.s.
<b>Total</b>	<b>3 257 368</b>	

Note:

\* translated using the exchange rate of the Czech National Bank as of 31 December 2014

## 6.5. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2015
Equity investments – controlled entity	208 367	960	19 000	-843	0	189 484
Equity investments in associates	26 201	0	0	0	0	26 201
Other non-current securities and equity investments	3 016	0	20	0	-2	2 994
Acquired non-current financial assets	0	0	0	0	0	0
<b>Total</b>	<b>237 584</b>	<b>960</b>	<b>19 020</b>	<b>-843</b>	<b>-2</b>	<b>218 679</b>

## 6.6. SUMMARY OF UNCONSOLIDATED FINANCIAL INVESTMENTS

### 6.6.1. Equity Investments in Subsidiaries

31 December 2015

(CZK THOUSAND)

Name of the entity, registered office	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	48 100	1 253	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	43 542	3 432	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 647	161	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	0	0	80.00	14 342	2 038	0	2 196
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 475	309	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	52 304	-1 930	0	0
„ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością, Cieszyn, (POL)	48 558	0	88.00	48 796	-969	-7 663	0
Moravia Security, a.s., Konská, Třinec	12 000	12	100.00	22 483	2 423	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	18 199	2 278	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	20 977	10 171	-15 703	0
JuBo Jeseník s.r.o.	0	0	80.00	*	*	0	0
<b>Total</b>						<b>-23 366</b>	<b>2 196</b>

Note: *italics* – preliminary results as of 31 December 2015

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

31 December 2014

(CZK THOUSAND)

Name of the entity, registered office	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	46 841	2 839	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	40 110	3 812	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 486	168	0	0
Steel Consortium Partners, a.s., "in liquidation", Třinec-Staré Město	19 000	117	100.00	1 129	-111	-17 871	0
Reťaze Slovakia s.r.o., Skalica (SK)	0	0	80.00	15 395	2 400	0	1 756
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 168	639	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	54 386	-1 730	0	0
„ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością, Cieszyn, (POL)	48 558	0	88.00	50 062	507	-4 875	0
Moravia Security, a.s., Třinec-Konská	12 000	12	100.00	20 060	2 344	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	15 921	2 284	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	10 805	4 437	-22 653	0
<b>Total</b>						<b>-45 399</b>	<b>1 756</b>

### 6.6.2. Equity Investments in Associates

31 December 2015

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Share in%	Equity	Net profit or loss	Provision
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.28	35 892	390	-17 788
HRAT, s.r.o., Třinec*	100	0	23.26	1 825	100	0
<b>Total</b>						<b>-17 788</b>

Note: *italics* – preliminary results as of 31 December 2015

\* preliminary results for the period from 1 April 2015 – 31 March 2016

31 December 2014

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Share in%	Equity	Net profit or loss	Provision
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.8	40 102	703	-17 998
HRAT, s.r.o., Trinec*	100	0	23.26	1 633	26	0
<b>Total</b>						<b>-17 998</b>

Note:

\* results for the period from 1 April 2014 – 31 March 2015

## 6.7. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2015

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses
<i>Goodwill arising on consolidation</i>				
ŽDB DRÁTOVNA a.s.	250 761	0	250 761	0
"D&D" Drótáru Zrt.	364 778	-358 247	6 531	9 414
<b>Total</b>	<b>615 539</b>	<b>-358 247</b>	<b>257 292</b>	<b>9 414</b>

The gross value of the goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 250,761 thousand as of 31 December 2015. The goodwill arising on consolidation includes the deferred tax arising from the difference from revaluation of assets and liabilities. In 2015, the Company recognised a year-on-year change in this deferred tax of CZK 205 thousand, total deferred tax in 2015 amounts to CZK 9,684 thousand.

The gross value of the goodwill arising on consolidation of "D&D" Drótáru Zrt. amounts to CZK 364,778 thousand as of 31 December 2015. In 2015, the write-off of this goodwill arising on consolidation of CZK 9,414 thousand was recognised in expenses, the net value as of 31 December 2015 amounts to CZK 6,531 thousand. The positive goodwill arising on consolidation includes the deferred tax arising from the revaluation of assets and liabilities. In 2015, a year-on-year change in the deferred tax was recognised in the amount of CZK 196 thousand. The deferred tax in 2015 amounted to CZK 4,088 thousand.

2014

(CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses
<i>Goodwill arising on consolidation</i>				
ŽDB DRÁTOVNA a.s.	250 556	0	250 556	0
"D&D" Drótáru Zrt.	364 974	-348 833	16 141	1 641
<b>Total</b>	<b>615 530</b>	<b>-348 833</b>	<b>266 697</b>	<b>1 641</b>

The gross value of the goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounted to CZK 250,556 thousand as of 31 December 2014. The goodwill arising on consolidation included the deferred tax arising from the difference from revaluation of assets and liabilities. In 2014, the Company recognised a year-on-year change in this deferred tax of CZK 4,978 thousand, total deferred tax in 2014 amounted to CZK 9,479 thousand.

The gross value of the goodwill arising on consolidation of "D&D" Drótáru Zrt. amounted to CZK 364,974 thousand. In 2014, the write-off of this goodwill arising on consolidation of CZK 1,641 thousand was recognised in expenses, the net value as of 31 December 2014 amounted to CZK 16,141 thousand. The positive goodwill arising on consolidation included the deferred tax arising from the revaluation of assets and liabilities. In 2014, a year-on-year change in the deferred tax was recognised in the amount of CZK 199 thousand. The deferred tax in 2014 amounted to CZK 4,284 thousand.

## 6.8. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK THOUSAND)

Securities and equity investments under equity accounting	2015	2014
VESUVIUS ČESKÁ REPUBLIKA, a.s.	154 701	155 395
<b>Total</b>	<b>154 701</b>	<b>155 395</b>

## 6.9. PLEDGED NON-CURRENT FINANCIAL ASSETS

As of 31 December 2015 and 2014, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 132,000 thousand.

## 6.10. INVENTORY

As of 31 December 2015, "METALURGIA" S.A. has pledged the inventory up to PLN 13,000 thousand (CZK 82,420 thousand) with BNP PARIBAS BANK Polska S.A. in relation to the used loan. In 2014, the inventory was pledged up to PLN 13,000 thousand (CZK 84,396 thousand).

## 6.11. RECEIVABLES

### 6.11.1. Short-Term Receivables

As of 31 December 2015 and 2014, gross short-term trade receivables past their due dates amounted to CZK 429,637 thousand (net CZK 342,600 thousand) and CZK 439,759 thousand (net CZK 337,028 thousand), respectively.

#### Other Short-Term Receivables

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

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

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

Estimated receivables principally include amounts due from anticipated insurance proceeds and an amount due from the refund of the value added tax paid abroad.

Receivables typically mature within 30 days.

### 6.11.2. Pledged Receivables

During 2014 and 2015, HŽP a.s. provided short-term receivables before their due dates of CZK 60 million as a pledge for loans from Česká spořitelna, a.s., with a monthly renewal.

As of 31 December 2015, ŽDB DRÁTOVNA a.s. records pledged receivables of CZK 608,318 thousand based on the Loan Contract concluded with Československá obchodní banka, a.s. As of 31 December 2014, the pledged receivables amounted to CZK 685,216 thousand.

As of 31 December 2014, Šroubárna Kyjov, spol. s r.o. recorded pledged receivables of CZK 115,368 thousand based on the Loan Contract concluded with Československá obchodní banka, a.s. As of 31 December 2015, the Company records no pledged receivables.

As of 31 December 2015, VÚHŽ a.s. pledged receivables of CZK 10,520 thousand with Československá obchodní banka, a.s. which are used as a pledge for short-term loans (overdraft) and the Contract on Rules for Provision of Letters of Credit and Bank Guarantees. As of 31 December 2014, this pledge amounted to CZK 10,644 thousand.

As of 31 December 2015, "METALURGIA" S.A. records pledged receivables of PLN 2,732,894.17 (CZK 17,327 thousand) with ING Commercial Finance Polska S.A. As of 31 December 2014, the pledged receivables amounted to PLN 2,747,378.89 (CZK 17,836 thousand).

### 6.11.3. Intercompany Receivables

#### Short-term Receivables

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2015	Balance at 31 Dec 2014
● Trade receivables		
Doprava TŽ, a.s.	2 327	1 104
JuBo Jeseník s.r.o.	4 751	0
Moravia Security, a.s.	89	90
MORAVIA STEEL a.s.	1 788 034	2 382 115
TRIALFA, s.r.o.	2 318	3 152
TŘINECKÁ PROJEKCE, a.s.	90	155
DALSELV DESIGN a.s.	2 662	0
Třinecké gastroslužby, s.r.o.	1 279	3 016
TRISIA, a.s.	15	15
VESUVIUS ČESKÁ REPUBLIKA, a.s.	1 993	5 319
Beskydská golfová, a.s.	49	37
NEOMET Sp. z o.o.	41	1 805
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	37	35
M Steel Projects a.s.	14 504	9 011
Steel Consortium Partners, a.s.	0	20
Security Morava, s.r.o.	4	4
Moravskoslezský kovošrot, a.s.	1 563	3 124
Moravia Steel Deutschland GmbH	26 896	44 194
Kovárna VIVA a.s.	6	10
AHP HYDRAULIKA, a.s.	0	1
<b>Total</b>	<b>1 846 658</b>	<b>2 453 207</b>
● Estimated receivables		
MORAVIA STEEL a.s.	10	4
<b>Total</b>	<b>10</b>	<b>4</b>
<b>Total short-term intercompany receivables</b>	<b>1 846 668</b>	<b>2 453 211</b>
Other than intercompany receivables	2 465 443	2 236 039
<b>Total short-term receivables</b>	<b>4 312 111</b>	<b>4 689 250</b>

As of 31 December 2015, the Company recoded no long-term receivables past their due dates by more than 5 years (2014: CZK 282 thousand).

## 6.12. EQUITY

### 6.12.1. Share Capital

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

### 6.12.2. Gains and Losses from Revaluation

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

## 6.13. IRESERVES

Other reserves principally consist of reserves for employee bonuses and liquidation of tangible fixed assets.

## 6.14. PAYABLES

### 6.14.1. Long-Term Payables

Long-term trade payables as of 31 December 2015 primarily include payables arising from retention fees from suppliers according to concluded contracts.

The Company recorded no long-term trade payables with maturities exceeding 5 years.



### 6.14.2. Short-Term Trade Payables

As of 31 December 2015, short-term trade payables past their due dates amount to CZK 137,773 thousand (2014: CZK 65,843 thousand).

Payables typically fall due for settlement within 30 days.

### Other Payables

As of 31 December 2015, payables associated with social security and the state employment policy contribution amounted to CZK 121,844 thousand (2014: CZK 127,237 thousand), health insurance payables totalled CZK 56,594 thousand (2014: CZK 57,660 thousand). Payables arising from the additional pension scheme amounted to CZK 4,630 thousand (2014: CZK 4,664 thousand) as of 31 December 2014. No social securities and health insurance payables past their due dates were recorded.

The category "State – tax payables and subsidies" principally comprises received subsidies for emission allowances and a payable arising from personal and corporate income taxes.

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

Other payables primarily comprise payables arising from bank guarantees and employee contributions.

### 6.14.3. Intercompany Payables

#### Short-term Payables

(CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2015	Balance at 31 Dec 2014
● Trade payables		
Doprava TŽ, a.s.	11 617	12 475
Hutnictví železa, a.s.	691	563
MORAVIA STEEL a.s.	1 727 380	2 164 438
Moravia Security, a.s.	6 715	7 952
Security Morava, s.r.o.	1 032	1 059
TRIALFA, s.r.o.	21 101	16 492
TRISIA, a.s.	1 020	1 317
TŘINECKÁ PROJEKCE, a.s.	5 091	5 889
Třinecké gastroslužby, s.r.o.	10 312	9 751
VESUVIUS ČESKA REPUBLIKA, a.s.	8 712	8 695
Beskydská golfová, a.s.	3 025	3 025
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	938	654
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	106	109
Moravskoslezský kovošrot, a.s.	81 872	142 400
HRAT, s.r.o.	55	36
DALSELV DESIGN a.s.	8 725	3 640
Moravia Steel Deutschland GmbH	0	322
MORAVIA STEEL SLOVENIJA d.o.o.	314	162
MORAVIA STEEL ITALIA s.r.l.	70	85
MORAVIA STEEL UK LIMITED	37	47
Kovárna VIVA a.s.	0	2
NEOMET Sp. z o.o.	26 520	24 515
MINERFIN, a.s.	1 136	4 091
<b>Total</b>	<b>1 916 469</b>	<b>2 407 719</b>
● Short-term prepayments received		
AHP HYDRAULIKA, a.s.	14	0
<b>Total</b>	<b>14</b>	<b>0</b>
● Estimated payables		
Moravia Steel Deutschland GmbH	2 296	0
MORAVIA STEEL a.s.	1 486	5 068
Moravskoslezský kovošrot, a.s.	0	1
<b>Total</b>	<b>3 782</b>	<b>5 069</b>
<b>Total short-term intercompany payables</b>	<b>1 920 265</b>	<b>2 412 788</b>
Other than intercompany payables	3 278 542	3 926 846
<b>Total short-term payables</b>	<b>5 198 807</b>	<b>6 339 634</b>

## Long-Term Payables

As of 31 December 2015, the Company recorded no long-term intercompany payables.

Other than intercompany long-term payables principally include a deferred tax liability of CZK 1,483,899 thousand and CZK 1,399,556 thousand as of 31 December 2015 and 2014, respectively.

## 6.15. DEFERRED INCOME TAX

### 6.15.1. Deferred Tax Liability

In determining the deferred tax liability amount, the Group used the tax rate in line with the legislation of each state for the period in which the deferred tax liability is anticipated to be realised.

(CZK THOUSAND)

Deferred tax basis	Tax rate in%	Balance at 31 Dec 2015	Balance at 31 Dec 2014
Difference between tax and accounting net book value of fixed assets	19	-8 805 119	-8 299 839
Difference between tax and accounting net book value of fixed assets	10	-128 206	-142 657
Remeasurement of securities available for sale	19	959	58
Remeasurement of assets to fair value charged against equity	19	-173 670	-191 750
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	10	-40 881	-42 845
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	19	-50 971	-49 890
Accounting reserves	19	213 855	221 762
Provisions	19	761 090	644 303
Provisions	10	4 743	6 839
Outstanding default interest	19	-20 965	0
Expenses to be allowable in subsequent periods	19	61 233	80 808
Expenses to be allowable in subsequent periods	10	60	110
Utilisable tax losses	19	0	12 284
Unrealised gains on the intragroup sale of inventory	19	22 720	28 913
Unrealised gains on intragroup sales of tangible fixed assets	19	281 195	295 467
Other	10	-26 324	-27 038
<b>Total tax base</b>		<b>-7 900 281</b>	<b>-7 463 475</b>
<b>Deferred tax liability</b>		<b>-1 483 899</b>	<b>-1 399 556</b>

(CZK THOUSAND)

Analysis of movements	
<b>31 Dec 2014</b>	<b>-1 399 556</b>
Current changes charged to the profit and loss account	-88 184
Current changes recognised in equity	3 850
Recognition against the goodwill arising on consolidation	-9
<b>31 Dec 2015</b>	<b>-1 483 899</b>

### 6.15.2. Deferred Tax Asset

(CZK THOUSAND)

	Tax rate in%	Balance at 31 Dec 2015	Balance at 31 Dec 2014
Difference between the tax and accounting net book value of fixed assets	19	-109	-6 832
Accounting reserves	19	210	6 398
Provisions	19	0	3 669
Utilisable tax loss	19	0	3 246
<b>Total tax base</b>		<b>101</b>	<b>6 481</b>
<b>Deferred tax asset</b>		<b>19</b>	<b>1 231</b>

(CZK THOUSAND)

Analysis of movements	
<b>31 Dec 2014</b>	<b>1 231</b>
Current changes charged to the profit and loss account	-1 212
Current changes charged to equity	0
<b>31 Dec 2015</b>	<b>19</b>

## 6.16. BANK LOANS

### Long-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2015	Balance at 31 Dec 2014	Interest rate in %	Form of collateral at 31 Dec 2015
Investment	CZK	63 140	189 460	3M PRIBOR + 1.6/ FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment	EUR	112 376	141 891	6M EURIBOR + 1.1	Hermes guarantee insurer
Investment	CZK	120 000	180 000	3M PRIBOR + 1.4	Securities, promissory note
Investment	EUR	164 733	199 727	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	442 105	694 737	3M PRIBOR + 1.4	Immovable and movable assets, securities, receivables from insurance, promissory note
Investment	CZK	360 000	413 644	3M PRIBOR + 1.3/FIXED 2.48	Immovable and movable assets, promissory note
Investment	CZK	180 000	0	3M PRIBOR + 0.7	Immovable and movable assets, receivables from insurance, promissory note
Term (special purpose)	CZK	0	99 073	PRIBOR + 1.6	
Investment	EUR	1 955	5 441	1M EURIBOR+1.15	Pledged real estate
Investment	EUR	2 861	5 871	1M EURIBOR + 1.61	Pledged real estate
Investment	CZK	75 000	112 500	3M PRIBOR + 1.5/ FIXED 2.4	Pledged movable assets, blank promissory note
Investment	CZK	0	4 695	1M PRIBOR + 1.6	Pledged real estate, pledged movable assets, pledged receivables from insurance of immovable and movable assets, pledged trade receivables
Investment	EUR	3 054	6 258	1M EURIBOR + 0.85	Pledged real estate, pledged movable assets, pledged receivables from insurance of immovable and movable assets
Investment	CZK	2 000	6 000	FIXED 3.90	Pledged real estate, pledged movable assets, pledged receivables from insurance of immovable and movable assets
Investment	EUR	0	4 436	3M EURIBOR + 1.3	KPH 600 machine, KLM measurement system
Investment	EUR	2 000	9 371	3M EURIBOR + 1.3	Pledged movable assets
Investment	EUR	4 905	8 387	3M EURIBOR + 1.3	
Investment	PLN	30 068	0	WIBOR 1m + 0.5	Pledged movable assets (machinery, equipment)
<b>Total</b>		<b>1 564 197</b>	<b>2 081 491</b>		

## Short-Term Bank Loans

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2015	Balance at 31 Dec 2014	Interest rate in %	Form of collateral at 31 Dec 2015
Investment	EUR	17 288	8 868	6M EURIBOR + 1.1	Hermes guarantee insurer
Overdraft	CZK	0	486	O/N PRIBOR + 0.45	Blank promissory note
Overdraft	CZK	0	20 359	O/N PRIBOR + 0.95	Blank promissory note
Overdraft	CZK	0	20 035	O/N PRIBOR + 0.65	Blank promissory note
Overdraft	CZK	0	22 929	1T PRIBOR + 0.6	Blank promissory note
Overdraft	CZK	0	20 000	1M PRIBOR + 0.75	No collateral
Investment	CZK	126 320	242 100	3M PRIBOR + 1.6/FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment	EUR	0	2 080	1M EURIBOR + 1.3	KEH8, KER8 line
Investment	EUR	4 324	6 654	3M EURIBOR + 1.3	KPH 600 machine, KLM measurement system
Investment	EUR	7 135	7 319	3M EURIBOR + 1.3	Pledged tangible assets
Investment	EUR	3 270	1 677	3M EURIBOR + 1.3	
Overdraft	PLN	13 554	40 760	WIBOR m + marže 0.5	Pledge – goods, products, material, factoring
Overdraft	PLN	0	49 637	WIBOR + marže 0.9	Pledge
Overdraft	PLN	35 337	0	WIBOR m + 0.45	Pledge – machinery, equipment, receivables
Investment	EUR	3 349	3 436	1M EURIBOR + 1.15	Pledged real estate
Term (special purpose)	CZK	0	56 613	PRIBOR + 1.6	
Revolving	CZK	0	160 000	PRIBOR + 0.45	Receivables
Revolving	EUR	162 150	277 250	EURIBOR + 0.45	Receivables
Overdraft	CZK	0	20 142	O/N PRIBOR + 0.6	Blank promissory note
Investment	EUR	29 952	30 727	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	60 000	60 000	3M PRIBOR + 1.4	Securities, blank promissory note
Investment	CZK	252 632	252 632	3M PRIBOR + 1.4	Immovable and movable assets, securities, receivable from insurance, promissory note
Investment	CZK	120 000	120 000	3M PRIBOR + 1.3/FIXED 2.48	Immovable and movable assets, promissory note
Investment	CZK	60 000	0	3M PRIBOR + 0.7	Immovable and movable assets, receivable from insurance, promissory note
Investment	EUR	2 862	2 936	1M EURIBOR + 1.61	Pledged real estate
Overdraft	CZK	6 500	0	1M PRIBOR + 0.75	Blank promissory note, pledged real estate
Overdraft	CZK	2 397	0	O/N PRIBOR + 0.8	Blank promissory note, receivables
Investment	CZK	4 687	4 680	1M PRIBOR + 1.6	Pledged real estate, pledged movable assets, pledged receivables from insurance of immovable and movable assets, pledged trade receivables
Investment	EUR	3 053	3 139	1M EURIBOR + 0.85	Pledged real estate, pledged movable assets, pledged receivables from insurance of immovable and movable assets
Investment	CZK	4 000	4 000	FIXED 3.9	Pledged real estate, pledged movable assets, pledged receivables from insurance of immovable and movable assets
Operational overdraft	CZK	113 232	98 461	1M PRIBOR + 0.65	Blank promissory note
Investment	CZK	37 500	37 500	3M PRIBOR + 1.5/FIXED 2.4	Pledged movable assets, blank promissory note
Investment	PLN	5 011	0	WIBOR 1m + 0.5	Pledged movable assets (machinery, equipment)
<b>Total</b>		<b>1 074 553</b>	<b>1 574 420</b>		

Repayments of long-term bank loans with maturities exceeding five years amount to CZK 91,490 thousand.

## 6.17. OFF BALANCE SHEET LIABILITIES AND LEGAL DISPUTES

TŘINECKÉ ŽELEZÁRNY, a. s.

### Provided guarantees

#### 31 December 2015

Type of liability	Total amount	Balance at 31 Dec 2015
<i>Guarantees</i>		
- to other entities	EUR 2 902 thousand	CZK 78 429 thousand
	CZK 4 000 thousand	CZK 4 000 thousand

#### 31 December 2014

Type of liability	Total amount	Balance at 31 Dec 2014
<i>Guarantees</i>		
- to other entities	USD 550 thousand	CZK 12 559 thousand
	EUR 2 602 thousand	CZK 72 143 thousand
	CZK 4 000 thousand	CZK 4 000 thousand

### Legal Disputes

The proceedings related to the petition of a shareholder, Marek Veselý, regarding the invalidity of the resolution passed at the Company's ordinary general meeting held on 30 June 2010 were discontinued based on the ruling passed by the Regional Court in Ostrava. The ruling was passed subsequent to the shareholder's filing presented during the hearing before the Court on 28 April 2015, based on which the shareholder revoked his petition to declare the resolution of the ordinary general meeting invalid. The matter was effectively concluded on 21 May 2015.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association against the Company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the Company on 14 December 2012. The Company has not yet been summoned by the Court regarding this case or called on to undertake any procedural act. The substance of the legal dispute does not involve determining the amount of the Company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff or whether the former shareholders of the Company are the creditors. The Company has contacted the plaintiff with the objective of initiating negotiations on amicable settlement of the dispute; however, no agreement has been reached so far.

The petition of Aleš Hodina and Bohumil Hála for declaring the resolution of the extraordinary general meeting of the Company held on 31 July 2013 invalid. The resolution of the Regional Court in Ostrava dated 15 April 2014 rejected the petition. Based on the resolution passed by the Head Court in Olomouc of 11 February 2015, the ruling of the Regional Court in Ostrava on rejecting the petition was confirmed. According to the eJustice information system, the case was effectively concluded on 26 February 2015.

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

On 14 and 15 October 2010, a trial before the Regional Court in Ostrava took place in terms of the matter named above. Principally, evidence was produced in the form of the reading of expert appraisals and hearing of experts. Further expert substantiation of facts is ongoing.

### Environmental Liabilities

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

As of 31 December 2015 and 2014, the Company drew CZK 519,227 thousand and CZK 506,646 thousand, respectively.



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

#### ENERGETIKA TŘINEC, a.s.

##### Collateral for loans

(CZK THOUSAND)

Type of liability	Balance at 31 Dec 2015	Balance at 31 Dec 2014
Blank bills of exchange – collateral for overdraft loans	250 000	200 000
Blank bills of exchange – collateral for long-term loans	150 000	150 000
<b>Total</b>	<b>400 000</b>	<b>350 000</b>

##### Environmental Liabilities

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

#### VÚHŽ a.s.

##### Provided Guarantees

VÚHŽ a.s. concluded a contract for the provision of bank guarantees with the maximum credit facility of CZK 30,000 thousand with Citibank Europe plc which is collateralised by a blank promissory note and pledge of real estate. As of 31 December 2015 and 2014, provided guarantees amount to CZK 590 thousand and CZK 1,477 thousand, respectively. This is a bank guarantee to customers of the company provided over the warranty period.

##### Easements

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

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

##### Environmental Liabilities

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

#### ŽDB DRÁTOVNA a.s.

##### Environmental Liabilities

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

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

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

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

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

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

##### **Legal Disputes**

As of 31 December 2015, Strojírny a stavby Třinec, a.s. was involved in the legal disputes as follows:

- Recovery of a trade receivable;
- Recovery of a receivable which represents the claim for compensation of damage incurred on the assets of the company; and
- Compensation of damage with respect to a work-related injury.

##### **Environmental Disputes**

As of 31 December 2015, no environmental audit of Strojírny and stavby Třinec, a.s. was performed. Management of Strojírny and stavby Třinec, a.s. is therefore unable to anticipate the exact amount of future liabilities related to the damage resulting from past activities or liabilities related to the prevention of potential future damage. Nevertheless, management of Strojírny and stavby Třinec, a.s. does not consider these liabilities material.

#### **Šroubárna Kyjov, spol. s r.o.**

Šroubárna Kyjov, spol. s r.o. stores material of another firm amounting to CZK 2,765 thousand in its warehouse.

#### **HŽP a.s.**

As of the consolidated balance sheet date, HŽP a.s. records future payables arising from capital costs resulting from concluded contracts of CZK 6,434 thousand (CZK 5,281 thousand and EUR 43 thousand).

##### **Environmental Disputes**

The re-certification audit “Bureau Veritas Certification” under ISO 14001 was accomplished in April 2014. No defects were identified during the audit and it was confirmed that the company’s environmental management system is in compliance with the requirements of ISO 14001:2004 in the area of certification – design, development and manufacturing of screw, leaf and parabolic springs. The certificate is valid until 13 May 2017.

## 7. ADDITIONAL CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

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

#### 7.1.1. The Group's Income from Ordinary Activities and Sale of Goods for 2015

(CZK THOUSAND)

Activities	Domestic	Export	Total
Metallurgic production	37 086 420	4 751 892	41 838 312
Other production	1 686 153	2 128 913	3 815 066
Sale of goods	11 879	91 623	103 502
Services	891 382	81 136	972 518
Change in inventory	-868 754	-39 357	-908 111
Own work capitalised	775 155	1 481	776 636
<b>Total</b>	<b>39 582 235</b>	<b>7 015 688</b>	<b>46 597 923</b>

#### 7.1.2. The Group's Income from Ordinary Activities and Sale of Goods for 2014

(CZK THOUSAND)

Activities	Domestic	Export	Total
Metallurgic production	37 928 539	5 267 426	43 195 965
Other production	1 745 711	2 085 019	3 830 730
Sale of goods	7 330	96 491	103 821
Services	796 879	68 854	865 733
Change in inventory	802 528	28 294	830 822
Own work capitalised	780 727	1 755	782 482
<b>Total</b>	<b>42 061 714</b>	<b>7 547 839</b>	<b>49 609 553</b>

### 7.2. GRANTS

In 2015, TŘINECKÉ ŽELEZÁRNY, a. s. used a grant for the acquisition of environmental investments of CZK 887,539 thousand (of which CZK 887,175 thousand for the purchase of tangible fixed assets and CZK 364 thousand for the purchase of intangible fixed assets). In 2014, TŘINECKÉ ŽELEZÁRNY, a. s. used a grant for the acquisition of environmental investments of CZK 1,229,909 thousand.

In 2015, ENERGETIKA TŘINEC, a.s. received a grant for environmental investments of CZK 34,432 thousand (2014: CZK 219,000 thousand).

In 2015, Slévárny Třinec, a.s. received a grant for an investment of CZK 159,444 thousand (2014: CZK 50,481 thousand).

In 2015, VÚHŽ a.s. received an investment grant of CZK 6,458 thousand which was primarily used for the purchase of a five-axis CNC milling cutter and a 3D measurement device.

Other grants for operating purposes of CZK 25,062 thousand drawn for 2015 (2014: CZK 22,103 thousand) include subsidies for research and development, environmental projects, education and subsidies from the labour office. Other grants additionally include grants for co-recipients of CZK 3,010 thousand and CZK 1,152 thousand in 2015 and 2014, respectively.

### 7.3. OTHER EXPENSES AND INCOME

Costs of advisory, consulting and audit activities as of 31 December 2015 amount to CZK 59,635 thousand and CZK 57,963 thousand as of 31 December 2014.

Other operating income as of 31 December 2015 and 2014 predominantly includes the drawing of the grant for greenhouse gas emissions including the income from the sale of allowances of CZK 661,713 thousand and CZK 893,730 thousand, respectively.

Other financial income in 2015 and 2014 predominantly includes foreign exchange rate gains of CZK 95,492 thousand and CZK 104,252 thousand, respectively.

Other operating expenses as of 31 December 2015 and 2014 predominantly include the use of emission allowances including the costs of the sale of gas emissions of CZK 875,187 thousand and CZK 993,933 thousand, respectively.

Other financial expenses as of 31 December 2015 and 2014 predominantly include foreign exchange rate losses of CZK 120,204 thousand and CZK 123,891 thousand, respectively.

## 7.4. TOTAL RESEARCH AND DEVELOPMENT COSTS

(CZK THOUSAND)

	31 Dec 2015	31 Dec 2014
Research and development costs (less grants)	59 843	81 088

## 7.5. RELATED PARTY TRANSACTIONS

### 7.5.1. Income Generated with Related Parties

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

If an entity is a "fellow subsidiary", it is an entity controlled by the same controlling entity as TŘINECKÉ ŽELEZÁRNY, a. s.

2015

(CZK THOUSAND)

Entity	Relation to the company	Fixed assets	Inventory – material, products and goods	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	21 983	18	0	0	22 001
JuBo Jeseník s.r.o.	Controlled entity	0	6 267	6	0	0	6 273
Doprava TŽ, a.s.	Controlled entity	0	24 186	4 342	0	0	28 528
TRIALFA, s.r.o.	Controlled entity	0	24 826	4 019	139	0	28 984
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	400	689	1	0	1 090
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 020	6 427	625	7	11 079
Security Morava, s.r.o.	Controlled entity	0	0	52	0	0	52
TRISIA, a.s.	Controlled entity	0	37	168	0	0	205
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	8 761	21 892	141	0	30 794
Moravia Security, a.s.	Controlled entity	0	187	1 517	0	0	1 704
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	73	449	0	0	522
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1	0	0	1
DALSELV DESIGN a.s.	Controlled entity	0	11 187	0	0	0	11 187
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	3 564	0	0	0	3 564
MORAVIA STEEL a.s.	Controlling entity	0	35 412 775	168 838	1 678	0	35 583 291
Moravia Steel Deutschland GmbH*	Fellow subsidiary	0	326 825	38	0	0	326 863
Beskydská golfová, a.s.	Fellow subsidiary	0	285	126	0	0	411
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	21 710	989	0	0	22 699
Kovárna VIVA a.s.	Fellow subsidiary	0	0	13	0	0	13
M Steel Projects a.s.	Fellow subsidiary	0	37 194	101	0	0	37 295
NEOMET Sp. z o.o.*	Fellow subsidiary	0	164	746	65	0	975
AHP HYDRAULIKA, a.s.*	Fellow subsidiary	0	1 025	0	0	0	1 025
MINERFIN, a.s.	Group entity	0	0	2	0	0	2
<b>Total</b>		<b>0</b>	<b>35 905 469</b>	<b>210 433</b>	<b>2 649</b>	<b>7</b>	<b>36 118 558</b>

Note:

\* foreign currency was translated using an average exchange rate

Revenues from profit shares of Group entities for the period from 1 January 2015 to 31 December 2015 are disclosed in Note 6.6.

2014

(CZK THOUSAND)

Entity	Relation to the company	Fixed assets	Inventory – material, products and goods	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	19 743	10	0	0	19 753
Doprava TŽ, a.s.	Controlled entity	0	22 083	4 324	1	0	26 408
TRIALFA, s.r.o.	Controlled entity	0	27 615	4 047	33	0	31 695
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	388	749	0	0	1 137
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 007	7 707	679	0	12 393
Steel Consortium Partners, a.s. „v likvidaci“	Controlled entity	0	0	72	0	0	72
Security Morava, s.r.o.	Controlled entity	0	0	40	0	0	40
TRISIA, a.s.	Controlled entity	0	20	173	836	0	1 029
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	8 821	24 029	146	0	32 996
Moravia Security, a.s.	Controlled entity	0	220	1 514	0	0	1 734
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	183	463	0	0	646
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	33	0	0	0	33
MORAVIA STEEL a.s.	Controlling entity	1 025	36 411 884	169 588	995	0	36 583 492
Moravia Steel Deutschland GmbH*	Fellow subsidiary	0	412 559	0	0	0	412 559
Beskydská golfová, a.s.	Fellow subsidiary	0	47	155	0	0	202
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	27 874	1 298	15	0	29 187
Kovárna VIVA a.s.	Fellow subsidiary	0	0	8	0	0	8
M Steel Projects a.s.	Fellow subsidiary	0	45 449	89	0	0	45 538
NEOMET Sp. z o.o.*	Fellow subsidiary	0	419	352	139	516	1 426
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	787	0	0	0	787
<b>Total</b>		<b>1 025</b>	<b>36 982 132</b>	<b>214 618</b>	<b>2 844</b>	<b>516</b>	<b>37 201 135</b>

Note:

\* foreign currency was translated using an average exchange rate

Revenues from profit shares of Group entities for the period from 1 January 2014 to 31 December 2014 are disclosed in Note 6.6.



### 7.5.2. Purchases from Related Parties

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

If an entity is a "fellow subsidiary", it is an entity controlled by the same controlling entity as TŘINECKÉ ŽELEZÁRNY, a. s.

2015

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory - material, products and goods	Services	Other expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	552	727	0	1 279
JuBo Jeseník s.r.o.	Controlled entity	0	102	0	0	102
Doprava TŽ, a.s.	Controlled entity	46	27 231	72 408	101	99 786
TRIALFA, s.r.o.	Controlled entity	0	7 881	23 329	70 577	101 787
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	30 741	0	11 124	0	41 865
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 781	17 014	87 118	121 913
Hutnictví železa, a.s.	Associate	0	0	5 427	116	5 543
TRISIA, a.s.	Controlled entity	0	54	11 405	272	11 731
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	78	80 541	1	80 620
Moravia Security, a.s.	Controlled entity	420	131	65 519	150	66 220
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	3 248	36	6 811	0	10 095
„ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 313	0	1 313
HRAT, s.r.o.	Associate	16	0	120	0	136
DALSELV DESIGN a.s.	Controlled entity	91 492	293	2 663	0	94 448
Security Morava, s.r.o.	Controlled entity	0	0	10 911	0	10 911
MORAVIA STEEL a.s.	Controlling entity	125	20 649 438	395 285	51 683	21 096 531
MORAVIA STEEL ITALIA s.r.l.*	Fellow subsidiary	0	0	235	0	235
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	942	0	942
MORAVIA STEEL UK LIMITED	Fellow subsidiary	0	0	164	0	164
Barrandov Studio a.s.	Fellow subsidiary	0	25	0	0	25
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 370	0	5 370
Moravskoslezský kovošrot	Fellow subsidiary	0	1 083 829	0	0	1 083 829
Kovárna VIVA a.s.	Fellow subsidiary	0	271	0	0	271
NEOMET Sp. z o.o.*	Fellow subsidiary	0	927 935	0	0	927 935
MINERFIN, a.s.*	Group entity	0	9 859	0	0	9 859
<b>Total</b>		<b>126 088</b>	<b>22 725 496</b>	<b>711 308</b>	<b>210 018</b>	<b>23 772 910</b>

Note:

\* foreign currency was translated using an average exchange rate

2014

(CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory – material, products and goods	Services	Other expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	530	416	0	946
Doprava TŽ, a.s.	Controlled entity	11	28 729	72 473	130	101 343
TRIALFA, s.r.o.	Controlled entity	0	6 910	414	82 536	89 860
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	23 364	0	10 059	38	33 461
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 536	17 719	86 575	121 830
Hutnictví železa, a.s.	Associate	0	0	5 381	123	5 504
TRISIA, a.s.	Controlled entity	0	0	11 218	197	11 415
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	80 918	0	80 918
Moravia Security, a.s.	Controlled entity	1 300	0	64 493	39	65 832
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	54	796	8 854	0	9 704
„ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 324	0	1 324
HRAT, s.r.o.	Associate	190	0	120	0	310
DALSELV DESIGN a.s.	Controlled entity	23 203	1 356	344	0	24 903
Security Morava, s.r.o.	Controlled entity	5	0	2 840	0	2 845
MORAVIA STEEL a.s.	Controlling entity	433	22 789 753	418 159	53 955	23 262 300
MORAVIA STEEL ITALIA s.r.l.*	Fellow subsidiary	0	0	220	0	220
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	619	0	619
Moravia Steel Deutschland GmbH*	Fellow subsidiary	0	0	322	0	322
MORAVIA STEEL UK LIMITED*	Fellow subsidiary	0	0	200	0	200
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 375	0	5 375
Moravskoslezský kovošrot	Fellow subsidiary	0	1 168 181	0	0	1 168 181
Kovárna VIVA a.s.	Fellow subsidiary	0	474	2	0	476
NEOMET Sp. z o.o.	Fellow subsidiary	0	888 242	0	0	888 242
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	0	245	0	245
MINERFIN, a.s.	Group entity	0	13 631	0	0	13 631
<b>Total</b>		<b>48 560</b>	<b>24 916 138</b>	<b>701 715</b>	<b>223 593</b>	<b>25 890 006</b>

Note:

\* foreign currency was translated using an average exchange rate

## 8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

#### 8.1.1. Staff Costs and Number of Employees for 2015

The number of the Company's employees as of 31 December 2015 was 12,301, of which 58 managers.

The number of the Company's employees as of 31 December 2014 was 12,119, of which 63.2 managers.

The staff costs of employees in the year ended 31 December 2015 amounted to CZK 5,957,985 thousand and staff costs of managers amounted to CZK 186,388 thousand. The staff costs of employees in the year ended 31 December 2014 amounted to CZK 5,734,623 thousand and staff costs of managers amounted to CZK 197,272 thousand. The remuneration to members of the Supervisory Board in the years ended 31 December 2015 and 2014 amounted to CZK 15,813 thousand and CZK 8,471 thousand, respectively. The remuneration to members of the Audit Committee in the years ended 31 December 2015 and 2014 amounted to CZK 180 thousand.

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

#### 8.1.2. Loans, Borrowings, and Other Benefits Provided

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

(CZK THOUSAND)

	2015	2014
Use of management cars (the figure increases the tax base of employees)	5 048	5 375
Contribution for life insurance	179	237
Liability insurance	721	792

## 9. POST BALANCE SHEET EVENTS

No events occurred subsequent to the consolidated balance sheet date that would have a material impact on the consolidated financial statements as of 31 December 2015.



# REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR 2015

This Related Party Transactions Report between **TŘINECKÉ ŽELEZÁRNY, a. s.**, with its registered office at Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 18050646, recorded in File B, Insert 146 of the Register of Companies held by the Regional Court in Ostrava (hereinafter “TŽ” or the “Company”) and the controlling entities, and between TŽ and entities controlled by the same controlling entity has been prepared in line with Section 82 of Act 90/2012 Coll., on Business Companies and Cooperatives (hereinafter the “Act on Business Corporations”) for the 2015 reporting period (hereinafter the “reporting period”).

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

### A. CONTROLLING ENTITIES

**MORAVIA STEEL a.s.**, registered office: Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 63474808

Relation: In the reporting period, MORAVIA STEEL a.s. was in the position of the controlling entity of TŽ.

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

Relation: In the reporting period, FINITRADING, a.s. was in the position of the controlling entity of MORAVIA STEEL a.s.

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

#### B.1. OTHER ENTITIES CONTROLLED BY FINITRADING, a.s.

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

Relation: In the reporting period, FINITRADING, a.s. was in the position of the controlling entity of R.F.G., a.s. “in liquidation”. The entity entered into liquidation on 1 January 2016.

#### B.2. OTHER ENTITIES CONTROLLED BY MORAVIA STEEL a.s.

**Moravskoslezský kovošrot, a.s.**, registered office: Božkova 936/73, Přívoz, 702 00 Ostrava, corporate ID 26855097

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

**M Steel Projects a.s.**, registered office: Průmyslová 1000, Staré Město, 739 61 Třinec, corporate ID: 286 02 331

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

**Barrandov Studio a.s.**, registered office: Kříženeckého nám. 322/5, 152 00 Prague 5 – Hlubočepy, corporate ID: 28172469

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

**Beskydská Golfová, a.s.**, registered office: Ropice 415, 73956, corporate ID: 25352920

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

**MS – Slovensko s.r.o.**, registered office: Námestie Ludovíta Štúra 2, 811 02 Bratislava, Slovakia, corporate ID: 35900601  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL IBÉRIA, S.A.**, registered office: Campo Grande, 35 – 9. A, P-1700 Lisbon, Portugal  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA GOEL TRADE d.o.o., “in liquidation”**, registered office: Josipa Jelačica 205, 104 30 Samobor, Croatia  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL ITALIA s.r.l.**, registered office: via Niccolini 26, 20154 Milano, Italy  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL SLOVENIJA d.o.o.**, registered office: Valvazorjeva 14, 3000 Celje, Slovenia  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**Moravia Steel Deutschland GmbH**, registered office: Cliev 19, 51515 Kürten-Herweg, Germany  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA STEEL UK LIMITED**, registered office: 5 Bradwall Court, Bradwall Road, Sandbach, Cheshire, CW11 1 GE, UK  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

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

**Moravia Steel Middle East FZCO**, registered office: Jebel Ali Free Zone, Jafza 17, office no. 325, P.O. Box: 263224, Dubai, U.A.E.  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s. pursuant to Section 75 (2) of the Act on Business Corporations.

**“NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**, registered office: ŚWIĘTEJ ROZALII 10/12, 97-500 Radomsko, Poland  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MORAVIA MINING PLC**, registered office: Addis Ababa, Bole 03, 5/001 – 405 A, Ethiopia  
Relation: In the reporting period, starting from 11 September 2015, the entity was controlled by MORAVIA STEEL a.s.

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

**AHP HYDRAULIKA, a.s.**, registered office: Vojtecha Tvrdeho 793/21, 010 01 Žilina, Slovakia, corporate ID: 31563104  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**MSPProjects International s.r.o.**, registered office at nám. Svobody 526, Lyžbice, 739 61 Třinec, corporate ID 03587649  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

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

**FILMOVÁ NADACE**, registered office: Kříženeckého nám. 322, 152 00 Prague 5, corporate ID: 27437213  
Relation: The sole founder of the entity is Barrandov Studio a.s. which was controlled by MORAVIA STEEL a.s. in the reporting period.



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

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

**MSK Polska Sp.z o.o., "in liquidation"**, registered office: Batalionów Chłopskich 2, 42-680 Tarnowskie Góry, Poland

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

**Hotel Golf Ropice a.s.**, registered office: Ropice 415, 739 61 Ropice, corporate ID: 27844919

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

**Moravia Steel Middle East Ltd.**, registered office: Dubai World Trade Center, office no. 2307, P.O. Box: 293816, Dubai, U.A.E.

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

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

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

### C. ENTITIES CONTROLLED BY TŽ

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

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

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

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

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

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

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

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

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

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

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

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

**Retaze Slovakia, s.r.o.**, registered office: Nádražná 30, 909 01 Skalica, corporate ID: 34143483, Slovakia

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

**JuBo Jeseník s. r. o.**, registered office: U jatek 600, 79001 Jeseník, corporate ID: 48391514

Relation: In the reporting period, starting from 28 March 2015, the entity was controlled by TŽ.

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

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

**REFRASIL, s.r.o.**, registered office: Průmyslová 720, Kanská, 739 61 Třinec, in the prior reporting period with registered office at Průmyslová 720, 739 65 Třinec-Kanská, corporate ID: 48395862

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

**Steel Consortium Partners, a.s. “in liquidation”**, registered office: Průmyslová 1000, 739 70 Třinec-Staré Město, corporate ID: 27242382  
Relation: In the reporting period, , the entity was controlled by TŽ until 12 May 2015; as of that date, the entity was dissolved by deletion from the Register of Companies after the liquidation was finalised).

**VÚHŽ a.s.**, registered office: Dobrá 240, 739 51 Dobrá, corporate ID: 27768953  
Relation: In the reporting period, the entity was controlled by TŽ.

**MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.**, registered office: Pohraniční 693/31, Vítkovice, 703 00 Ostrava, corporate ID: 25870807  
Relation: In the reporting period, the entity was controlled by TŽ.

**Šroubárna Kyjov, spol. s r.o.**, registered office: Jiráskova 987, 697 32 Kyjov, corporate ID: 42293588  
Relation: In the reporting period, the entity was controlled by TŽ.

**Moravia Security, a.s.**, registered office: Průmyslová 725, Kinská, 739 61 Třinec; in the prior reporting period with registered office at Průmyslová 725, 739 65 Třinec – Kinská, corporate ID: 27835481  
Relation: In the reporting period, the entity was controlled by TŽ.

**Security Morava, s.r.o.**, registered office: Jiráskova 987, 697 01 Kyjov, corporate ID: 28346262  
Relation: In the reporting period, the entity was controlled by TŽ.

**Strojírny a stavby Třinec, a.s.**, registered office: Průmyslová 1038, Staré Město, 739 61 Třinec, corporate ID: 47674539  
Relation: In the reporting period, the entity was controlled by TŽ.

**“METALURGIA” Spółka Akcyjna**, registered office: ulica Świętej Rozalii nr 10/12, 97-500 Radomsko, Poland  
Relation: In the reporting period, the entity was controlled by TŽ.

**„ZAMECZEK BŁOGOCICE“ SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**, registered office: ul. STEFANA Zeromskiego 1, 43-400 Cieszyn, Poland  
Relation: In the reporting period, the entity was controlled by TŽ.

**“D&D” Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság**, registered office: Sajószigeti utca 4, 3527 Miskolc, Hungary  
Relation: In the reporting period, the entity was controlled by TŽ.

**TŘINECKÁ PROJEKCE, a.s.**, registered office: Míru 274, Kanada, 739 61 Třinec, corporate ID: 47677741  
Relation: In the reporting period, the entity was controlled by TŽ.

**ŽDB DRÁTOVNA a.s.**, registered office: Jeremenkova 66, Pudlov, 735 51 Bohumín, corporate ID: 29400066  
Relation: In the reporting period, the entity was controlled by TŽ.

**DALSELV DESIGN a.s.**, registered office: Slévárenská 403/11, 709 00 Ostrava – Mariánské Hory, corporate ID: 28262913  
Relation: In the reporting period, the entity was controlled by TŽ.

**HŽP, a.s.**, registered office: Dolní 3137/100, 796 01 Prostějov, corporate ID: 269 55 342  
Relation: In the reporting period the entity was controlled by TŽ. Until 31 October 2015, the entity was recorded in the Register of Companies as Hanácké železářny a pérovny, a.s.

SV servisní, s.r.o., registered office: Dolní 3137/100, 796 01 Prostějov, corporate ID: 60725 974

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

The registered office addresses disclosed in Chapter I have been outlined in accordance with the status as of 31 December 2015.

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

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

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

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

TŽ acts as a controlling entity in relation to a part of a business group which primarily includes other manufacturing companies. TŽ exercised controlling influence over these entities that are directly controlled by TŽ in its role as the majority shareholder under Sections 73 and 74 (3) of the Act on Business Corporations, in that it used its shareholding in the voting rights of the controlled entities at their General Meetings, or that it exercised its role as the sole shareholder acting in the capacity as the General Meeting of the relevant controlled entities.

## III. LIST OF ACTS AND CONTRACTS

### A. LIST OF ACTS AND MUTUAL CONTRACTS BETWEEN TŽ AND THE CONTROLLING ENTITIES AND BETWEEN TŽ AND ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY:

- a) In the reporting period, TŽ recorded no acts at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity that would relate to assets exceeding 10% of the equity of TŽ identified according to the financial statements for the year ended 31 December 2014 in accordance with Section 82 (2) d) of the Act on Business Corporations.
- b) The list of contracts for the reporting period between TŽ and FINITRADING as the controlling entity and between TŽ and entities controlled by FINITRADING as the same controlling entity in accordance with Section 82 (2) e) of the Act on Business Corporations, except for entities controlled by TŽ under Section C Chap. I., is listed below in Sections B. through I. of this Chapter, ie a list of such contracts between TŽ and
  - MORAVIA STEEL a.s. in part B;
  - Beskydská golfová, a.s., in part C;
  - Moravskoslezský kovošrot, a.s., in part D;
  - M Steel Projects a.s., in part E.;
  - "NEOMET" SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ in part F;
  - MORAVIA STEEL UK LIMITED in part G;
  - FINITRADING, a.s., in part H; and
  - Barrandov Studio a.s. in part I.
- c) Relations defined by Section 82 (2) d) and e) of the Act on Business Corporations that may have arisen in the reporting period between TŽ and entities controlled by TŽ according to part C. of Chapter I., are subject to the report on relations of each of these entities.

## B. LIST OF CONTRACTS BETWEEN TŽ AND MORAVIA STEEL a.s.

### B.1. Introduction

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

- by the Master Contract mentioned below of 30 December 2002 for the sale area; and
- by the Purchase Contract for the Supply of Materials and Raw Materials mentioned below of 12 January 1999 for the purchase area.

The individual performances are presented in the partial purchase contracts executed pursuant to the above contracts for a particular product, amount, shape and type, the agreed upon price and performance deadline.

The agreed upon prices respect the specific features of purchases and sales in the metallurgic industry and take into account the elimination of foreign exchange risks, the adjustment of payment conditions, and business risks.

### B.2. Contracts the subject of which relates to the provision of products or services by TŽ in favour of MORAVIA STEEL a.s.

1. Master contracts concluded on 30 June 2002 and 31 December 2002 and partial purchase agreements concluded pursuant to some of these master contracts – sale of metallurgical products.
2. Licence contract for using the trademark “Three hammers in a circle” of 30 June 2002.
3. Service level agreement of 2 January 2004 – provision of security and asset guards, fire protection, postal services, pricing services, dispatching management, environmental protection and selected accounting services.
4. Lease contract of 9 March 2000 – lease of the administrative building of the management, commercial services building, a garage in the commercial services building, land and movable assets and lease of parking places in the area of TŽ in Třinec.
5. Lease contract of 1 January 2004 – lease of offices in the administration building in Buštěhrad and lease of movable assets – office equipment.
6. Contracts for lease of non-residential premises of 23 January 1997 – lease of garage parking in the area of TŽ in Třinec.
7. Contract for lease of non-residential premises of 22 July 2002 – lease of non-residential premises and the parking place in the area of TŽ in Bohumín.
8. Lease contract of 1 January 2011 – lease of non-residential premises and movable assets in the area of TŽ in Ostrava – Vítkovice.
9. Contract for the placement of equipment of 1 April 2011 – placement of the technology equipment for the transfer of data within the telecommunications building in the area of TŽ in Třinec.
10. Contract for lease of non-residential premises of 20 December 2011 – lease of non-residential services in a building located in Staré Město.
11. Accommodation contract of 28 April 2005 – accommodation in a building of TŽ in Prague 4 – Nusle.
12. Contract on the provision of telecommunication services of 31 December 1998.
13. Contract on Internet connection via the network of TŘINECKÉ ŽELEZÁRNY, a.s., of 20 July 1999.
14. Consignment agreement of 13 August 2007 – customs proceedings services.
15. Contract on the supply of the Třinecký hutník newsletter in 2015 (order of 9 December 2014).
16. Contract on transport using passenger cars in 2015 (order of 9 December 2014).
17. Contract on business cooperation in the supplies of rails for ŽSR of 11 November 2014.
18. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 24 December 2015.
19. Contract on business cooperation in the supplies of semi-circular track fastenings for Správa železniční dopravní cesty, state organisation, of 23 June 2015.
20. Master purchase contracts of 17 April 1996, 20 January 2000, 15 January 2001, 23 January 2006 and 30 January 2008 and partial purchase contracts concluded pursuant to any of these master contracts – sale of material and goods from warehouses.
21. Contract on the supply of consumption material for fax machines and printers and maintenance of IT networks (order of 9 December 2014).
22. Contract on the supply of norms (order of 11 November 2014).

23. Contract on the supply of Czech printed material and magazines for 2015 (order of 10 September 2014).
24. Contract on the supply of Czech printed material and magazines for 2016 (order of 16 September 2015).
25. Contract on securing services related to the launch of new telephone lines and the maintenance thereof in 2015 (order of 9 December 2014).
26. Contract on the provision of services of 11 August 2013 – services related to smart cards.

### **B.3. Contracts the subject of which relates to the provision of products or services by MORAVIA STEEL a.s. in favour of TŽ**

1. Purchase contract on the supplies of raw material and materials of 12 January 1999 – purchase of essential metallurgical material.
2. Master contract on the conditions of the freight transportation of goods of 30 December 2002 and partial contracts concluded based on this master contract – securing the transportation of goods and acts necessary for such transportation.
3. Mandate contracts of 1 July 2005, 29 June 2007, 19 November 2012 and 28 February 2013 – arrangement of business matters related to the purchase of work and services, technical and operational material, spare components, metal waste and fuel.
4. Consignment contract of 3 January 2005 – services in the area of customs proceedings.
5. Master purchase contract of 6 January 2014 and partial purchase contracts concluded in line with this master contract – supplies of advertising items.
6. Purchase contract of 8 January 2015 – purchase of office equipment.
7. Contract for the purchase of insurance related to business activity (order of 9 January 2015).
8. Contract for ensuring the transportation of material and goods (orders of 23 June 2015, 10 July 2015, 23 October 2015, 27 October 2015, 4 July 2014, 1 December 2014, 2 December 2014, 13 January 2015, 23 February 2015, 17 March 2015, 15 July 2015, 23 July 2015, 7 September 2015 and 22 September 2015).
9. Contract for securing accommodation services (order of 2 July 2015).
10. Contract for securing advertising services – realisation and broadcasting of a commercial (order of 16 December 2015).

### **B.4. Other Contracts**

1. Master contract on the supplies related to the organisation and implementation of the event entitled “Královna ocel 2015” of 14 April 2015 and partial contracts concluded pursuant to this master contract.
2. Contracts on the provision of supplies related to the event entitled “Hutnický den 2015” (order of 15 May 2015 and 26 June 2016).
3. Agreement on the method of payment of trade payables dated 17 December 2008.

## **C. LIST OF CONTRACTS BETWEEN TŽ AND Beskydská golfová, a.s.**

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

1. Contract on the maintenance of network and telecommunication devices (order of 6 January 2015).
2. Contract on the provision of services of 1 January 2011 – filling office, IT and HR services.
3. Contract on the provision of access to Internet services via the network of TŘINECKÉ ŽELEZÁRNY, a.s. of 31 July 2009.

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

1. Advertising contract of 30 December 2014 – securing advertising at the golf course in Ropice between 1 January 2015 and 31 December 2015.
2. Lease contract of 31 May 2016 – lease of an apartment in the clubhouse located at the golf course Ropice.



#### **D. LIST OF CONTRACTS BETWEEN TŽ AND Moravskoslezský kovošrot, a.s.**

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

1. Lease contract of 10 June 2013 – lease of scrap yard and non-residential premises in a building in Třinec.
2. Master contracts of 4 January 2010 and partial contracts concluded based on these master contracts – sale of waste.
3. Contract on takeover, utilisation or removal of waste of 8 January 2015 – sale of waste.
4. Lease contract and contract on the placement of containers of 1 June 2013 – lease of warehousing premises in Třinec.
5. Contract on takeover, utilisation or removal of waste of 24 June 2015 – sale of scrap.
6. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles (orders of 13 October 2014, 9 December 2014, 12 December 2014, 5 February 2015, 12 March 2015, 7 April 2015, 9 April 2015, 7 July 2015, 29 September 2015).

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

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

#### **E. LIST OF CONTRACTS BETWEEN TŽ AND M Steel Projects a.s.**

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

1. Lease contract of 1 October 2010 – lease of non-residential services and movable assets in the area of TŽ in Třinec.
2. Contract on the provision of services of 1 October 2010 – IT Services.
3. Mandate contract of 30 December 2009 – procurement of matters related to customs clearance.

#### **F. LIST OF CONTRACTS BETWEEN TŽ AND “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**

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

1. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles (orders of 9 December 2014, 12 December 2014, 7 April 2015, 29 June 2015, 7 July 2015, 8 July 2015 and 29 September 2015).

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

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

#### **G. LIST OF CONTRACTS BETWEEN TŽ AND MORAVIA STEEL UK LIMITED**

##### **G.1. Contract the subject of which relates to the provision of products or services by MORAVIA STEEL UK LIMITED in favour of TŽ**

1. Contract on securing accommodation (order of 23 October 2015).

## H. LIST OF CONTRACTS BETWEEN TŽ AND FINITRADING, a.s.

### H.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of FINITRADING, a.s.

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

## I. LIST OF CONTRACTS BETWEEN TŽ AND Barrandov Studio a.s.

### I.1. Contract the subject of which relates to the provision of products or services by Barrandov Studio a.s. in favour of TŽ

1. Contract on the purchase of advertising material (order of 5 February 2015).

## IV. ASSESSMENT OF RELATIONS

This Related Party Transactions Report lists all significant facts that are requirements of the Related Party Transactions Report, covering the relations between TŽ and entities that control it, and between TŽ and entities controlled by the same controlling entity in accordance with Section 82 of the Act on Business Corporations.

Performances and counter-performances received and provided by TŽ on the basis of contracts listed in parts B. through I. of Part III. of this Related Party Transactions Report, were provided under standard business conditions.

The prices agreed between TŽ and controlling entities and between TŽ and entities controlled by the same controlling entity do not differ from prices that would be agreed by independent entities; the transactions between TŽ and the controlling entities and between TŽ and entities controlled by the same controlling entity are conducted under the arm's length principle.

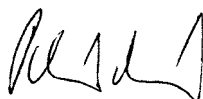
TŽ considers the relations with controlling entities and entities controlled by the same controlling entity as beneficial and TŽ faces no other risks than standard market risks arising from business in relevant sectors due to these relations.

TŽ incurred no detriment from relations with controlling entities and entities controlled by the same controlling entity in the reporting period.

In Třinec on 29 March 2016



**Jan Czudek**  
Chairman of the Board of Directors  
TŘINECKÉ ŽELEZÁRNY, a. s.



**Radomíra Pekárková**  
Member of the Board of Directors  
TŘINECKÉ ŽELEZÁRNY, a. s.