

14 2015 **2016** 2017 2018

ANNUAL REPORT



TŘINECKÉ ŽELEZÁRNY

CONTENTS

01. Company Profile	03	09. Financial Part I. – Financial Statements	33
02. Key Performance Indicators 2012 – 2016	07	Balance Sheet Full Version – Assets	34
03. Supervisory Board and Board of Directors	08	Balance Sheet Full Version – Liabilities & Equity	36
04. Introductory Word of The Chairman of The Supervisory Board	09	Profit and Loss Account Structured by the Nature of Expense Method	38
05. Board of Directors Report	11	Statement of Changes in Equity	40
Development of the Macroeconomic Environment and Competition	11	Cash Flow Statement	41
Production and Position on the Market	13	Notes to the Financial Statements	42
Investments and Modernisations	16	10. Financial part II. – Consolidated Financial Statements	77
Technology and Research	17	Consolidated Balance Sheet Full Version – Assets	78
Environment	19	Consolidated Balance Sheet Full Version – Liabilities & Equity	80
Employees	22	Consolidated Profit and Loss Account Structured by the Nature of Expense Method	82
Management System	24	Consolidated Statement of Changes in Equity	84
Financial Information	25	Consolidated Cash Flow Statement	85
Strategic Objectives	27	Notes to the Consolidated Financial Statements	86
06. Supervisory Board Report	28	11. Report on Related Party Transactions for the Year 2016	140
07. Audit Committee Report	29		
08. Auditor's Report	30		

01

COMPANY PROFILE



TŘINECKÉ ŽELEZÁŘNY, a. s. (hereinafter Třinecké železářny), was founded in 1839. At the beginning of its infancy, ironworks was a part of the Chamber of Těšín of the archduke Karl von Habsburg who is a successor for 178 years of a long tradition of steelmaking in Těšín Silesia. At present, Třinecké železářny is the most significant subsidiary of the commercial company MORAVIA STEEL a.s., which is its sole shareholder. Despite not having the largest production capacity steelworks became a leader in the field of steel production in the Czech Republic. 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.

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

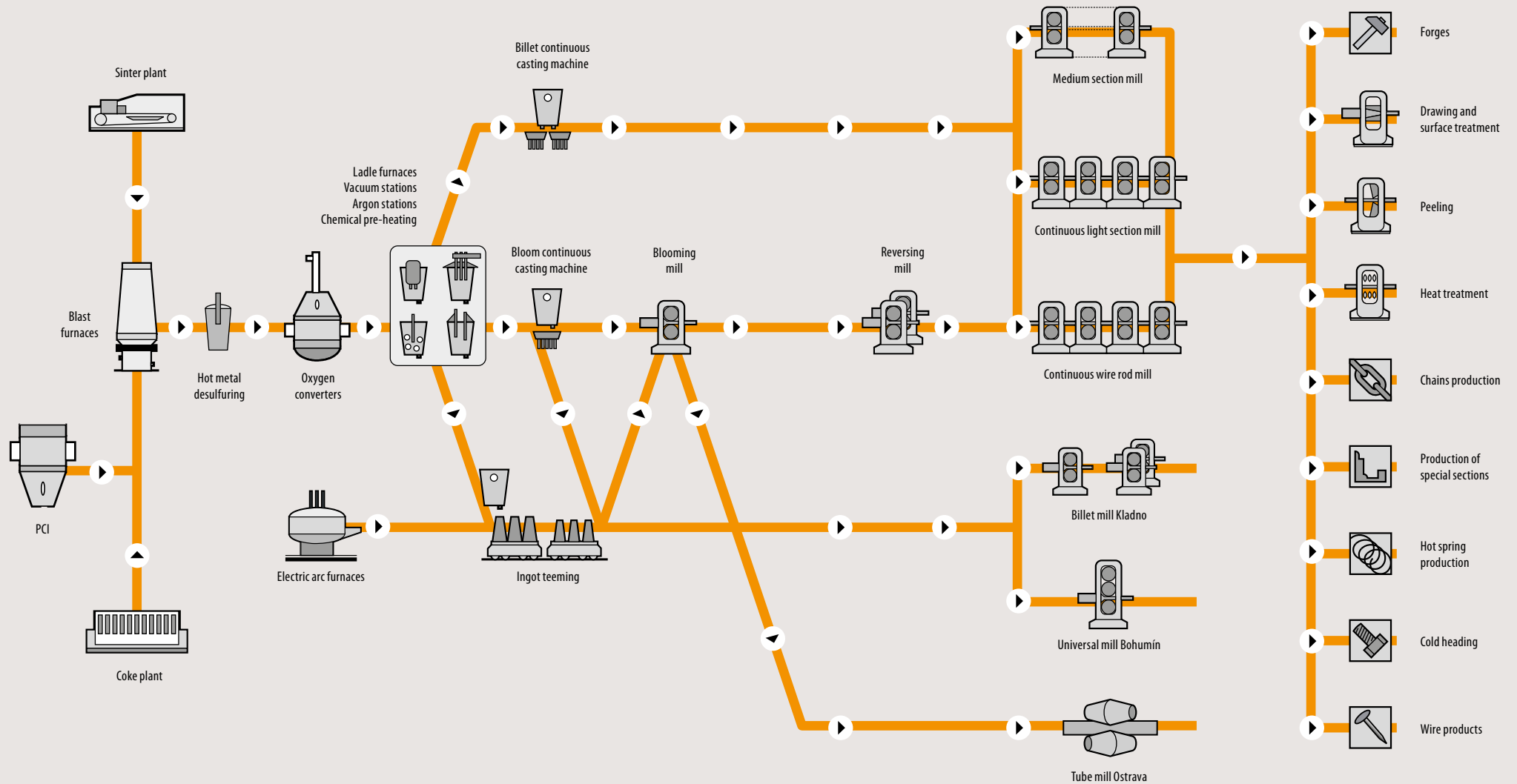
Our production plants comprise a comprehensive cycle from coke production to the final hot rolled steel product. The coke-chemical production plant includes two coke-oven batteries. Produced coke is used in our own blast furnaces together with the sinter charge prepared in two sinter plants. Part of the blast furnace coke consumption has been substituted by the pulverised coal injection (PCI) into the blast furnace hearth. More than 98% of Třinec steel

is produced in the BOF converter plant, on the basis of oxygen refining of iron. The BOF plant is equipped with complete ladle metallurgy enabling chemical and thermal homogenisation, additional alloying as well as vacuum treatment. The BOF steel is largely cast in two machines for the continuous casting of blooms and billets. Steel is also produced in the EAF steel plant. Blooms, billets and ingots from steel plants form a charge for the rolling mill plants in Třinec – a rolling mill 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. Metalliferous waste is going back to the closed metallurgical cycle.

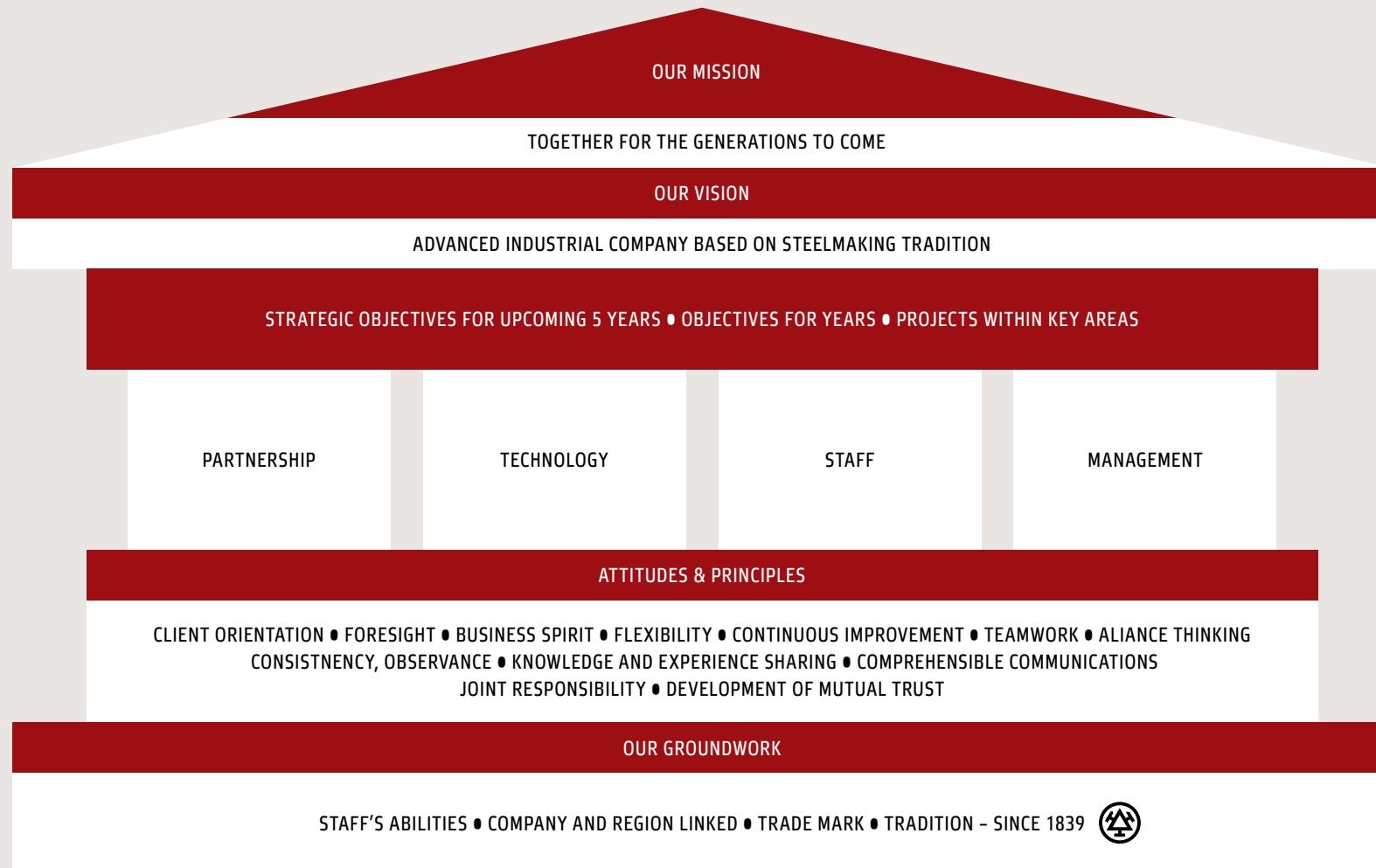


To date, Třinecké železářny has produced more than 180 million tonnes of steel. Our products have been placed on the domestic market as well as bought by customers all over the world. More than half of the annual production of high-quality steel products bearing the trademark of three hammers in a circle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

MATERIAL FLOWS AND TECHNOLOGIES



OUR STRATEGIC FRAMEWORK



02

KEY PERFORMANCE
INDICATORS 2012 – 2016

With a 49% of share we maintain the position of the biggest Czech producer of crude steel in the long term

INDICATOR	UNIT	2012	2013	2014	2015	2016
Pig iron production	kt	2 005	2 068	2 061	2 070	2 118
Crude steel production	kt	2 493	2 553	2 540	2 532	2 605
Of which continuous castings	kt	2 389	2 440	2 424	2 409	2 487
Sales of rolled products including steel	kt	2 332	2 405	2 272	2 379	2 386
Total revenues	CZK mil.	38 425	37 765	40 849	37 695	33 027
Income from sales of products, goods and services	CZK mil.	37 111	36 701	38 354	36 921	32 217
Export share	%	56.9	58.4	66.6	66.6	67.8
Total costs excluding income tax	CZK mil.	37 421	36 378	37 077	34 350	31 273
Net profit or loss	CZK mil.	793	1 082	3 048	2 780	1 440
Consolidated profit or loss	CZK mil.	1 055	1 376	3 518	3 026	1 857
Net total assets	CZK mil.	26 967	30 378	33 462	32 948	33 843
Brute tangible fixed assets	CZK mil.	28 388	29 934	33 372	34 301	36 115
Adjustments	CZK mil.	18 370	19 204	20 479	21 087	22 118
Equity	CZK mil.	20 155	21 264	24 512	25 692	25 732
Capital investments	CZK mil.	744	1 653*	2 007*	1 518*	2 038
Other capital including other liabilities	CZK mil.	6 812	9 115	8 950	7 255	8 111
Employees (average adjusted total)	Persons	5 962	6 099	6 909	7 014	7 006
Average monthly wage	CZK/person	27 500	27 750	28 396	29 100	29 103

*without subsidies

03

SUPERVISORY BOARD
AND BOARD OF DIRECTORS

TITLE	NAME
Chairman	Tomáš Chrenek
1 st Vice-Chairman	Ján Moder
2 nd Vice-Chairman	Evžen Balko
Member	Jozef Blaško
Member	Jiří Cieňciała
Member	František Ligocki

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



04

INTRODUCTORY WORD OF THE CHAIRMAN OF THE SUPERVISORY BOARD



We use our production facilities at almost 100% over the long term even when overcapacity is a global problem



TO OUR CUSTOMERS, PARTNERS AND EMPLOYEES,

Since the global decline in steel production and consumption in 2015, there is once again growth. However, this growth is marked by several factors that we had to face during the past year. First of all, the price level was volatile throughout the year, both on inputs and outputs. That is why we had to adjust our portfolio

much more often than in other years. In addition, if we look at these price shocks through the prism of the current global production situation, with overcapacity accounting for almost half of global production, we

will get a completely unpredictable explosive mix that can further destabilise the global markets.

This destabilisation may also affect the seemingly balanced European market, especially when in addition to reactions to world markets, it has to take decisions of the executive bodies of the European Union. These decisions, in addition to their cumbersome nature, are often the result of political pressures as well as other specific interests, which may have a negative impact on European steelmaking. The European Union institutions are currently discussing legislation on the modernisation of trade defence instruments. This is particularly the case with regard to the possible granting of market economy status to China within the framework of the World Trade Organisation. Concerns about these activities eventually caused



a decline in Chinese imports to the European Union, but in the second half of 2016, imports of steel from other countries – especially Iran, India, South Korea, or Turkey – rose by almost a tenth. Trade defence instruments that were effective in the case of China are failing and require further adjustment.

European Union authorities are also discussing the limits and allowances for the fourth period of the Emission Trading System between 2021 and 2030. If the European Commission's proposal passes, it will mean additional costs for steel producers that could even lead to the liquidation of the Czech steel industry. Unless the system settings change on the basis of real technological parameters, there may come a revision of large planned investments, such as preparing for partial or total cessation of production within the European Union. Therefore, it is necessary to correct these proposals so that further decimation of the European steel industry is no longer menacing.

The demanding steel product markets continue to be even more complicated, and success in this area means not only building on good past performance or staying the course.

To maintain our ability to compete at a high level, it is necessary to create and continuously adapt our product portfolio so that its features fully meet the requirements of all our customers. The well-advised widespread distribution of funds invested in renewal and modernisation projects, technology development and environmental protection also play a key role. Motivated employees, who contribute to our shared success by their dedicated and creative work, are also a huge asset. The proof that we are able to combine these factors is the fact that, even when overcapacity is a global problem, we use our production facilities at almost 100% over the long term.

Last years' investment actions focused on upgrading events, environmental projects, resulting from the conclusions of integrated permits, cost-cutting activities, and actions to rebuild existing production facilities. The most important investment project was the modernisation and reconstruction of Coke Battery #11. This building has a positive impact not only on cost optimisation but also on improving the environment. Reconstruction of the gas cleaning station in a converter steel plant also combines financial and environmental effects. The construction of new annealing STC furnaces gives us further possibilities of finalizing and thus increasing the utility value of our products.

Dear friends, I can say that, despite this difficult situation, our economic result reached CZK 1.44 billion after tax, which means a certain decrease compared to previous years, but it has achieved a better value than our expectations.

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 your dedication, interest and the support that you have been giving us throughout the year. The difficult situation that has occurred this year has been managed, especially thanks to you. This is a sincere thanks to all of you. I believe that even in the future Trinecké železářny will belong to the leading companies of the Czech Republic and our products will continue to be recognised throughout the whole world.

Tomáš Chrenek

Chairman of the Supervisory Board

05

BOARD OF
DIRECTORS REPORT

Emissions of solid pollutants continued to fall from last year 310 to current 185 tonnes

DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

In the past year, Gross Domestic Product in the Czech Republic recorded an increase of 2.3%, a year-on-year decrease of two percent compared to the previous year and a return to the level of 2010. In particular, the negative effect of the fall in government investment stemming from slow distribution of the Funds of the European Union (the EU) in the 2014–2020 programming period. Nevertheless, gross domestic product growth is a confirmation of the good condition of the Czech economy, which had a slowdown in investment activity last year, but strong foreign demand supported by stable household consumption and the continuing expansion of the domestic automotive industry outweighed the decline in other sectors of the economy.

The production of crude steel in the Czech Republic increased slightly by 0.8 percent last year from 5.26 million tonnes to 5.31 million tonnes. Třinecké železářny produced 2 605 000 tonnes of crude steel in 2016, an increase of almost three percent compared to the previous year. This has kept it in the position of the largest steel producer in the Czech Republic for the eighth straight year. Total foreign trade in metallurgical products in the Czech Republic recorded a sharp increase in imports from third countries (outside the EU) last year, which grew by more than half compared to the previous year. In particular, imports of ingots and semi-finished products from these countries increased, where the overall increase was 138% compared to 2015.

World production of crude steel in 2016 reached 1 628.5 million tonnes, that is 0.8% more than in 2015. Production of crude steel fell in Europe, North and South America and Africa. On the contrary, it grew in the CIS (Commonwealth of Independent States), the Middle East, Asia and Oceania. In Asia, it reached 1 125.1 million tonnes, an increase of 1.6% compared to 2015. China produced 808.4 million tonnes of crude steel last year, which is 1.2% more than in 2015. China's share of world crude steel production has risen from 49.4% in 2015 to 49.6% in 2016. China thus confirms its world leadership in producing more than 500 million tonnes of steel for the eighth consecutive year. The second in rank, Japan produced less than 700 million tonnes of crude steel compared to China. Global steel consumption has continued in the trend of moderate growth in recent years, which can be expected also for the near future.



The steel sector, however, faces fluctuations in input prices and excess production capacities that push down the prices of final products. This development is particularly striking in the EU countries, which, moreover, must comply with strict European environmental legislation. In order to maintain the competitiveness of the European steel industry, it is therefore necessary to apply an investment strategy that develops products of higher quality and utility parameters and further increases the possibilities for processing and processing capacities.



PRODUCTION AND POSITION ON THE MARKET

According to worldsteel, global steel production reached 1 628.5 million tonnes in the past year, a growth of 0.8 % compared to 2015 (13 million tonnes). Asia recorded a volume increase of 1.6 % in 2015 compared to the previous year. The fastest growing steel producer in 2016 was India which produced 95.6 million tonnes, 7.4 % more than in 2015. The only Asian country which experienced a production decline was South Korea by 1.6%. North America oscillates at a volume of 110 million tonnes (+0.3 %), out of which the USA produced 78.6 million tonnes (−0.3 %).

Steel production in the EU countries fell slightly by 2.3% year-on-year to 162.3 million tonnes. Germany reached a volume 42.1 million tonnes (+1.4%), Italy 23.3 million tonnes (+0.6%) and Spain 13.7 million tonnes (−0.8%). At the global level the EU countries production declined from 10.1% in 2015 to 10% in 2016. CIS (Commonwealth of Independent States) countries recorded an increase in production by 0.8% year-on-year to 102.4 million tonnes, out of which Russia produced 70.8 million tonnes (−0.1%), and Ukraine 24.2 million tonnes (+5.5%). A steeper decline was noted in all South America countries attaining 39.2 million tonnes

year-on-year (−10.6%), out of which Brazil reached 30.2 million tonnes (−9.2%).

Average use of the world's steel production capacity in 2016 was 69.3%, compared to 69.7 % in 2015.

The European steel market will be favourably influenced by the positive growth trend in major consumer segments such as construction, machinery and transport equipment. Total production in the construction sector is expected to increase by 2.5% for 2017, and by 2.7% for 2018. Satisfactory prospects have also been foreseen in the field of engineering for 2017 and 2018. Total production in this field should increase by 3% in 2017, and by 3.2% in 2018. Economic indicators will have a positive outcome as a result of increased demand in the sector of automobile transport in EU countries. Automotive production development is predicted at a future level of around 2.2% in 2017 and 2018. Steel consumption in EU countries will grow by 1.4% and should reach 155.8 million tonnes of crude steel next year.

China is still flooding the world with its cheap steel while the prices are lower than the production costs. From a global point of view, it is a major threat and concern to the European steel industry.

The problem arises when domestic industry of importing countries is not able to compete with cheap imports, due to reduced anti-dumping duties. In 2015 imports amounted to 6.7 million tonnes and in 2016 it was less 5.4 million tonnes.

Crude steel production in the Czech Republic amounted to 5.31 million tonnes in 2016, which is more by 0.8 % than in the previous year. Production of pig iron grew by 3.3% to 4.17 million tonnes. In 2017, year-on-year production is predicted to oscillate between 2.5% to 3.5%.

Třinecké železářny with its 49% share of total domestic steel production has been placed first in the Czech Republic. In 2016, Třinecké železářny produced a total of 2.605 million tonnes of crude steel. Our company has modern technological equipment together with the ongoing employee's high skills and knowledge while contributing in the manufacturing-technological flow. We have ranked among the top European manufacturers of long products, mainly in the production of SBQ steel, wire rod, and drawn steel. These high-quality products are presented on the European market, primarily in the automotive and engineering field.



The sales of rolled products and semis including steel reached 2 386 kilo tonnes year-on-year, an increase of 0.6%. The volume intended for exports was 67.8% and 32.2% 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 2016 amounted to 34.4%. Total sales of wire rod reached the level of 983 kilo tonnes last year, 68% of which was exported abroad.

Sales in the range of bars and profiles amounted to 575 kilo tonnes, 65% 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 value, which is used mainly in the automotive and engineering industry.

Sales of semis recorded a slight decline to 363 kilo tonnes (-1%). The share of semi-block casting accounted for 63%, e. g. 20% of rolled blocks and 17% of rolled billets. A one percent share was completed by sales of ingots and rolled slabs. Export volume of 193 kilo tonnes accounted for 53% of total sales.

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 234 kilo tonnes, of which 94 kilo tonnes rails were exported to Canada and the U.S., 91 kilo tonnes of rails and railway accessories were sent to EU countries and 24 kilo tonnes was sold on the domestic market. Total exports of this product range accounted for 90% last year.

The volume of sales of seamless tubes reached 95 kilo tonnes in the past year, the biggest share of tubes, 76%, was delivered to the European market. The domestic supply decreased to 7.7%. 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 2016, 47.9 kilo tonnes of wide flat steel were sold, mainly in the range of structural steel, of which 43.2 kilo tonnes were exported mainly to the countries of the EU. Of the remaining 4.7 kilo tonnes supplied to the domestic market, tool steel represented 31%.



SALES OF LONG PRODUCTS 2014–2016

SALES (TONNES)	DOMESTIC			EXPORT			TOTAL		
	2014	2015	2016	2014	2015	2016	2014	2015	2016
Wire rod	285 794	300 805	313 055	529 630	636 343	663 567	815 424	937 148	976 622
Semis	176 250	175 954	170 242	199 853	190 639	192 813	376 103	366 593	363 055
Profiles and bars	215 067	208 115	214 278	354 733	362 831	361 211	569 800	570 946	575 489
Rails ¹	39 397	55 851	23 549	244 693	222 484	210 813	284 090	278 335	234 362
Tubes	11 437	10 543	7 377	84 862	81 009	88 114	96 299	91 552	95 491
Wide steel	7 091	5 872	4 739	37 652	40 071	43 162	44 743	45 943	47 901
Drawn bars	27 567	29 157	29 074	51 070	52 500	57 624	78 637	81 657	86 698
Drawn wire rod	4 259	4 109	3 578	2 752	2 702	3 143	7 011	6 811	6 721
Total	766 862	790 406	765 892	1 505 245	1 588 579	1 620 447	2 272 107	2 378 985	2 386 339

¹ sales of rails together with railway superstructure accessories

OUR EXPORT TERRITORIES

EXPORT SHARE %	2013	2014	2015	2016
European Union	89.2	86.4	86.6	88.9
– Germany	26.6	25.3	25.2	26.5
– Slovak Republic	13.5	11.7	11.4	13.4
– Italy	12.9	12.9	13.6	15.2
– Poland	12.3	12.7	12.5	10.8
Other Europe	1.6	0.8	1.0	3.1
America	7.7	11.1	9.4	7.3
Africa + Australia	1.0	0.8	0.6	0.0
Asia	0.5	0.9	2.4	0.7
TOTAL	100.0	100.0	100.0	100.0



INVESTMENTS AND MODERNISATIONS

The business plan is enclosed to technical development projects plan for 2016, which 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 2 038 million.

In 2016, 40 running projects were ongoing.

The most significant of them are:

- Reconstruction of a gas cleaning facility of converter No. 1 and No. 2,
- Coke Oven Battery No. 11 major overhaul,
- Construction of two STC furnaces.

Třinecké železářny newly commenced 86 modernisation projects. The most significant of them are:

- Modernisation and reconstruction of blooming mill,
- New billet line,
- New hot stove No. 64 construction,
- New cleaning billet mill construction,
- Annealing rods furnaces construction.



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 in steel production in Central Europe due to the added value of its final products.

The field of technology is managed through the technological regulations and measures. It is aimed at managing this process in the production material flow from pig iron and steel production to final treatment operations in particular rolling mills as peeling, drawing or hot treatment where needed. The technological regulations and measures mentioned above are closely connected with the requirements of customers in synergy with the

possibilities of production facilities and they are continuously updated with regard to research and development activities, 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.

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.

An inseparable part of these activities is also the permanent inspection of production quality as well as the inspection of customer requirements, especially in the key production programs of the company, which are the following:

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

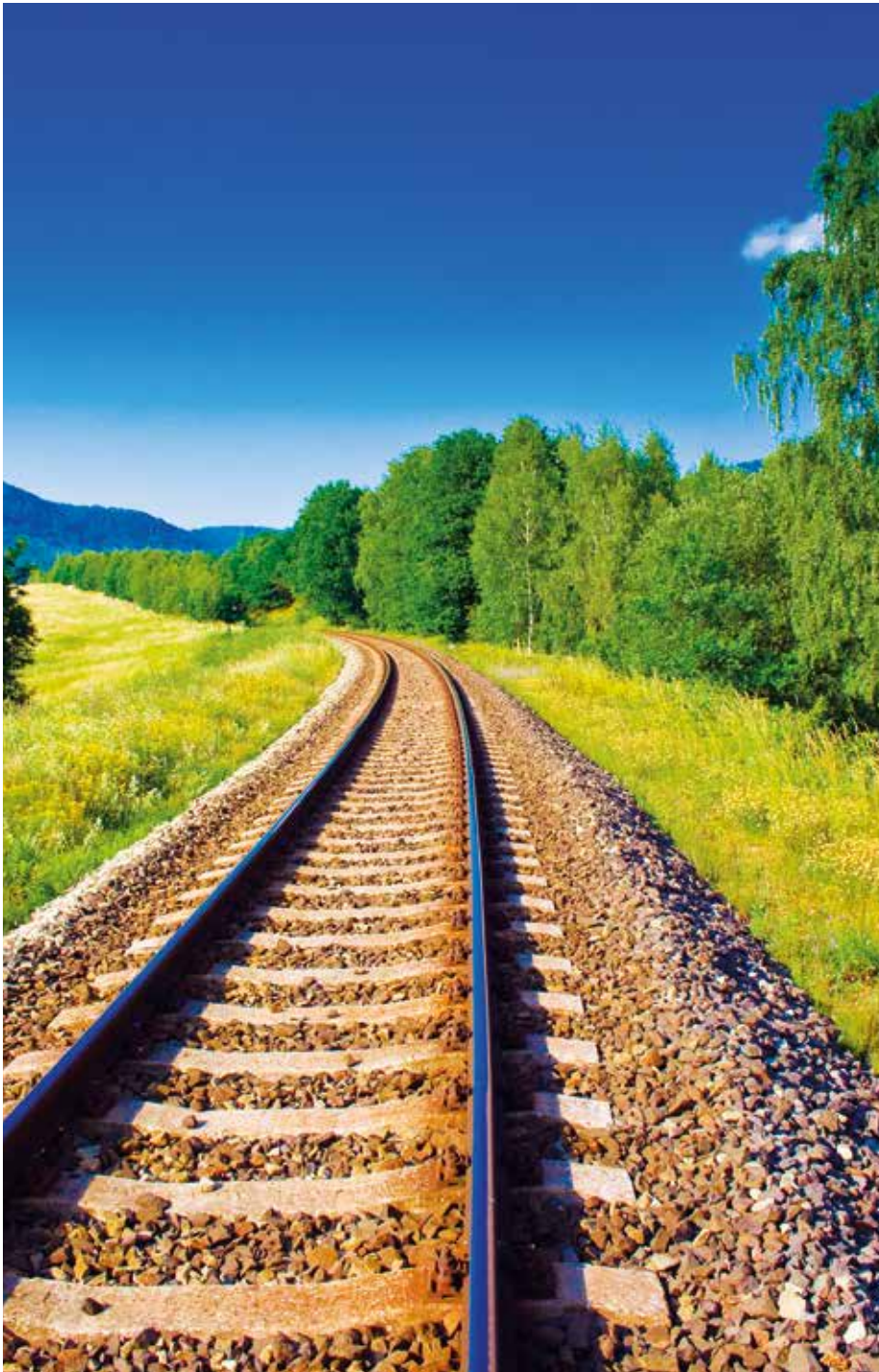


As in previous years, Research and Development (R&D) was focused in 2016 on the issue of present quality of the whole product portfolio and at the same time on secondary raw materials and waste treatment recycling, repeatedly used in the production of steel semis, which was concentrated in several areas and may be briefly specified as:

- Implementation of heat treatment technology (hardening) of seamless tubes in Tube Mill Ostrava,
- Improvement of micro-purity steel produced by continuous casting machine No. 1 and No. 2,
- Application of laser triangulation and surface quality improvement in the range of steel continuous casting No. 2,
- Optimisation of hot iron and coke production costs,
- Reduction of coal-tar in coke waters,
- Use of secondary raw materials (dust, isolates etc.) in the production cycle,
- Mechanical qualities improvement of manufactured steel grades and new grades of steel for special applications.

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 have the same measure of cooperation as in the prior years.

In 2016, Třinecké železářny managed 23 research projects, 3 of which were with state aid and 20 of them were internal projects.



ENVIRONMENT

AIR PROTECTION

Třinecké železářny achieved a new record of significant solid emission reduction by a further 40% compared to 2015. All environmental projects which were carried out in 2013–2016 were launched during the year and its capture effect or limits of dust occurrence were proved.

For other pollutants, any slight annual increase in limited quantities, beyond sulphur dioxide, corresponded to the potential increase in production compared to 2015.

POLLUTANTS IN 2016 COMPARED TO 2015

YEAR	SOLID POLLUTANTS (t/year)	SULPHUR DIOXIDE (t/year)	NITROGEN OXIDES (t/year)	CARBON MONOXIDE (t/year)	CARBON DIOXIDE (t/year)
2015	310	2 521	1 423	59 649	2 568 706
2016	185	2 514	1 596	65 903	2 586 537



GREENHOUSE GAS EMISSIONS

For the year 2016, the emissions of greenhouse gases from installations in the Třinec area of TŽ were in the amount of 2 513 079 tonnes. The value of carbon dioxide from the tube mill in Ostrava was 29 944 tonnes and the value of carbon dioxide from the Billet Mill Kladno reached 48 514 tonnes. The total amount of greenhouse gases from Třinecké železářny installations in the year 2016 amounted to 2 586 537 tonnes of carbon dioxide which represents a slight annual increase due to higher production in 2016.

For the year 2016, the Ministry of Environment has allocated 24 194 pieces of emission allowances for the Tube Rolling Mill in Ostrava, 50 716 pcs were designated for the Billet Mill Plant in Kladno and 3 637 329 pcs for other plants in 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 2016 compared to 2015. This corresponds to the long term stabilised state of our water management. Only a slight annual rise in the amount of wastewater and pollutants refers to higher production in 2016. The quality of wastewater is achieving a sustainable level with respect to compliance with the specified limits of pollution.

Also, in terms of production of wastewater per tonne of produced steel, the situation is consistently stable compared to 2015.

During 2016, there was no instance of emergency that would result in the deterioration of, or threat to, the quality of groundwater or surface water.

POLLUTION DISCHARGED INTO WATER FLOWS FROM 2015 TO 2016

YEAR	VOLUME OF WASTE WATER [m ³ /year]	UNDISSOLVED SUBSTANCE [t/year]	NON-POLAR EXTRACTED SUBSTANCE [t/year]	DISSOLVED INORGANIC SALTS [t/year]	CHEMICAL OXYGEN CONSUMPTION USING DICHROMATIC METHOD [t/year]	TOTAL IRON [t/year]
2015	4 153 968	33.6	0.81	1 979	62.5	3.5
2016	4 350 240	34.6	0.57	2 083	78.3	3.9

Note: data refers to the area of Třinecké železářny in Třinec



WASTE MANAGEMENT

In the reporting year 2016, a further decline appeared in the production of other and total waste production mainly due to waste linings and refractories management in the mode of by-products and less slag waste occurrence.

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 reason for the increase in the category of "Hazardous waste" compared to the last year was caused by the growth of fine sludge – new sources of dedusting, and overall higher production in steelworks in Třinec.

The total amount of waste in Třinecké železářny premises reached 110 219 tonnes, a 22% decrease in comparison with the previous year 2015 (140 693 tonnes). The drop in the category "Other" (89 155t) was 29%. In the category "Hazardous produced waste" a drop of 10.9% was recorded compared to 2014.

The level of waste per tonne of produced steel amounted to 55.5 kg/tonne of steel in 2015, in the reporting year 2016 – 42.3 kg/tonne of steel (a decrease of 24%).

ENVIRONMENTAL PROJECTS

In 2016, these significant environmental investments were carried out:

- Desulphurisation at the sinter plant No. 2,
- Adding active coal to the fumes of Sinter Plants No. 1 and 2,
- Modernisation and reconstruction of coke oven battery No. 11,
- Construction of hot stove No. 64 – in the process.

The total costs of environmental projects amounted to CZK 842 mil. in 2016.

Other events with a positive contribution to the environment have been funded from operational sources, e. g. repairs at individual plants of TŽ premises.

In 2016, Třinecké železářny responded to the newly announced calls for proposals within the grant period in order to apply for government subsidies related to new projects under the 8th call of Operational Programme Environment. A total of 9 applications were submitted for an overall amount of CZK 900 million:

- Dust collection system in Secondary Raw Material Plant,
- Dedusting facility for transport and reverse charge loading for BOF's sinter production,
- Dedusting facility for capturing and processing the blast furnace sinter,
- Desulphurisation at the sinter plant No. 1,
- Dust collection system in Billet Mill Kladno,
- Filtration plants at grinding slag mill,
- Central vacuuming of sinter plant No. 2 and garble station No. 1, ore sorting,
- Central vacuuming of sinter plant No. 1 and garble station No. 2,
- Central vacuuming system of coke transport and coke stone separator.

ENVIRONMENTAL AIMS FOR 2017

Within the environmental projects in 2017 we have predicted other intensions: Central vacuuming of sinter plant No. 1 and garble station No. 2, central vacuuming of sinter plant No. 2 and garble station No. 1, filtration plants at grinding slag mill and dust collection system in secondary raw material plant.

We are preparing other documents for grant application submission concerning 3 huge projects worth a total of CZK 1 000 million which should be carried out in the section of sinter plants and blast furnaces.



EMPLOYEES

Třinecké železářny establishes its approach to employees in openness and mutual respect, supports their development, enhancement of working skills and career growth. The basic principles of Třinecké železářny behaviour, including the relationship with employees, principles of corporate culture and basic principles of Corporate Social Responsibility (CSR), are set out in the Code of Conduct of Třinecké železářny. This document builds upon the Staff Regulations, which regulate the duties of employees. The legal and above-standard benefits of employees are embedded in the Corporate Collective Agreement and its successor Social Code. These documents are further elaborated in the internal documentation where employees are given guidelines regarding the performance of their duties.

In the area of human resources, the issue of acquiring technically qualified job seekers – not only graduates from technical secondary schools and universities – was still addressed in 2016 to ensure generational change as well as regular staff turnover.

Třinecké železářny enrolled mainly those interested in technical education, respectively with previous work experience in technical fields. Most of the newly recruited employees were graduates from the technical branches of the Secondary Technical School of Třinecké železářny. To meet the needs of college graduates, the 15th and 16th inauguration of the graduates' internship centre were successfully completed. Cooperation with schools of all levels went on.

As in previous years, we also paid great attention to corporate education. Corporate education is a constantly repeating cycle based on the principles of personnel strategy and policy of Třinecké železářny and is based on the strategic objectives of Třinecké železářny in the area of the human resources development plan, which is an integral part of the Business Plan. In order to maintain the qualification level of our employees and their further development, we have implemented a number of courses beyond the qualification requirements. Educational events focused mainly on vocational training and quality education, language preparation, managerial education and workshops for the acquisition of professional knowledge continued. We have provided training for communications

managers to support the leadership of selected operations to contribute to professional conflict management in the workplace and the improvement of interpersonal relationships.

For internal education, the application of the Corporate Academy was the primary tool used by most regular recruiters and internal lecturers to prepare and implement their training. The Application of the Corporate Academy is a multifunctional environment that is used for so-called "Knowledge Management", as it also allows the sharing of information, knowledge and experience, as well as discussion on a chosen topic.

An eleventh regular questionnaire survey was conducted in 2016 to determine the level of engagement of employees and their attitudes towards selected factors of work and the working environment. Nearly 43% of staff were involved in the survey. The large amount of data collected in the corresponding structure ushers the results of the investigation and new measures can be established on their basis to encourage employee motivation.



In addition to statutory health protection, we organised, in cooperation with the Czech Industrial Health Insurance Company, a number of preventive activities aimed at promoting health and healthy lifestyle. Ten-day rehabilitation stays in the spa, ambulatory rehabilitation procedures in the health facility as well as additional reconditioning care including physical activities, massage, relaxation procedures and nutritional counselling were provided. Employees of selected plants have undergone professional preventive examinations within the Health Days. Traditionally, there was free flu vaccination supplemented with vitamin delivery.

The area of prevention of occupational health hazards is ensured in accordance with the legislation of the Czech Republic and the conditions of the award "Safe Enterprise" awarded to Třinecké železářny by the State Labour Inspectorate repeatedly in 2016.

Třinecké železářny registered a total of 22 occupational accidents with incapacity for work longer than 3 calendar days in 2016. There was no fatal or serious injury. The accident rate was 0.31 work-related injuries per 100 employees per year. In 2016, there was one occupational ailment.

In the area of personnel work and motivation, all efforts were focused on the fulfilment of the production in the required volume, full use of the production equipment while maintaining a high standard of quality and ensuring the start of the investment projects implemented.

The year 2016 was marked by a general overhaul of Coke Oven Battery #11 and its re-launch to full operation. This year, we also reduced production on the medium section mill as well as the railway superstructure accessories plant. As a part of the increase in labour productivity, organisational changes and staff savings have been achieved at many operations, so the replenishment of the Coke Oven Battery overhaul has been offset by these savings.

In 2016, there was a slight decline in the number of employees; we have achieved an average registered recalculation of 7 006 employees.

The average monthly earnings in 2016 were at the level of the previous year.

We have fully complied with all the commitments enshrined in the Corporate Collective Bargaining Agreement and the Social Code. We continued to maintain a high level of employee care, health and employee benefits.



MANAGEMENT SYSTEM

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

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

As well as in 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 strategy, attended the educational events regarding the legislation changes, corporate culture presentation, automatisisation and robotic solutions for Industry 4.0.

The management system, including the information systems, did not change in 2016. 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 pursuant to the EN ISO 50001 in Třinec and an extension of this system has been planned for the other separated production units in Kladno, Ostrava and Staré Město u Uherského Hradiště in 2017.

In 2016, we introduced the company agreement system between the selected business group companies of Třinecké železářny – Moravia Steel, which makes it possible in the so-called Business Register Database (DOV) to track all business records in electronic form.

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

In accordance with the commitment “Agreement to reduce ecological footprint” concluded between Třinecké železářny and the Ministry of the Environment, we have organised third recovery programme for children from Třinec and its vicinity in total amount CZK 1.542 million which were paid from our resources.

Třinecké železářny has no organisational branch abroad.



FINANCIAL INFORMATION

In 2016, the pre-tax profit amounted to CZK 1 755 million.

Compared to the previous year 2015, the pre-tax profit was lower by CZK 1 589 million, which was mainly due to a higher decrease in sales compared to the decrease in consumption due to the unfavourable price development of rolled products (faster drop in sales prices compared to falling commodity prices).

The ongoing overhaul of the Coke Oven Battery #11 negatively affected the economic result in 2016.

Revenues of Třinecké železářny fell to CZK 32 217 million, reflecting the year-on-year decrease of CZK 4 703 million. Their fall was due to the impact of:

- Lower sales of rolled products and steel (CZK –4 504 million) due to the decrease in the average sales price,
- Lower sales of other products and services (CZK –199 million), mainly due to the decommissioning of the Coke Oven Battery.

DEVELOPMENT OF REVENUES

INDICATOR (in CZK thousands)	2015	2016
Rolled goods incl. steel	35 796	31 291
Other products	691	495
Sales of own products	36 487	31 786
Revenues from services	433	431
Sale of own production, services and goods	36 920	32 217



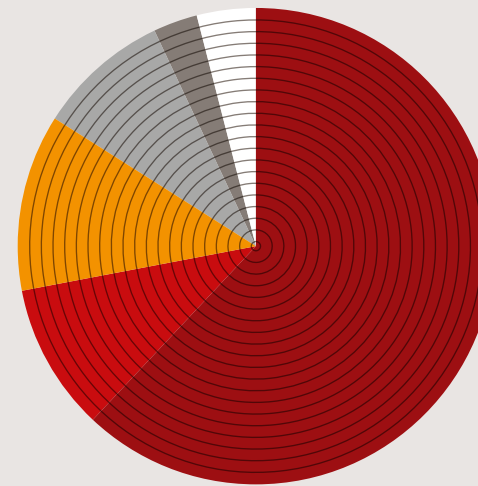
The purchased consumables were lower by CZK 2 725 million compared to 2015. The most significant influence on the year-on-year decline was the consumption of the raw materials due to the drop in prices of the decisive input commodities, steel production was higher by 73 kt.

The value added was CZK 6 888 million in 2016, which is CZK 1 099 million less in comparison with 2015. Labour productivity of value added per employee in 2016 was CZK 983 thousand (CZK 1 139 thousand in 2015).

The lower operating result was also influenced by higher depreciation, increase in reserves and loss of revenues from the sale of emission allowances, which thus decreased by CZK 1 333 million year-on-year.

The financial result decreased by CZK 257 million compared to 2015 in relation to the lower earnings from shares of the subsidiary companies.

COST STRUCTURE IN 2016



- Material 62%
- Energy 10%
- Personnel 12%
- Services 9%
- Other 3%
- Depreciation 4%

As at 31. 12. 2016, our company reported assets totalling CZK 33 843 million, which is CZK 895 million more than at 31. 12. 2015.

The increase of assets was due to increased fixed assets by CZK 775 million (investments were higher than depreciation). Current assets, including accruals, increased by CZK 121 million.

The increase in inventories by CZK 136 million was due to an increase in raw materials and an increase in the volume of inventories of semi-finished products of own production.

Receivables increased by CZK 692 million due to the increase in trade receivables, tax receivables from the state and other receivables.

Cash decreased by CZK 704 million, accruals decreased by CZK 3 million.

In the area of liabilities, compared to 2015, the share capital increase was CZK 40 million.

External resources including other liabilities increased year-on-year by CZK 856 million due to increased trade payables, liabilities to credit institutions and reserves.



STRATEGIC OBJECTIVES

With regard to worldwide steel production decline in 2015, a slight increase in 2016 occurred which was influenced mainly due to renewed growth in steel production in China. However, China still continues to struggle with overcapacity and necessity to reduce the ecological impact. In 2017 a recovery is expected and steel consumption rose by 0.4%. The price volatility of input materials and conflicts in several developing regions are crucial factors affecting the development of global steel industry.

Třinecké železářny will continue its current strategy of extending product chain towards the final customer, both within an existing production space investments and through other acquisition targets.

Therefore, in order to maintain the competitiveness of Třinecké železářny in the steel segment, we will need to push production towards the final product and high level of finalisation while reducing costs and increasing product quality. The following years will be very important to continue the trend of automatisisation and robotisation in production which is a respond to the decreasing availability of human resources.

Building long-term partnership with key customers in the railway, automotive, engineering and construction segments is essential to Třinecké železářny's development.

06

SUPERVISORY BOARD
REPORT

The Supervisory Board regularly audited whether the business activities of TŘINECKÉ ŽELEZÁRNY, a. s. are carried out in accordance with the valid legislation, the statutes of TŘINECKÉ ŽELEZÁRNY, a. s., and the sole shareholder's decisions in the exercise of the General Meeting and resolutions of the Supervisory Board. In the course of the year of 2016, the Board of Directors informed it of the current economic situation of TŘINECKÉ ŽELEZÁRNY, a. s., as well as the fulfilment of the Business Plan.

The Supervisory Board supervised the performance of the Board of Directors and the business activities of TŘINECKÉ ŽELEZÁRNY, a. s., in accordance with the approved documents of this company, i. e. the Business Plan and the Financial Plan of TŘINECKÉ ŽELEZÁRNY, a. s. for 2016.

At its meeting on April 24, 2017, the Supervisory Board reviewed the Annual Report of TŘINECKÉ ŽELEZÁRNY, a. s. for the year 2016, which includes

- The regular financial statements for the year 2016
- The ordinary consolidated financial statements for the year 2016
- Report on relations for the accounting period of 2016,
- The Board of Directors' proposal for the distribution of profits generated for the 2016 accounting period,
- The report of the Board of Directors on the business activities of TŘINECKÉ ŽELEZÁRNY, a. s., and the state of its assets.

The Supervisory Board stated that the Report on Relations for the accounting period of 2016 was prepared in accordance with Act No. 90/2012 Sb. and the actual status of the relations between TŘINECKÉ ŽELEZÁRNY, a. s. and the controlling entities and between TŘINECKÉ ŽELEZÁRNY, a. s. and the entities controlled by the same controlling entity. The Supervisory Board further stated that its

proposal for the distribution of profit generated for the accounting period 2016 is not contrary to the provisions of Section 350 of Act No. 90/2012 Coll.

The Supervisory Board recommends that the regular financial statements and the regular consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. for the year 2016, as well as the proposal of the Board of Directors for the distribution of the profit generated for the accounting period of 2016 and the report of the Board of Directors on the business activity of the TŘINECKÉ ŽELEZÁRNY, a.s. of its assets, for approval by the General Meeting, i. e. the sole shareholder of TŘINECKÉ ŽELEZÁRNY, a. s. in the scope of the General Meeting powers.

Tomáš Chrenek

Chairman of the Supervisory Board

07



AUDIT COMMITTEE REPORT

The Audit Committee of TRINECKÉ 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 2016 and the consolidated financial statements of TŽ for 2016. The procedure of preparing the individual and consolidated financial statements of TŽ for 2016 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 external 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, cooperated with the auditor and reviewed the nature and extent of the complementary services provided by the auditor.

At its meetings, the Audit Committee also dealt with risk management information, monitored the effectiveness of internal auditing, risk management and internal audit systems in TŽ and individual companies controlled by TŽ.

The Audit Committee regularly informed the Supervisory Board of TŽ and advised it on issues that fall within the scope of the Audit Committee.

The Audit Committee performs the main activities entrusted to it by the statutes of TŽ, i. e. in monitoring the preparation of the financial statements, including consolidated financial statements, monitoring the process of statutory audit of the financial statements and consolidated financial statements, monitoring the effectiveness of the internal control system and evaluating the independence of the external auditor, as well as the additional services to TŽ and during the year 2016 or until the General Meeting of TŽ in 2017 it did not find any shortcomings or other serious facts, about which the TŽ General Meeting or the sole shareholder of TŽ during the exercise of the General Meeting should be informed.

Dana Trezziová

Audit Committee Chairwoman

08

AUDITOR'S REPORT



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Tax ID. No.: 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

Opinion on the Financial Statements and Consolidated Financial Statements

- We have audited the accompanying financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2016, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.
- We have audited the accompanying consolidated financial statements of the TŘINECKÉ ŽELEZÁRNY, a. s. consolidation group (hereinafter also the "Group") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the consolidated balance sheet as of 31 December 2016, and the consolidated profit and loss account, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

- The accompanying financial statements give a true and fair view of the financial position of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.
- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the TŘINECKÉ ŽELEZÁRNY, a. s. consolidation group as of 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

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

Other Information in the Annual Report

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

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AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements and the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and Group's internal control.

AUDITOR'S REPORT

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's and Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements and the consolidated financial statements, including the disclosures, and whether the financial statements and the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

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

In Prague on 24 April 2017

Audit firm:

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



Statutory auditor:

Václav Loubek
registration no. 2037



09

FINANCIAL PART I. FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

NAME OF THE COMPANY:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Průmyslová 1000, Staré Město, 739 61 Třinec
Legal Status:	Joint Stock Company
Corporate ID:	180 50 646

Components of the Financial Statements:

Balance Sheet



Profit and Loss Account

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 27 March 2017.

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

BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

		31.12.2016		31.12.2015	
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	57 483 386	-23 639 941	33 843 445	32 947 675
B.	Fixed assets	43 811 939	-22 841 084	20 970 855	20 196 195
B.I.	Intangible fixed assets	730 597	-250 482	480 115	472 359
B.I.1.	Research and development	4 553	-4 553		
B.I.2.	Valuable rights	308 880	-240 743	68 137	83 930
B.I.2.1.	Software	208 097	-184 076	24 021	28 968
B.I.2.2.	Other valuable rights	100 783	-56 667	44 116	54 962
B.I.4.	Other intangible fixed assets	415 011	-5 186	409 825	388 344
B.I.5.	Prepayments for intangible fixed assets and intangible fixed assets under construction	2 153		2 153	85
B.I.5.1.	Prepayments for intangible fixed assets	54		54	
B.I.5.2.	Intangible fixed assets under construction	2 099		2 099	85
B.II.	Tangible fixed assets	36 114 858	-22 145 507	13 969 351	13 205 420
B.II.1.	Land and structures	9 184 978	-4 610 489	4 574 489	4 436 397
B.II.1.1.	Land	524 426		524 426	516 595
B.II.1.2.	Structures	8 660 552	-4 610 489	4 050 063	3 919 802
B.II.2.	Tangible movable assets and sets of tangible movable assets	26 333 665	-17 530 749	8 802 916	8 038 961
B.II.4.	Other tangible fixed assets	5 481		5 481	1 499
B.II.4.3.	Other tangible fixed assets	5 481		5 481	1 499
B.II.5.	Prepayments for tangible fixed assets and intangible fixed assets under construction	590 734	-4 269	586 465	728 563
B.II.5.1.	Prepayments for tangible fixed assets	71 255		71 255	32 749
B.II.5.2.	Tangible fixed assets under construction	519 479	-4 269	515 210	695 814
B.III.	Non-current financial assets	6 966 484	-445 095	6 521 389	6 518 416
B.III.1.	Equity investments – controlled or controlling entity	6 913 487	-427 175	6 486 312	6 483 070
B.III.3.	Equity investments in associates	50 995	-17 920	33 075	33 344
B.III.5.	Other non-current securities and investments	2 002		2 002	2 002

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

C.	Current assets	13 558 822	-798 857	12 759 965	12 635 095
<i>C.I.</i>	Inventories	9 386 579	-744 640	8 641 939	8 505 677
C.I.1.	Material	3 957 844	-310 112	3 647 732	3 494 007
C.I.2.	Work in progress and semifinished goods	3 097 777	-308 886	2 788 891	2 684 386
C.I.3.	<i>Products and goods</i>	2 330 085	-125 642	2 204 443	2 324 495
C.I.3.1.	Products	2 330 036	-125 642	2 204 394	2 324 394
C.I.3.2.	Goods	49		49	101
C.I.5.	Prepayments for inventories	873		873	2 789
<i>C.II.</i>	Receivables	3 504 509	-39 169	3 465 340	2 773 006
C.II.1.	Long-term receivables	5 969		5 969	4 079
C.II.1.5.	Receivables – other	5 969		5 969	4 079
C.II.1.5.2.	Long-term prepayments made	640		640	640
C.II.1.5.4.	Sundry receivables	5 329		5 329	3 439
<i>C.II.2.</i>	Short-term receivables	3 498 540	-39 169	3 459 371	2 768 927
C.II.2.1.	Trade receivables	2 120 560	-19 807	2 100 753	1 885 462
C.II.2.2.	Receivables – controlled or controlling entity	184 245		184 245	184 400
C.II.2.4.	<i>Receivables – other</i>	1 193 735	-19 362	1 174 373	699 065
C.II.2.4.3.	State – tax receivables	955 976		955 976	671 983
C.II.2.4.4.	Short-term prepayments made	4 586		4 586	4 743
C.II.2.4.5.	Estimated receivables	23 560		23 560	4 004
C.II.2.4.6.	Sundry receivables	209 613	-19 362	190 251	18 335
<i>C.III.</i>	Current financial assets	15 110	-15 048	62	63
C.III.2.	Other current financial assets	15 110	-15 048	62	63
<i>C.IV.</i>	Cash	652 624		652 624	1 356 349
C.IV.1.	Cash on hand	1 649		1 649	1 131
C.IV.2.	Cash at bank	650 975		650 975	1 355 218
D.	Other assets	112 625		112 625	116 385
D.1.	Deferred expenses	39 234		39 234	45 504
D.2.	Complex deferred expenses	73 341		73 341	70 832
D.3.	Accrued income	50		50	49

BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	33 843 445	32 947 675
A.	Equity	25 731 979	25 692 415
A.I.	Share capital	8 109 863	8 109 863
A.I.1.	Share capital	8 109 863	8 109 863
A.II.	Share premium and capital funds	103 740	103 740
A.II.2.	Capital funds	103 740	103 740
A.II.2.1.	Other capital funds	103 787	103 787
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-47	-47
A.III.	Funds from profit	2 858 219	2 858 219
A.III.1.	Other reserve funds	2 858 219	2 858 219
A.IV.	Retained earnings (+/-)	13 220 593	11 840 443
A.IV.1.	Accumulated profits brought forward	13 220 593	11 840 443
A.V.	Profit or loss for the current period (+/-)	1 439 564	2 780 150
B.+C.	Liabilities	8 108 104	7 252 058
B.	Reserves	134 206	82 513
B.III.	Reserves under special legislation	1 089	1 989
B.IV.	Other reserves	133 117	80 524

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

C.	Payables	7 973 898	7 169 545
C.I.	Long-term payables	2 557 602	2 498 447
C.I.2.	Payables to credit institutions	1 464 619	1 442 354
C.I.4.	Trade payables	55 362	31 226
C.I.8.	Deferred tax liability	1 037 621	1 023 459
C.I.9.	<i>Payables – other</i>		1 408
C.I.9.3.	Sundry payables		1 408
C.II.	Short-term payables	5 416 296	4 671 098
C.II.2.	Payables to credit institutions	755 270	666 192
C.II.3.	Short-term prepayments received	118	480
C.II.4.	Trade payables	3 644 200	2 898 587
C.II.8.	<i>Other payables</i>	1 016 708	1 105 839
C.II.8.3.	Payables to employees	332 564	344 970
C.II.8.4.	Social security and health insurance payables	105 723	115 434
C.II.8.5.	State – tax payables and subsidies	438 072	571 348
C.II.8.6.	Estimated payables	119 822	35 238
C.II.8.7.	Sundry payables	20 527	38 849
D.	Other liabilities	3 362	3 202
D.1.	Accrued expenses	1 088	551
D.2.	Deferred income	2 274	2 651

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	32 216 680	36 920 409
II.	Sales of goods	340	1 077
A.	Purchased consumables and services	25 745 488	28 470 010
A.1.	Costs of goods sold	335	1 059
A.2.	Consumed material and energy	22 751 565	25 426 244
A.3.	Services	2 993 588	3 042 707
B.	Change in internally produced inventory (+/-)	-53 779	939 185
C.	Own work capitalised (-)	-362 533	-474 391
D.	Staff costs	3 718 370	3 677 543
D.1.	Payroll costs	2 561 677	2 533 862
D.2.	Social security and health insurance costs and other charges	1 156 693	1 143 681
D.2.1.	Social security and health insurance costs	906 903	886 613
D.2.2.	Other charges	249 790	257 068
E.	Adjustments to values in operating activities	1 339 373	1 237 778
E.1.	<i>Adjustments to values of intangible and tangible fixed assets</i>	1 277 240	1 134 147
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	1 258 761	1 167 416
E.1.2.	Adjustments to values of intangible and tangible fixed assets – temporary	18 479	-33 269
E.2.	Adjustments to values of inventories	68 829	118 703
E.3.	Adjustments to values of receivables	-6 696	-15 072
III.	Other operating income	668 111	822 092
III.1.	Sales of fixed assets	29 127	12 460
III.2.	Sales of material	105 669	119 757
III.3.	Sundry operating income	533 315	689 875
F.	Other operating expenses	828 236	890 868
F.1.	Net book value of sold fixed assets	10 121	4 605
F.2.	Net book value of sold material	101 606	117 921
F.3.	Taxes and charges	27 558	29 029
F.4.	Reserves relating to operating activities and complex deferred expenses	57 599	-22 616
F.5.	Sundry operating expenses	631 352	761 929
*	Operating profit or loss (+/-)	1 669 976	3 002 585

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(IN CZK THOUSAND)

IV.	Income from non-current financial assets – equity investments	121 293	384 040
IV.1.	Income from equity investments – controlled or controlling entity	98 160	360 200
IV.2.	Other income from equity investments	23 133	23 840
VI.	Interest income and similar income	2 939	3 844
VI.1.	Interest income and similar income – controlled or controlling entity	2 383	2 849
VI.2.	Other interest income and similar income	556	995
I.	Adjustments to values and reserves relating to financial activities	-2 851	-23 448
J.	Interest expenses and similar expenses	35 651	46 680
J.2.	Other interest expenses and similar expenses	35 651	46 680
VII.	Other financial income	17 990	27 951
K.	Other financial expenses	24 859	50 985
*	Financial profit or loss (+/-)	84 563	341 618
**	Profit or loss before tax (+/-)	1 754 539	3 344 203
L.	Income tax	314 975	564 053
L.1.	Due income tax	300 814	496 734
L.2.	Deferred income tax (+/-)	14 161	67 319
**	Profit or loss net of tax (+/-)	1 439 564	2 780 150
***	Profit or loss for the current period (+/-)	1 439 564	2 780 150
*	Net turnover for the current period	33 027 353	38 159 413

STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, other reserve funds	Accumulated profits brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2014	8 109 863	103 739	2 858 219	10 392 475	3 047 968	24 512 264
Distribution of profit or loss				1 447 968	-1 447 968	
Profit shares paid					-1 600 000	-1 600 000
Profit or loss for the current period					2 780 150	2 780 150
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
Distribution of profit or loss				1 380 150	-1 380 150	
Profit shares paid					-1 400 000	-1 400 000
Profit or loss for the current period					1 439 564	1 439 564
Balance at 31 December 2016	8 109 863	103 740	2 858 219	13 220 593	1 439 564	25 731 979

CASH FLOW STATEMENT

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
P.	Opening balance of cash and cash equivalents	1 339 642	1 178 677
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss before tax	1 754 539	3 344 203
A.1.	Adjustments for non-cash transactions	1 283 072	886 935
A.1.1.	Depreciation of fixed assets	1 258 761	1 167 416
A.1.2.	Change in provisions and reserves	135 360	24 298
A.1.3.	Profit/(loss) on the sale of fixed assets	-19 006	-7 855
A.1.4.	Revenues from profit shares	-121 293	-384 040
A.1.5.	Interest expense and interest income	32 712	42 836
A.1.6.	Adjustments for other non-cash transactions	-3 462	44 280
A.*	Net operating cash flow before changes in working capital	3 037 611	4 231 138
A.2.	Change in working capital	71 128	-8 736
A.2.1.	Change in operating receivables and other assets	-687 679	283 574
A.2.2.	Change in operating payables and other liabilities	963 894	-1 046 480
A.2.3.	Change in inventories	-205 090	744 383
A.2.4.	Change in current financial assets	3	9 787
A.**	Net cash flow from operations before tax	3 108 739	4 222 402
A.3.	Interest paid	-35 124	-47 175
A.4.	Interest received	3 105	4 295
A.5.	Income tax paid from ordinary operations	-708 587	-909 766
A.6.	Received profit shares	121 293	384 040
A.***	Net operating cash flows	2 489 426	3 653 796
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-1 935 403	-1 453 341
B.2.	Proceeds from fixed assets sold	28 846	13 520
B.3.	Loans and borrowings to related parties		63 871
B.***	Net investment cash flows	-1 906 557	-1 375 950
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	113 408	-516 881
C.2.	Impact of changes in equity	-1 400 000	-1 600 000
C.2.6.	Profit shares paid	-1 400 000	-1 600 000
C.***	Net financial cash flows	-1 286 592	-2 116 881
F.	Net increase or decrease in cash and cash equivalents	-703 723	160 965
R.	Closing balance of cash and cash equivalents	635 919	1 339 642

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

During the year ended 31 December 2016, a change in the Company’s corporate details was recorded in the Register of Companies concerning the recording of a person authorised for legal acts in relation to the Company’s employees in line with Section 164 (3) of Act No. 89/2012 Coll., Civil Code, as amended until 27 February 2017. The authorised person is Ivo Žižka, a member of the Company’s Board of Directors.

1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

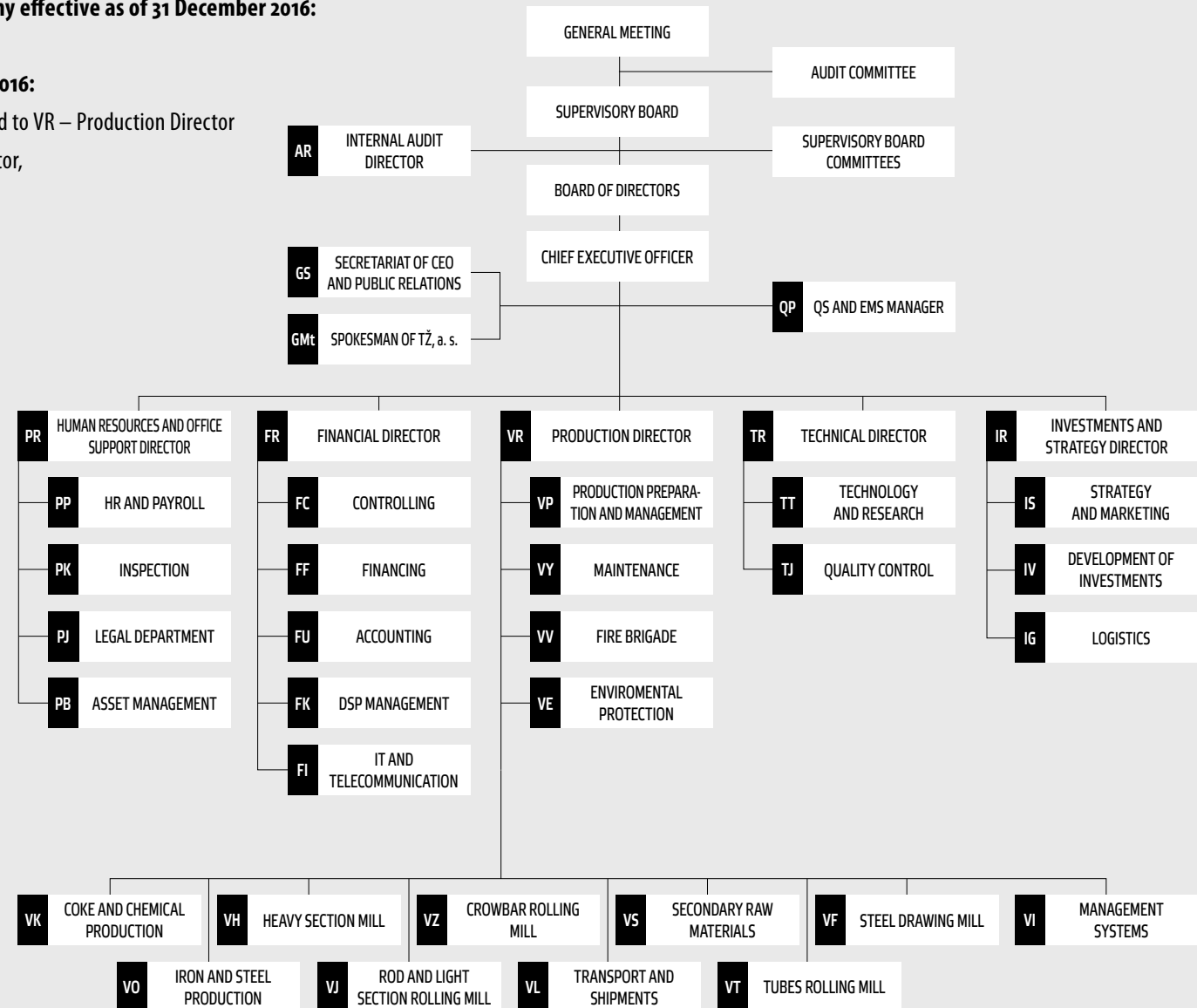
Bodies of the Company are as follows:

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

The general organisational structure of the Company effective as of 31 December 2016:

The following organisational change was made in 2016:

The VG – Logistics department that had been subordinated to VR – Production Director was transferred under IR – Investment and Strategy Director, and renamed to IG – Logistics.



1.4. GROUP IDENTIFICATION

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

In the year ended 31 December 2016, the Company was controlled by MORAVIA STEEL a.s. as the sole shareholder. MORAVIA STEEL a.s. is controlled by FINITRADING, a.s., which is its sole shareholder.

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

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

1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2016

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

In the year ended 31 December 2016, 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 2016 have been prepared as follows:

The balance sheet includes comparative figures as of 31 December 2015;

The profit and loss account includes comparative figures for the year ended 31 December 2015;

The statement of changes in equity includes comparative figures as of 31 December 2015; and

The cash flow statement includes comparative figures as of 31 December 2015.

2.2. TANGIBLE AND INTANGIBLE FIXED ASSETS

Valuation

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

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

Purchased tangible and intangible fixed assets are valued at cost. Tangible and intangible fixed assets developed internally are valued at direct costs, incidental costs directly attributable to the internal production of assets, 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 presented in the balance sheet as part of 'Other reserves' and in the profit and loss account as part of 'Reserves and provisions relating to operating activities and complex deferred expenses'. The reserve for the purchase of allowances is released in the following accounting period when the missing allowances are purchased or used from the free of charge allocation of the following period.

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

Depreciation for Accounting Purposes

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

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

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

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

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

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

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

Provisioning

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

Impairment

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

2.3. NON-CURRENT FINANCIAL ASSETS

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

Valuation

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

At the balance sheet date, the Company records:

Equity investments are measured at cost less any provisions.

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

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

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

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

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

Provisioning against Equity Investments

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

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

2.4. CURRENT FINANCIAL ASSETS AND CASH

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

Current financial assets are carried at cost upon acquisition.

Cash consists of cash on hand and cash at bank.

2.5. INVENTORY

Valuation

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

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

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

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

Provisioning

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

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

2.6. RECEIVABLES

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

Provisioning

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

Tax deductible provisions against receivables are made pursuant to Act No. 586/1992 Coll., the Income Taxes Act, and Act No. 593/1992 Coll., the Provisioning Act.

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

- a) Receivables past due by 1 year and more are provisioned in full; and
- b) Receivables past due over 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.

2.7. PAYABLES

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

2.8. PAYABLES TO CREDIT INSTITUTIONS

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

2.9. RESERVES

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

2.10. FOREIGN CURRENCY TRANSLATIONS

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

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

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

2.11. TAXATION

Depreciation of Fixed Assets for Tax Purposes

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

Current Tax Payable

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

Deferred Tax

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

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

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

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

2.12. BORROWING COSTS

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

2.13. COSTS RELATING TO EMPLOYEES HIRED THROUGH AN EMPLOYMENT AGENCY

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

2.14. REVENUE RECOGNITION

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

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

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

2.15. USE OF ESTIMATES

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

2.16. RESEARCH AND DEVELOPMENT EXPENDITURE

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

2.17. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES

Starting from 1 January 2016, the Company reports changes in internally produced inventory and own work capitalised on the accounts of account group 58.

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 project expenses. In prior years, the limit was up to CZK 10 thousand.

2.18. SUBSIDIES

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

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

2.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

	(CZK THOUSAND)	
	31 Dec 2016	31 Dec 2015
Cash on hand	1 649	1 131
Cash at bank	650 975	1 355 218
Other current financial assets	15 110	15 111
Provisions against other current financial assets	-15 048	-15 048
Total current financial assets and cash	652 686	1 356 412
Cash and cash equivalents not included in the cash flow	-16 767	-16 770
Total cash and cash equivalents	635 919	1 339 642

The difference between cash and cash equivalents as of 31 December 2016 and 2015 reported in the cash flow statement as opposed to the current financial assets and cash disclosed in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

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

In preparing the financial statements the Company proceeded in line with Czech Accounting Standard No. 024 – Comparable Period for the Reporting Period Starting in 2016.

3. ADDITIONAL INFORMATION

3.1. FIXED ASSETS

Intangible Fixed Assets

Cost (CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Research and development	4 553	0	0	4 553
Valuable rights	306 909	2 146	175	308 880
Other intangible FA	393 484	500 119	478 592	415 011
Prepayments made for intangible FA	0	65	11	54
Intangible FA under construction	85	4 160	2 146	2 099
Total	705 031	506 490	480 924	730 597

Accumulated Amortisation (CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Research and development	4 553	0	0	4 553
Valuable rights	222 979	17 940	176	240 743
Other intangible FA	5 140	46	0	5 186
Total	232 672	17 986	176	250 482

Net Book Value (CZK THOUSAND)

	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Research and development	83 930	68 137
Valuable rights	388 344	409 825
Other intangible FA	0	54
Prepayments made for intangible FA	85	2 099
Total	472 359	480 115

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 17,986 thousand and CZK 17,645 thousand as of 31 December 2016 and 2015, respectively.

Other intangible fixed assets primarily include emission allowances.

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

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

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.

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 29,389 thousand and CZK 29,246 thousand as of 31 December 2016 and 2015, respectively.

Tangible Fixed Assets

Cost	(CZK THOUSAND)			
	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Land	516 595	8 133	302	524 426
Structures	8 340 004	329 281	8 733	8 660 552
Tangible movable assets and sets thereof	24 710 341	1 833 826	210 502	26 333 665
Other tangible FA	1 499	3 982	0	5 481
Prepayments for tangible FA	32 749	116 205	77 699	71 255
Tangible FA under construction	699 850	1 995 379	2 175 750	519 479
Total	34 301 038	4 286 806	2 472 986	36 114 858

Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Structures	4 416 092	184 309	8 733	4 591 668
Tangible movable assets and sets thereof	16 670 979	1 066 336	210 502	17 526 813
Total	21 087 071	1 250 645	219 235	22 118 481

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Structures	4 110	18 821	4 110	18 821
Tangible movable assets and sets thereof	401	3 936	401	3 936
Tangible FA under construction	4 036	366	133	4 269
Total	8 547	23 123	4 644	27 026

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Land	516 595	524 426
Structures	3 919 802	4 050 063
Tangible movable assets and sets thereof	8 038 961	8 802 916
Other tangible FA	1 499	5 481
Prepayments for tangible FA	32 749	71 255
Tangible FA under construction	695 814	515 210
Total	13 205 420	13 969 351

Principal additions to tangible fixed assets for the year ended 31 December 2016 were as follows:

(CZK THOUSAND)

Acquisition of coke oven battery no. 11	601 442
Acquisition of extrusion and compacting vehicle no. 8	178 573
Acquisition of annealing furnace STC no. 4 and 5	163 072

Principal additions to tangible fixed assets under construction for the year ended 31 December 2016 were as follows:

(CZK THOUSAND)

Construction of cowper no. 64	146 470
Construction of a new crowbar cleaning plant	121 159
Reconstruction and modernisation of the blooming mill	41 744

During the year ended 31 December 2016, the disposals of tangible fixed assets included assets with an aggregate net book value of CZK 16,210 thousand. Major disposals principally comprised disposals of movable assets due to their sale, partial liquidation of dust separation system KB 11-12, partial liquidation of UZ Sonotron, UZ Eddytron.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,240,775 thousand and CZK 1,149,771 thousand as of 31 December 2016 and 2015, 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 550,110 thousand and CZK 526,805 thousand as of 31 December 2016 and 2015, respectively.

Assets Held under Operating Lease Agreements

In the years ended 31 December 2016 and 2015, the Company made lease payments of CZK 53,609 thousand and CZK 47,423 thousand, respectively.

Pledged Fixed Assets

31 December 2016

(CZK THOUSAND)

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

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	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible FA	503 391	
Tangible FA	589 833	Loan from HSBC Bank plc– Prague branch
Land	110 496	
Total	3 222 269	

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

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Equity investments – controlled or controlling entity	6 913 364	123	0	6 913 487
Equity investments – associates	50 995	0	0	50 995
Other non-current securities and equity investments	2 002	0	0	2 002
Total	6 966 361	123	0	6 966 484

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Equity investments – controlled or controlling entity	430 294	7 149	10 268	427 175
Equity investments – associates	17 651	269	0	17 920
Total	447 945	7 418	10 268	445 095

Equity Investments – Controlled or controlling entity

31 December 2016

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial income
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100.00	1 948 644	170 161	0	0
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	610 794	53 008	0	30 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 660 256	61 420	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	603 563	17 952	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	674 196	73 794	0	40 000
HŽP a.s., Prostějov	130 000	130 000	100.00	546 456	69 088	0	20 000
"D&D" Drótáru Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100.00	110 451	30 753	-396 660	0
"METALURGIA" Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100.00	241 589	16 777	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	315 418	20 376	0	0
Řetězárna a.s., Česká Ves	61 200	515	51.00	521 939	12 844	0	3 570
REFRASIL, s.r.o., Kanská, Třinec	25 500	0	51.00	244 515	11 849	0	4 590
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	50 394	2 294	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	46 220	2 678	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 919	273	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	26 348	3 894	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	47 298	-2 032	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	1 360	12	68.00	12 661	-8 316	-21 391	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	21 886	3 686	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	46 166	-33	-9 124	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	50 875	-1 850	0	0
TOTAL						-427 175	98 160

Note: *italics* – preliminary results as of 31 December 2016

31 December 2015

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial income
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100.00	1 778 483	163 601	0	0
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	587 786	52 736		140 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 598 835	92 530	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	585 611	31 821	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	78 064	14 928	-406 928	0
"METALURGIA" Spółka Akcyjna, Radomsko (POL)	136 785	4 747 340	100.00	232 867	1 110	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	295 041	34 222	0	50 000
Řetězárna a.s., Česká Ves	61 200	515	51.00	516 078	12 376	0	5 100
REFRASIL, s.r.o., Kanská, Třinec	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	1 259	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	22 455	2 394	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	47 180	-970	-7 663	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	52 662	-1 724	0	0
TOTAL						-430 294	360 200

Equity Investments – Associates

31 December 2016

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Kinská, Třinec	25 137	25 137	40.00	380 773	51 791	0	23 109
Hutnictví železa, a.s., Strašnice, Prague 10	16 221	27 036	38.78	38 300	-450	-17 920	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	956	-775	0	0
TOTAL						-17 920	23 109

Note: *italics* – preliminary results of operation as of 31 December 2016

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

31 December 2015

(CZK THOUSAND)

Company name and registered office	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Kinská, Třinec	25 137	25 137	40.00	386 753	57 771	0	23 803
Hutnictví železa, a.s., Strašnice, Prague 10	16 221	27 036	38.78	38 828	147	-17 651	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	1 731	98	0	0
TOTAL						-17 651	23 803

Note: * results for the period from 1 April 2015 – 31 March 2016

Other Non-Current Securities and Equity Investments

31 December 2016

(CZK THOUSAND)

Name of the entity	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1-Nové Město	20	0	2.08	665	-170	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	4 051	-551	-34	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100.00	144 007	131	0	0
Unirelex, a.s. v likvidaci, Praha	2.22	2 000	0.04306	*	*	-4	0
Veolia Energie ČR, a.s., Ostrava	0.89	1 700	0.00216	*	*	0	24
Total						-58	24

Note: *italics* – preliminary results of operation as of 31 December 2016

* the values are not available

31 December 2015

(CZK THOUSAND)

Name of the entity	Nominal value	Number of shares	Equity investment %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1-Nové Město	20	0	2.08	645	478	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	11 012	35	-34	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100.00	149 472	-4 334	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
Total						-58	37

Note: * the values are not available

Non-Current Financial Assets Pledged as Collateral

As of 31 December 2016 and 2015, 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.

3.3. RECEIVABLES**Short-Term Receivables**

As of 31 December 2016 and 2015, the Company records short-term trade receivables past their due dates in the gross amount of CZK 19,422 thousand and CZK 29,411 thousand (net CZK 1,763 thousand and CZK 3,008 thousand), respectively.

Other Receivables

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

State – tax receivables predominantly include a receivable arising from value added tax, prepayments for corporate income tax and prepayments for fees under the Air Protection Act. In 2015, this item primarily included a receivable arising from value added tax and prepayments for fees according to the Air Protection Act.

Other receivables principally include a receivable arising from a custody agreement and receivables from individuals. In 2015, other receivables principally included 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.

Intercompany Receivables

Short-Term Receivables

(CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2016	Balance at 31 Dec 2015
• Trade receivables			
Doprava TŽ, a.s.	Controlled entity	1 490	2 119
ENERGETIKA TŘINEC, a.s.	Controlled entity	17 047	15 477
Šroubárna Kyjov, spol. s r.o.	Controlled entity	398	381
Strojírny a stavby Třinec, a.s.	Controlled entity	18 030	12 044
MORAVIA STEEL a.s.	Controlling entity	1 919 099	1 776 496
REFRASIL, s.r.o.	Controlled entity	508	622
Řetězárna, a.s.	Controlled entity	4	414
Slévárny Třinec, a.s.	Controlled entity	35 596	35 683
TRIALFA, s.r.o.	Controlled entity	1 829	2 230
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	37	37
Třinecké gastroslužby, s.r.o.	Controlled entity	733	787
TRISIA, a.s.	Controlled entity	13	15
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	354	343
Beskydská golfová, a.s.	Fellow subsidiary	37	37
VÚHŽ a.s.	Controlled entity	549	423
Moravia Security, a.s.	Controlled entity	65	63
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	22	21
Moravskoslezský kovošrot, a.s.,	Fellow subsidiary	163	118
“METALURGIA” Spółka Akcyjna	Controlled entity	492	601
HŽP a.s.	Controlled entity	1 701	640
M Steel Projects a.s.	Fellow subsidiary	21	8
Kovárna VIVA a.s.	Fellow subsidiary	0	6
“NEOMET” Sp. z o.o.	Fellow subsidiary	25	35
ŽDB DRÁTOVNA a.s.	Controlled entity	1 864	2 048
Barrandov Studio a.s.	Fellow subsidiary	107	0
Total		2 000 184	1 850 648
• Receivables – Controlled or controlling entity			
“D&D” Drótáru Zrt.	Controlled entity	184 245	184 400
Total		184 245	184 400

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

• Estimated receivables			
MORAVIA STEEL a.s.	Controlling entity	0	10
Slévárny Třinec, a.s.	Controlled entity	0	1
Total		0	11
Total short-term intercompany receivables		2 184 429	2 035 059
Other than intercompany receivables		1 274 942	733 868
Total short-term receivables		3 459 371	2 768 927

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

As of 31 December 2016, the Company records no receivables secured with material guarantees.

3.4. EQUITY

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

Share Capital

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

Proposal for the Allocation of Profit for 2016

In 2016, the Company generated net profit after tax of CZK 1,439,564 thousand.

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

- Profit share allocated to the sole shareholder: CZK 1,400,000 thousand
- Retained earnings brought forward: CZK 39,564 thousand

3.5. RESERVES

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

3.6. PAYABLES

Long-Term Payables

Long-term trade payables as of 31 December 2016 include payables arising from retentions from suppliers under concluded contracts.

As of 31 December 2016, the Company records no long-term payables secured with material guarantees.

As of 31 December 2016, the Company records trade payables with maturity longer than five years in the amount of CZK 4,633 thousand. The Company recorded no such payables as of 31 December 2015.

Deferred Income Tax

The deferred tax liability is analysed as follows:

	(CZK THOUSAND)	
Deferred tax arising from	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Difference between tax and accounting carrying values of fixed assets	-6 510 528	-6 202 183
Revaluation of available-for-sale securities	58	58
Accounting reserves	133 062	80 524
Provisions	773 265	686 116
Expenses that are tax deductible in the following periods	142 981	48 857
Total	-5 461 162	-5 386 628
Tax rate (in %)	19	19
Deferred tax liability	-1 037 621	-1 023 459

(CZK THOUSAND)	
Analysis of movements	
31 Dec 2015	-1 023 459
Current changes charged against the profit and loss account	-14 161
Other	-1
31 Dec 2016	-1 037 621

Income Tax

	(CZK THOUSAND)	
	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Profit before tax	1 754 539	3 344 203
Tax at the domestic income tax rate of 19%	333 362	635 399
Tax effect of expenses that are not deductible in determining taxable profit	-18 387	-71 346
Total income tax on ordinary and extraordinary activities – recognised in deferred tax and income tax payable	314 975	564 053

Short-Term Payables

As of 31 December 2016 and 2015, the Company records short-term trade payables past their due dates of CZK 8,436 thousand and CZK 3,197 thousand, respectively.

Payables typically fall due for settlement within 30 days.

Other Payables

As of 31 December 2016, payables arising from social security and the state employment policy contribution amounted to CZK 71,617 thousand (2015: CZK 77,805 thousand), health insurance payables totalled CZK 31,399 thousand (2015: CZK 34,850 thousand), and pension insurance payables totalled CZK 2,707 thousand (2015: CZK 2,779 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 income tax. In 2015, this item principally comprised 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, guarantees and employee contributions.

Intercompany Payables

Long-Term Payables

(CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Long-term payables			
• Trade payables			
Refrasil, s.r.o.	Controlled entity	4 129	2 523
Strojírny a stavby Třinec, a.s.	Controlled entity	1 373	751
Total		5 502	3 274
• Other payables			
Strojírny a stavby Třinec, a.s.	Controlled entity	0	1 408
Total		0	1 408
Total long-term intercompany payables		5 502	4 682
Other than intercompany payables		2 552 100	2 493 765
Total long-term payables		2 557 602	2 498 447

Other than intercompany long-term payables as of 31 December 2016 and 2015 primarily include a deferred tax liability of CZK 1,037,621 thousand and CZK 1,023,459 thousand, respectively, and payables to credit institutions of CZK 1,464,619 thousand and CZK 1,442,354 thousand, respectively.

Short-Term Payables

(CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2016	Balance at 31 Dec 2015
• Trade payables			
Doprava TŽ, a.s.	Controlled entity	10 061	10 643
ENERGETIKA TŘINEC, a.s.	Controlled entity	281 898	243 234
Hutnictví železa, a.s.	Associate	549	677
Šroubárna Kyjov, spol. s r.o.	Controlled entity	1 757	2 225
MORAVIA STEEL a.s.	Controlling entity	1 588 537	1 180 181
REFRASIL, s.r.o.	Controlled entity	12 533	40 940
Řetězárna, a.s.	Controlled entity	670	278
Slévárny Třinec, a.s.	Controlled entity	5 374	4 574
TRIALFA, s.r.o.	Controlled entity	15 832	20 723
TRISIA, a.s.	Controlled entity	945	712
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	2 743	3 767
Třinecké gastroslužby, s.r.o.	Controlled entity	7 073	6 772
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	8 359	8 712
Beskydská golfová, a.s.	Fellow subsidiary	3 025	3 025
Strojírny a stavby Třinec, a.s.	Controlled entity	146 756	137 870
VÚHŽ a.s.	Controlled entity	356	647
Moravia Security, a.s.	Controlled entity	7 161	6 566
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	957	406
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	165 497	80 631
"METALURGIA" Spółka Akcyjna	Controlled entity	349	6
"ZAMECZEK BŁOGOCICE" Sp. z o.o.	Controlled entity	103	106
HRAT, s.r.o.	Associate	36	36
ŽDB DRÁTOVNA a.s.	Controlled entity	1 116	850
"D&D" Drótaru Zrt.	Controlled entity	0	1 747
DALSELV DESIGN a.s.	Controlled entity	3 314	8 725
"NEOMET" Sp. z o.o.	Fellow subsidiary	70 202	26 520
MINERFIN, a.s.	Group entity	1 026	1 136
Security Morava, s.r.o.	Controlled entity	909	719
Total		2 337 138	1 792 428
• Short-term pre-payments received			
HŽP a.s.	Controlled entity	0	480
Total		0	480

• Estimated payables			
MORAVIA STEEL a.s.	Controlling entity	231	938
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	140
Total		231	1 078
• Other payables			
ENERGETIKA TŘINEC, a.s.	Controlled entity	6 084	24 416
Strojírny a stavby Třinec, a.s.	Controlled entity	1 408	0
Total		7 492	24 416
Total short-term intercompany payables		2 344 861	1 818 402
Other than intercompany payables		3 071 435	2 852 696
Total short-term payables		5 416 296	4 671 098

Short-term payables outside of the group as of 31 December 2016 and 2015 predominantly include payables to credit institutions of CZK 755,270 thousand and CZK 666,192 thousand, respectively.

Payables to Credit Institutions

Long-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Form of collateral at 31 Dec 2016
Investment	EUR	95 069	112 376	Hermes guarantee insurer
Investment	EUR	134 757	164 733	ODL guarantee insurer
Investment	CZK	0	63 140	Immovable and movable assets, securities, promissory note
Investment	CZK	60 000	120 000	Securities, promissory note
Investment	CZK	189 474	442 105	Immovable and movable assets, securities, insurance receivables, promissory note
Investment	CZK	240 000	360 000	Immovable and movable assets, promissory note
Investment	CZK	135 000	180 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	610 319	0	Immovable and movable assets, insurance receivables, promissory note
Total		1 464 619	1 442 354	

Repayments of long term payables to credit institutions over 5 years amount to CZK 42,148 thousand.

Short-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Form of collateral at 31 Dec 2016
Investment	EUR	16 973	17 288	Hermes guarantee insurer
Investment	EUR	29 946	29 952	ODL guarantee insurer
Investment	CZK	63 140	126 320	Immovable and movable assets, securities, promissory note
Investment	CZK	60 000	60 000	Securities, promissory note
Investment	CZK	252 631	252 632	Immovable and movable assets, securities, insurance receivables, promissory note
Investment	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment	CZK	60 000	60 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	152 580	0	Immovable and movable assets, insurance receivables, promissory note
Total		755 270	666 192	

3.7. DETAILS OF INCOME

(CZK THOUSAND)

	31 Dec 2016	31 Dec 2015
Proceeds of the sale of goods	340	1 077
Proceeds of the sale of products and services	32 216 680	36 920 409
– Products	31 786 150	36 487 052
– Services	430 530	433 357
Total sales of goods, products and services	32 217 020	36 921 486

3.8. SUBSIDIES

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

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.

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

In 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).

3.9. OTHER EXPENSES AND INCOME

As of 31 December 2016, other operating income of the Company mainly involves the use of the subsidy related to emission allowances CZK 478,512 thousand, as of 31 December 2015 including the income from the sale of emission allowances of CZK 666,003 thousand.

Other financial income as of 31 December 2016 and 2015 predominantly includes foreign exchange rate gains of CZK 17,063 thousand and CZK 25,933 thousand, respectively.

As of 31 December 2016, other operating expenses primarily reflect the use of emission allowances of CZK 478,592 thousand, as of 31 December 2015, including the costs of the sale of allowances in the amount of CZK 575,553 thousand.

Other financial expenses as of 31 December 2016 and 2015 predominantly include foreign exchange rate losses of CZK 21,971 thousand and CZK 27,529 thousand, respectively.

3.10. RESEARCH AND DEVELOPMENT COSTS

(CZK THOUSAND)

	31 Dec 2016	31 Dec 2015
Research and development costs (net of subsidies)	53 051	33 595

3.11. RELATED PARTY TRANSACTIONS

Income Generated with Related Parties

Income from intercompany transactions amounted to CZK 31,798,967 thousand and CZK 36,428,241 thousand in the years ended 31 December 2016 and 2015, respectively.

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

(CZK THOUSAND)

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

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

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

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.	Controlled entity	0	23 439	4 320	0	0	27 759
ENERGETIKA TŘINEC, a.s.	Controlled entity	*91 212	170 951	41 104	0	28	303 295
MORAVIA STEEL a.s.	Controlling entity	0	35 326 757	168 821	0	580	35 496 158
REFRASIL, s.r.o.	Controlled entity	0	1 703	4 900	0	7	6 610
Řetězárna, a.s.	Controlled entity	0	15	3 802	0	0	3 817
Slévárny Třinec, a.s.	Controlled entity	0	271 506	20 050	0	46	291 602
TRIALFA, s.r.o.	Controlled entity	0	23 819	3 939	0	139	27 897
TRISIA, a.s.	Controlled entity	0	37	150	0	0	187
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	0	681	0	1	682
Třinecké gastroslužby, s.r.o.	Controlled entity	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.	Controlled entity	0	262	3 493	0	7	3 762
Moravia Security, a.s.	Controlled entity	0	4	1 517	0	0	1 521
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	46	251	0	0	297
Strojírny a stavby Třinec, a.s.	Controlled entity	821	176 251	38 250	0	185	215 507
VÚHŽ a.s.	Controlled entity	0	5 723	1 555	0	0	7 278
HŽP a.s.	Controlled entity	0	2 237	2 273	0	0	4 510
"METALURGIA" Spółka Akcyjna	Controlled entity	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
"D&D" Drótáru Zrt.**	Controlled entity	0	0		2 774	0	2 774
ŽDB DRÁTOVNA a.s.	Controlled entity	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.	Controlled entity	0	0	11	0	0	11
MINERFIN, a.s.	Group entity	0	0	2	0	0	2
TOTAL		92 033	36 005 619	326 021	2 781	1 787	36 428 241

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 3.2.

Purchases from Related Parties

Total purchases from related parties amounted to CZK 20,952,897 thousand and CZK 23,360,162 thousand in the years ended 31 December 2016 and 2015.

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

(CZK THOUSAND)

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

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

** Purchase of allowances of CZK 48 thousand.

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.	Controlled entity	46	25 118	62 400	0	87 564
ENERGETIKA TŘINEC, a.s.	Controlled entity	10	2 128 334	96 940	0	2 225 284
MORAVIA STEEL a.s.	Controlling entity	102	16 894 729	268 631	43 154	17 206 616
REFRASIL, s.r.o.	Controlled entity	1 963	23 596	140 041	0	165 600
Řetězárna, a.s.	Controlled entity	0	5 772	0	0	5 772
Slévárny Třinec, a.s.	Controlled entity	6 008	97 442	678	0	104 128
TRIALFA, s.r.o.	Controlled entity	0	7 074	23 028	68 905	99 007
TRISIA, a.s.	Controlled entity	0	54	10 468	263	10 785
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	26 531	0	9 359	0	35 890
Třinecké gastroslužby, s.r.o.	Controlled entity	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.	Controlled entity	0	13 400	0	0	13 400
Moravia Security, a.s.	Controlled entity	420	131	64 085	150	64 786
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	3 200	36	5 756	0	8 992
Strojírny a stavby Třinec, a.s.	Controlled entity	167 640	317 307	527 553	14	1 012 514
VÚHŽ a.s.	Controlled entity	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.	Controlled entity	0	0	1 313	0	1 313
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	536		0	536
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótaru Zrt.*	Controlled entity	0	6 335	8	0	6 343
Hutnictví železa, a.s.	Associate	0	0	5 382	116	5 498
ŽDB DRÁTOVNA a.s.	Controlled entity	0	7 639	1 769	0	9 408
DALSELV DESIGN a.s.	Controlled entity	91 492	293	2 663	0	94 448
HŽP a.s.	Controlled entity	0	167	0	0	167
„NEOMET“ Sp. z o.o.*	Fellow subsidiary	0	927 935	0	0	927 935
Security Morava s.r.o.	Controlled entity	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
TOTAL		299 500	21 564 831	1 317 261	178 570	23 360 162

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

3.12. EMPLOYEES, MANAGEMENT AND SUPERVISORY BOARD

Staff Costs and Number of Employees

31 December 2016

(CZK THOUSAND)

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

31 December 2015

(CZK THOUSAND)

	Number	Total staff costs
Employees	7 013	3 606 738
Management	6	70 805
Total	7 019	3 677 543

The remuneration to members of the Supervisory Board in the years ended 31 December 2016 and 2015 amounted to CZK 3,696 thousand and CZK 3,696 thousand, respectively.

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

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

3.13. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

31 December 2016

(CZK THOUSAND)

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

31 December 2015

(CZK THOUSAND)

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

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

Provided Guarantees

31 December 2016

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

31 December 2015

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

Received Guarantees

31 December 2016

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

31 December 2015

Type	Total amount	Balance at 31 Dec 2015
<i>Guarantees</i>		
From other entities	EUR 246 thousand	CZK 6,642 thousand

Legal Disputes

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP 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 substance of the legal dispute did 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.

By the resolution of the Regional Court in Ostrava of 1 July 2016, the proceedings on the payment of a part of the proceeds of the auction of TŽ shares were discontinued due to the failure to pay the court fee. TSP lodged an appeal against this decision, but the High Court in Olomouc confirmed the resolution of the Regional Court in Ostrava. The proceedings in this matter were effectively terminated on 12 November 2016.

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 proceedings will be ordered at the Court's discretion. 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.

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

As of 31 December 2016, the Company used up funds in the amount of CZK 529,152 thousand (2015: CZK 519,227 thousand).

3.15. POST BALANCE SHEET EVENTS

On 1 January 2017, the Company acquired a 100% equity investment in IMOPRA s.r.o. based on a share purchase agreement.

10

FINANCIAL PART II.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

NAME OF THE COMPANY:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Průmyslová 1000, Staré Město, 739 61 Třinec
Legal Status:	Joint Stock Company
Corporate ID:	180 50 646

Components of the Financial Statements:

Consolidated Balance Sheet



Consolidated Profit and Loss Account

Consolidated Statement of Changes in Equity

Consolidated Cash Flow Statement

Consolidated Notes to the Financial Statements

These Consolidated financial statements were prepared on 27 March 2017.

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

CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

		31. 12. 2016			31.12.2015	
		Gross	Adjustment	Net	Net	
	TOTAL ASSETS	72 212 209	-33 596 197	38 616 012	37 356 957	
B.	Fixed assets	54 185 511	-32 658 032	21 527 479	20 635 512	
<i>B.I.</i>	<i>Intangible fixed assets</i>	1 118 899	-387 192	731 707	629 090	
B.I.1.	Research and development	4 553	-4 553			
B.I.2.	Valuable rights	513 022	-370 081	142 941	158 188	
B.I.2.1.	Software	306 428	-268 903	37 525	43 030	
B.I.2.2.	Other valuable rights	206 594	-101 178	105 416	115 158	
B.I.3.	Goodwill	357	-357			
B.I.4.	Other intangible fixed assets	595 526	-12 201	583 325	465 340	
B.I.5.	Prepayments for intangible fixed assets and intangible fixed assets under construction	5 441		5 441	5 562	
B.I.5.1.	Prepayments for intangible fixed assets	54		54		
B.I.5.2.	Intangible fixed assets under construction	5 387		5 387	5 562	
<i>B.II.</i>	<i>Tangible fixed assets</i>	52 444 419	-32 221 279	20 223 140	19 417 896	
B.II.1.	Land and structures	13 586 748	-6 868 165	6 718 583	6 693 257	
B.II.1.1.	Land	740 105		740 105	731 994	
B.II.1.2.	Structures	12 846 643	-6 868 165	5 978 478	5 961 263	
B.II.2.	Tangible movable assets and sets of tangible movable assets	37 625 176	-25 255 166	12 370 010	11 664 463	
B.II.4.	Other tangible fixed assets	95 047	-80 211	14 836	11 931	
B.II.4.3.	Other tangible fixed assets	95 047	-80 211	14 836	11 931	
B.II.5.	Prepayments for tangible fixed assets and tangible fixed assets under construction	1 137 448	-17 737	1 119 711	1 048 245	
B.II.5.1.	Prepayments for tangible fixed assets	176 555		176 555	93 572	
B.II.5.2.	Tangible fixed assets under construction	960 893	-17 737	943 156	954 673	
<i>B.III.</i>	<i>Non-current financial assets</i>	218 917	-49 561	169 356	176 533	
B.III.1.	Equity investments – controlled or controlling entity	189 725	-30 515	159 210	166 118	
B.III.3.	Equity investments in associates	26 201	-18 057	8 144	8 413	
B.III.5.	Other non-current securities and investments	2 991	-989	2 002	2 002	
B.IV.	Goodwill on consolidation	250 967		250 967	257 292	
B.IV.1.	Positive goodwill on consolidation	250 967		250 967	257 292	
B.V.	Securities and equity interests under equity accounting	152 309		152 309	154 701	

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

KONSOLIDOVANÁ ROZVAHA V PLNÉM ROZSAHU – AKTIVA

(ÚDAJE V TISÍCÍCH Kč)

C.	Current assets	17 854 898	-938 165	16 916 733	16 591 059
<i>C.I.</i>	Inventories	11 375 616	-822 671	10 552 945	10 401 010
C.I.1.	Material	5 134 498	-358 968	4 775 530	4 484 411
C.I.2.	Work in progress and semifinished goods	3 505 392	-320 075	3 185 317	3 133 891
C.I.3.	<i>Products and goods</i>	2 732 127	-143 628	2 588 499	2 779 671
C.I.3.1.	Products	2 705 964	-143 265	2 562 699	2 751 702
C.I.3.2.	Goods	26 163	-363	25 800	27 969
C.I.5.	Prepayments for inventories	3 599		3 599	3 037
<i>C.II.</i>	Receivables	5 166 954	-100 446	5 066 508	4 331 774
<i>C.II.1.</i>	Long-term receivables	17 879		17 879	19 663
C.II.1.1.	Trade receivables	5 950		5 950	12 334
C.II.1.4.	Deferred tax asset	276		276	19
C.II.1.5.	<i>Receivables – other</i>	11 653		11 653	7 310
C.II.1.5.2.	Long-term prepayments made	3 668		3 668	1 301
C.II.1.5.4.	Sundry receivables	7 985		7 985	6 009
<i>C.II.2.</i>	Short-term receivables	5 149 075	-100 446	5 048 629	4 312 111
C.II.2.1.	Trade receivables	3 608 846	-79 027	3 529 819	3 484 994
C.II.2.4.	<i>Receivables – other</i>	1 540 229	-21 419	1 518 810	827 117
C.II.2.4.3.	State – tax receivables	1 068 854		1 068 854	787 221
C.II.2.4.4.	Short-term prepayments made	13 230	-26	13 204	9 674
C.II.2.4.5.	Estimated receivables	233 943		233 943	4 497
C.II.2.4.6.	Sundry receivables	224 202	-21 393	202 809	25 725
<i>C.III.</i>	Current financial assets	15 110	-15 048	62	63
C.III.2.	Other current financial assets	15 110	-15 048	62	63
<i>C.IV.</i>	Cash	1 297 218		1 297 218	1 858 212
C.IV.1.	Cash on hand	4 136		4 136	3 806
C.IV.2.	Cash at bank	1 293 082		1 293 082	1 854 406
D.	Other assets	171 800		171 800	130 386
D.1.	Deferred expenses	61 862		61 862	59 112
D.2.	Complex deferred expenses	86 254		86 254	70 835
D.3.	Accrued income	23 684		23 684	439

CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	38 616 012	37 356 957
A.	Equity	27 788 940	27 336 741
A.I.	Share capital	8 109 863	8 109 863
A.I.1.	Share capital	8 109 863	8 109 863
A.II.	Share premium and capital funds	107 578	112 098
A.II.2.	Capital funds	107 578	112 098
A.II.2.1.	Other capital funds	108 901	108 718
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-1 323	3 380
A.III.	Funds from profit	3 312 852	3 312 852
A.III.1.	Other reserve funds	3 312 852	3 312 852
A.IV.	Retained earnings (+/-)	13 819 430	12 216 890
A.IV.1.	Accumulated profits brought forward	13 852 502	12 250 984
A.IV.2.	Accumulated losses brought forward (-)	-33 072	-34 094
A.V.	Profit or loss for the current period, net of minority interests	1 856 807	3 025 737
A.V.1.	Profit or loss for the current period	1 836 091	3 002 629
A.V.2.	Share of income from associates	20 716	23 108
A.VII.	Consolidation reserve fund	582 410	559 301
B.+C.	Liabilities	10 424 845	9 614 606
B.	Reserves	246 428	261 774
B.1.	Reserve for pensions and similar liabilities	3 248	3 565
B.3.	Reserves under special legislation	17 254	10 621
B.4.	Other reserves	225 926	247 588
C.	Payables	10 178 417	9 352 832
C.I.	Long-term payables	3 270 308	3 079 383
C.I.2.	Payables to credit institutions	1 724 604	1 564 197
C.I.4.	Trade payables	54 422	31 197
C.I.8.	Deferred tax liability	1 491 282	1 483 899
C.I.9.	<i>Payables – other</i>		90
C.I.9.3.	Sundry payables		90

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

KONSOLIDOVANÁ ROZVAHA V PLNÉM ROZSAHU – PASIVA

(ÚDAJE V TISÍCÍCH Kč)

C.II.	Short-term payables	6 908 109	6 273 449
C.II.2.	Payables to credit institutions	898 701	1 074 553
C.II.3.	Short-term prepayments received	130 687	20 042
C.II.4.	Trade payables	4 512 704	3 780 894
C.II.8.	Other payables	1 366 017	1 397 960
C.II.8.2.	Short-term financial borrowings	54	89
C.II.8.3.	Payables to employees	458 922	466 389
C.II.8.4.	Social security and health insurance payables	177 431	183 068
C.II.8.5.	State – tax payables and subsidies	500 926	618 286
C.II.8.6.	Estimated payables	203 228	104 394
C.II.8.7.	Sundry payables	25 456	25 734
D.	Other liabilities	28 108	35 722
D.1.	Accrued expenses	12 882	15 141
D.2.	Deferred income	15 226	20 581
E.	Minority equity	374 119	369 888
E.1.	Minority share capital	83 300	83 300
E.2.	Minority capital funds	3 213	3 205
E.3.	Minority profit funds including accumulated profits and accumulated losses	275 543	268 612
E.5.	Minority profit or loss for the current period	12 063	14 771

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

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	40 973 161	46 625 896
II.	Sales of goods	87 275	103 502
A.	Purchased consumables and services	31 019 984	34 604 479
A.1.	Costs of goods sold	70 491	87 826
A.2.	Consumed material and energy	27 296 359	30 648 354
A.3.	Services	3 653 134	3 868 299
B.	Change in internally produced inventory (+/-)	60 475	908 111
C.	Own work capitalised (-)	-702 204	-776 636
D.	Staff costs	6 006 457	5 957 985
D.1.	Payroll costs	4 191 538	4 153 957
D.2.	Social security and health insurance costs and other charges	1 814 919	1 804 028
D.2.1.	Social security and health insurance costs	1 472 919	1 444 977
D.2.2.	Other charges	342 000	359 051
E.	Adjustments to values in operating activities	2 018 347	1 823 818
E.1.	<i>Adjustments to values of intangible and tangible fixed assets</i>	1 951 486	1 719 861
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	1 877 495	1 743 158
E.1.A.	Release of consolidation difference (goodwill)	2 443	9 414
E.1.2.	Adjustments to values of intangible and tangible fixed assets – temporary	71 548	-32 711
E.2.	Adjustments to values of inventories	74 506	121 311
E.3.	Adjustments to values of receivables	-7 645	-17 354
III.	Other operating income	963 958	948 794
III.1.	Sales of fixed assets	32 490	14 551
III.2.	Sales of material	100 930	129 547
III.3.	Sundry operating income	830 538	804 696
F.	Other operating expenses	1 301 625	1 368 737
F.1.	Net book value of sold fixed assets	11 489	4 767
F.2.	Net book value of sold material	92 340	114 701
F.3.	Taxes and charges	57 488	59 303
F.4.	Reserves relating to operating activities and complex deferred expenses	-24 439	-14 506
F.5.	Sundry operating expenses	1 164 747	1 204 472
*	Operating profit or loss (+/-)	2 319 710	3 791 698

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

KONSOLIDOVANÝ VÝKAZ ZISKU A ZTRÁTY V DRUHOVÉM ČLENĚNÍ

(ÚDAJE V TISÍCÍCH Kč)

IV.	Income from non-current financial assets – equity investments	2 186	2 234
IV.1.	Income from equity investments – controlled or controlling entity	2 162	2 196
IV.2.	Other income from equity investments	24	38
VI.	Interest income and similar income	1 257	3 167
VI.1.	Interest income and similar income – controlled or controlling entity	80	75
VI.2.	Other interest income and similar income	1 177	3 092
I.	Adjustments to values and reserves relating to financial activities	7 417	-22 243
J.	Interest expenses and similar expenses	42 079	56 892
J.2.	Other interest expenses and similar expenses	42 079	56 892
VII.	Other financial income	46 904	98 946
K.	Other financial expenses	65 963	150 030
*	Financial profit or loss (+/-)	-65 112	-80 332
**	Profit or loss before tax (+/-)	2 254 598	3 711 366
L.	Income tax	406 444	693 966
L.1.	Due income tax	395 936	604 570
L.2.	Deferred income tax (+/-)	10 508	89 396
**	Profit or loss net of tax (+/-)	1 848 154	3 017 400
**	Consolidated profit or loss net of share of income from associates	1 848 154	3 017 400
	Consolidated profit or loss net of minority interests	1 836 091	3 002 629
	Minority profit or loss	12 063	14 771
*	Share of income from associates	20 716	23 108
	Profit or loss for the current period (+/-)	1 868 870	3 040 508
***	Profit or loss for the current period net of minority interests (+/-)	1 856 807	3 025 737
*	Net turnover for the current period	42 074 741	47 782 539

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, other reserve funds	Retained earnings	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2014	8 109 863	117 671	3 312 469	10 323 615	3 493 915	535 498	23 803	25 916 834
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
Profit for the current period					3 002 629		23 108	3 025 737
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
Distribution of profit or loss		89		1 602 540	-1 602 629	23 108	-23 108	
Profit shares paid					-1 400 000			-1 400 000
Revaluation of assets		-4 609						-4 609
Profit for the current period					1 836 091		20 716	1 856 807
Other						1		1
Balance at 31 December 2016	8 109 863	107 578	3 312 852	13 819 430	1 836 091	582 410	20 716	27 788 940

CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

		Year ended 31.12.2016	31.12.2015 Year ended
P.	Opening balance of cash and cash equivalents	1 841 505	1 938 517
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss from ordinary activities before tax	2 254 598	3 711 366
A.1.	Adjustments for non-cash transactions	2 030 270	1 866 188
A.1.1.	Depreciation of fixed assets excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 879 938	1 752 572
A.1.2.	Change in provisions and reserves	121 387	34 497
A.1.3.	Profit/(loss) on the sale of fixed assets	-21 001	-9 784
A.1.4.	Revenues from profit shares, except for those paid from consolidation entities	-2 186	-2 234
A.1.5.	Interest expense and interest income	40 822	53 725
A.1.6.	Other non-cash transactions	11 310	37 412
A.*	Net operating cash flow before changes in working capital	4 284 868	5 577 554
A.2.	Change in working capital	23 957	150 902
A.2.1.	Change in operating receivables and other assets	-747 202	346 246
A.2.2.	Change in operating payables and other liabilities	998 954	-912 790
A.2.3.	Change in inventories	-227 798	707 659
A.2.4.	Change in current financial assets	3	9 787
A.**	Net cash flow from operations before tax	4 308 825	5 728 456
A.3.	Interest paid	-43 857	-60 111
A.4.	Interest received	3 606	5 889
A.5.	Income tax paid from ordinary operations	-815 236	-1 007 244
A.6.	Received profit shares	25 295	26 036
A.***	Net operating cash flows	3 478 633	4 693 026
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-2 653 309	-2 196 544
B.2.	Proceeds from fixed assets sold	32 254	20 367
B.***	Net investment cash flows	-2 621 055	-2 176 177
	Cash flow from financial activities		
C.1.	Change in payables from financing	-10 730	-1 004 061
C.2.	Impact of changes in equity	-1 407 840	-1 609 800
C.2.6.	Profit shares paid, except for profit shares paid between Group entities	-1 407 840	-1 609 800
C.***	Net financial cash flows	-1 418 570	-2 613 861
F.	Net increase or decrease in cash and cash equivalents	-560 992	-97 012
R.	Closing balance of cash and cash equivalents	1 280 513	1 841 505

NOTES TO THE CONSOLIDATED 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

During the year ended 31 December 2016, a change in the Company's corporate details was recorded in the Register of Companies concerning the recording of a person authorised for legal acts in relation to the Company's employees in line with Section 164 (3) of Act No. 89/2012 Coll., Civil Code, as amended until 27 February 2017. The authorised person is Ivo Žižka, member of the Company's Board of Directors.

1.3. GROUP IDENTIFICATION

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

In the year ended 31 December 2016, the Company was controlled by MORAVIA STEEL a.s. as the sole shareholder. MORAVIA STEEL a.s. is controlled by FINITRADING, a.s., which is its sole shareholder.

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

The Company prepares the consolidated financial statements for the narrowest group of reporting entities.

1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2016

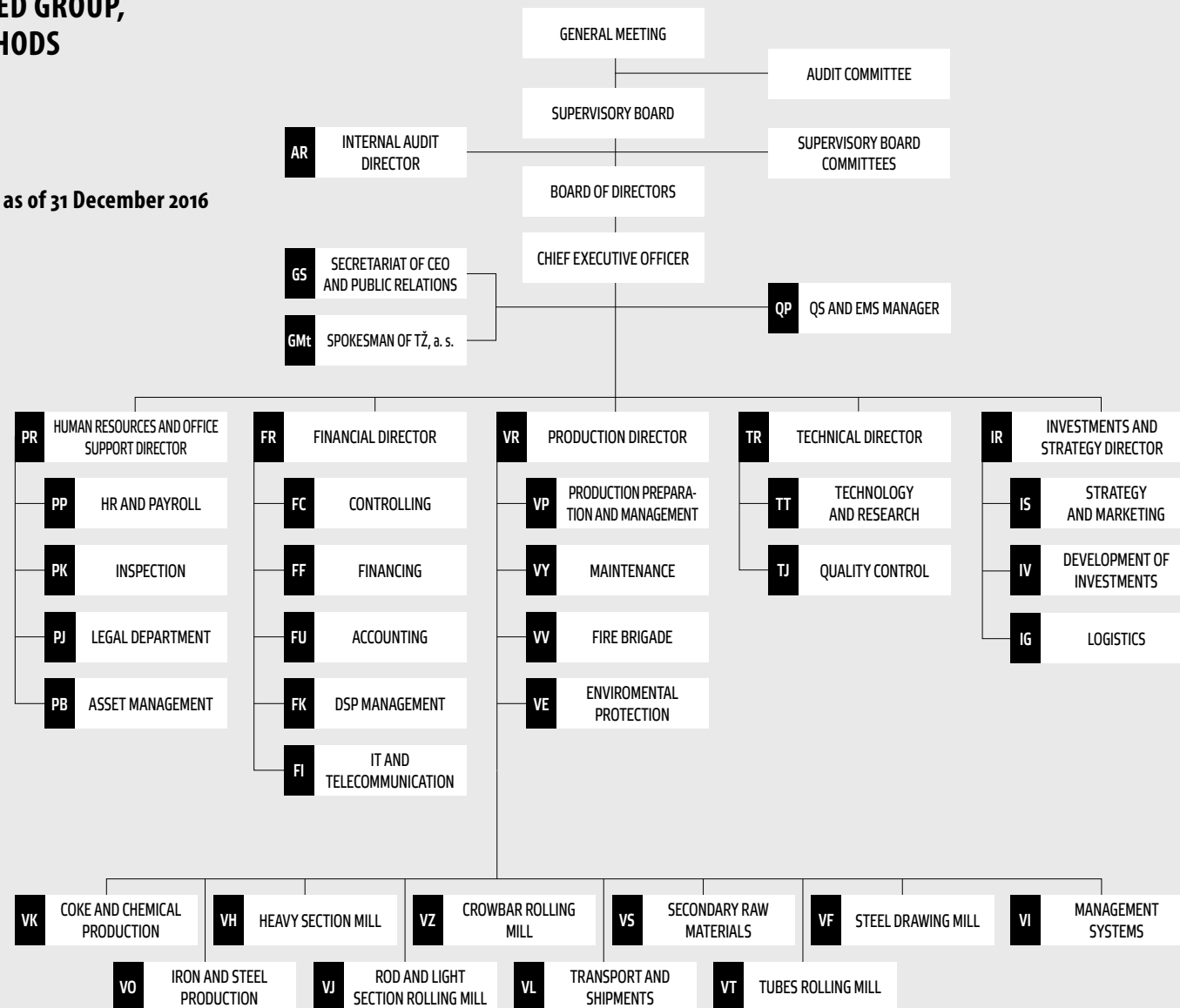
	Position	Name
Board of Directors	Chairman	Jan Czudek
	1st Vice Chairman	Česlav Marek
	2nd Vice Chairman	Henryk Huczala
	Member	Ivo Žižka
	Member	Radomíra Pekárková
Supervisory Board	Chairman	Tomáš Chrenek
	1st Vice Chairman	Ján Moder
	2nd Vice Chairman	Evžen Balko
	Member	František Ligocki
	Member	Jiří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

During the year ended 31 December 2016, 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 2016



The bodies of the Company are as follows:

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

The following organisational change was made in 2016:

The VG – Logistics department that had been subordinated to VR – Production Director was transferred under IR – Investment and Strategy Director, and renamed to IG – Logistics.

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 2016:****Controlled entities (subsidiaries):**

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2016
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00%
Slévárny Třinec, a.s.	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00%
VÚHŽ a.s.	č.p. 240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%
Šroubárna Kyjov, spol. s r.o.*	Jiráskova 987/50, 697 01 Kyjov	Railway route operation, locksmithing, tool engineering, metalworking	100.00%
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00%
"METALURGIA" S.A.	ulica ŚWIĘTEJ ROZALII nr 10, lok. 12, 97-500 Radomsko, Poland	Production of nails, wire and wire products	100.00%
"D&D" Drótaru Zrt.	3527 Miskolc, Sajósziget utca 4., Hungary	Production of wire products	100.00%
ŽDB DRÁTOVNÁ a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%
HŽP a.s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00%
SV servisní, s.r.o.**	Dolní 3137/100, 796 01 Prostějov	Electricity trading and distribution, gas trading and distribution	100.00%
Řetězárna a.s.***	Polská 48, 790 81 Česká Ves	Production of chains, chain products and drawn wire	51.00%
REFRASIL, s.r.o.	Průmyslová 720, Kanská, 739 61 Třinec	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

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

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

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

Associate:

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2016
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 726, Kinská, 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 2015:**Controlled entities (subsidiaries):**

Name of the company	Registered office	Business activities	Equity investment 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" Drótaru Zrt.	3527 Miskolc, Sajósziget utca 4., Hungary	Production of wire products	100.00%
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%
HŽP a. s.*	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00%
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00%
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00%
REFRASIL, s.r.o.**	Třinec-Kinská, 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-Kinská, Průmyslová 720, 739 65; it was changed to Průmyslová 720, Kinská, 739 61 Třinec in the Register of Companies on 18 September 2015

Associate:

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

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

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

The financial statements of the companies included in the consolidated group were prepared as of and for the years ended 31 December 2016 and 2015. "METALURGIA" S.A. is based in Poland, "D&D" Drótáru Zrt. in Hungary, and other companies in the consolidation group are based in the Czech Republic.

2.4. COMPANIES EXCLUDED FROM CONSOLIDATION

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

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

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

The entities that meet the condition set out above for non-inclusion in the consolidated group, thereby not entering into consolidation based on individual assessment, must also meet the group materiality criterion for non-inclusion. Under the group materiality criterion, these entities are taken as one whole. This whole has to have (i) the share of the recalculated consolidated assets of this whole in the total recalculated consolidated assets of the Company, subsidiaries, associates less than 1.5 percent, while the value of consolidated assets for these purposes is recalculated using the percentage of the ownership share held by the Company (ii) the share of recalculated consolidated equity in total recalculated consolidated equity of the Company, subsidiaries, associates less than 1.5 percent, while the value of consolidated equity for these purposes is recalculated using the percentage of the ownership share held by the Company, and (iii) share of the recalculated consolidated net turnover (revenues of account class 6) in total recalculated consolidated net turnover of the Company, subsidiaries, associates less than 1.5 percent, while the value of the consolidated net turnover for these purposes is recalculated using the percentage of the ownership share held by the Company.

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

3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

For the purpose of preparing the consolidated financial statements of the TŘINECKÉ 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 2016 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2015;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2015;
- The statement of changes in equity contains comparative amounts as of 31 December 2015; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2015.

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 presented in the balance sheet as part of 'Other reserves' and in the profit and loss account as part of 'Reserves and provisions relating to operating activities and complex deferred expenses'. The reserve for the purchase of allowances is released in the following accounting period when the missing allowances are purchased or used from the free of charge allocation of the following period.

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

Depreciation for Accounting Purposes

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

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

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

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

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

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

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

Provisioning

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

Impairment

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

4.2. NON-CURRENT FINANCIAL ASSETS

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

Valuation

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

At the consolidated balance sheet date:

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

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

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

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

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

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

Provisioning against Equity Investments

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

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

4.3. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

Derivative financial instruments are concluded for the contracted transaction volume.

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

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

4.4. CURRENT FINANCIAL ASSETS AND CASH

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

Current financial assets are carried at cost upon acquisition.

Cash consists of cash on hand and cash at bank.

4.5. INVENTORY

Valuation

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

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

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

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

Provisioning

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

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

4.6. RECEIVABLES

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

Provisioning

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

Tax deductible provisions against receivables are made pursuant to Act No. 586/1992 Coll., the Income Taxes Act, and Act No. 593/1992 Coll., the Provisioning Act.

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

Receivables past due for 1 year and more are provisioned in full; and

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. PAYABLES TO CREDIT INSTITUTIONS

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

4.9. RESERVES

Other reserves are created to provide for future risks known at the balance sheet date.

In addition, a reserve is recorded for the restoration and maintenance of a dump site and clean-up after termination of the operation of the site in accordance with Regulation of No. 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.

Cash denominated in foreign currencies (foreign currency cash) is translated into Czech crowns using the fixed monthly exchange rate as notified by the Czech National Bank as of the first day of the month in which it was recorded.

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

4.11. FINANCE LEASES

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

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

4.12. TAXATION

Depreciation of Fixed Assets for Tax Purposes

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

Current Tax Payable

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

Deferred Tax

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

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

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

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

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

4.13. BORROWING COSTS

Borrowing costs arising from payables to credit institutions are included directly in expenses regardless of the purpose for which they were drawn.

4.14. COSTS RELATING TO EMPLOYEES HIRED THROUGH AN EMPLOYMENT AGENCY

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

4.15. REVENUE RECOGNITION

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

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

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

4.16. USE OF ESTIMATES

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

4.17. RESEARCH AND DEVELOPMENT EXPENDITURE

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

A detailed analysis of the projects in progress is undertaken at the consolidated balance sheet date and the costs incurred are charged to expenses or recognised as complex deferred expenses in the event that there is doubt over the completion or future utilisation of the project.

4.18. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES

Starting from 1 January 2016, the changes in internally produced inventory and own work capitalised are reported on the accounts of account group 58.

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 project expenses. In prior years, the limit was up to CZK 10 thousand.

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

Cash and cash equivalents can be analysed as follows:

	(CZK THOUSAND)	
	31 Dec 2016	31 Dec 2015
Cash on hand	4 136	3 806
Cash at bank	1 293 082	1 854 406
Other current financial assets	15 110	15 111
Provisions against other current financial assets	-15 048	-15 048
Total current financial assets and cash	1 297 280	1 858 275
Cash and cash equivalents not included in the cash flow	-16 767	-16 770
Total cash and cash equivalents	1 280 513	1 841 505

The difference between cash and cash equivalents as of 31 December 2016 and 2015 reported in the cash flow statement as opposed to the current financial assets and cash disclosed in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

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

In preparing the financial statements the Company proceeded in line with Czech Accounting Standard No. 024 – Comparable Period for the Reporting Period Starting in 2016.

4.22. 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 2016 and 2015 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 2016 and 2015 (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 2016

5.1.1. Structure of the Consolidated Profit/Loss for 2016

(CZK THOUSAND)

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

5.1.2. Adjustments within Full Consolidation for 2016

(CZK THOUSAND)

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

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

(CZK THOUSAND)

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

5.2. CONSOLIDATED PROFIT/LOSS FOR 2015**5.2.1. 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” Drótáru 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
Consolidated profit	3 025 737

5.2.2. 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" Drótáru Zrt.	-1 205
Write-off of the positive goodwill on consolidation of "D&D" Drótáru Zrt.	-9 414
Total adjustments	-353 291

5.2.3. 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
Total adjustments	-23 803

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

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2016
Research and development	4 553	0	0	0	4 553
Valuable rights	503 363	10 309	862	212	513 022
Goodwill	370	0	0	-13	357
Other intangible FA	477 390	924 600	806 464	0	595 526
Prepayments for intangible FA	0	65	11	0	54
Intangible FA under construction	5 562	392 529	392 755	51	5 387
Total	991 238	1 327 503	1 200 092	250	1 118 899

Accumulated Amortisation

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2016
Research and development	4 553	0	0	0	4 553
Valuable rights	345 175	25 575	862	193	370 081
Goodwill	370	0	0	-13	357
Other intangible FA	12 050	655	529	25	12 201
Total	362 148	26 230	1 391	205	387 192

Net Book Value

(CZK THOUSAND)

	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Research and development	0	0
Valuable rights	158 188	142 941
Goodwill	0	0
Other intangible FA	465 340	583 325
Prepayments for intangible FA	0	54
Intangible FA under construction	5 562	5 387
Total	629 090	731 707

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 26,230 thousand and CZK 25,638 thousand as of 31 December 2016 and 2015, respectively.

Other intangible assets primarily include allowances.

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

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

In the year ended 31 December 2015, the Consolidated Group 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 Consolidated Group 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 Consolidated Group acquired 4,495 CER allowances of CZK 81 thousand and exchanged these CER allowances for 4,495 EUA allowances. In addition, the Consolidated Group 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.

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 42,647 thousand and CZK 46,737 thousand as of 31 December 2016 and 2015, respectively.

6.2. TANGIBLE FIXED ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2016
Land	731 994	8 133	302	280	740 105
Structures	12 512 969	419 059	80 192	-5 193	12 846 643
Tangible movable assets and sets thereof	35 758 063	2 362 315	485 538	-9 664	37 625 176
Other tangible FA	89 921	5 683	984	427	95 047
Prepayments for tangible FA	93 572	359 810	276 827	0	176 555
Tangible FA under construction	965 429	2 763 459	2 767 817	-178	960 893
Total	50 151 948	5 918 459	3 611 660	-14 328	52 444 419

Accumulated Depreciation

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2016
Structures	6 545 652	294 970	29 865	-4 373	6 806 384
Tangible movable assets and sets thereof	24 093 199	1 567 924	407 086	-8 112	25 245 925
Other tangible FA	77 990	2 604	674	291	80 211
Total	30 716 841	1 865 498	437 625	-12 194	32 132 520

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2016
Structures	6 054	59 837	4 110	0	61 781
Tangible movable assets and sets thereof	401	9 241	401	0	9 241
Tangible FA under construction	10 756	12 721	5 740	0	17 737
Total	17 211	81 799	10 251	0	88 759

Net Book Value

(CZK THOUSAND)

Net book value	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Land	731 994	740 105
Structures	5 961 263	5 978 478
Tangible movable assets and sets thereof	11 664 463	12 370 010
Other tangible FA	11 931	14 836
Prepayments for tangible FA	93 572	176 555
Tangible FA under construction	954 673	943 156
Total	19 417 896	20 223 140

Principal additions to tangible fixed assets for the year ended 31 December 2016 were as follows:

(CZK THOUSAND)

Acquisition of coke oven battery no. 11	601 442
Acquisition of extrusion and compacting vehicle no. 8	178 573
Acquisition of annealing furnace STC no. 4 and 5	163 072
Direct drawing bull-block S1200/8 group 56	28 469
Line for thermal processing of forgings in protective atmosphere no.. 2	27 666
Press AKS 63 (Hatebur)	25 334
Smelting medium-frequency induction furnaces 2x15 t Inductotherm	23 237
Double grinder OMD H 100-2/2	22 327
2 annealing furnaces	20 600
Lathe CNC Georg	18 891
Welding machine KEH 5.1	15 065
Bull-block S500/2-RT400/10+coiling machine BU 80 group 20	12 362
Bull-block S500/2-RT400/10+coiling machine BU 80 group 21	12 362
Improvement – SHT hall	11 902
Welding machine KEH 41	11 646
Improvement – galvanising line IPV 12 no.408	11 507
Vertical lathing centre – Bisup no. 3	8 118
Vertical lathing centre – Bisup no. 4	8 097

Principal additions to tangible fixed assets under construction for the year ended 31 December 2016 were as follows:

	(CZK THOUSAND)
Construction of new cowper no. 64	146 470
Construction of a new crowbar cleaning plant	121 159
Innovation of large forgings – transfer to furan mixture	92 275
Reconstruction and modernisation of the blooming mill	41 744
Mechanised finishing site for casting in the steel foundry	16 482
Progressive press BSR ₁	10 741
Tool rental shop building	8 600

During the year ended 31 December 2016, the disposals of tangible fixed assets in TRINECKÉ ŽELEZÁRNY, a. s., included assets with an aggregate net book value of CZK 16,210 thousand. Major disposals principally comprised disposals of movable assets due to their sale, partial liquidation of dust separation system KB 11-12, partial liquidation of UZ Sonotron, UZ Eddytron.

During the year ended 31 December 2016, the disposals of tangible fixed assets in Řetězárna a.s. included a large amount of bending and welding machines with the acquisition cost of CZK 33,500 thousand that had already been fully depreciated.

During the year ended 31 December 2016, the disposals of tangible fixed assets in Strojírny a stavby Třinec, a.s. included items with acquisition cost of CZK 3,870 thousand that had already been fully depreciated. The most significant items included a positioner of CZK 582 thousand.

The most significant disposals of tangible fixed assets of ŽDB DRÁTOVNA a.s. due to a fire in 2016 included:

	(CZK THOUSAND)
Rolled wire warehouse – pickling plant in-building	59 311
Pickling and phosphate line	44 172
Double girder bridge crane 8t/6m	4 947
Double girder bridge crane 8t/6m	4 942

The most significant disposals of tangible fixed assets of ŽDB DRÁTOVNA a.s. in 2016 included:

	(CZK THOUSAND)
Pickling line IPH no. 402	15 591
Wire coil rail transport for the pickling plant Candor	5 882
Equipment of the machine and cleaning station	5 612
Welding wire line Robomatic SS/1	4 189

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

During the year ended 31 December 2016, the disposals of tangible fixed assets in VÚHŽ a.s. included only items with zero net book values. The most significant disposals included a scanning microscope.

During the year ended 31 December 2016, the disposals of tangible fixed assets in SV servisní, s.r.o., included items with the net book value of CZK 1 thousand.

During the year ended 31 December 2016, the disposals of tangible fixed assets in ENERGETIKA TŘINEC, a.s., included items with the net book value of CZK 76 thousand. The most significant disposals predominantly included the liquidation of a part of heat measuring in the acquisition cost of CZK 4,821 thousand.

In 2016, ENERGETIKA TŘINEC, a.s., created a provision against the central warehouse of fuel oils in the total amount of CZK 42,705 thousand. The provision corresponds to 97% of the net book value of this asset as of 31 December 2016.

In the year ended 31 December 2016, ŽDB DRÁTOVNA a.s. created a provision against the tangible asset under construction 'Modernisation and Reconstruction of the Heating of the Wire Production Plant in Kamenná' of CZK 12,355 thousand.

Due to the damage of ŽDB DRÁTOVNA a.s.'s "Patent" building as a result of a fire, a provision against tangible fixed assets of CZK 4,764 thousand was created in the year ended 31 December 2016.

In the year ended 31 December 2016, REFRASIL, s.r.o., sold unneeded fully-depreciated movable assets for the selling price of CZK 382 thousand.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,851,265 thousand and CZK 1,717,520 thousand as of 31 December 2016 and 2015, respectively.

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

The aggregate costs of low value tangible fixed assets not reported on the face of the balance sheet were CZK 782,553 thousand and CZK 768,849 thousand as of 31 December 2016 and 2015, respectively.

6.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS

Finance Leases

31 December 2016

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

31 December 2015

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

Operating Lease

Lease payments of CZK 61,137 thousand and CZK 55,509 thousand were made in the years ended 31 December 2016 and 2015, respectively.

6.4. PLEDGED FIXED ASSETS

31 December 2016

(CZK THOUSAND)

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

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

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 Bank Polska Kasa Opieki Spółka Akcyjna., 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.
Total	3 747 554	

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

6.5. NON-CURRENT FINANCIAL ASSETS

Cost

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2016
Equity investments – controlled or controlling entity	189 484	223	0	18	0	189 725
Equity investments in associates	26 201	0	0	0	0	26 201
Other non-current securities and equity investments	2 994	0	0	0	-3	2 991
Total	218 679	223	0	18	-3	218 917

Provisions

(CZK THOUSAND)

	Balance at 31 Dec 2015	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2016
Equity investments – controlled or controlling entity	23 366	7 149	0	0	0	30 515
Equity investments in associates	17 788	269	0	0	0	18 057
Other non-current securities and equity investments	992	0	0	0	-3	989
Total	42 146	7 418	0	0	-3	49 561

6.6. SUMMARY OF UNCONSOLIDATED FINANCIAL INVESTMENTS

6.6.1. Equity Investments – Controlled or Controlling Entity

31 December 2016

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	50 394	2 294	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	46 220	2 678	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 919	273	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	26 348	3 894	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	47 298	-2 032	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	1 360	12	68.00	12 661	-8 316	-21 391	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	21 886	3 686	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	46 166	-33	-9 124	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	50 875	-1 850	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	10 914	-	80.00	13 643	2 005	0	2 162
JuBo Jeseník s. r. o., Jeseník	1 537	-	80.00	1 921	446	0	0
Řetězárna servis s.r.o., Jeseník	100	-	100.00	*	*	0	0
Total						-30 515	2 162

Note: *italics* – preliminary results as of 31 December 2016

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

31 December 2015

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	48 100	1 259	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	22 455	2 394	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	47 180	-970	-7 663	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	52 662	-1 724	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	11 474	-	80.00	14 342	2 038	0	2 196
JuBo Jeseník s. r. o., Jeseník	960	-	80.00	*	*	0	0
Total						-23 366	2 196

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

6.6.2. Equity Investments – Associates**31 December 2016**

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.28	38 300	-450	-18 057	0
HRAT, s.r.o., Třinec*	100	0	23.26	956	-775	0	0
Total						-18 057	0

Note: italics – preliminary results as of 31 December 2016

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

31 December 2015

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.28	38 828	147	-17 788	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 731	98	0	0
Total						-17 788	0

Note: *results for the period from 1 April 2015 – 31 March 2016

6.6.3. Other Current Securities and Equity Investments**31 December 2016**

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Valuation difference	Financial income
ACRI – Asociace podniků českého železničního průmyslu, Praha 1-Nové Město	20	0	2.08	665	-170	0	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	4 051	-551	0	-34	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100.00	144 007	131	0	0	0
Unirelex, a.s. v likvidaci, Praha	2.22	2 000	0.04306	*	*	0	-4	0
Veolia Energie ČR, a.s., Ostrava	0.89	1 700	0.00216	*	*	0	0	24
Českomoravské nemovitosti, a.s., Praha**	*	*	*	*	*	-901	0	0
"Huta Stalowa Wola" w Stalowej Woli (POL)***	13 900	1 390	0.0054	*	*	-13 900	0	0
RZPS "Radoskór" w Radomiu (POL)***	530	53	*	*	*	-530	0	0
TOTAL						-989	-58	24

Note: *italics* – preliminary results as of 31 December 2016

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

** until 20 July 2016, the Company was recorded in the Register of Companies under the name of Casino Playing Games a.s. in liquidation

*** data in PLN

31 December 2015

(CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Valuation difference	Financial income
ACRI – Asociace podniků českého železničního průmyslu, Praha 1-Nové Město	20	0	2.08	645	478	0	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	0	33.33	11 012	35	0	-34	0
Střední odborná škola Třineckých železáren, Třinec-Kanada	2 000	0	100.00	149 472	-4 334	0	0	0
Unirelex, a.s. v likvidaci, Praha	2.22	2 000	0.04306	*	*	0	-4	0
Veolia Energie ČR, a.s., Ostrava	0.89	1 700	0.00216	*	*	0	0	38
Casino Playing Games a.s. v likvidaci, Praha	*	*	*	*	*	-901	0	0
“Huta Stalowa Wola” w Stalowej Woli (POL)**	13 900	1 390	0.0054	*	*	-13 900	0	0
RZPS “Radoskór” w Radomiu (POL)**	530	53	*	*	*	-530	0	0
TOTAL						-992	-58	38

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

** data in PLN

6.7. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2016

(CZK THOUSAND)

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

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

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

2015 (CZK THOUSAND)

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

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.

6.8. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK THOUSAND)

Securities and equity investments under equity accounting	2016	2015
VESUVIUS ČESKÁ REPUBLIKA, a.s.	152 309	154 701
Total	152 309	154 701

6.9. PLEDGED NON-CURRENT FINANCIAL ASSETS

As of 31 December 2016 and 2015, the Consolidated Group has non-current financial assets pledged as collateral in the nominal value of CZK 132,000 thousand.

6.10. INVENTORY

As of 31 December 2016, "METALURGIA" S.A. has pledged the inventory up to PLN 13,000 thousand (CZK 79,638 thousand) with Bank BGŻ BNP Paribas S.A. in relation to the used loan. In 2016, the inventory was pledged up to PLN 13,000 thousand (CZK 82,420 thousand).

6.11. RECEIVABLES

6.11.1. Short-Term Receivables

As of 31 December 2016 and 2015, gross short-term trade receivables past their due dates amounted to CZK 330,677 thousand (net CZK 253,798 thousand) and CZK 429,637 thousand (net CZK 342,600 thousand), respectively.

Other Receivables

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

State – tax receivables predominantly include a receivable arising from value added tax, prepayments for corporate income tax and prepayments for fees under Act No. 201/2012, Coll., on Air Protection. In 2015, this item primarily included a receivable arising from value added tax and prepayments for fees according to Act No. 201/2012, Coll., on Air Protection.

Other receivables principally include a receivable arising from a custody agreement and receivables from individuals. In 2015, other receivables principally included 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.

6.11.2. Pledged Receivables

During 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. In mid-2016, the loan with the pledged receivables was repaid and as of 31 December 2016 HŽP a.s. records no pledged receivables.

As of 31 December 2015, ŽDB DRÁTOVNA a.s. recorded pledged receivables of CZK 608,318 thousand based on the Loan Contract concluded with Československá obchodní banka, a.s. As of 31 December 2016, ŽDB DRÁTOVNA a.s. records no pledged receivables.

As of 31 December 2016, VÚHŽ a.s. records pledged receivables of CZK 10,296 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 2015, this pledge amounted to CZK 10,520 thousand.

As of 31 December 2016, "METALURGIA" S.A. records pledged receivables of PLN 4,751 thousand (CZK 29,104 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o. As of 31 December 2015, pledged receivables amounted to PLN 2,733 thousand (CZK 17,327 thousand) with ING Commercial Finance Polska S.A.

6.11.3. Intercompany Receivables

Short-term Receivables

(CZK THOUSAND)

Name of the entity	Relation	Balance at 31 Dec 2016	Balance at 31 Dec 2015
• Trade receivables			
Doprava TŽ, a.s.	Controlled entity	1 746	2 327
JuBo Jeseník s.r.o.	Controlled entity	4 549	4 751
Moravia Security, a.s.	Controlled entity	118	89
MORAVIA STEEL a.s.	Controlling entity	1 924 423	1 788 034
TRIALFA, s.r.o.	Controlled entity	1 920	2 318
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	53	90
DALSELV DESIGN a.s.	Controlled entity	45	2 662
Třinecké gastroslužby, s.r.o.	Controlled entity	1 188	1 279
TRISIA, a.s.	Controlled entity	13	15
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	4 564	1 993
Beskydská golfová, a.s.	Fellow subsidiary	2 848	49
NEOMET Sp. z o.o.	Fellow subsidiary	31	41
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	Controlled entity	30	37
M Steel Projects a.s.	Fellow subsidiary	4 252	14 504
Security Morava, s.r.o.	Controlled entity	9	4
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	2 081	1 563
Moravia Steel Deutschland GmbH	Fellow subsidiary	6 141	26 896
Kovárna VIVA a.s.	Fellow subsidiary	0	6
MINERFIN a.s.	Group company	451	0
Barrandov Studio a.s.	Fellow subsidiary	107	0
Retáže Slovaki, s.r.o.	Controlled entity	1 247	0
AHP HYDRAULIKA, a.s.	Fellow subsidiary	1 378	0
Total		1 957 194	1 846 658
• Estimated receivables			
MORAVIA STEEL a.s.	Controlling entity	0	10
Total		0	10
Total short-term intercompany receivables		1 957 194	1 846 668
Other than intercompany receivables		3 091 435	2 465 443
Total short-term receivables		5 048 629	4 312 111

As of 31 December 2016, the Consolidated Group recoded long-term receivables past their due dates by more than 5 years of CZK 2,262 thousand. As of 31 December 2016, no such receivables were recorded.

6.12. EQUITY

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

Share Capital

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

Proposal for the Allocation of Profit for 2016

In 2016, the Company generated net profit after tax of CZK 1,439,564 thousand. The Company's Board of Directors proposes dividing it as follows:

Profit share allocated to the sole shareholder: CZK 1,400,000 thousand

Retained earnings brought forward: CZK 39,564 thousand

6.13. RESERVES

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

6.14. PAYABLES

6.14.1. Long-Term Payables

Long-term trade payables as of 31 December 2016 primarily include payables arising from retention fees from suppliers according to concluded contracts.

As of 31 December 2016, the Consolidated Group recorded long-term trade payables with maturities exceeding 5 years in the amount of CZK 5,121 thousand. As of 31 December 2015, no such payables were recorded.

6.14.2. Short-Term Trade Payables

As of 31 December 2016, short-term trade payables past their due dates amount to CZK 86,404 thousand (2015: CZK 137,773 thousand).

Payables typically fall due for settlement within 30 days.

6.14.3. Other Payables

As of 31 December 2016, payables associated with social security and the state employment policy contribution amounted to CZK 118,741 thousand (2015: CZK 121,844 thousand), health insurance payables totalled CZK 53,798 thousand (2015: CZK 56,594 thousand). Payables arising from the additional pension scheme amounted to CZK 4,892 thousand (2015: CZK 4,630 thousand). 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 income tax. In 2015, this item principally comprised 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 guarantees and employee contributions.

6.14.4. Intercompany Payables

Long-Term Payables

As of 31 December 2016, the Consolidated Group recorded no long-term intercompany payables.

Other than intercompany long-term payables as of 31 December 2016 and 2015 primarily include a deferred tax liability of CZK 1,491,282 thousand and CZK 1,483,899 thousand, respectively, and payables to credit institutions of CZK 1,724,604 thousand and CZK 1,564,197 thousand, respectively.

Short-term Payables

(CZK THOUSAND)

Name of the entity	Relation to the Company	Balance at 31 Dec 2016	Balance at 31 Dec 2015
• Trade payables			
JuBo Jeseník s.r.o.	Controlled entity	400	0
Doprava TŽ, a.s.	Controlled entity	10 879	11 617
Hutnictví železa, a.s.	Associate	563	691
MORAVIA STEEL a.s.	Controlling entity	2 148 442	1 727 380
Moravia Security, a.s.	Controlled entity	7 346	6 715
Security Morava, s.r.o.	Controlled entity	1 234	1 032
TRIALFA, s.r.o.	Controlled entity	16 221	21 101
TRISIA, a.s.	Controlled entity	1 183	1 020
TRINECKÁ PROJEKCE, a.s.	Controlled entity	2 900	5 091
Třinecké gastroslužby, s.r.o.	Controlled entity	10 090	10 312
VESUVIUS ČESKA REPUBLIKA, a.s.	Associate	8 359	8 712
Beskydská golfová, a.s.	Fellow subsidiary	3 025	3 025
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	1 329	938
“ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	103	106
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	173 035	81 872
HRAT, s.r.o.	Associate	36	55
DALSELV DESIGN a.s.	Controlled entity	3 314	8 725
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	370	314
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	79	70
MORAVIA STEEL UK LIMITED	Fellow subsidiary	29	37
NEOMET Sp. z o.o.	Fellow subsidiary	70 202	26 520
MINERFIN, a.s.	Group company	1 026	1 136
Total		2 460 165	1 916 469
• Short-term prepayments received			
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	14
Total		0	14
• Estimated payables			
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	2 296
MORAVIA STEEL a.s.	Controlling entity	280	1 486
Total		280	3 782
Total short-term intercompany payables		2 460 445	1 920 265
Other than intercompany payables		4 447 664	4 353 184
Total short-term payables		6 908 109	6 273 449

Short-term payables outside of the group as of 31 December 2016 and 2015 predominantly include payables to credit institutions of CZK 898,701 thousand and CZK 1,074,553 thousand, respectively.

6.15. DEFERRED INCOME TAX

6.15.1. Deferred Tax Liability

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

(CZK THOUSAND)

Deferred tax basis	Tax rate in %	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Difference between tax and accounting net book value of fixed assets	19	-9 161 162	-8 805 119
Difference between tax and accounting net book value of fixed assets	10	0	-128 206
Difference between tax and accounting net book value of fixed assets	9	-100 034	0
Remeasurement of securities available for sale	19	58	959
Remeasurement of assets to fair value charged against equity	19	-156 768	-173 670
Remeasurement of assets to fair value charged against equity	9	-38 551	0
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	10	0	-40 881
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	19	-52 050	-50 971
Accounting reserves	19	215 313	213 855
Provisions	19	910 596	761 090
Provisions	10	0	4 743
Provisions	9	5 927	0
Outstanding default interest	19	714	-20 965
Expenses to be allowable in subsequent periods	19	159 652	61 233
Expenses to be allowable in subsequent periods	10	0	60
Utilisable tax losses	19	0	0
Unrealised gains on the intragroup sale of inventory	19	28 961	22 720
Unrealised gains on intragroup sales of tangible fixed assets	19	268 673	281 195
Other	10	0	-26 324
Total tax base		-7 918 671	-7 900 281
Deferred tax liability		-1 491 282	-1 483 899

(CZK THOUSAND)

Analysis of movements	
31 Dec 2015	-1 483 899
Current changes charged to the profit and loss account	-10 765
Current changes recognised in equity	-501
Recognition against the goodwill arising on consolidation	3 883
31 Dec 2016	-1 491 282

6.15.2. Deferred Tax Asset

(CZK THOUSAND)

	Tax rate in%	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Difference between the tax and accounting net book value of fixed assets	19	369	-109
Accounting reserves	19	900	210
Provisions	19	184	0
Utilisable tax loss	19	0	0
Total tax base		1 453	101
Deferred tax asset		276	19

(CZK THOUSAND)

Analysis of movements	
31 Dec 2015	19
Current changes charged to the profit and loss account	257
Current changes charged to equity	0
31 Dec 2016	276

6.16. PAYABLES TO CREDIT INSTITUTIONS

Long-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Form of collateral at 31 Dec 2016
Investment loan	CZK	0	63 140	Immovable and movable assets, securities, promissory note
Investment loan	EUR	95 069	112 376	Hermes guarantee insurer
Investment loan	CZK	60 000	120 000	Securities, promissory note
Investment loan	EUR	134 757	164 733	ODL guarantee insurer
Investment loan	CZK	189 474	442 105	Immovable and movable assets, securities, insurance receivables, promissory note
Investment loan	CZK	240 000	360 000	Immovable and movable assets, promissory note
Investment loan	CZK	135 000	180 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	610 319	0	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	0	1 955	Pledge of real estate
Investment loan	EUR	0	2 861	Pledge of real estate
Investment loan	CZK	37 500	75 000	Pledge of movable assets, blank promissory note
Investment loan	CZK	57 400	0	Pledge of assets, blank promissory note
One-time loan	CZK	55 137	0	Movable and immovable assets
One-time loan	EUR	74 909	0	Movable and immovable assets
Investment loan	EUR	0	3 054	Pledge of real estate, pledge for receivables from immovable asset insurance
Investment loan	CZK	0	2 000	Pledge of real estate, pledge for receivables from immovable asset insurance
Investment loan	EUR	10 808	0	
Investment loan	EUR	0	2 000	
Investment loan	EUR	1 635	4 905	
Investment loan	PLN	22 596	30 068	Secured with tangible assets (machinery, equipment) and insurance
Total		1 724 604	1 564 197	

Short-Term Payables to Credit Institutions

(CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Form of collateral at 31 Dec 2016
Investment loan	EUR	16 973	17 288	Hermes guarantee insurer
Investment loan	CZK	63 140	126 320	Immovable and movable assets, securities, promissory note
Investment loan	EUR	5 404	0	
Investment loan	EUR	0	4 324	
Investment loan	EUR	2 000	7 135	
Investment loan	EUR	3 270	3 270	
Overdraft loan	PLN	3 785	13 554	Pledge – goods, material, products and insurance
Investment loan	PLN	6 456	5 011	Secured with tangible assets (machinery, equipment) and insurance
Overdraft loan	PLN	6 348	35 337	Pledge – machinery, equipment and insurance, assignment of trade receivables
Investment loan	EUR	1 955	3 349	Pledge of real estate
One-time loan	CZK	11 905	0	Movable and immovable assets
Revolving loan	EUR	0	162 150	Receivables
Investment loan	CZK	152 580	0	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	29 946	29 952	ODL guarantee insurer
Investment loan	CZK	60 000	60 000	Securities, promissory note
Investment loan	CZK	252 631	252 632	Immovable and movable assets, securities, insurance receivables, promissory note
Investment loan	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment loan	CZK	60 000	60 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	2 860	2 862	Pledge of real estate
Overdraft loan	CZK	4 000	6 500	Blank promissory note, Pledge of real estate
Overdraft loan	CZK	0	2 397	Blank promissory note, Receivables
Investment loan	CZK	7 600	0	Pledge of assets, blank promissory note
Investment loan	CZK	0	4 687	Pledge of immov. assets, pledge of mov. assets, pledge for receivables from insurance of immov. and mov. assets, assignment of trade receivables
Investment loan	EUR	3 054	3 053	Pledge of real estate, pledge for receivables from immovable asset insurance
Investment loan	CZK	2 000	4 000	Pledge of real estate, pledge for receivables from immovable asset insurance
Operating overdraft loan	CZK	45 286	113 232	Blank promissory note
Investment loan	CZK	37 500	37 500	Pledge of movable assets, blank promissory note
Sweep accounts	HUF	8	0	
Total		898 701	1 074 553	

Repayments of long-term payables to credit institutions with maturities exceeding five years amount to CZK 83,958 thousand.

6.17. OFF BALANCE SHEET LIABILITIES AND LEGAL DISPUTES

TŘINECKÉ ŽELEZÁRNY, a. s.

Provided Guarantees

31 December 2016

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

31 December 2015

Type	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

Received Guarantees

31 December 2016

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

31 December 2015

Type	Total amount	Balance at 31 Dec 2015
<i>Guarantees</i>		
From other entities	EUR 246 thousand	CZK 6,642 thousand

Legal Disputes

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP 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 substance of the legal dispute did 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.

By the resolution of the Regional Court in Ostrava of 1 July 2016, the proceedings on the payment of a part of the proceeds of the auction of TŽ shares were discontinued due to the failure to pay the court fee. TSP lodged an appeal against this decision, but the High Court in Olomouc confirmed the resolution of the Regional Court in Ostrava. The proceedings in this matter were effectively terminated on 12 November 2016.

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 proceedings will be ordered at the Court's discretion. 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.

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

As of 31 December 2016, the Company used up funds in the amount of CZK 529,152 thousand (2015: CZK 519,227 thousand).

ENERGETIKA TŘINEC, a.s.**Collateral for loans**

(CZK THOUSAND)

Type of liability	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Blank bills of exchange – collateral for own overdraft loans	350 000	250 000
Blank bills of exchange – collateral for own long-term loans	150 000	150 000
Total	500 000	400 000

Environmental Liabilities

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

VÚHŽ a.s.**Easements**

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

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

Environmental Liabilities

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

ŽDB DRÁTOVNA a.s.

Environmental Liabilities

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

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

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

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

Additionally, ŽDB DRÁTOVNA a.s. does not plan any discontinuation of the operation of the equipment or partial technological units that condition the clean-up and decontamination of the rock environment, with the exception of liquidation of technological units of the pickling plant, wire drawing plant and hall that were destroyed by the fire.

Strojírny a stavby Třinec, a.s.

Legal Disputes

As of 31 December 2016, Strojírny a stavby Třinec, a.s. was involved in the legal disputes as follows:

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

Environmental Liabilities

In the year ended 31 December 2016, Strojírny and stavby Třinec, a.s. went through the supervisory audit pursuant to ISO 14001:2004 on the compliance with the environmental system standards in this company. During the audit, the team of TUV NORD auditors reviewed all plants and all processes in Strojírny and stavby Třinec, a.s. There were also comprehensive and internal reviews of Strojírny and stavby Třinec, a.s. in order to verify practical environmental matters at the worksites.

Šroubárna Kyjov, spol. s r.o.

Šroubárna Kyjov, spol. s r.o., stores material of another entity amounting to CZK 3,155 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 127,812 thousand (CZK 18,316 thousand and EUR 4,052 thousand).

Environmental Liabilities

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 HŽP a.s.'s environmental management system is in compliance with the requirements of ISO 14001:2004 in the area of certification – design, development and manufacturing of screw, leaf and parabolic springs. The certificate is valid until 13 May 2017.

SV servisní, s.r.o.**Legal Disputes**

As of 31 December 2016, SV servisní, s.r.o., is involved in the following legal disputes:

Collection of trade receivables.

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 2016

(CZK THOUSAND)

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

7.1.2. 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
Total	39 675 834	7 053 564	46 729 398

7.2. GRANTS AND SUBSIDIES

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

In the year ended 31 December 2015, TŘINECKÉ ŽELEZÁRNY, a. s., 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).

In 2015, ENERGETIKA TŘINEC, a.s., received a grant for environmental investments of CZK 34,432 thousand.

In 2015, Slévárny Třinec, a.s., received a grant for an investment of CZK 159,444 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.

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

Subsidies for operating purposes of CZK 25,602 thousand utilised for the year ended 31 December 2015 include subsidies for research and development, education, a subsidy for museum operations, grants from the labour office and subsidies for environmental projects. Other grants included grants for co-recipients, which amounted to CZK 3,010 in 2015.

7.3. TOTAL REMUNERATION CHARGED BY THE AUDITOR

(CZK THOUSAND)

	Year ended 31 December 2016	Year ended 31 December 2015
Obligatory audit of the financial statements	8 853	9 446
Other assurance services	193	245
Tax advisory	75	68
Other non-audit services	6	5
Total	9 127	9 764

7.4. OTHER EXPENSES AND INCOME

Other operating income as of 31 December 2016 and 2015 predominantly includes the drawing of the grant for allowances of CZK 493,617 thousand and CZK 661,713 thousand, respectively.

Other financial income in 2016 and 2015 predominantly includes foreign exchange rate gains of CZK 44,631 thousand and CZK 95,492 thousand, respectively.

Other operating expenses as of 31 December 2016 and 2015 predominantly include the use of emission allowances of CZK 805,934 thousand and CZK 875,187 thousand, respectively.

Other financial expenses as of 31 December 2016 and 2015 predominantly include foreign exchange rate losses of CZK 57,253 thousand and CZK 120,204 thousand, respectively.

7.5. TOTAL RESEARCH AND DEVELOPMENT COSTS

(CZK THOUSAND)

	31 Dec 2016	31 Dec 2015
Research and development costs (less grants)	95 197	59 843

7.6. RELATED PARTY TRANSACTIONS

7.6.1. Income Generated with Related Parties

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

2016 (CZK THOUSAND)

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

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

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

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
Total		0	35 905 469	210 433	2 649	7	36 118 558

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.

7.6.2. Purchases from Related Parties

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

2016							(CZK THOUSAND)
Entity	Type of entity	Fixed assets	Inventory – material, products and goods	Services	Other expenses	Total	
Reťaze Slovakia, s.r.o.	Controlled entity	0	507	1 140	0	1 647	
JuBo Jeseník s.r.o.	Controlled entity	0	784	0	0	784	
Doprava TŽ, a.s.	Controlled entity	5	23 348	70 926	17	94 296	
TRIALFA, s.r.o.	Controlled entity	0	6 961	22 972	60 698	90 631	
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	40 471	0	13 624	0	54 095	
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 537	9 248	91 931	118 716	
Hutnictví železa, a.s.	Associate	0	0	5 784	132	5 916	
TRISIA, a.s.	Controlled entity	0	1	11 965	153	12 119	
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate.	0	121	81 787	0	81 908	
Moravia Security, a.s.	Controlled entity	2 635	58	69 713	0	72 406	
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	5	5 611	0	5 616	
“ZAMECZEK BĚLOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 247	0	1 247	
HRAT, s.r.o.	Associate.	127	0	120	0	247	
DALSELV DESIGN a.s.	Controlled entity	144 215	69	3 810	0	148 094	
Security Morava, s.r.o.	Controlled entity	0	0	8 630	0	8 630	
MORAVIA STEEL a.s.	Controlling entity	418	18 326 206	389 200	50 978	18 766 802	
MORAVIA STEEL ITALIA s.r.l.*	Fellow subsidiary	0	0	240	0	240	
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	995	0	995	
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	297	1 675	1 972	
MORAVIA STEEL UK LIMITED*	Fellow subsidiary	0	0	179	0	179	
Barrandov Studio a.s.	Fellow subsidiary	0	0	0	0	0	
Beskydská golfová, a.s.	Fellow subsidiary	0	0	7 368	0	7 368	
Moravskoslezský kovošrot	Fellow subsidiary	0	1 033 016	5	0	1 033 021	
Kovárna VIVA a.s.	Fellow subsidiary	0	0	0	0	0	
NEOMET Sp. z o.o.*	Fellow subsidiary	0	804 177	0	0	804 177	
AHP HYDRAULIKA, a.s.*	Fellow subsidiary	0	0	1 001	0	1 001	
MINERFIN, a.s.*	Group company	0	9 644	0	0	9 644	
Total		187 871	20 222 434	705 862	205 584	21 321 751	

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

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
Total		126 088	22 725 496	711 308	210 018	23 772 910

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

8. EMPLOYEES, MANAGEMENT AND SUPERVISORY BOARDS

8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

31 December 2016

(CZK THOUSAND)

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

31 December 2015

(CZK THOUSAND)

	Number	Total staff costs
Employees	12 300	5 771 597
Management	58	186 388
Total	12 358	5 957 985

The remuneration to members of the Supervisory Boards in the years ended 31 December 2016 and 2015 amounted to CZK 18,606 thousand and CZK 15,813 thousand, respectively.

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

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

8.2. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

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

(CZK THOUSAND)

	2016	2015
Use of management cars (the figure increases the tax base of employees)	5 648	5 048
Contribution for life insurance	151	179
Liability insurance	675	682

9. POST BALANCE SHEET EVENTS

TŘINECKÉ ŽELEZÁRNY, a. s.

On 1 January 2017, the company acquired a 100% equity investment in IMOPRA s.r.o. based on a share purchase agreement.

VÚHŽ a.s.

The operating loan facilities with financing banks are being renewed since late 2016 and one of the important changes are the guarantees for operating loans. Up to now, the overdraft loan and the Contract on the Rules of Provision of Letters of Credit and Bank Guarantees with Československá obchodní banka, a.s. were guaranteed with receivables and a promissory note. In January 2017, an amendment to the contracts was signed and these products are now guaranteed only with a promissory note.

The overdraft loan Ready Credit and the Contract on the Rules of Provision of Letters of Credit and Bank Guarantees with Citibank Europe, plc are guaranteed with real estate and a promissory note, the revolving loan is guaranteed with receivables and a promissory note. The change that should occur and has been preliminarily approved concerns the guarantee of these products with a promissory note. The pledges of real estate should gradually be dissolved.

In 2017, a large investment will take place in connection with the modernisation of the rolling mill in the total amount of CZK 83,000 thousand. This investment will be funded from an investment loan of CZK 64,000 thousand. Other funds will be provided from the company's own resources.

Given the expected end of the Czech National Bank's interventions in 2017, VÚHŽ a.s. concluded forward transactions to hedge the EUR exchange rate for the latter half of 2017.

Strojírny a stavby Třinec, a.s.

In 2016, Strojírny a stavby Třinec, a.s., filed an application with the Ministry of Industry and Trade for the Operational Programme Enterprise and Innovation for Competitiveness for a grant for the "Development of an Automated Crowbar Grinder" project. The project was judged acceptable and eligible and the Decision on the Provision of the Grant was granted on 2 February 2017.

Řetězárna a.s.

Due to the unserviceability of the Aichelin line in Řetězárna a.s., it was written off with net book value of approximately CZK 2,500 thousand.

Šroubárna Kyjov, spol. s r.o.

In January 2017, Šroubárna Kyjov, spol. s r.o., undertook steps to hedge the CZK exchange rate by way of forward transactions in relation to the planned termination of exchange rate interventions by the Czech National Bank in the latter half of 2017. The transactions were concluded based on a Master Contract and the individual transactions are confirmed with confirmation letters. The exchange rate is hedged for the period of June-December 2017.

11

REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR 2016

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 2016 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.

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

Relation: In the reporting period, FINTRADING, 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, Lyžbice, 739 61 Třinec, registered office in the previous reporting period: Třinec, nám. Svobody 526, 73961, Corporate ID: 63079658
Relation: In the reporting period, FINTRADING, a.s. was in the position of the controlling entity of R.F.G., a.s. "in liquidation". The entity entered into liquidation on 1 January 2016 and was dissolved on 11 January 2017 following its removal from the Register of Companies.

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: 28602331
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Barrandov Studio a.s., registered office: Prague 5 – Hlubočepy, Kříženeckého nám. 322/5, 15200, Corporate ID: 28172469
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

Beskydská Golfová, a.s., registered office: no. 415, 739 61 Ropice; registered office in the previous reporting period: 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 Ľudovíta Štúra 2, Bratislava 811 02, Slovakia, Corporate ID: 35900601
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

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

MORAVIA 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: Corso Sempione 39, 20145 Milano, Italy; registered office in the previous reporting period: 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: Valvasorjeva 14, 3000 Celje, Slovenia
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

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

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

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

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

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

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

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

AHP HYDRAULIKA, a.s., registered office: Vojtecha Tvrdého 793/21, Žilina 010 01, 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: Křiženeckého náměstí 322/5, Hlubočepy, 152 00 Prague 5; registered office in the previous reporting period: Prague 5, Křiženeckého nám. 5/322, 152 00, Corporate ID: 25621025

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

FILMOVÁ NADACE, registered office: Křiženeckého náměstí 322/5, Hlubočepy, 152 00 Prague 5; registered office in the previous reporting period: Prague 5, Křiženeckého nám. 5/322, 152 00, 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: Křiženeckého náměstí 322/5, Hlubočepy, 152 00 Prague 5, Corporate ID: 03160378

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

MSK Polska Sp.z o.o., "in liquidation", registered office: BATALIONÓW CHŁOPSKICH 2, 42-680 TARNOWSKIE GÓRY, Poland

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

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

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

Moravia Steel 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. until 14 December 2016. On 14 December 2016, it was dissolved following its removal from the Register of Companies.

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

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

C. ENTITIES CONTROLLED BY TŽ

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

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

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

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

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

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

Doprava TŽ, a.s., registered office: Třinec-Staré Město, Průmyslová 1008, 73965, Corporate ID: 25398083

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

TRIALFA, s.r.o., registered office: Třinec-Kanada, ul. Míru 272, 73965, Corporate ID: 25839888

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

Řetězárna a.s., registered office: Polská 48, 790 81 Česká Ves; registered office in the previous reporting period: Česká Ves, Polská 48, 79081, Corporate ID: 47672081

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

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

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

JuBo Jeseník s. r. o., registered office: U Jatek 600/2, 79001 Jeseník; registered office in the previous reporting period: Jeseník, U jatek 600, 79001, Corporate ID: 48391514

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

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

Relation: In the reporting period, starting from 20 December 2016, the entity was controlled by TŽ.

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

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

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

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

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

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

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

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

Šroubárna Kyjov, spol. s r.o., registered office: Jiráskova 987/50, 697 01 Kyjov; registered office in the previous reporting period: Kyjov, Jiráskova 987, 69732, Corporate ID: 42293588

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

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

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

Security Morava, s.r.o., registered office: Jiráskova 987, 697 01 Kyjov; registered office in the previous reporting period: Kyjov, Jiráskova 987, 69701, 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 Świątej 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, Mariánské Hory, 709 00 Ostrava; registered office in the previous reporting period: Ostrava – Mariánské Hory, Slévárenská 403/11, 70900, 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.

SV servisní, s.r.o., registered office: Dolní 3137/100, 796 01 Prostějov; registered office in the previous reporting period: Prostějov, Dolní 3137/100, 79601, Corporate ID: 607 25 974

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 2016.

II. ROLE OF TŽ AND THE CONTROLLING METHODS AND INSTRUMENTS

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

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

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

TŽ acts as a controlling entity in relation to a part of a business group which primarily includes other manufacturing companies. TŽ exercised controlling influence over these entities that are directly controlled by TŽ in its role as the majority shareholder under Sections 73 and 74 (3) of the Act on Business Corporations, in that it used its shareholding in the voting rights of the controlled entities at their General Meetings, or that it exercised its role as the sole 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 2015 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 K. of this Chapter, ie a list of such contracts between TŽ and
- MS in is given in part B.;
 - Beskydská golfová, a.s., in part C;
 - Moravskoslezský kovošrot, a.s., in part D;
 - M Steel Projects a.s., in part E.;
 - "NEOMET" SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ in part F;
 - FINITRADING in part G;
 - Barrandov Studio a.s in part H;
 - Hotel Golf Ropice a.s. in part I;
 - MSPProjects International s.r.o. in part J; and
 - R.F.G., a.s. "in liquidation" in part K.
- c) Relations defined by Section 82 (2) d) and e) of the Act on Business Corporations that may have arisen in the reporting period between TŽ and entities controlled by TŽ according to part C. of Chapter I., are subject to the report on relations of each of these entities.

B. LIST OF CONTRACTS BETWEEN TŽ AND MS

B.1. Introduction

The principal contract applicable to the day-to-day business relations between TŽ and MS is the General Commercial Contract of 30 December 2002 whereby both parties declared their common interest in the further development of their mutual business relations.

These relations were further amended in the reporting period:

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

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

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

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

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

8. Lease contract of 1 January 2011 – lease of non-residential premises and movable assets in the area of TŽ in Ostrava – Vítkovice.
9. Contract for the placement of equipment of 1 April 2011 – placement of the technology equipment for the transfer of data within the telecommunications building in the area of TŽ in Třinec.
10. Contract for lease of non-residential premises of 20 December 2011 – lease of non-residential services in a building located in Staré Město.
11. Accommodation contract of 28 April 2005 – accommodation in a building of TŽ in Prague 4 – Nusle.
12. Contract on the provision of telecommunication services of 31 December 1998.
13. Contract on Internet connection via the network of TŘINECKÉ ŽELEZÁRNY, a.s., of 20 July 1999.
14. Consignment agreement of 13 August 2007 – customs proceedings services.
15. Consignment agreement of 3 January 2005 – customs proceedings services.
16. Contract on the supply of the Třinecký hutník newsletter in 2016 (order of 11 December 2015).
17. Contract on transport using passenger cars in 2016 (order of 9 December 2015).
18. Contract on business cooperation in the supplies of rails for ŽSR of 11 November 2014.
19. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 24 February 2015.
20. Contract on business cooperation in the supplies of semi-circular track fastenings for Správa železniční dopravní cesty, state organisation, of 23 June 2015.
21. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 21 March 2016.
22. Contract on business cooperation in the supplies of rails for Dopravní podnik hl.m. Prahy, a.s., of 7 April 2016.
23. Contract on business cooperation in the supplies of semi-circular track fastenings for Správa železniční dopravní cesty, state organisation, of 17 June 2016.
24. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 31 October 2016.
25. Master purchase contracts of 17 April 1996, 20 January 2000, 15 January 2001 and 30 January 2008 and partial purchase contracts concluded pursuant to any of these master contracts – sale of material and goods from warehouses.
26. Contract on the supply of consumption material for fax machines and printers and maintenance of IT networks (order of 11 December 2015).
27. Contract on the supply of norms (order of 18 November 2015).
28. Contract on the supply of Czech printed material and magazines for 2016 (order of 16 September 2015).
29. Contract on the supply of Czech printed material and magazines for 2017 (order of 19 September 2016).
30. Contract on securing services related to the launch of new telephone lines and the maintenance thereof in 2016 (order of 11 December 2015).
31. Contract on the provision of services of 11 August 2003 – services related to smart cards.

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

1. Purchase contract on the supplies of raw material and materials of 12 January 1999 – purchase of essential metallurgical material.
2. Master contracts on the supply conditions of continuous castings, ingots, rolled material (burdens) of 29 December 2005 and 1 July 2008.
3. Master contract on the conditions of the freight transportation of goods of 30 December 2002 and partial contracts concluded based on this master contract – securing the transportation of goods and acts necessary for such transportation.
4. Mandate contracts of 1 July 2005, 29 June 2007, 19 November 2012 and 28 February 2013 – arrangement of business matters related to the purchase of work and services, technical and operational material, spare components, metal waste and fuel.
5. Master purchase contract of 6 January 2014 and partial purchase contracts concluded in line with this master contract – supplies of advertising items.
6. Contract for the purchase of insurance related to business activity (order of 8 January 2016).
7. Contract for securing accommodation services (order of 19 January 2016).
8. Contract for securing translation services (order of 26 May 2016).
9. Contract for securing space at a trade fair (order of 6 June 2016).

B.4. Other Contracts

1. Master contract on the supplies related to the organisation and implementation of the events entitled “Královna ocel 2016” and “Hutnický den 2016” of 25 April 2016 and partial contracts concluded pursuant to this master contract.
2. 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 5 January 2016).
2. Contract on the provision of services of 1 January 2011 – filing office, IT and HR services.
3. Contract on the provision of access to Internet services via the network of TŘINECKÉ ŽELEZÁRNY, a.s. of 31 July 2009.

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

D. LIST OF CONTRACTS BETWEEN TŽ AND MORAVSKOSLEZSKÝ KOVOŠROT, A.S.

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

1. Lease contract of 10 June 2013 – lease of scrap yard and non-residential premises in a building in Třinec.
2. Master contracts of 4 January 2010 and partial contracts concluded based on one of these master contracts – sale of waste.
3. Lease contract and contract on the placement of containers of 1 June 2013 – lease of warehousing premises in Třinec.
4. Contract on takeover, utilisation or removal of waste of 20 January 2016 – sale of scrap.
5. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles (orders of 29 September 2015, 11 December 2015, 15 December 2015, 7 April 2016, 18 April 2016, 8 July 2016, 21 July 2016, 7 October 2016).

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

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

E. LIST OF CONTRACTS BETWEEN TŽ AND M STEEL PROJECTS A.S.

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

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

F. LIST OF CONTRACTS BETWEEN TŽ AND “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ

F.1. Contract 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 11 December 2015, 7 April 2016, 16 May 2016, 8 July 2016, 7 October 2016).

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

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

G. LIST OF CONTRACTS BETWEEN TŽ AND FINITRADING, A.S.**G.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

H. LIST OF CONTRACTS BETWEEN TŽ AND BARRANDOV STUDIO A.S.**H.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of Barrandov Studio a.s.**

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

I. LIST OF CONTRACTS BETWEEN TŽ AND HOTEL GOLF ROPICE A.S.**I.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of Hotel Golf Ropice a.s.**

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

J. LIST OF CONTRACTS BETWEEN TŽ AND MSPROJECTS INTERNATIONAL S.R.O.**J.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of Hotel Golf Ropice a.s.**

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

K. LIST OF CONTRACTS BETWEEN TŽ AND R.F.G., A.S. "IN LIQUIDATION"**K.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of H. R.F.G., a.s. "in liquidation"**

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

IV. ASSESSMENT OF RELATIONS

This Related Party Transactions Report lists all significant facts that are requirements of the Related Party Transactions Report, covering the relations between TŽ and entities that control it, and between TŽ and entities controlled by the same controlling entity in accordance with Section 82 of the Act on Business Corporations.

Performances and counter-performances received and provided by TŽ on the basis of contracts listed in parts B. through K. 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 31 March 2017



.....
Jan Czudek

Chairman of the Board of Directors

TŘINECKÉ ŽELEZÁRNY, a. s.



.....
Radomíra Pekárková

Member of the Board of Directors

TŘINECKÉ ŽELEZÁRNY