

# 2018

Annual  
Report



**TŘINECKÉ ŽELEZÁRNY**

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General  
Section

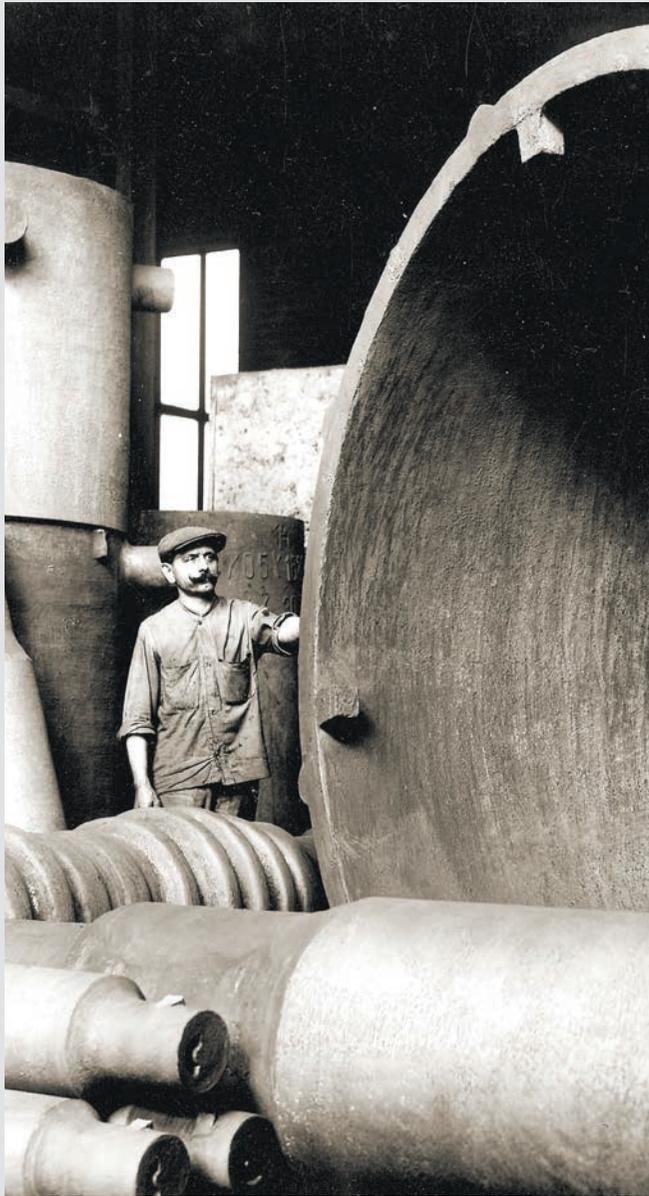
## 01

Company  
Profile

TŘINECKÉ ŽELEZÁRNY, a. s. (HEREINAFTER TŘINECKÉ ŽELEZÁRNY), WAS ESTABLISHED IN 1839 BY THE TĚŠÍN CHAMBER, WHICH WAS THEN OWNED BY ARCHDUKE KARL VON HABSURG AND FOR 180 YEARS IT HAS BEEN A SUCCESSOR OF THE LONG TRADITION OF METALLURGICAL PRODUCTION IN TĚŠÍN SILESIA. THE SOLE SHAREHOLDER OF THE TŘINECKÉ ŽELEZÁRNY TODAY IS THE COMMERCIAL COMPANY MORAVIA STEEL a. s. IN THE LAST TEN YEARS, TŘINECKÉ ŽELEZÁRNY HAS BEEN THE LARGEST PRODUCER OF CRUDE STEEL IN THE CZECH REPUBLIC. THE STRATEGY OF TŘINECKÉ ŽELEZÁRNY IS FOCUSED ON "DYNAMIC INCREASE IN THE GROWTH OF THE SHARE OF LONG PRODUCTS WITH HIGHER ADDED VALUE AND ITS CONTROL WITHIN THE UP AND DOWNSTREAM PRODUCT CHAINS".

Annual production of the ironworks reaches around 2.5 million tonnes of steel and the main product portfolio consists of long rolled products – wire rod, sections, special bar steel, drawn steel, rails, wide steel, seamless tubes and semis. Additional products include coke and by-products resulting from production, further artificial compact aggregates and granulated slag.

Třinecké železářny is a closed-cycle production plant that includes operations from coke production to the final hot-rolled steel product. The coke-chemical production plant includes two coke-oven batteries and a pulverised coal injection (PCI) into the blast furnace hearth. The produced coke and the pulverised coal are used in their own blast furnaces together with the sinter charge, which is prepared in two sinter plants. More than 98% of Třinec steel is produced in the BOF converter plant, on the basis of oxygen refining of iron.

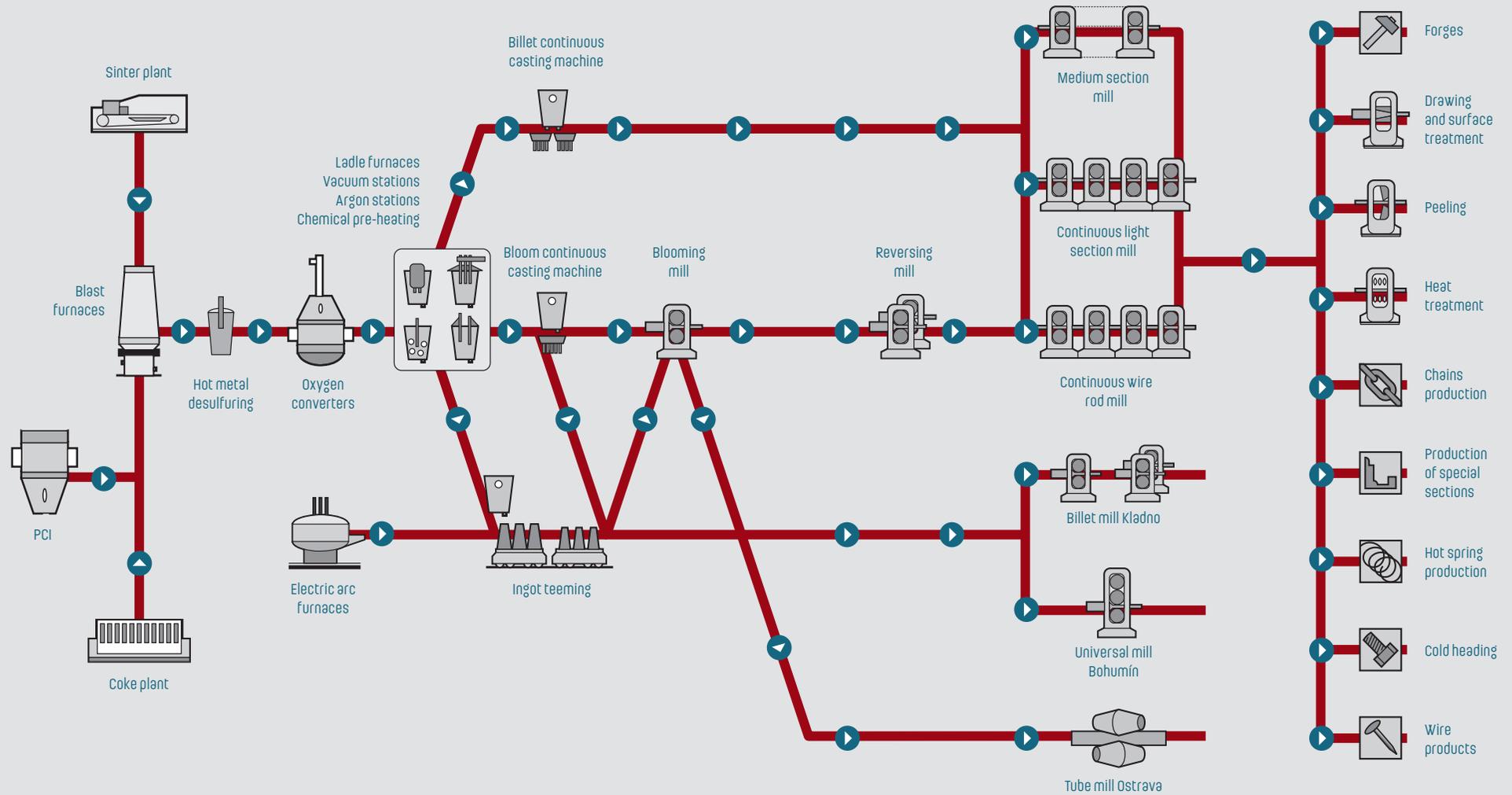


The BOF plant is equipped with complete ladle metallurgy enabling chemical and thermal homogenisation, additional alloying as well as vacuum treatment. The BOF steel is largely cast in two machines for the continuous casting of blooms and billets. Steel is also produced in the EAF steel plant. Blooms, billets and ingots from steel plants form a charge for the rolling mill plants in Třinec – a rolling mill for blooms and heavy profiles, medium section mill, rolling mill for wire rod and light sections – as well as for the tube mill in Ostrava, for the universal strip rolling mill in Bohumín, the steel drawing plant in Staré Město u Uherského Hradiště or for the billet mill located in Kladno. The accompanying products, resulting from metallurgical production, are processed into artificial normal weight aggregate and further construction material at the secondary raw material plant. Metalliferous waste goes back to the closed metallurgical cycle.

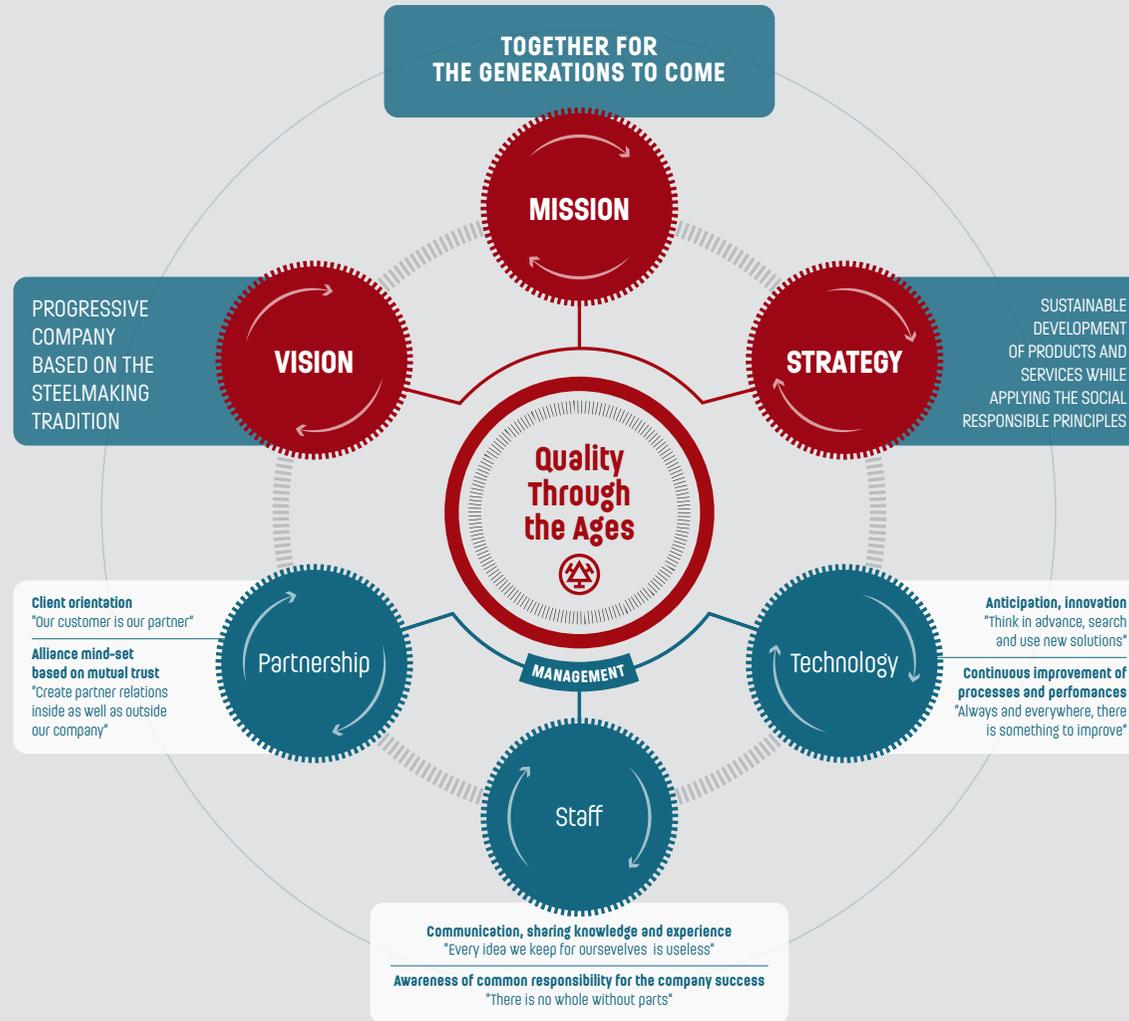
Throughout its history, Třinecké železářny has produced nearly 180 million tonnes of steel. Our products have been placed on the domestic market as well as bought by customers all over the world. More than half of the annual production of high-quality steel products bearing the trademark Třinecké železářny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

**THROUGHOUT ITS HISTORY,  
TŘINECKÉ ŽELEZÁRNY  
HAS PRODUCED NEARLY  
180 MILLION TONNES  
OF STEEL**

**MATERIAL FLOWS AND TECHNOLOGIES**



OUR STRATEGIC FRAMEWORK



## 02

Key Performance  
Indicators  
2014 – 2018

INDICATOR	UNIT	2014	2015	2016	2017	2018
Pig iron production	kt	2 061	2 070	2 118	2 059	2 108
Crude steel production	kt	2 540	2 532	2 605	2 528	2 583
Of which continuous castings	kt	2 424	2 409	2 487	2 424	2 471
Sales of rolled products including steel	kt	2 272	2 379	2 386	2 333	2 375
Total revenues	CZK mil.	40 849	37 695	33 027	36 807	41 750
Income from sales of products, goods and services	CZK mil.	38 354	36 921	32 217	35 859	40 496
Export share	%	66.6	66.6	67.8	66.2	67.0
Total costs excluding income tax	CZK mil.	37 077	34 350	31 273	35 118	37 673
Net profit or loss	CZK mil.	3 048	2 780	1 440	1 424	3 334
Consolidated profit or loss	CZK mil.	3 518	3 026	1 857	1 561	3 666
Net total assets	CZK mil.	33 462	32 948	33 843	35 399	38 943
Gross tangible fixed assets	CZK mil.	33 372	34 301	36 115	38 497	39 925
Adjustments	CZK mil.	20 479	21 087	22 118	23 118	24 241
Equity	CZK mil.	24 512	25 692	25 732	25 756	27 890
Capital investments	CZK mil.	2 007*	1 518*	2 038	2 697*	1 710*
Other capital including other liabilities	CZK mil.	8 950	7 255	8 111	9 643	11 053
Employees (average adjusted total)	Persons	6 909	7 014	7 006	7 029	7 115
Average monthly wage	CZK/person	28 396	29 100	29 103	31 043	35 021

\*without subsidies

## 03

Supervisory  
Board and  
Board of Directors

## SUPERVISORY BOARD

TITLE	NAME	CHANGES
Chairman	Tomáš Chrenek	
1st Vice-Chairman	Ján Moder	
2nd Vice-Chairman	Evžen Balko	
Member	Jozef Blaško	
Member	Marcel Pielesz	
Member	František Ližocki	to 31. 12. 2018
Member	Jana Kantorová	from 1. 1. 2019



Tomáš Chrenek



Ján Moder



Evžen Balko



Jozef Blaško



Marcel Pielesz



Jana Kantorová

## BOARD OF DIRECTORS

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



Jan Czudek



Česlav Marek



Henryk Huczala



Radomíra Pekárková



Ivo Žižka

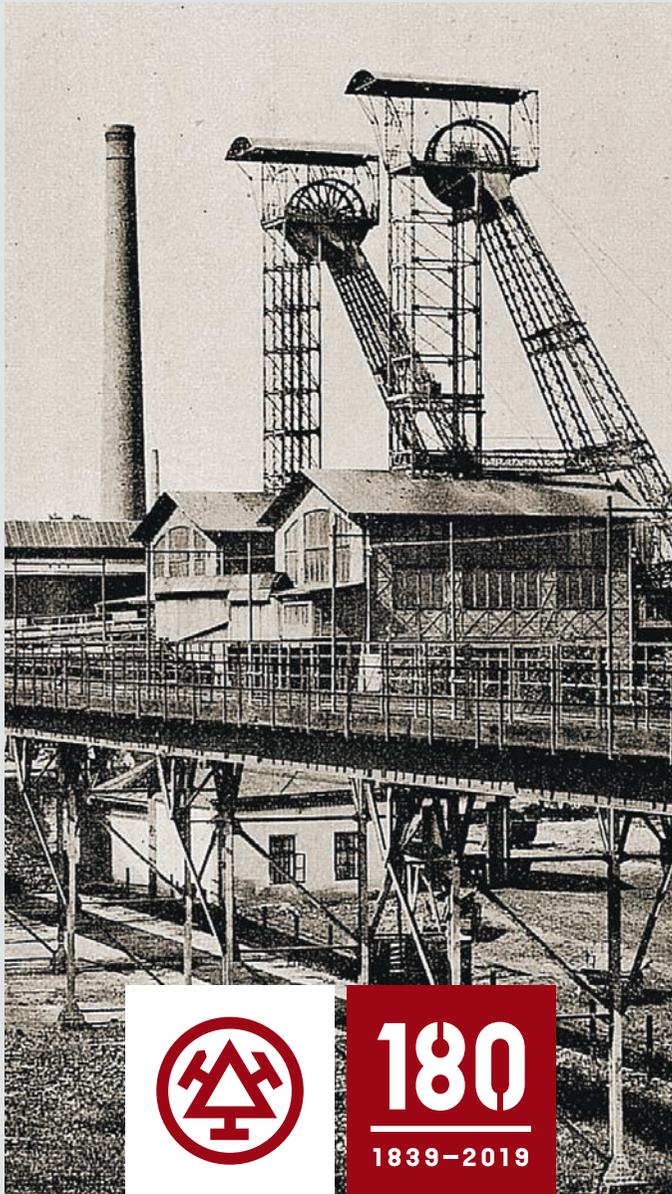
# 04

## Introductory Word of the Supervisory Board Chairman

TO OUR CUSTOMERS, PARTNERS  
AND EMPLOYEES.

DESPITE NOT VERY OPTIMISTIC FORECASTS, THE SITUATION ON THE WORLD STEEL MARKETS WAS POSITIVE LAST YEAR. THE GLOBAL SLOWDOWN IN ECONOMIC GROWTH IS SHIFTING TO THE COMING YEARS. THE STEEL TRADE SITUATION WAS MAINLY INFLUENCED IN 2018 BY CONSERVATIONIST MEASURES BY US PRESIDENT DONALD J. TRUMP AND THE UNCERTAINTY SURROUNDING BREXIT, THE UK'S DEPARTURE FROM THE EU. HOWEVER, SOME DIFFICULTIES IN THE WORLD STEEL MARKETS MAY OCCUR AS EARLY AS 2019 OR 2020.

Brexit will certainly affect the established EU movement of goods, and if it goes forward without a deal, so-called hard Brexit can temporarily halt the growth of the German economy with negative consequences for the Czech Republic's economy. The decline in automotive performance is also expected globally. Also, the introduction of tariffs for importing cars into the US could have disastrous consequences for the global automotive industry, including the production of components, with very significant consequences for steel suppliers. In addition, European markets are influenced by the expectation of Stage 4 of the Emissions Trading Scheme, which is due to take place after 2020.



The situation is very complicated, so we will have to adapt our product portfolio to eliminate these negative effects to the maximum extent. Furthermore, we must deliberately divide the invested funds between equipment renovation and modernization projects, technology development and environmental protection. All this can be done with motivated employees who, with their dedicated and creative work, contribute to our common success. Making full use of our production capacities in a time when capacity redundancy is a global problem is proof of how we are able to combine all these factors together.

Investments in the modernization of the blooming mill and the construction of the billet stand will enable us, in addition to increasing the quality of billets and reducing costs, to expand the portfolio of rolled semi-products for our product chains. Thanks to a series of eco-friendly emission reduction investments, we have achieved a further low emission of solids

at 138 tonnes per year. Another trading company, BOHEMIA RINGS s.r.o., has been added to the Třinecké železárny – Moravia Steel Group, which is expanding our product chains by metal hot forming and its subsequent machining.

## DESPITE OUR DIFFICULT SITUATION, OUR FINANCIAL RESULT AMOUNTED TO CZK 3.3 BILLION

Dear friends, I am pleased to inform you that despite our difficult situation, our financial result amounted to CZK 3.3 billion after taxation, which is considerably more than we expected at the beginning of 2018. This result has enabled us to strengthen our raw material security situation and provide us with the financial resources we have used for investments, acquisitions and extraordinary rewards to our employees.



Dear employees, customers and partners. In 2019, we celebrate the 180th anniversary of our company. Many of the achievements we have accomplished together are your merit. Therefore, on behalf of the Supervisory Board, the Board of Directors and the management of our company, I would like to thank you for the excellent cooperation, dedication, loyalty and support we all received from you during 2018. I believe that the next years will be successful for Třinecké železářny and that our products will continue to be synonymous with quality and high utility value in all world markets.

A handwritten signature in red ink, which appears to be 'Tomáš Chrenek'. The signature is fluid and cursive, with a long horizontal stroke at the end.

**Tomáš Chrenek**

CHAIRMAN OF THE SUPERVISORY BOARD

# 05

## Board of Directors Report

### DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

The Czech Republic recorded year-on-year growth of 3% GDP in 2018. Since the end of 2013, the domestic economy has continued the trend of moderate growth. The year-on-year growth of the Czech economy was affected by both domestic and foreign demand. The investment activity of enterprises grew significantly and government and household expenditures were also higher. Household consumption has been maintained at a high level by the lowest unemployment rate over the last twenty years and the fastest real wage growth over the past fifteen years. It contributed most to the growth in gross value added in industry, construction and transport. The positive economic situation should continue next year, although the growth rates are likely to slow down.

Last year, crude steel production in the Czech Republic increased by more than 9 percent to 4.97 million tonnes. Despite this increase, it did not reach the level of production in the years 2010–2016, when it always exceeded 5 million tonnes annually. In 2018, Třinecké železářny produced 2,583 thousand tonnes of crude steel, which represents an increase of approximately 2 percent compared to the previous year. As a result, the Company retained its position as the largest steel producer in the Czech Republic, which it has held for ten years. Compared to the previous year, total foreign trade in metallurgical products in the Czech Republic recorded an increase in both imports and exports in almost all product ranges last year, i.e. rolled materials, flat products, tubes and other products. Total export of metallurgical products from the Czech Republic increased, however, did not reach the level of 2016. Exports of metallurgical

products to EU-28 countries increased slightly, however, imports of metallurgical products from third countries (outside the European Union) to the Czech Republic continued the trend of continuous growth, as in previous years. The most significant is an increase in imports for ingots and semi-finished products, which has more than tripled since 2015.

## IN 2018, WORLD STEEL PRODUCTION GREW BY 4.6% COMPARED TO THE PREVIOUS YEAR AND REACHED 1,808.6 MILLION TONNES

Asia recorded the largest increase, at 5.6% compared to 2017. Also, North and South America, the Middle East and CIS (Commonwealth of Independent States) recorded a slight increase. On the contrary, EU 28 crude steel production decreased by 0.3%. China has reaffirmed its global dominance. It reached

928.3 million tonnes of crude steel so thus its share of world production increased to 51.3%. According to the worldsteel forecast, global demand for steel will grow next year. The development of the market is threatened due to commercial tensions, especially between the US and China, and the outflow of capital from some Asian countries. The European steel industry will have to face the threat of increasing imports from third countries and uncertainty arising from the new form of emission allowance prices reform for the period 2021–2030. The future development of these factors will have a major impact on the sustainability of the steel industry in Europe.

### PRODUCTION AND POSITION ON THE MARKET

World crude steel production reached 1,808.6 million tonnes in 2018, a growth of 4.6% compared to 2017. Its production increased in 2018 in all regions, with the exception of EU countries, which declined by 0.3%.

Annual crude steel production in Asia was at 1.271 million tonnes, a growth of 5.6% compared to 2017. Crude steel production in China amounted to 928.3 million tonnes, an increase of 6.6% compared to the previous year. Its share of world production increased to 51.3%. The production of crude steel in India rose by 4.9% to 106.5 million tonnes compared to 2017. As a result, it ranked second in steel production in the world, surpassing Japan, which decreased by 0.3% compared to the previous year. In 2018, North America's crude steel production reached 120.5 million tonnes, 4.1% more than in 2017. In the USA, 86.7 million tonnes were produced, i.e. a 6.2% increase compared to 2017.

In 2018 EU28 countries recorded decline in steel production to 168.1 million tonnes, i.e. 0.3% decrease compared to 2017. Steel production in most EU28 countries decreased compared to the previous year, e.g. Germany produced 42.4 million tonnes (–2.0%), France 15.4 million tonnes (–0.7%) and Spain 14.3 million tonnes of

crude steel (–0.1%). Only Italy achieved an increase in steel production to 24.5 million tonnes, growth of 1.7% compared to 2017. The share of the EU28 in global crude steel production has therefore decreased from 10.0% in 2017 to the current 9.3%.

Production of crude steel in CIS countries (Commonwealth of Independent States) in 2018 reached 101.3 million tonnes, an increase of 0.3%. Russia produced 71.7 million tonnes of crude steel, i.e. 0.3% more than in 2017, while Ukraine recorded a decline in production of 1.1% to 21.1 million tonnes.

South America recorded an increase in steel production of 1.3% to 44.3 million tonnes in 2018. The biggest increase in crude steel production in 2018 was registered in the Middle East, where crude steel production reached 38.5 million tonnes, i.e. increase by 11.7% compared to the previous year. Iran recorded a 17.7% growth in 2018 compared to 2017, reaching 25 million tonnes of crude steel.

The year 2018 was marked by a noticeable cooling down in all sectors except transport, which went up 9%. The biggest decline was recorded in tube production (–1.4%) and household appliances (–0.8%). The downward trend in production growth continues in the automotive industry, which showed only a slight increase of 1.3%. The construction sector is still strong, grew by 4.6% and the engineering sector, where the growth was 4.5%. The overall growth of all sectors in 2018 was 3.1%, which is 1.9% less compared to 2017.

The outlook for 2018 and 2019 remains positive. Due to a decline in growth in key sectors, growth is expected to moderate in the steel sectors. Basic economic conditions continue to support lasting development in other sectors.

Production in the steel industry in the EU is projected to increase by 1.9% in 2019 and by 1.7% in 2020. The risk factor for the steel market is mainly unfair imports and protectionist measures in some countries.





The production of crude steel in the Czech Republic in 2018 amounted to 4.97 million tonnes, which is 9% more than the previous year. The volume of crude steel production decreased by 4.3% to 4 million tonnes. In 2019, production is expected to increase to the previous level, i.e. a growth in the range of 3%.

## THE PRODUCTION OF CRUDE STEEL IN THE CZECH REPUBLIC IN 2018 AMOUNTED TO 4.97 MILLION TONNES

The share of Třinecké železářny in the domestic production of raw steel last year decline to 52%. In 2018, Třinecké železářny produced a total of 2,583 million tonnes of crude steel, a growth of 2.1% over the previous year. Třinecké železářny have modern technological equipment, high level of expertise and knowledge of employees throughout the production and technological flow. We qualify as one of the leading European manufacturers of long



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

The sales volume of rolled products and semi-finished products including steel reached 2,375 million tonnes last year. Out of this volume, export amounted 67.7%, and 32.3% is attributable to domestic buyers. The most important export countries include Germany, Slovakia, Italy and Poland.

In the overall summary, the best-selling product was the wire rod, whose share of total sales in 2018 amounted to 41.2%. Total sales of wire rod reached the level of 979 kilo tonnes last year, 70% of which was sold to foreign markets.

The volume of sales in the range of bars and profiles amounted to 537 kilo tonnes, 61% of this was exported. Thanks to

investments in new refining and processing capacity, this type of product is offered not only as rolled steel but also heat-treated steel, peeled or drawn. A greater degree of finalization allows for increased sales of higher added value products, which are mainly used in the automotive and engineering industry.

## THE SALES VOLUME OF ROLLED PRODUCTS AND SEMI-FINISHED PRODUCTS INCLUDING STEEL REACHED 2,375 MILLION TONNES LAST YEAR

Sales of semis recorded a slight increase to 366 kilo tonnes (7.9%). The share of semi-block casting accounted for 64%, e. g. 20% of rolled blocks and 15% 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 of semi-finished products.

Třinecké železárny is the only rail and railway accessories producer in the Czech Republic and last year it supplied 38 kilo tonnes on the domestic market. Of the total sales volume of 251 kilo tonnes, 106 kilo tonnes of rails and railway accessories were exported to the EU, and another 79 kilo tonnes of rails were sent to Canada and the USA. Total exports of this product range accounted for 85% last year.

Exports of seamless tubes rose to 89 kilo tonnes in the past year, 78% of which went to the EU market. The domestic supply increased to 10%. Seamless tubes are used for the construction sector, mechanical engineering, oil and energy industries.

Sales of wide steel, produced by the universal strip mill in Bohumín, reached 43.7 kilo tonnes in 2018, mainly in the assortment of structural steels, of which 37.7 kilo tonnes were exported to EU countries. Supplies to the domestic market were 4.8 kilo tonnes.

## SALES OF LONG PRODUCTS 2016–2018

Sales (tonnes)	DOMESTIC			EXPORT			TOTAL		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Wire rod	313 055	301 458	296 583	663 567	693 064	682 376	976 622	994 522	978 959
Semis	170 242	171 633	173 367	192 813	167 742	192 886	363 055	339 375	366 253
Profiles and bars	214 278	217 011	211 726	361 211	356 802	325 331	575 489	573 813	537 057
Rails*	23 549	29 562	37 935	210 813	162 413	212 956	234 362	191 975	250 891
Tubes	7 377	8 675	9 983	88 114	87 485	89 362	95 491	96 160	99 345
Wide steel	4 739	4 551	4 774	43 162	33 430	38 965	47 901	37 981	43 739
Drawn bars	29 074	28 432	29 618	57 624	63 768	62 704	86 698	92 200	92 322
Drawn wire rod	3 578	3 894	3 460	3 143	3 290	3 455	6 721	7 184	6 915
<b>TOTAL</b>	<b>765 892</b>	<b>765 216</b>	<b>767 446</b>	<b>1 620 447</b>	<b>1 567 994</b>	<b>1 608 035</b>	<b>2 386 339</b>	<b>2 333 210</b>	<b>2 375 481</b>

\*sales of rails together with railway superstructure accessories

## OUR EXPORT TERRITORIES

EXPORT SHARE IN %	2015	2016	2017	2018
European Union	86.6	88.9	90.2	90.4
Germany	25.2	26.5	24.7	25.1
Slovakia	11.4	13.4	15.1	14.7
Italy	13.6	15.2	15.9	14.9
Poland	12.5	10.8	10.8	12.6
The Rest of Europe	1	3.1	0.4	0.5
America	9.4	7.3	7.6	7.3
Africa+Australia	0.6	0	0.1	0.1
Asia	2.4	0.7	1.7	1.7
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## INVESTMENTS AND MODERNIZATIONS

The technical development projects plan for 2018, which is part of the business program, is fully compliant with the commercial – production strategy defined as **“Increasing growth in the share of long products with higher added value and its control within the product chains.”** Our investments were focused on modernising, through environmental projects resulting from the conclusions of integrated permits, projects to cut costs as well as renew current facilities.

**A total amount of CZK 1,744 million was invested, of which CZK 34 million consisted of grants for environmental projects.**

In 2018, 65 running projects were ongoing.

The most significant of them are:

- Modification of continuous casting machine No. 1 for casting format 600 mm diameter,
- Desulphurisation of Sinter Plant No. 1,
- Construction of the Hot Blast Stove No. 64,
- New cleaning billet mill construction,
- Crane runway for castings stock at Billet Mill in Kladno,
- Reconstruction of a quadrate line at Billet Mill in Kladno,
- Development of the Steel Drawing Plant in Staré Město u Uherského Hradiště.

A total of 51 modernization projects have been launched. The most significant of them are:

- Ladle furnace on Electric Arc Furnace,
- Modernisation of Hot Blast Stove No. 61,
- Clamp crane No. 4 on Continuous Casting Equipment No. 1,
- Detection of surface defects on the continuous wire rod mill and continuous light section mill,
- Refining Line No. 2,

- Crane No. 26 – new slabs facility on rolling mill for blooms and heavy profiles,
- Non-destructive Line on 10th Mannesmann Small Hall at Tube Mill in Ostrava.

In 2018, 5 ecological projects were completed using grants of the State Environmental Fund of the Czech Republic and EU funds. In total, CZK 173 million was invested in environmental actions in 2018, of which the amount of CZK 139 million from Třinecké železářny investment funds and CZK 34 million from subsidies. The most significant environmental projects in 2018 included:

- Filtration station at the slag mill at Secondary Raw Materials Production,
- Dust catching equipment at Billet Mill Kladno,
- Centralized vacuuming of Sinter Plant No. 1,
- Centralized vacuuming of Sinter Plant No. 2,
- Dust catching equipment at Secondary Raw Materials Production.





## TECHNOLOGY AND RESEARCH

Technological activities in Třinecké železářny are focused on meeting the strategic goals of the company leading to satisfying demanding customer requirements and reducing costs. In practice, this means that by controlling the technological process throughout the production flow, the required quality parameters of both semi-finished products and final products are ensured. An important factor is the integration, implementation and validation of modern technologies and procedures, which not only significantly reduce production and processing costs or environmental burden, but also significantly increases the added value of final products, which places Třinecké železářny as a major steel producer in Central Europe.

The field of technology is sophisticatedly managed through technological regulations and measures. It is aimed at managing this process in the production material flow from pig iron and steel production to final treatment operations,

in particular rolling mills, as peeling, drawing or hot treatment where needed. The technological regulations and measures mentioned above are closely connected with the requirements of customers in synergy with the possibilities of production facilities and they are continuously updated with regard to research and development activities, or innovation technology. In the case of investments in new facilities, appropriate documentation is created to allow the implementation of new technology.

The quality of the products is guaranteed to all customers. For this purpose, functional tools were established, such as “Quality Plan” and “Programme of Continual Improvement.” These activities are aimed at lowering or eliminating non-conformity of production and achieving maximum satisfaction in the midst of the still growing number of quality demands of customers. Close cooperation with key customers is professionally controlled by technical “Quality Services”.



AN IMPORTANT PART OF  
RESEARCH AND  
DEVELOPMENT ACTIVITIES  
HAS LONG BEEN  
THE DEVELOPMENT OF  
ENVIRONMENTALLY FRIENDLY  
TECHNOLOGIES

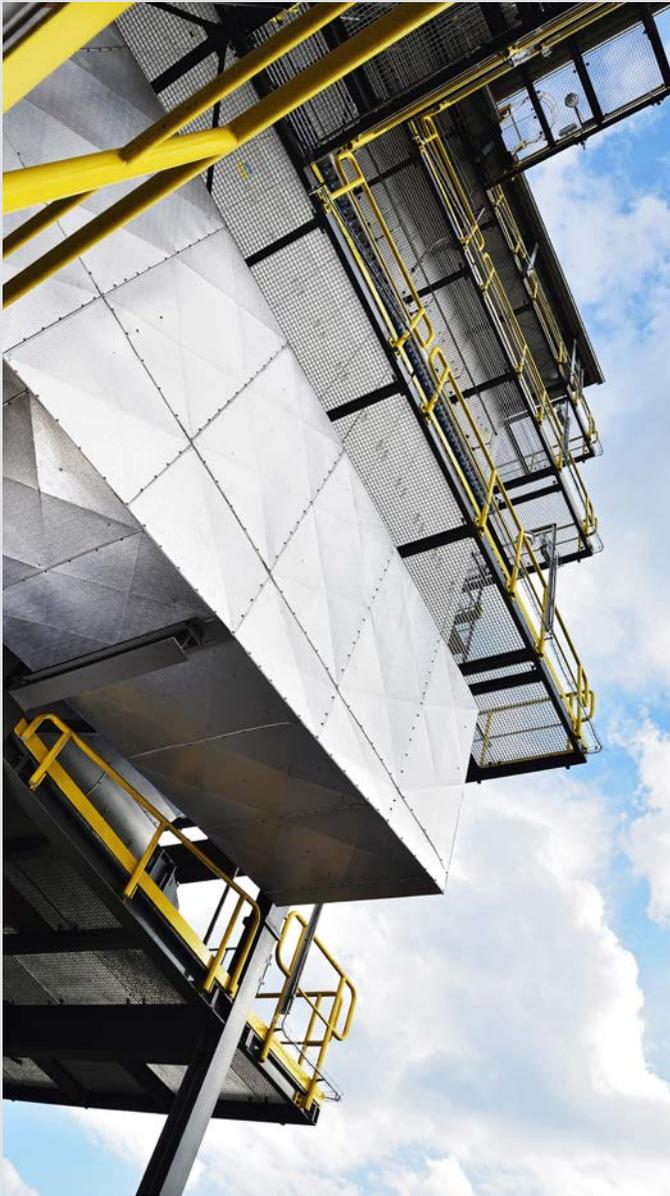
Finally, technological activity is focused on improving the quality of interaction with subsidiaries in the group Třinecké železářny – Moravia Steel. Active cooperation helps optimise and link together new technologies or innovations with new development of cutting-edge products.

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

- Steel grades for Billet Mill in Kladno,
- Tube production,
- Steel grades from Electric Arc Furnace,
- Steel bars from Continuous Light Section Mill and Medium Section Mill for automotive industry,
- Screw steel,
- Spring steel,
- Drawn steel,
- Chain steel,
- Bearing steel,

- Continuously cast semis for direct deliveries and axle steel,
- Rails,
- Wire rod from Continuous Wire Rod Mill,
- Waste management and by-products.

In 2018, research and development in Třinecké železářny focused on optimizing existing and introducing new technologies in various areas across the production flow to finalization of steel products. Development activities also took into account the current requirements of our customers as well as the goals of maintaining our company's competitiveness. An important part of research and development activities has long been the development of environmentally friendly technologies.



Examples include projects aimed at:

- Improvement of micro-purity steel produced by continuous casting machine No. 1 and No. 2,
- Introduction of continuous casting machine No. 1 for casting format 600 mm diameter
- Reduction of coal-tar in coke waters,
- Use of secondary raw materials (dust, isolates etc.) in the production cycle,
- Introduction of thermomechanical rolling technology of produced quality of steel

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

- Development and verification of the heat treatment (refinement) technologies of drawn bars on the inductive refining line,
- Punch optimization and heat treatment technology of microalloyed and low alloy steels,
- Development of temperature-controlled rolling and cooling of seamless tubes with subsequent final treatment,

- Development and validation utility properties of rails,
- Development and utilization of laser triangulation method to improve the surface quality of cast billets in the conditions of new cleaning billet mill construction.

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

A total of 25 research projects were carried out in 2018, of which 24 were intra-company projects and 1 was state subsidies provided by the Technology Agency of the Czech Republic and the Ministry of Industry of the Czech Republic. Five projects were successfully completed in 2018.



## ENVIRONMENT

### Air protection

Compared to 2017, emissions of solid pollutants, sulphur dioxide and carbon monoxide decreased. In contrast, nitrogen oxides and carbon dioxide recorded an increase. These normal year-on-year fluctuations are caused by changes in production volume at individual production facilities.

For the year 2018, the emissions of greenhouse gases from installations in the Třinec area of TŽ were in the amount of 2,696,598 tonnes of carbon dioxide, the amount of carbon dioxide from the Billet Mill Kladno reached 50,757 tonnes. The total amount of greenhouse gases from Třinecké železářny installations in the year 2018 amounted to 2,747,355 tonnes of carbon dioxide, which represents a slight annual increase due to the higher production of hot metal in 2018.

### POLLUTANTS IN 2018 COMPARED TO 2017

YEAR	SOLID POLLUTANTS (t/year)	SULPHUR (t/year)	NITROGEN OXIDES (t/year)	CARBON MONOXIDE (t/year)	CARBON DIOXIDE (t/year)
2017	148	2 753	1 726	69 032	2 694 711
2018	138	2 477	1 982	63 775	2 747 355





### Water protection

The amount of industrial wastewater discharged into the Olše River watercourse and the pollution of water did not record any significant change in 2018 compared to 2017. This corresponds to the long-term stabilised state of our water management. The level of waste water pollution achieves a sustainable level with respect to compliance with the specified limits of pollution.

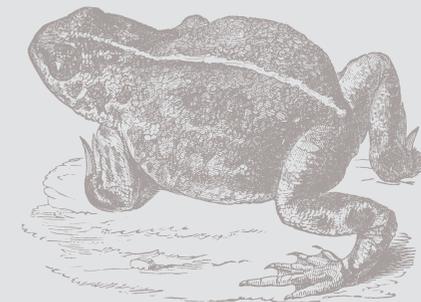
In terms of production of wastewater per tonne of produced steel, the situation is consistently stable as in 2017, when wastewater production was 1.65 m<sup>3</sup>/t. In 2018, wastewater production recorded 1.47 m<sup>3</sup>/t.

During 2018, there was no instance of emergency that would result in the deterioration of, or threat to, the quality of groundwater or surface water.

### POLLUTION DISCHARGED INTO WATER FLOWS IN 2018 COMPARED TO 2017

YEAR	VOLUME OF WASTE WATER (m <sup>3</sup> /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)
2017	4 171 138	32.0	0.66	2 115	83.1	3.5
2018	3 783 041	32.5	0.62	1 866	68.6	4.3

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





THE BASIC  
ASPECT OF WASTE  
MANAGEMENT IN TŽ IS  
TO MINIMIZE IMPACTS  
ON THE ENVIRONMENT

### Waste management

The basic aspect of waste management in TŽ is to minimize impacts on the environment. The amount of waste generated in TŽ is largely dependent on the volume of metallurgical production. In 2018, there was a slight decrease in waste production compared to 2017.

On the basis of the figures, the year 2018 represents a total of 119 539 t of waste, a drop of about 10% compared to 2017 (132 535 t). For waste of the category other (99 123 t) this drop is 5%, for hazardous

waste (20 415 t) it is a drop of 27%.

The indicator of the amount of waste per ton of steel was 2018 – 46.3 kg/t of steel. In the previous year of 2017, it was 52.4 kg/t of steel (a drop of 12%).

The overall decline in waste production in 2018 is affected by the fact that there were no investment projects that would have an impact on the generation of waste, and that after the start, the production of trapped dusts on newly installed dedusting plants stabilized.

### VOLUME OF WASTE IN 2018 COMPARED TO 2017

YEAR	STEEL PRODUCTION (kt/year)	PRODUCTION OF WASTE CATEGORY "OTHER" (kt/year)	PRODUCTION OF WASTE CATEGORY "HAZARDOUS" (kt/year)
2017	2 528	105	28
2018	2 583	99	20

Note.: the data refer to all Třinecké železářny plants



### Environmental projects

In 2018 the following major environmental investment projects were completed and launched:

- Central vacuuming of Sinter Plant No. 2 and filling station No. 1,
- Central vacuuming of Sinter Plant No. 1 and filling station No. 2,
- De-sulphuring of Sinter Plant No. 1,
- Dust catching equipment in Billet Mill Kladno,
- Filtering station at slag mill,
- Dust catching equipment in Secondary Raw Materials Plant.

Investment projects, which are ongoing or started in 2018

- Dedusting of tundish tilting at Continuous Casting Machine No. 1,
- Reconstruction and modernization of low volume waste at the Secondary Raw Materials Plant,
- De-dusting of equipment for catching and processing the blast furnace sinter blend,
- De-dusting of equipment for transport and charging the steel sinter,

- Modernization of hot blast stove No. 61,
- Modernization of hot blast stove No. 62.

The total cost of completed and ongoing environmental investment actions in 2018 reached the amount of CZK 173 million.

Within the investment projects of 2019, we plan following environmental projects:

- Sinter Plant No. 1 – Electric separators No. 1, 2,
- De-dusting of hot transport routes of Sinter Plant No. 1,
- De-dusting of cold transport routes of Sinter Plant No. 1,
- Decrease of emission at daily buffers of blast furnace ore stack.

## EMPLOYEES

The relationship between employees and Třinecké železářny is based on openness and mutual respect, while TŽ supports the development and career growth of its employees. The core principles of Třinecké železářny behaviour, including the relationship with employees, principles of corporate culture and core Corporate Social Responsibility (CSR), are set out in the Code of Conduct for the conduct of Třinecké železářny. These principles are reflected in the provisions of the Rules of Procedure and other internal rules. Statutory and above-standard benefits of Třinecké železářny employees are enshrined in the Corporate Collective Agreement and the related in-house documentation, which is used by employees to perform their duties.

In order to ensure generational renewal as well as the solution of staff turnover, in 2018, as well as in previous years, attention was paid to recruiting technically qualified job seekers, not only from high school and university graduates.

This year, the graduates of technical branches of the Secondary Technical School of Třinecké železářny also found a wide range of jobs within Třinecké železářny. In order to meet the need for the employment of college graduates, the 17th run successfully concluded and the 18th run of the Internship Centre for Graduates began. Among other things, cooperation with schools of all levels continued, focusing mainly on the support and promotion of technology and technical and natural sciences.

As in previous years, emphasis was also placed on employee training. Corporate training is based on the HR strategy and policy of Třinecké železářny set out in the Human Resources Development Plan, which is an integral part of the Business Plan. In order to ensure the future development of Třinecké železářny, ensuring a prepared and highly qualified workforce will continue to play a key role in view of demographic developments. That is why education policy is integrated into the

company's personnel strategy. In this context, the mission of education is to ensure the qualification level of employees in the entire portfolio of professions. On the other hand, education is an unlimited process whereby employees are trained to maintain qualifications and further development to deepen and expand their expertise and skills.

## THE RELATIONSHIP BETWEEN EMPLOYEES AND TŘINECKÉ ŽELEZÁRNY IS BASED ON OPENNESS AND MUTUAL RESPECT

In 2018, a part of the training events was implemented through two projects from the Operational Program Employment, namely the Regional Development and Cooperation Council project in Třinec (REGRADA), designed mainly for language training, and the Werkperspektiva project, which provided courses in the area



of general as well as special information systems, courses in soft and managerial skills, including accounting, economic and legal courses. This project also includes technical and other vocational training.

Internal education (on-the-job training) plays an important role in the educational process of the company's employees; it has been implemented in the form of Corporate Academy for over 5 years. This platform serves not only to prepare training courses, to implement them and to maintain systematic records of past educational events, but also to share knowledge and experience and to facilitate staff discussion of various topics.

In addition to the statutory protection of health, in 2018 a number of health-preventative activities were provided in Třinecké železárny in cooperation with Česká průmyslová zdravotní pojišťovna to promote employee health and to adhere to the principles of a healthy lifestyle. These were in particular reconditioning – reha-



**ACTUAL AVERAGE  
EARNINGS OF CZK 35,021  
WERE ACHIEVED**

bilitation stays in spas, outpatient rehabilitation and supplementary reconditioning care, including physical activities, massages, relaxation procedures and nutritional counselling. Employees at selected workplaces were provided with vitamin packages.

The prevention of occupational health risks is carried out in accordance with the legislation of the Czech Republic and the terms and conditions of the “Safe Enterprise” award, which was granted to Třinecké železárny by the State Labour Inspection Office repeatedly for three years.

In 2018, Třinecké železárny recorded a total of 18 accidents at work with incapacity for work exceeding 3 calendar days. No fatal or serious injury has occurred. The rate of accidents at work was 0.25 per 100 employees per year (20% reduction compared to 2017).

In the area of personnel work and motivation, in order to fulfil production in the required volume while maintaining a high level of quality, all efforts were focused on recruiting new employees in the necessary qualifications and stabilizing existing employees. Most modernization actions and rationalization processes have focused on reducing staff needs. For the year 2018, the actual accounting recalculated amount of 7,115 employees was achieved and the actual average earnings of CZK 35,021 were achieved.

Exceeding the growth of average earnings agreed in the Corporate Collective Agreement, as well as the fulfilment of other agreed provisions of the Corporate Collective Agreement and the Social Code, was the basis of social peace and a prerequisite for the conclusion of the new Corporate Collective Agreement for 2019–2021.

## MANAGEMENT SYSTEM

In order to implement 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, it is important that the management system have decisive significance. The efforts of all employees are aimed at increasing the added value of long rolled products, the predominant part of our production.

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

In 2018, a series of measures were adopted to support the strategic objectives in all strategic areas (Partnership, Technology, Staff, and Management). The company managers, who are responsible for strategy, attended the educational events regarding the legislation changes, pro-innovation corporate culture, automation and robotic solutions for Industry 4.0. The management system, including the information systems, did not change in 2017. The information platform still consists of SAP and Lotus (IBM) Notes, ELVIS and Werkportal.

## THE EFFORTS OF ALL EMPLOYEES ARE AIMED AT INCREASING THE ADDED VALUE OF LONG ROLLED PRODUCTS

In the area of quality management, in 2018 Třinecké železářny has been certified according to the requirements of the

new standard IATF 16949, intended for the automotive industry. According to this industry standard, the production sites of Třinec, Staré Město u Uherského Hradiště and Kladno were certified.

Based on the social responsibility of Třinecké železářny management towards the environment and stakeholders in the region, the energy management system within the scope of EN ISO 50001 (certified by the third independent party for the Třinec site in 2016) was expanded in 2017 to separate production units in Kladno, Ostrava and Staré Město u Uherského Hradiště. Regarding the social responsibility, the implementation of the SA 8000 Corporate Social Responsibility Scheme to the management system went on. The decision on its certification is scheduled for the second half of 2019.

In 2018, the Regulation (EU) 2016/679 (General Personal Data Protection Regulation (GDPR)) has been implemented into the corporate management system. System





TŘINECKÉ ŽELEZÁRNY  
ANNUALLY FINANCES  
AND ORGANIZES RECOVERY  
FOR CHILDREN FROM TŘINEC  
AND ITS SURROUNDINGS

of personal data protection in Třinecké železářny fully meets the requirements of this regulation. At the same time, the Regulation 95/46/ES has been cancelled.

Continuous efforts to ensure appropriate behaviour with respect to the environment and the inhabitants of the region continued in 2018 with activities such as cleaning the river bed of the Olše River, organizing the assistance of our employees to non-profit organizations within the so-called Volunteer Day, and also by financially supporting selected projects of non-profit organizations or the regional sports clubs.

In 2018, the Czech Republic – the Ministry of the Environment, the Moravian-Silesian Region and Třinecké železářny concluded an “Agreement for the Reduction of Environmental Burden”, which aims to reduce the environmental burden of the Moravian-Silesian Region, in particular air pollution. One of the obligations for Třinecké železářny

resulting from this agreement is to ensure the annual financing and organization of CZK 1.5 million for the recovery of children from Třinec and its surroundings. In 2018, 226 children from the primary schools in Třinec attended these curative stays organized in Žiar in the Western Tatras in Slovakia.

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

Třinecké železářny has no organisational branch abroad.

## FINANCIAL INFORMATION

The profit before tax for the year 2018 amounted to CZK 4,077 million.

Compared to 2017, the pre-tax profit is higher by CZK 2,388 million, mainly due to the increase in production volume and the quantity sold associated with the start of modernized blooming and reversing mill, as well as favourable growth of output prices, which were growing faster than the prices of raw materials.

## DEVELOPMENT OF REVENUES

INDICATOR (IN CZK THOUSANDS)	2017	2018
Rolled goods incl. steel	34 504	39 053
Other products	916	1 001
Sales of own products	35 420	40 054
Revenues from services	439	442
<b>Sale of own production, services and goods</b>	<b>35 859</b>	<b>40 496</b>

The revenues of Třinecké železárny reached the level of CZK 40,496 million, which represents their year-on-year increase by CZK 4,637 million due higher amount of sales, increase in the average sales price of rolled steel products and steel, as well as higher sales of other products and services (especially due to the higher prices of tar).

The purchased consumables and services were CZK 1,778 million higher than in 2017. The most significant impact on their year-on-year increase was higher production (+55 thousand tonnes of crude steel) and to the rise in the prices of the crucial input commodities. Consumption of energies, material and services also grew.

The added value reached CZK 9,887 million in 2018, which is CZK 3,153 million more than in 2017. Labour productivity of value added per employee in 2018 was CZK 1,390 thousand (CZK 985 thousand in 2017).

The operating result was also influenced by higher personnel costs, depreciation and increase in reserves, positive reduction of allowances for inventories and sale of emission allowances. The operating result increased by CZK 2,611 million year-on-year.

The financial result was CZK 223 million lower than in 2017 in relation to higher allowances in relation to the long-term financial assets, lower earnings from subsidiaries, higher cost interests and gifts provided.

#### COST STRUCTURE IN 2018



<span style="color: #800000;">■</span>	Material costs 67%
<span style="color: #FF0000;">■</span>	Energy 8%
<span style="color: #008080;">■</span>	Personnel costs 12%
<span style="color: #ADD8E6;">■</span>	Services, financial and other 9%
<span style="color: #654321;">■</span>	Depreciation 4%

As at 31 December 2018, our company reported assets totalling CZK 38,943 million, which is CZK 3,544 million more than at 31 December 2017.

The year-on-year increase in assets was due to increased fixed assets by CZK 1,911 million.

Tangible fixed assets increased by CZK 300 million (investments higher than depreciation). Intangible fixed assets increased by CZK 388 million (emission allowances). Long-term financial assets also increased.

Current assets grew by CZK 1,633 million.

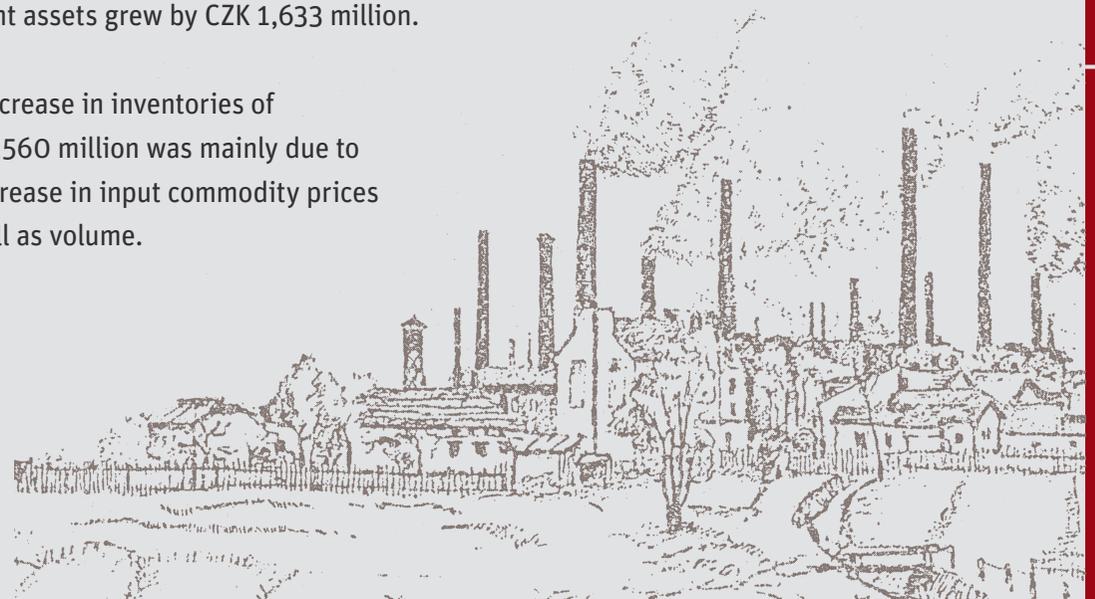
The increase in inventories of CZK 1,560 million was mainly due to an increase in input commodity prices as well as volume.

Receivables decreased by CZK 124 million due to the reduction of tax receivables from the state.

Cash increased by CZK 197 million.

In the area of liabilities, as compared to 31 December 2017, the share capital increase was CZK 2,134 million.

External resources, increased year-on-year by CZK 1,410 million due to an increase in reserves, trade payables, liabilities to the state and estimated payables. Liabilities to credit institutions decreased.





### STRATEGIC OBJECTIVES

In steelmaking, 2018 continued in growth like in 2017, as global steel production increased by 4.6%. For this year, the growth rate of production is expected to decrease to about 2%. China continues in reducing the environmental burden of the steel industry and reduction of overcapacities. Growth in steel demand in China is decelerating sharply and is expected to be reflected in other countries around the world.

**IN STEELMAKING, 2018  
CONTINUED IN GROWTH  
LIKE IN 2017, AS GLOBAL  
STEEL PRODUCTION  
INCREASED BY 4.6%**

In Třinecké železářny, the modernization of the equipment is continually being carried out in order to reduce costs and increase the added value of final products. Modification of continuous casting machine to a new format of diameter 600 mm goes on; construction of refining line No. 2 as well as construction of an automatic warehouse in the Steel Drawing Plant in Staré Město u Uherského Hradiště have started.

In 2019, an extensive investment in the development of the Steel Drawing Plant in Staré Město u Uherského Hradiště will continue. A new finishing line No. 2 will be put into operation in Třinecké železářny and the construction of a new peeling line for the wire and fine section rolling mill with planned completion in 2020 will start. Regarding environmental projects, the modernization of hot blast stove No. 61 and the dedusting of the blast furnace sinter processing equipment will be completed.

# 06

## Report of the Supervisory Board

THE SUPERVISORY BOARD REGULARLY INSPECTED WHETHER THE BUSINESS ACTIVITIES OF TŘINECKÉ ŽELEZÁRNY, a. s. ARE CARRIED OUT IN ACCORDANCE WITH THE VALID LEGISLATION, THE STATUTES OF TŘINECKÉ ŽELEZÁRNY, a. s., AND THE SOLE SHAREHOLDER'S DECISIONS ACTING IN THE CAPACITY OF THE GENERAL MEETING AND RESOLUTIONS OF THE SUPERVISORY BOARD. IN THE COURSE OF THE YEAR OF 2018, 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 2018.

At its meeting on 23 April 2019, the Supervisory Board reviewed the Annual Report of TŘINECKÉ ŽELEZÁRNY, a. s. for the year 2018, which includes

- The regular financial statements for the year 2018,
- The ordinary consolidated financial statements for the year 2018,
- The report on relations for the accounting period of 2018,
- The Board of Directors' proposal for the distribution of profits generated for the 2018 reporting period, AND
- The report of the Board of Directors on the business activities of TŘINECKÉ ŽELEZÁRNY, a. s., and the state of its assets.

The Supervisory Board stated that the Report on Relations for the reporting period of 2018 was prepared in accordance with Act No. 90/2012 Coll. and the actual status of the relations between TŘINECKÉ ŽELEZÁRNY, a. s. and the controlling entities and between TŘINECKÉ ŽELEZÁRNY, a. s. and the entities controlled by the same controlling entity.

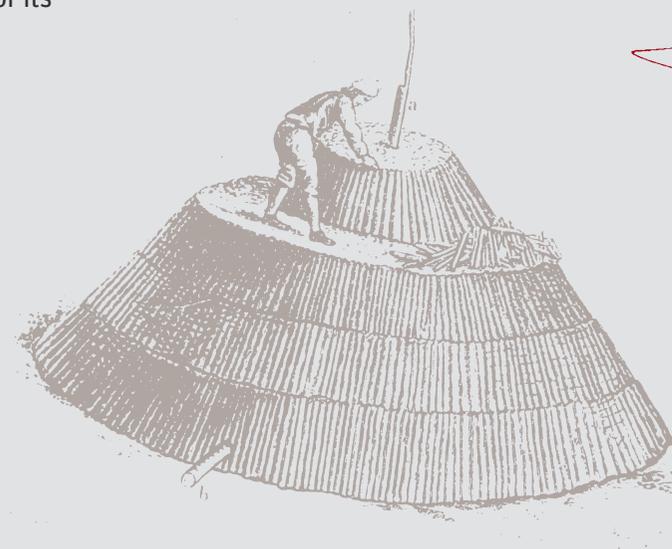
The Supervisory Board further stated that its proposal for the distribution of profit generated for the reporting period 2018 is not contrary to the provisions of Section 350 of Act No. 90/2012 Coll.

The Supervisory Board recommends that the regular financial statements and the regular consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. for the year 2018, as well as the proposal of the Board of Directors for the distribution of the profit generated for the accounting period of 2018 and the report of the Board of Directors on the business activity of the TŘINECKÉ ŽELEZÁRNY, a. s. of its assets, for approval by the General Meeting, i.e. the sole shareholder of TŘINECKÉ ŽELEZÁRNY, a. s. acting in the capacity of the General Meeting.



**Tomáš Chrenek**

CHAIRMAN OF THE SUPERVISORY BOARD



# 07

## Report of the Audit Committee

### INTRODUCTION

The Audit Committee of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter referred to as the “**Committee**”) has three members in accordance with the Articles of Association of this company (Dana Trezziová, Ján Moder and Tomáš Chrenek). The Committee worked in accordance with the valid legislation, the Articles of Association of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter referred to as “**TŽ**”) and the Rules of Procedure of the Committee. In 2018, the Committee met twice. In 2019, one session of the Committee was held until the date of the General Meeting.

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

- I. Monitoring the preparation of the financial statements of TŽ and the consolidated financial statements of TŽ for 2018. The procedure for preparing the financial statements of TŽ for 2018 and the consolidated financial statements of TŽ for the year 2018 was carried out according to Czech and international accounting standards and these financial statements are audited;
- II. Monitoring the process of mandatory audit of TŽ’s financial statements and TŽ’s consolidated financial statements for the year 2018;
- III. Assessing the independence of statutory auditors and audit firms and monitoring the provision of other non-audit services by statutory auditors and audit firms;



- IV. Receiving information, statements and communications under the applicable legal regulations from the auditor;
  - V. Continuous monitoring of the effectiveness of internal control in TŽ and subsidiaries of TŽ belonging to the so-called consolidation unit defined by the Board of Directors (hereinafter referred to as the **TŽ Group**) and the risk management system including the discussion of risk management reports;
  - VI. Continuous monitoring of the effectiveness of internal audit and ensuring its functional independence; Discussion of internal audit activities and results of internal audits and monitoring compliance with recommendations and remedial measures taken from internal audits carried out;
  - VII. Monitoring the implementation of the TŽ Internal Audit Service's work plan for 2018;
  - VIII. Discussing the Internal Audit Service's work plan for 2019;
  - IX. Information on the impact of the external economic environment on TŽ's management;
  - X. Informing the Supervisory Board of TŽ on matters falling within the scope of the Committee and making recommendations on the items that were the subject of the Committee's deliberations;
  - XI. Reporting to the General Meeting of Shareholders.
- In addition, the main members of the Audit Team, the Financial Director of TŽ, the Head of the Internal Audit Unit of TŽ, as well as the employees of TŽ who were responsible for the activities or who participated in the activities on which the Committee focused were usually invited to the Committee meeting.
- The Committee was able to inspect documents and records relating to the activities of TŽ throughout its scope of activity to the extent necessary for the performance of its activities.

## FINANCIAL STATEMENTS AND STATUTORY AUDITS

Based on the decision of the General Meeting dated 29 June 2015, Deloitte Audit s.r.o. carries out the mandatory audit of the TŽ Financial Statements and TŽ Consolidated Financial Statements for 2018. At its meetings, the Committee focused on tracking the financial reporting procedures and accounting for significant transactions. The Committee has been kept informed by the external auditor on the timing of the audit and on the significant facts identified during the audit.

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

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

The Audit Committee reviewed the procedure for the preparation of the financial statements of TŽ and the consolidated financial statements of TŽ. The Audit Committee monitored the process of mandatory auditing of TŽ's financial statements for the year 2018, the consolidated financial statements of TŽ for 2018 and the financial statements of individual TŽ Group companies. The procedure for preparing the financial statements of TŽ for 2018 and

the consolidated financial statements of TŽ for the year 2018 was based on Czech and international accounting standards, and these financial statements are audited. The Committee informed the Supervisory Board on its dealings, findings and conclusions including the fact that mandatory audit has contributed significantly to ensuring the integrity of accounting and financial reporting systems.

In 2018, the Committee discussed and recommended that the Supervisory Board of TŽ submit to the General Meeting of TŽ, i.e. the sole shareholder of TŽ, the designation of an auditor to perform the statutory audit for the accounting period of the calendar years 2019 to 2021 by the auditing company Deloitte Audit s.r.o., based in Karolinská 654/2, 186 00 Praha 8-Karlín, Czech Republic, identification number 49620592, registered in the Commercial Register maintained by the Municipal Court in Prague, Section C, File 24349.

### **INTERNAL AUDIT, INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT**

The Audit Committee monitored the effectiveness of internal control and internal audit in TŽ and individual companies of the TŽ Group. The Committee was regularly informed about the activities of TŽ internal audit and implementation of the internal audit plan for 2018. The Committee monitored the effectiveness of TŽ's internal audit and assessed its functional independence. The work of the internal audit department of TŽ is carried out in full compliance with internationally recognized standards. The Committee regularly discussed the results of the audit activity, in particular the main findings and recommendations from the audits carried out, which were then approved by the company management. Based on the results of the audits carried out by TŽ, it can be stated that the internal control system in TŽ is effective and that any shortcomings are continuously resolved, even in connection with the outputs of the internal audit activity.

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

### **CONCLUSION**

The Audit Committee, in performing the main activities entrusted to it by TŽ's Articles, i.e. monitoring the preparation of the financial statements, including consolidated financial statements, monitoring the process of the statutory audit of the financial statements and consolidated financial statements, monitoring the effectiveness of internal control of TŽ and the risk management system, internal audit and risk management and the assessment

of the statutory auditor's independence, including the provision of non-audit services by TŽ's statutory auditor, did not find, during the course of 2018, nor at the time of drafting this report, any shortcomings or other material facts to be reported to the General Meeting of TŽ or the sole shareholder of TŽ acting in the capacity of its General Meeting.

**Dana Trezziová**

AUDIT COMMITTEE CHAIRWOMAN



Financial  
Section

08

Auditor's  
Report**Deloitte.**

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Registered by the Municipal Court  
in Prague, Section C, File 24349  
ID. No.: 49620592  
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 2018, 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 2018, 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 2018, 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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Basis for Opinion

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

Other Information in the Annual Report

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

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

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

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

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

#### Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements and the Consolidated Financial Statements

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

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

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

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

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

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

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

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

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

In Prague on 23 April 2019

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 2018**

<b>NAME OF THE COMPANY:</b>	TŘINECKÉ ŽELEZÁRNY, a. s.
<b>REGISTERED OFFICE:</b>	Průmyslová 1000, Staré Město, 739 61 Třinec
<b>LEGAL STATUS:</b>	Joint Stock Company
<b>CORPORATE ID:</b>	180 50 646

**Components of the Financial Statements:**

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

These financial statements were prepared on 25 March 2019.

<b>STATUTORY BODY OF THE REPORTING ENTITY:</b>	<b>SIGNATURE</b>
<b>Jan Czudek</b> Chairman of the Board of Directors	
<b>Radomíra Pekárková</b> Member of the Board of Directors	

## BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	31. 12. 2018			31. 12. 2017
	Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>	<b>64 513 515</b>	<b>-25 570 367</b>	<b>38 943 148</b>	<b>35 398 711</b>
<b>B. Fixed assets</b>	<b>49 766 165</b>	<b>-24 949 280</b>	<b>24 816 885</b>	<b>22 905 839</b>
<i>B.I. Intangible fixed assets</i>	<b>1 240 544</b>	<b>-293 807</b>	<b>946 737</b>	<b>558 762</b>
B.I.1. Development	4 553	-4 553		
B.I.2. Valuable rights	351 160	-283 976	67 184	79 798
B.I.2.1. Software	214 989	-202 680	12 309	19 110
B.I.2.2. Other valuable rights	136 171	-81 296	54 875	60 688
B.I.4. Other intangible fixed assets	883 288	-5 278	878 010	476 621
B.I.5. Prepayments for intangible fixed assets and intangible fixed assets under construction	1 543		1 543	2 343
B.I.5.2. Intangible fixed assets under construction	1 543		1 543	2 343
<i>B.II. Tangible fixed assets</i>	<b>39 925 009</b>	<b>-24 267 776</b>	<b>15 657 233</b>	<b>15 357 027</b>
B.II.1. Land and structures	10 060 283	-5 004 177	5 056 106	5 081 994
B.II.1.1. Land	527 358		527 358	524 507
B.II.1.2. Structures	9 532 925	-5 004 177	4 528 748	4 557 487
B.II.2. Tangible movable assets and sets of tangible movable assets	28 876 192	-19 254 630	9 621 562	9 661 944
B.II.4. Other tangible fixed assets	6 735		6 735	5 440
B.II.4.3. Other tangible fixed assets	6 735		6 735	5 440
B.II.5. Prepayments for tangible fixed assets and tangible fixed assets under construction	981 799	-8 969	972 830	607 649
B.II.5.1. Prepayments for tangible fixed assets	109 455		109 455	72 616
B.II.5.2. Tangible fixed assets under construction	872 344	-8 969	863 375	535 033
<i>B.III. Non-current financial assets</i>	<b>8 600 612</b>	<b>-387 697</b>	<b>8 212 915</b>	<b>6 990 050</b>
B.III.1. Equity investments – controlled or controlling entity	8 547 615	-371 378	8 176 237	6 954 974
B.III.3. Equity investments in associates	50 995	-16 319	34 676	33 075
B.III.5. Other non-current securities and investments	2 002		2 002	2 001

TABLE CONTINUES ON THE FOLLOWING PAGE 

## BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

<b>C.</b>	<b>Current assets</b>	<b>14 747 350</b>	<b>-621 087</b>	<b>14 126 263</b>	<b>12 492 872</b>
<i>C.I.</i>	<b>Inventories</b>	<b>11 689 382</b>	<b>-573 856</b>	<b>11 115 526</b>	<b>9 555 461</b>
C.I.1.	Material	4 880 865	-325 537	4 555 328	3 874 602
C.I.2.	Work in progress and semifinished goods	4 101 231	-211 105	3 890 126	3 624 396
C.I.3.	Products and goods	2 696 860	-37 214	2 659 646	2 041 766
C.I.3.1.	Products	2 696 847	-37 214	2 659 633	2 041 745
C.I.3.2.	Goods	13		13	21
C.I.5.	Prepayments for inventories	10 426		10 426	14 697
<i>C.II.</i>	<b>Receivables</b>	<b>2 649 003</b>	<b>-34 683</b>	<b>2 614 320</b>	<b>2 738 424</b>
<i>C.II.1.</i>	<i>Long-term receivables</i>	<b>10 825</b>		<b>10 825</b>	<b>8 726</b>
C.II.1.5.	Receivables – other	10 825		10 825	8 726
C.II.1.5.2.	Long-term prepayments made	639		639	639
C.II.1.5.4.	Sundry receivables	10 186		10 186	8 087
<i>C.II.2.</i>	<b>Short-term receivables</b>	<b>2 454 734</b>	<b>-34 683</b>	<b>2 420 051</b>	<b>2 596 297</b>
C.II.2.1.	Trade receivables	2 031 409	-15 235	2 016 174	1 992 255
C.II.2.2.	Receivables – controlled or controlling entity	21 087		21 087	24 040
C.II.2.4.	Receivables – other	402 238	-19 448	382 790	580 002
C.II.2.4.3.	State – tax receivables	330 884		330 884	562 735
C.II.2.4.4.	Short-term prepayments made	5 728		5 728	4 283
C.II.2.4.5.	Estimated receivables	7 791		7 791	4 891
C.II.2.4.6.	Sundry receivables	57 835	-19 448	38 387	8 093
<i>C.II.3.</i>	<b>Other assets</b>	<b>183 444</b>		<b>183 444</b>	<b>133 401</b>
C.II.3.1.	Deferred expenses	47 088		47 088	38 626
C.II.3.2.	Complex deferred expenses	136 299		136 299	94 707
C.II.3.3.	Accrued income	57		57	68
<i>C.III.</i>	<b>Current financial assets</b>	<b>12 548</b>	<b>-12 548</b>		
C.III.2.	Other current financial assets	12 548	-12 548		
<i>C.IV.</i>	<b>Cash</b>	<b>396 417</b>		<b>396 417</b>	<b>198 987</b>
C.IV.1.	Cash on hand	2 000		2 000	1 890
C.IV.2.	Cash at bank	394 417		394 417	197 097

**BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY**

(IN CZK THOUSAND)

	<b>31. 12. 2018</b>	<b>31. 12. 2017</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>38 943 148</b>	<b>35 398 711</b>
<b>A. Equity</b>	<b>27 890 159</b>	<b>25 756 117</b>
A.I. <b>Share capital</b>	<b>8 109 863</b>	<b>8 109 863</b>
A.I.1. Share capital	8 109 863	8 109 863
A.II. <b>Share premium and capital funds</b>	<b>103 743</b>	<b>103 740</b>
A.II.2. <i>Capital funds</i>	103 743	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 (+/-)	-44	-47
A.III. <b>Funds from profit</b>	<b>2 858 219</b>	<b>2 858 219</b>
A.III.1. Other reserve funds	2 858 219	2 858 219
A.IV. <b>Retained earnings (+/-)</b>	<b>13 484 295</b>	<b>13 260 157</b>
A.IV.1. Accumulated profits brought forward	13 484 295	13 260 157
A.V. <b>Profit or loss for the current period (+/-)</b>	<b>3 334 039</b>	<b>1 424 138</b>
<b>B.+C. Liabilities</b>	<b>11 052 989</b>	<b>9 642 594</b>
<b>B. Reserves</b>	<b>381 886</b>	<b>294 496</b>
B.III. Reserves under special legislation	1 113	1 098
B.IV. Other reserves	380 773	293 398
<b>C. Payables</b>	<b>10 671 103</b>	<b>9 348 098</b>
C.I. <b>Long-term payables</b>	<b>3 089 894</b>	<b>2 948 345</b>
C.I.2. Payables to credit institutions	1 972 001	1 821 573
C.I.4. Trade payables	30 418	48 325
C.I.8. Deferred tax liability	1 087 475	1 078 307
C.I.9. <i>Payables – other</i>		140
C.I.9.3. Sundry payables		140

TABLE CONTINUES ON THE FOLLOWING PAGE 

## BALANCE SHEET FULL VERSION – LIABILITIES &amp; EQUITY

(IN CZK THOUSAND)

C.II.	<b>Short-term payables</b>	<b>7 579 921</b>	<b>6 390 615</b>
C.II.2.	Payables to credit institutions	876 468	1 422 319
C.II.4.	Trade payables	4 367 827	3 764 378
C.II.8.	<i>Other payables</i>	2 335 626	1 203 918
C.II.8.3.	Payables to employees	365 396	331 287
C.II.8.4.	Social security and health insurance payables	136 495	115 596
C.II.8.5.	State – tax payables and subsidies	1 395 554	509 327
C.II.8.6.	Estimated payables	366 701	171 615
C.II.8.7.	Sundry payables	71 480	76 093
C.III.	<b>Other liabilities</b>	<b>1 288</b>	<b>9 138</b>
C.III.1.	Accrued expenses	370	7 022
C.III.2.	Deferred income	918	2 116

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

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
I. Sales of products and services	40 495 694	35 858 795
II. Sales of goods	224	241
A. Purchased consumables and services	<b>31 949 062</b>	<b>30 171 522</b>
A.1. Costs of goods sold	220	238
A.2. Consumed material and energy	28 851 639	27 124 845
A.3. Services	3 097 203	3 046 439
B. Change in internally produced inventory (+/-)	-819 545	-550 719
C. Own work capitalised (-)	-520 858	-495 941
D. Staff costs	<b>4 615 584</b>	<b>4 002 618</b>
D.1. Payroll costs	3 265 049	2 814 695
D.2. Social security and health insurance costs and other charges	<b>1 350 535</b>	<b>1 187 923</b>
D.2.1. Social security and health insurance costs	1 162 749	975 985
D.2.2. Other charges	187 786	211 938
E. Adjustments to values in operating activities	<b>1 368 059</b>	<b>1 153 692</b>
E.1. Adjustments to values of intangible and tangible fixed assets	1 407 406	1 289 616
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	1 402 695	1 294 673
E.1.2. Adjustments to values of intangible and tangible fixed assets – temporary	4 711	-5 057
E.2. Adjustments to values of inventories	-38 942	-131 842
E.3. Adjustments to values of receivables	-405	-4 082
III. Other operating income	<b>1 028 543</b>	<b>654 815</b>
III.1. Sales of fixed assets	56 052	14 361
III.2. Sales of material	125 206	113 817
III.3. Sundry operating income	847 285	526 637
F. Other operating expenses	<b>926 611</b>	<b>837 983</b>
F.1. Net book value of sold fixed assets	13 880	7 877
F.2. Net book value of sold material	117 384	105 077
F.3. Taxes and charges	33 605	30 603
F.4. Reserves relating to operating activities and complex deferred expenses	49 240	146 712
F.5. Sundry operating expenses	712 502	547 714
* <b>Operating profit or loss (+/-)</b>	<b>4 005 548</b>	<b>1 394 696</b>

TABLE CONTINUES ON THE FOLLOWING PAGE 

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

(IN CZK THOUSAND)

IV.	Income from non-current financial assets – equity investments	205 557	250 329
IV.1.	Income from equity investments – controlled or controlling entity	200 260	229 588
IV.2.	Other income from equity investments	5 297	20 741
VI.	Interest income and similar income	484	516
VI.1.	Interest income and similar income – controlled or controlling entity	356	516
VI.2.	Other interest income and similar income	128	
I.	Adjustments to values and reserves relating to financial activities	24 116	-84 013
J.	Interest expenses and similar expenses	45 968	29 806
J.1.	Interest expenses and similar expenses – controlled or controlling entity	893	
J.2.	Other interest expenses and similar expenses	45 075	29 806
VII.	Other financial income	19 584	41 913
K.	Other financial expenses	84 417	52 891
*	<b>Financial profit or loss (+/-)</b>	<b>71 124</b>	<b>294 074</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>4 076 672</b>	<b>1 688 770</b>
L.	Income tax	742 633	264 632
L.1.	Due income tax	733 465	223 946
L.2.	Deferred income tax (+/-)	9 168	40 686
**	<b>Profit or loss net of tax (+/-)</b>	<b>3 334 039</b>	<b>1 424 138</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>3 334 039</b>	<b>1 424 138</b>
*	Net turnover for the current period	41 750 086	36 806 609

## STATEMENT OF CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, reserve fund	Retained earnings	Profit or loss for the period	TOTAL EQUITY
<b>Balance at 31 December 2016</b>	<b>8 109 863</b>	<b>103 740</b>	<b>2 858 219</b>	<b>13 220 593</b>	<b>1 439 564</b>	<b>25 731 979</b>
Distribution of profit or loss				39 564	-39 564	
Profit shares paid					-1 400 000	-1 400 000
Profit or loss for the current period					1 424 138	1 424 138
<b>Balance at 31 December 2017</b>	<b>8 109 863</b>	<b>103 740</b>	<b>2 858 219</b>	<b>13 260 157</b>	<b>1 424 138</b>	<b>25 756 117</b>
Distribution of profit or loss				224 138	-224 138	
Profit shares paid					-1 200 000	-1 200 000
Gains or losses on revaluation of securities		3				3
Profit or loss for the current period					3 334 039	3 334 039
<b>Balance at 31 December 2018</b>	<b>8 109 863</b>	<b>103 743</b>	<b>2 858 219</b>	<b>13 484 295</b>	<b>3 334 039</b>	<b>27 890 159</b>

## CASH FLOW STATEMENT

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
<b>P.</b>		
<b>Opening balance of cash and cash equivalents</b>	<b>184 320</b>	<b>635 919</b>
<b>Cash flows from ordinary activities (operating activities)</b>		
Z.	4 076 672	1 688 770
A.1.	<b>1 245 517</b>	<b>970 955</b>
A.1.1.	1 402 695	1 294 673
A.1.2.	38 720	-78 282
A.1.3.	-42 172	-6 484
A.1.4.	-205 557	-250 329
A.1.5.	45 484	29 290
A.1.6.	6 347	-17 913
<b>A.*</b>	<b>5 322 189</b>	<b>2 659 725</b>
A.2.	<b>-642 014</b>	<b>-1 378</b>
A.2.1.	-49 428	701 535
A.2.2.	928 260	77 075
A.2.3.	-1 520 742	-782 088
A.2.4.	-104	2 100
<b>A.**</b>	<b>4 680 175</b>	<b>2 658 347</b>
A.3.	-47 368	-29 138
A.4.	369	1 011
A.5.	-46 981	-175 164
A.6.	205 557	250 329
<b>A.***</b>	<b>4 791 752</b>	<b>2 705 385</b>
<b>Cash flows from investing activities</b>		
B.1.	-3 057 967	-2 961 594
B.2.	56 201	14 528
B.3.	3 032	159 741
<b>B.***</b>	<b>-2 998 734</b>	<b>-2 787 325</b>
<b>Cash flow from financial activities</b>		
C.1.	-395 692	1 030 341
C.2.	<b>-1 200 000</b>	<b>-1 400 000</b>
C.2.6.	-1 200 000	-1 400 000
<b>C.***</b>	<b>-1 595 692</b>	<b>-369 659</b>
<b>F.</b>	<b>197 326</b>	<b>-451 599</b>
<b>R.</b>	<b>381 646</b>	<b>184 320</b>

## NOTES TO THE FINANCIAL STATEMENT

### 1. GENERAL INFORMATION

#### 1.1. INCORPORATION AND DESCRIPTION OF THE COMPANY

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

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

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

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

#### 1.2. MATERIAL EVENTS RECORDED IN THE REGISTER OF COMPANIES

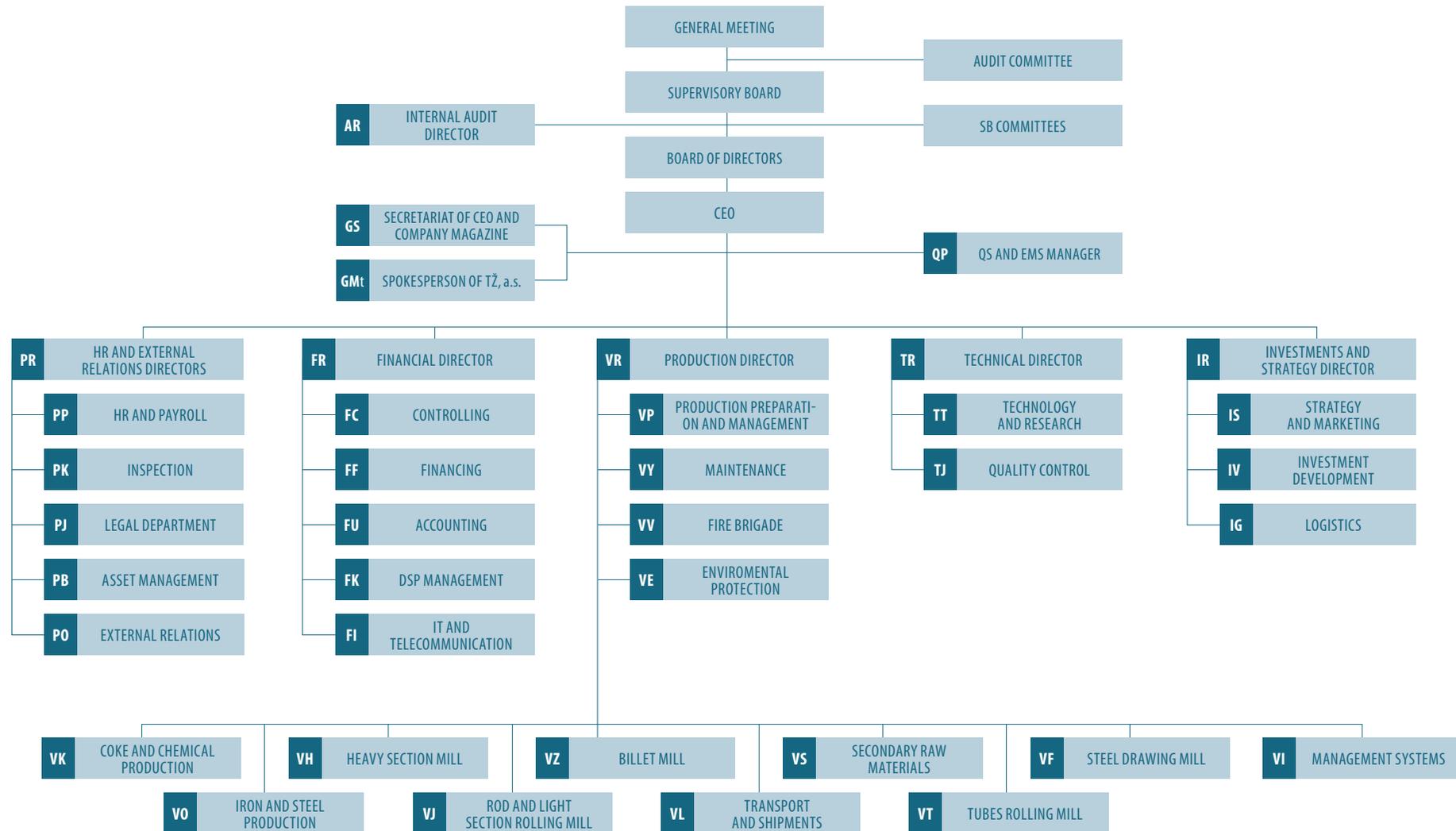
During the year ended 31 December 2018, a change in the composition of the Company’s Supervisory Board was recorded in the Register of Companies. On 30 September 2018, the position of Marcel Pielesz as a Supervisory Board member expired following his resignation from the office. With effect from 1 October 2018, Marcel Pielesz was elected a Supervisory Board members by the Company’s employees.

#### 1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

Bodies of the Company are as follows:

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

The general organisational structure of the Company effective as of 31 December 2018:



#### 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 2018, 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 2018

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

## 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 (the "Accounting Act"); 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 2018 have been prepared as follows:

- The balance sheet includes comparative figures as of 31 December 2017;
- The profit and loss account includes comparative figures for the year ended 31 December 2017;
- The statement of changes in equity includes comparative figures as of 31 December 2017; and
- The cash flow statement includes comparative figures as of 31 December 2017.

### 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 development) with a cost greater than CZK 60 thousand on an individual basis and an estimated useful life greater than one year.

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

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

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

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

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

## Depreciation for Accounting Purposes

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

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

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

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

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

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

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

## Provisioning

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

## Impairment

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

### 2.3. NON-CURRENT FINANCIAL ASSETS

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

#### Valuation

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

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

Equity investments are measured at cost less any provisions.

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

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

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

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

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

#### Provisioning against Equity Investments

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

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

## 2.4. CURRENT FINANCIAL ASSETS AND CASH

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

Current financial assets are carried at cost upon acquisition.

Cash consists of cash on hand and cash at bank.

## 2.5. INVENTORY

### Valuation

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

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

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

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

### Provisioning

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

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

## 2.6. RECEIVABLES

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

### Provisioning

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

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

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

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

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

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

## **2.7. PAYABLES**

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

## **2.8. PAYABLES TO CREDIT INSTITUTIONS**

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

## **2.9. RESERVES**

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

## **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

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

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

### 2.11.2. Current Tax Payable

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

### 2.11.3. Deferred Tax

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

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

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

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

## 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. DEVELOPMENT EXPENDITURE

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

## 2.17. SUBSIDIES

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

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

## 2.18. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

	31 Dec 2018	31 Dec 2017
Cash on hand	2 000	1 890
Cash at bank	394 417	197 097
Other current financial assets	12 548	12 548
Provisions against other current financial assets	-12 548	-12 548
<b>Total current financial assets and cash</b>	<b>396 417</b>	<b>198 987</b>
Cash and cash equivalents not included in the cash flow	-14 771	-14 667
<b>Total cash and cash equivalents</b>	<b>381 646</b>	<b>184 320</b>

(IN CZK THOUSAND)

The difference between cash and cash equivalents as of 31 December 2018 and 2017 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.

## 2.19. CHANGES IN THE CLASSIFICATION OF FINANCIAL STATEMENT ITEMS

From 2018 onwards, the Company has reported accruals and deferrals as part of receivables and payables (items C.II.3. and C.III.).

## 2.20. CHANGES IN ACCOUNTING POLICIES

With effect from the reporting period beginning on 1 January 2019, financial gifts intended to cover the recipient's operating activities will be reported in the profit and loss account in the line 'Sundry operating expenses'. Previously, the gifts were reported through financial profit or loss in the line 'Sundry financial expenses'. If the Company provides a financial gift that is not intended to cover the recipient's operating activities, it will be reported through financial profit or loss in the line 'Sundry financial expenses'.

With effect from the reporting period beginning on 1 January 2019, prepayments for tangible and intangible fixed assets reported in a foreign currency as of the balance sheet date will be translated using the Czech National Bank's exchange rate prevailing on the financial statements preparation date. Prior to the balance sheet date of 31 December 2018, if the prepayment is non-refundable and considered to form part of the acquisition cost of a specific fixed asset as of the balance sheet date, prepayments for fixed assets are not translated using the Czech National Bank's exchange rate.

### 3. ADDITIONAL INFORMATION

#### 3.1. FIXED ASSETS

##### 3.1.1. Intangible Fixed Assets

###### Cost

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Development	4 553	0	0	4 553
Valuable rights	344 272	6 888	0	351 160
Other intangible FA	481 853	908 117	506 682	883 288
Intangible FA under construction	2 343	6 088	6 888	1 543
<b>Total</b>	<b>833 021</b>	<b>921 093</b>	<b>513 570</b>	<b>1 240 544</b>

###### Accumulated Amortisation

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Development	4 553	0	0	4 553
Valuable rights	264 474	19 502	0	283 976
Other intangible FA	5 232	46	0	5 278
<b>Total</b>	<b>274 259</b>	<b>19 548</b>	<b>0</b>	<b>293 807</b>

###### Net Book Value

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Valuable rights	79 798	67 184
Other intangible FA	476 621	878 010
Intangible FA under construction	2 343	1 543
<b>Total</b>	<b>558 762</b>	<b>946 737</b>

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

Amortisation of intangible fixed assets amounted to CZK 19,548 thousand and CZK 23,866 thousand as of 31 December 2018 and 2017, respectively.

Other intangible fixed assets primarily include emission allowances.

In the year ended 31 December 2018, the Company acquired 3,547,617 emission allowances for 2018 in the amount of CZK 908,117 thousand free of charge. As of the balance sheet date of 31 December 2018, the Company recognised a disposal of emission allowances for 2018 of CZK 399,899 thousand.

In 2018, the Company sold 760,000 allowances. The effect of the sale of the allowances was CZK 306,672 thousand.

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

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

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 26,035 thousand and CZK 26,515 thousand as of 31 December 2018 and 2017, respectively.

### 3.1.2. Tangible Fixed Assets

#### Cost

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Land	524 507	15 270	12 419	527 358
Structures	9 354 966	185 486	7 527	9 532 925
Tangible movable assets and sets thereof	28 002 750	1 129 513	256 071	28 876 192
Other tangible FA	5 440	1 300	5	6 735
Prepayments for tangible FA	72 616	162 400	125 561	109 455
Tangible FA under construction	536 831	1 667 083	1 331 570	872 344
<b>Total</b>	<b>38 497 110</b>	<b>3 161 052</b>	<b>1 733 153</b>	<b>39 925 009</b>

#### Accumulated Depreciation

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Structures	4 780 203	215 078	6 840	4 988 441
Tangible movable assets and sets thereof	18 337 911	1 163 376	248 632	19 252 655
<b>Total</b>	<b>23 118 114</b>	<b>1 378 454</b>	<b>255 472</b>	<b>24 241 096</b>

#### Provisions

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Balance at 31 Dec 2018
Structures	17 276	0	1 540	15 736
Tangible movable assets and sets thereof	2 895	0	920	1 975
Tangible FA under construction	1 798	7 171	0	8 969
<b>Total</b>	<b>21 969</b>	<b>7 171</b>	<b>2 460</b>	<b>26 680</b>

**Net Book Value**

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	524 507	527 358
Structures	4 557 487	4 528 748
Tangible movable assets and sets thereof	9 661 944	9 621 562
Other tangible FA	5 440	6 735
Prepayments for tangible FA	72 616	109 455
Tangible FA under construction	535 033	863 375
<b>Total</b>	<b>15 357 027</b>	<b>15 657 233</b>

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

(IN CZK THOUSAND)

Acquisition of combustion products desulphurisation	60 223
Acquisition of a grinding line	54 154
Acquisition of an annealing furnace	53 069

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

(IN CZK THOUSAND)

"Development of the VF Operation – Steel Drawing Mill" investment project	150 604
Reconstruction of the directorate's building	97 718
Adjustment of ZPO 1 for casting format no. 600	71 747

During the year ended 31 December 2018, the disposals of tangible fixed assets included assets with an aggregate net book value of CZK 20,550 thousand. Major disposals principally comprised partial liquidation of VP 6 air heater No. 61 owing to modernisation, liquidation of the Boehl-CollMaster MK I packaging machine, partial liquidation of the non-functioning gas analyser and disposal of land owing to its sale.

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

Depreciation of tangible fixed assets amounted to CZK 1,383,147 thousand and CZK 1,270,807 thousand as of 31 December 2018 and 2017, 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 583,114 thousand and CZK 581,740 thousand as of 31 December 2018 and 2017, respectively.

**3.1.3. Assets Held under Operating Lease Agreements**

In the years ended 31 December 2018 and 2017, the Company made lease payments of CZK 53,732 thousand and CZK 51,979 thousand, respectively.

### 3.1.4. Pledged Fixed Assets

#### 31 December 2018

(IN CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	241 996	
Land	23 663	Loan from Česká spořitelna, a.s.
Tangible FA	427 398	
Land	3 444	Loan from Česká spořitelna, a.s.
Tangible FA	664 946	
Buildings	132 389	
Land	3 458	Loan from Česká spořitelna, a.s.
Tangible FA	2 465	
Land	39 986	Loan from Československá obchodní banka, a.s.
Tangible FA	828 197	Loan from Československá obchodní banka, a.s.
Tangible FA	870 673	Loan from Československá obchodní banka, a.s.
Tangible FA Land	404 219	
	662	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
<b>Total</b>	<b>3 643 496</b>	

#### 31 December 2017

(IN CZK THOUSAND)

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

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

(IN CZK THOUSAND)

	<b>Balance at 31 Dec 2017</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 31 Dec 2018</b>
Equity investments – controlled or controlling entity	7 300 636	1 252 939	5 960	8 547 615
Equity investments – associates	50 995	0	0	50 995
Other non-current securities and equity investments	2 001	*5	4	2 002
<b>Total</b>	<b>7 353 632</b>	<b>1 252 944</b>	<b>5 964</b>	<b>8 600 612</b>

Note: \* CZK 1 thousand – rounding

**Provisions**

(IN CZK THOUSAND)

	<b>Balance at 31 Dec 2017</b>	<b>Additions</b>	<b>Disposals</b>	<b>Balance at 31 Dec 2018</b>
Equity investments – controlled or controlling entity	345 662	65 030	39 314	371 378
Equity investments – associates	17 920	0	1 601	16 319
<b>Total</b>	<b>363 582</b>	<b>65 030</b>	<b>40 915</b>	<b>387 697</b>

The most significant additions to non-current financial assets in the year ended 31 December 2018 include as follows:

- Acquisition of a 100% equity investment in BOHEMIA RINGS s.r.o.;
- Increase of the equity investment in REFRASIL, s.r.o. from 51% to 100%; and
- Increase of the equity investment in TŘINECKÁ PROJEKCE , a. s., from 83.18% to 84.54%.

The plan for the merger by amalgamation of DALSELV DESIGN a.s., as the dissolving company, and Strojírny a stavby Třinec, a.s., as the successor company, was approved, the effective date being 1 January 2019.

## 3.2.1. Equity Investments – Controlled or controlling entity

31 December 2018

(IN 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	2 015 201	80 268	0	25 000
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	610 631	43 850	0	50 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 750 155	38 838	0	60 000
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	640 828	23 135	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	683 399	45 854	0	32 000
HŽP a.s., Prostějov	130 000	130 000	100.00	587 488	27 222	0	13 000
"D&D" Dróttáru Zrt., 3527 Miskolc, Sajósziget utca 4 (HUN)	709	1	100.00	418 526	106 371	-297 207	0
"METALURGIA" SPÓŁKA AKCYJNA, Radomsko (POL)	136 785	4 747 340	100.00	234 491	-19 660	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	375 395	39 900	0	7 000
Řetězárna a.s., Česká Ves	61 200	515	51.00	575 986	45 824	0	7 140
REFRASIL, s.r.o., Kanská, Třinec	50 000	0	100.00	254 648	13 996	0	6 120
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	54 804	2 822	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	49 198	207	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	19 605	195	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	39 313	3 643	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	45 025	1 821	0	0
DALSELV DESIGN a.s., Vítkovice, Ostrava**	2 000	20	100.00	4 030	-7 286	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 790	186	84.54	33 617	4 097	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	45 482	362	-9 725	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	48 000	-1 600	0	0
IMOPRA s.r.o., Nivnice	2 000	0	100.00	105 811	13 534	-64 446	0
BOHEMIA RINGS s.r.o., Zámorsk*	150 000	0	100.00	855 189	97 330	0	0
<b>Total</b>						<b>-371 378</b>	<b>200 260</b>

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

\* Previously operating under the company name Brück AM spol. s r.o.

\*\* Change in the registered office

## 31 December 2017

(IN 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	1 959 932	111 289	0	100 000
Strojírny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	616 781	55 987	0	50 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 771 317	111 061	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	617 693	14 129	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	669 545	55 350	0	60 000
HŽP a.s., Prostějov	130 000	130 000	100.00	573 265	36 810	0	10 000
"D&D" Drótaru Zrt., 3527 Miskolc, Sajósziget utca 4 (HUN)	709	1	100.00	320 935	40 868	-310 907	0
"METALURGIA" SPÓŁKA AKCYJNA, Radomsko (POL)	136 785	4 747 340	100.00	259 713	18 813	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	342 494	25 632	0	0
Řetězárna a.s., Česká Ves	61 200	515	51.00	542 783	25 438	0	3 570
REFRASIL, s.r.o., Kanská, Třinec	25 500	0	51.00	252 652	19 937	0	6 018
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	51 982	1 498	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	48 991	2 771	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	19 419	500	0	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	35 670	3 055	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	43 200	-4 098	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	2 000	20	100.00	11 378	-1 282	-22 958	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	29 521	7 635	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	46 131	72	-9 141	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	49 679	-1 274	0	0
IMOPRA s.r.o., Nivnice	2 000	0	100.00	92 277	3 765	0	0
<b>Total</b>						<b>-343 006</b>	<b>229 588</b>

### 3.2.2. Equity Investments – Associates

#### 31 December 2018

(IN 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., Kanská, Třinec	25 137	25 137	40.00	386 673	57 691	0	5 278
Ocelářská unie a.s., Nové Město, Prague 1	16 221	27 036	38.78	45 143	1 687	-16 319	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	1 500	668	0	0
<b>TOTAL</b>						<b>-16 319</b>	<b>5 278</b>

Note: *italics* – preliminary results of operation as of 31 December 2018

\* results for the period from 1 April 2018–31 March 2019

#### 31 December 2017

(IN 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., Kanská, Třinec	25 137	25 137	40.00	342 178	13 196	0	20 717
Ocelářská unie a.s., Nové Město, Praha 1**	16 221	27 036	38.78	43 765	3 878	-17 920	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	949	323	0	0
<b>TOTAL</b>						<b>-17 920</b>	<b>20 717</b>

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

\*\* former Hutnictví železa, a.s.

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

#### 31 December 2018

(IN 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, Prague 8-Karlín	20	0	2.08	558	-548	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33.33	5 004	579	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100.00	181 729	-1 525	0	0
Veolia Energie ČR, a.s., Ostrava	0.89	1 700	0.00216	*	*	0	19
<b>TOTAL</b>						<b>-54</b>	<b>19</b>

Note: *italics* – preliminary results of operation as of 31 December 2018

\* the values are not available

**31 December 2017**

(IN 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, Praque 8-Karlín	20	0	2.08	794	828	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33.33	3 823	-294	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100.00	137 769	-1 582	0	0
Unirelex, a.s. v likvidaci, Praque	2,22	2 000	0.04306	*	*	-4	0
Veolia Energie ČR, a.s., Ostrava	0.89	1 700	0.00216	*	*	0	24
<b>TOTAL</b>						<b>-58</b>	<b>24</b>

Note: \* the values are not available

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

As of 31 December 2018 and 2017, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 1,144,302 thousand and CZK 130,000 thousand, respectively.

**3.3. RECEIVABLES****3.3.1. Short-Term Receivables**

As of 31 December 2018 and 2017, the Company records short-term trade receivables past their due dates in the gross amount of CZK 28,193 thousand and CZK 22,681 thousand (net CZK 13,372 thousand and CZK 7,056 thousand), respectively.

**Other Receivables**

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

As of 31 December 2018, State – tax receivables predominantly include a receivable arising from value added tax and prepayments for fees under Act No. 201/2012 Coll., the Air Protection Act. As of 31 December 2017, State – tax receivables predominantly included a receivable arising from value added tax, prepayments for corporate income tax and prepayments for fees under Act No. 201/2012 Coll., the Air Protection Act.

In 2018, other receivables principally include a receivable arising from an indisputable claim for a subsidy, a receivable from a loan contract and receivables from individuals. In 2017, other receivables principally included a receivable arising from an indisputable claim for a subsidy receivable and receivables from individuals.

As of 31 December 2018, estimated receivables principally include amounts due from anticipated insurance proceeds, from utilising an operating subsidy and from the refund of the value added tax paid abroad. In 2017, estimated receivables principally included 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.

### 3.3.2. Intercompany Receivables

#### Short-Term Receivables

(IN CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2018	Balance at 31 Dec 2017
• Trade receivables			
Doprava TŽ, a.s.	Controlled entity	795	793
ENERGETIKA TŘINEC, a.s.	Controlled entity	5 332	42 030
Šroubárna Kyjov, spol. s r.o.	Controlled entity	380	2 783
Strojírny a stavby Třinec, a.s.	Controlled entity	14 495	16 107
MORAVIA STEEL a.s.	Controlling entity	1 871 637	1 798 888
REFRASIL, s.r.o.	Controlled entity	560	488
Řetězárna a.s.	Controlled entity	7	7
Slévárny Třinec, a.s.	Controlled entity	61 254	42 085
TRIALFA, s.r.o.	Controlled entity	3 177	3 887
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	69	65
Třinecké gastroslužby, s.r.o.	Controlled entity	731	701
TRISIA, a.s.	Controlled entity	9	13
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	367	388
Beskydská golfová, a.s.	Fellow subsidiary	37	37
VÚHŽ a.s.	Controlled entity	152	526
Moravia Security, a.s.	Controlled entity	111	64
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	10	11
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	182	180
"METALURGIA" SPÓŁKA AKCYJNA	Controlled entity	566	504
HŽP a.s.	Controlled entity	298	692
M Steel Projects a.s.	Fellow subsidiary	13	11
"NEOMET" Sp. z o.o.	Fellow subsidiary	23	114
ŽDB DRÁTOVNA a.s.	Controlled entity	1 549	1 872
Barrandov Studio a.s.	Fellow subsidiary	111	107
Kovárna VIVA a.s.	Fellow subsidiary	2	0
BOHEMIA RINGS s.r.o.	Controlled entity	815	0
<b>Total</b>		<b>1 962 682</b>	<b>1 912 353</b>
• Receivables – Controlled or controlling entity			
IMOPRA s.r.o.	Controlled entity	21 087	24 040
<b>Total</b>		<b>21 087</b>	<b>24 040</b>

TABLE CONTINUES ON THE FOLLOWING PAGE 

• Short-term prepayments provided			
TRISIA, a.s.	Controlled entity	1 210	2
<b>Total</b>		<b>1 210</b>	<b>2</b>
• Other receivables			
MORAVIA STEEL a.s.	Controlling entity	0	11
<b>Total</b>		<b>0</b>	<b>11</b>
<b>Total short-term intercompany receivables</b>		<b>1 984 979</b>	<b>1 936 406</b>
Other than intercompany receivables		435 072	659 891
<b>Total short-term receivables</b>		<b>2 420 051</b>	<b>2 596 297</b>

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 2018, the Company records no receivables secured with material guarantees.

### 3.4. EQUITY

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

#### 3.4.1. Share Capital

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

#### 3.4.2. Proposal for the Allocation of Profit for 2018

In 2018, the Company generated net profit after tax of CZK 3,334,039 thousand. It is proposed to be distributed as follows:

- Profit share allocated to the sole shareholder: CZK 1,600,000 thousand
- Retained earnings brought forward: CZK 1,734,039 thousand

### 3.5. RESERVES

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

### 3.6. PAYABLES

#### 3.6.1. Long-Term Payables

Long-term trade payables as of 31 December 2018 include payables arising from retentions from suppliers under concluded contracts.

As of 31 December 2018, the Company records no long-term payables secured with material guarantees.

As of 31 December 2018 and 31 December 2017, the Company does not record trade payables with maturity longer than five years.

#### 3.6.2. Deferred Income Tax

The deferred tax liability is analysed as follows:

	(IN CZK THOUSAND)	
<b>Deferred tax arising from</b>	<b>Balance at 31 Dec 2018</b>	<b>Balance at 31 Dec 2017</b>
Difference between tax and accounting carrying values of fixed assets	-7 076 402	-6 787 207
Revaluation of available-for-sale securities	54	58
Accounting reserves	380 718	293 343
Provisions	596 752	638 423
Expenses that are tax deductible in the following periods	375 324	180 084
<b>Total</b>	<b>-5 723 554</b>	<b>-5 675 299</b>
Tax rate (in %)	19	19
<b>Deferred tax liability</b>	<b>-1 087 475</b>	<b>-1 078 307</b>

	(IN CZK THOUSAND)	
<b>Analysis of movements</b>		
<b>31 Dec 2017</b>	<b>-1 078 307</b>	
Current changes charged against the profit and loss account	-9 168	
<b>31 Dec 2018</b>	<b>-1 087 475</b>	

#### 3.6.3. Income Tax

	(IN CZK THOUSAND)	
	<b>Balance at 31 Dec 2018</b>	<b>Balance at 31 Dec 2017</b>
Profit before tax	4 076 672	1 688 770
Tax at the domestic income tax rate of 19%	774 568	320 866
Tax effect of expenses that are not deductible in determining taxable profit	-31 935	-56 234
<b>Total income tax for the period – recognised in deferred tax and income tax payable</b>	<b>742 633</b>	<b>264 632</b>

### 3.6.4. Short-Term Payables

As of 31 December 2018 and 2017, the Company records short-term trade payables past their due dates of CZK 4,446 thousand and CZK 8,271 thousand, respectively.

Payables typically fall due for settlement within 30 days.

### Other Payables

As of 31 December 2018, payables arising from social security and the state employment policy contribution amounted to CZK 89,591 thousand (2017: CZK 78,007 thousand), public health insurance payables totalled CZK 39,808 thousand (2017: CZK 34,512 thousand), and pension insurance payables totalled CZK 7,096 thousand (2017: CZK 3,077 thousand). The Company has no past due social security or health insurance payables.

In the year ended 31 December 2018, the category “State – tax payables and subsidies” principally comprises received subsidies for emission allowances and a payable arising from corporate and personal income tax. In the year ended 31 December 2017, the category principally comprised received subsidies for emission allowances and a payable arising from personal income tax.

In 2018 and 2017, estimated payables mainly consist of an estimated payable for outstanding vacation days and annual bonuses including insurance and an estimated payable arising from unbilled inventory including services.

In the years ended 31 December 2018 and 2017, other payables primarily comprise payables arising from group registration for value added tax, guarantees and employee contributions.

As of 1 January 2017, the group registration for VAT was extended to include MORAVIA STEEL a.s. From 1 January 2019 onwards, the group will be extended to include the educational legal entity Střední odborná škola Třineckých železáren.

### 3.6.5. Intercompany Payables

#### Long-Term Payables

(IN CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2018	Balance at 31 Dec 2017
<b>• Long-term payables</b>			
Trade payables			
Strojírny a stavby Třinec, a.s.	Controlled entity	0	690
VÚHŽ a.s.	Controlled entity	0	829
<b>Total</b>		<b>0</b>	<b>1 519</b>
<b>Total long-term intercompany payables</b>		<b>0</b>	<b>1 519</b>
Other than intercompany payables		3 089 894	2 946 826
<b>Total long-term payables</b>		<b>3 089 894</b>	<b>2 948 345</b>

Other than intercompany long-term payables as of 31 December 2018 and 2017 primarily include a deferred tax liability of CZK 1,087,475 thousand and CZK 1,078,307 thousand, respectively, and payables to credit institutions of CZK 1,972,001 thousand and CZK 1,821,573 thousand, respectively.

## Short-Term Payables

(IN CZK THOUSAND)

Company name	Relation to the Company	Balance at 31 Dec 2018	Balance at 31 Dec 2017
<b>• Trade payables</b>			
Doprava TŽ, a.s.	Controlled entity	12 331	10 814
ENERGETIKA TŘINEC, a.s.	Controlled entity	354 794	317 630
Ocelářská unie a.s.	Associate	795	37
Šroubárna Kyjov, spol. s r.o.	Controlled entity	3 093	2 053
MORAVIA STEEL a.s.	Controlling entity	2 138 808	1 571 665
REFRASIL, s.r.o.	Controlled entity	22 217	17 081
Řetězárna a.s.	Controlled entity	1 287	599
Slévárny Třinec, a.s.	Controlled entity	532	4 450
TRIALFA, s.r.o.	Controlled entity	17 623	14 309
TRISIA, a.s.	Controlled entity	683	613
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	6 084	1 979
Třinecké gastroslužby, s.r.o.	Controlled entity	7 058	6 850
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	12 211	8 498
Beskydská golfová, a.s.	Fellow subsidiary	32 011	3 025
Strojírny a stavby Třinec, a.s.	Controlled entity	140 532	173 532
VÚHŽ a.s.	Controlled entity	1 390	4 221
Moravia Security, a.s.	Controlled entity	8 331	8 988
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	1 357	2 064
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	136 594	158 279
"METALURGIA" SPÓŁKA AKCYJNA	Controlled entity	0	323
"ZAMECZEK BŁOGOCICE" Sp. z o.o.	Controlled entity	100	103
HRAT, s.r.o.	Associate	36	36
ŽDB DRÁTOVNA a.s.	Controlled entity	1 921	1 055
DALSELV DESIGN a.s.	Controlled entity	40	3 162
"NEOMET" Sp. z o.o.	Fellow subsidiary	99 636	88 613
MINERFIN, a.s.	Group entity	0	4 210
Security Morava, s.r.o.	Controlled entity	1 143	1 058
BOHEMIA RINGS s.r.o.	Controlled entity	9 045	0
<b>Total</b>		<b>3 009 652</b>	<b>2 405 247</b>
<b>• Estimated payables</b>			
MORAVIA STEEL a.s.	Controlling entity	848	4 327
<b>Total</b>		<b>848</b>	<b>4 327</b>
<b>• Other payables</b>			
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	319
MORAVIA STEEL a.s.	Controlling entity	58 023	62 026
<b>Total</b>		<b>58 023</b>	<b>62 345</b>
<b>Total short-term intercompany payables</b>		<b>3 068 523</b>	<b>2 471 919</b>
Other than intercompany payables		4 511 398	3 918 696
<b>Total short-term payables</b>		<b>7 579 921</b>	<b>6 390 615</b>

Other than intercompany short-term payables as of 31 December 2018 and 2017 predominantly include payables to credit institutions of CZK 876,468 thousand and CZK 1,422,319 thousand, respectively, and tax payables and subsidies of CZK 1,395,554 thousand and CZK 509,327 thousand, respectively.

### 3.6.6. Payables to Credit Institutions

#### Long-Term Payables to Credit Institutions

(IN CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Form of collateral at 31 Dec 2018
Investment	EUR	57 599	73 523	Hermes guarantee insurer
Investment	EUR	71 277	99 070	ODL guarantee insurer
Investment	CZK	0	120 000	Immovable and movable assets, promissory note
Investment	CZK	0	60 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	480 000	720 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	720 000	748 980	Immovable and movable assets, insurance receivables, promissory note
Acquisition	EUR	643 125	0	Securities, promissory note
<b>Total</b>		<b>1 972 001</b>	<b>1 821 573</b>	

The Company records no repayments of long-term payables to credit institutions over five years.

#### Short-Term Payables to Credit Institutions

(IN CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Form of collateral at 31 Dec 2018
Investment	EUR	16 457	16 339	Hermes guarantee insurer
Investment	EUR	28 511	28 306	ODL guarantee insurer
Investment	CZK	0	60 000	Securities, promissory note
Investment	CZK	0	189 474	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment	CZK	60 000	75 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	240 000	240 000	Immovable and movable assets, insurance receivables, promissory note
Investment	CZK	240 000	187 245	Immovable and movable assets, insurance receivables, promissory note
Acquisition	EUR	171 500	0	Securities, promissory note
Overdraft	CZK	0	257 909	Promissory note
Overdraft	CZK	0	248 046	Promissory note
<b>Total</b>		<b>876 468</b>	<b>1 422 319</b>	

### 3.7. DETAILS OF INCOME

(IN CZK THOUSAND)

	31 Dec 2018	31 Dec 2017
Proceeds of the sale of goods	224	241
Proceeds of the sale of products and services	40 495 694	35 858 795
– Products	40 053 643	35 419 555
– Services	442 051	439 240
<b>Total sales of goods, products and services</b>	<b>40 495 918</b>	<b>35 859 036</b>

### 3.8. OTHER EXPENSES AND INCOME

As of 31 December 2018, other operating income of the Company mainly involves the use of the subsidy related to emission allowances of CZK 813,354 thousand (2017: CZK 522,725 thousand)

Other financial income as of 31 December 2018 and 2017 predominantly includes foreign exchange rate gains of CZK 18,865 thousand and CZK 41,031 thousand, respectively.

As of 31 December 2018, other operating expenses primarily reflect the use of emission allowances of CZK 506,682 thousand, as of 31 December 2017, including the costs of the sale of allowances in the amount of CZK 444,862 thousand.

Other financial expenses as of 31 December 2018 predominantly include foreign exchange rate losses of CZK 34,215 thousand and gifts of CZK 44,851 thousand (2017: foreign exchange rate losses of CZK 29,853 thousand and gifts of CZK 19,824 thousand).

### 3.9. SUBSIDIES

Subsidies for operating purposes of CZK 5,352 thousand utilised for the year ended 31 December 2018 include subsidies for development, a subsidy for implementing the “Werkperspektiva” project, a subsidy for museum operations, and subsidies for environmental projects.

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

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

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

### 3.10. DEVELOPMENT COSTS

(IN CZK THOUSAND)

	31 Dec 2018	31 Dec 2017
Development costs (net of subsidies)	71 838	44 108

### 3.11. RELATED PARTY TRANSACTIONS

#### 3.11.1. Income Generated with Related Parties

Income from intercompany transactions amounted to CZK 40,174,848 thousand and CZK 35,451,071 thousand in the years ended 31 December 2018 and 2017, respectively. All intercompany transactions were at arm's length.

The following table shows the income generated with related parties for the year ended 31 December 2018:

(IN 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	22649	4 228	0	2	26 879
ENERGETIKA TŘINEC, a.s.	Controlled entity	**306 672	214 163	40 335	0	36	561 206
MORAVIA STEEL a.s.	Controlling entity	0	38 787 841	168 883	0	34	38 956 758
REFRASIL, s.r.o.	Controlled entity	0	1 452	5 213	0	7	6 672
Řetězárna a.s.	Controlled entity	0	225	39	0	0	264
Slévárny Třinec, a.s.	Controlled entity	0	292 683	18 149	0	38	310 870
TRIALFA, s.r.o.	Controlled entity	0	27 730	3 868	0	3	31 601
TRISIA, a.s.	Controlled entity	0	5	158	0	0	163
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	1	965	0	0	966
Třinecké gastroslužby, s.r.o.	Controlled entity	0	692	5 421	0	498	6 611
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	5	8 091	0	98	8 194
Beskydská golfová, a.s.	Fellow subsidiary	0	39	131	0	0	170
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	5	3 479	0	0	3 484
Moravia Security, a.s.	Controlled entity	0	80	1 417	0	1	1 498
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	255	189	0	1	445
Strojírny a stavby Třinec, a.s.	Controlled entity	0	189 356	39 381	0	286	229 023
VÚHŽ a.s.	Controlled entity	0	5 304	1 262	0	2	6 568
HŽP a.s.	Controlled entity	0	37	2 728	0	0	2 765
"METALURGIA" SPÓŁKA AKCYJNA	Controlled entity	0	0	2 214	0	0	2 214
M Steel Projects a.s.	Fellow subsidiary	0	0	144	0	0	144
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	864	1 070	0	0	1 934
ŽDB DRÁTOVNA a.s.	Controlled entity	0	93	12 933	0	139	13 165
"NEOMET" Sp. z o.o.*	Fellow subsidiary	0	0	584	0	21	605
Hotel Golf Ropice a.s.	Fellow subsidiary	0	0	4	0	0	4
Barrandov Studio, a.s.	Fellow subsidiary	0	0	1 100	0	0	1 100
Security Morava, s.r.o.	Controlled entity	0	0	9	0	0	9
MSPProjects International s.r.o.	Fellow subsidiary	0	0	4	0	0	4
DALSELV DESIGN a.s.	Controlled entity	0	0	0	0	2	2
IMOPRA s.r.o.	Controlled entity	0	0	0	312	0	312
Kovárna VIVA a.s.	Fellow subsidiary	0	0	4	0	0	4
BOHEMIA RINGS s.r.o.	Controlled entity	0	0	1 181	0	33	1 214
<b>TOTAL</b>		<b>306 672</b>	<b>39 543 479</b>	<b>323 184</b>	<b>312</b>	<b>1 201</b>	<b>40 174 848</b>

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

\*\* Emission allowances sold

The income arising from intercompany profit shares for the year ended 31 December 2018 is disclosed in Note 3.2.

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

(IN CZK THOUSAND)

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

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

\*\* Emission allowances sold

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

### 3.11.2. Purchases from Related Parties

Total purchases from related parties amounted to CZK 27,195,557 thousand and CZK 25,408,308 thousand in the years ended 31 December 2018 and 2017. All related party transactions were at arm's length.

The following table shows purchases from related parties in the year ended 31 December 2018:

(IN CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory of material, products and goods	Services	Financial expenses	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	9	89 474	0	0	19	89 502
ENERGETIKA TŘINEC, a.s.	Controlled entity	15	1 986 856	89 046	0	96 396	2 172 313
MORAVIA STEEL a.s.	Controlling entity	209	20 303 881	251 052	893	246	20 556 281
REFRASIL, s.r.o.	Controlled entity	0	314	153 833	0	0	154 147
Řetězárna a.s.	Controlled entity	8 097	0	0	0	0	8 097
Slévárny Třinec, a.s.	Controlled entity	12 399	97 269	1 070	0	0	110 738
TRIALFA, s.r.o.	Controlled entity	0	6 923	17 986	0	73 239	98 148
TRISIA, a.s.	Controlled entity	0	10	11 050	0	71	11 131
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	36 106	0	11 423	0	0	47 529
Třinecké gastroslužby, s.r.o.	Controlled entity	0	12 946	1 533	0	74 189	88 668
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	2 381	0	85 605	0	0	87 986
Beskydská golfová, a.s.	Fellow subsidiary	28 242	558	5 372	0	0	34 172
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	21 149	0	0	0	21 149
Moravia Security, a.s.	Controlled entity	376	177	76 432	0	0	76 985
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	1 203	4 448	0	0	5 651
Strojírny a stavby Třinec, a.s.	Controlled entity	249 758	243 012	512 637	0	8	1 005 415
VÚHŽ a.s.	Controlled entity	4 261	5 045	1 332	0	0	10 638
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 386 748	0	0	0	1 386 748
"ZAMECZEK BŁOGOCICE" Sp. z o.o.	Controlled entity	0	0	1 213	0	0	1 213
"METALURGIJA" SPÓŁKA AKCYJNA	Controlled entity	0	348	0	0	0	348
HRAT, s.r.o.	Associate	0	0	120	0	0	120
"D&D" Drótáru Zrt.*	Controlled entity	0	6 209	0	0	0	6 209
Ocelářská unie a.s	Associate	0	0	2 726	0	140	2 866
ŽDB DRÁTOVNA a.s.	Controlled entity	120	7 185	3 343	0	0	10 648
DALSELV DESIGN a.s.	Controlled entity	598	1 744	490	0	0	2 832
MINERFIN, a.s.	Group entity	0	4 365	0	0	0	4 365
"NEOMET" Sp. z o.o.*	Fellow subsidiary	0	1 175 805	0	0	0	1 175 805
JuBo Jeseník s.r.o.	Controlled entity	0	5	0	0	0	5
Security Morava, s.r.o.	Controlled entity	0	0	11 599	0	0	11 599
BOHEMIA RINGS s.r.o.	Controlled entity	0	14 212	37	0	0	14 249
<b>TOTAL</b>		<b>342 571</b>	<b>25 365 438</b>	<b>1 242 347</b>	<b>893</b>	<b>244 308</b>	<b>27 195 557</b>

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

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

(IN CZK THOUSAND)

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

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 2018

(IN CZK THOUSAND)

	Number	Total staff costs
Employees	7 091	4 439 703
Management	34	175 881
<b>Total</b>	<b>7 125</b>	<b>4 615 584</b>

##### 31 December 2017

(IN CZK THOUSAND)

	Number	Total staff costs
Employees	7 006	3 813 062
Management	34	189 556
<b>Total</b>	<b>7 040</b>	<b>4 002 618</b>

The remuneration to members of the Supervisory Board in the years ended 31 December 2018 and 2017 amounted to CZK 3,792 thousand and CZK 3,304 thousand, respectively.

The number of employees is based on the average headcount during the reporting period.

For the purposes of these financial statements, the category of management includes the members of the Board of Directors, the Investment and Strategy Director, and managers of operations, the plant and specialised units.

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

##### 31 December 2018

(IN CZK THOUSAND)

	Management	Supervisory Board
Company cars used for both business and private purposes (the figure increases the tax base of employees)	3 525	0
Liability insurance	260	260

##### 31 December 2017

(IN CZK THOUSAND)

	Management	Supervisory Board
Company cars used for both business and private purposes (the figure increases the tax base of employees)	3 499	51
Liability insurance	278	246

**3.14. CONTINGENT LIABILITIES AND ASSETS AND OFF BALANCE SHEET COMMITMENTS, LEGAL DISPUTES****Provided Guarantees****31 December 2018**

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

**31 December 2017**

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

**Received Guarantees****31 December 2018**

Type	Total amount	Balance at 31 Dec 2018
<b>Guarantees</b>		
To other entities	EUR 3,789 thousand CZK 119,876 thousand	CZK 97,462 thousand CZK 119,876 thousand

**31 December 2017**

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

**Legal Disputes**

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

the proceedings. Through its ruling of 8 June 2018, the Regional Court in Ostrava has so far ineffectively determined that the amount of an adequate payment per each share with the nominal value of CZK 1,000 thousand issued by the Company is CZK 2,284. The dispute is ongoing and is subject to appellate proceedings with the Head Court in Olomouc.

Dispute initiated by the insolvency trustee of the debtor VÍTKOVICE GEARWORKS a.s., regarding the ineffectiveness of the agreement on the extinguishment of mutual obligations concluded between the Company, Strojírny a stavby Třinec, a.s., and this debtor, based on which the Company's obligation to pay an amount to this debtor, the settlement of which is now being sought by the insolvency trustee, ceased to exist. The Regional Court in Ostrava rejected the lawsuit. Through its resolution of 23 May 2018, the Head Court in Olomouc revoked the ruling of the Regional Court in Ostrava and referred the matter back to the court for additional proceedings. Following the completion of the debtor's restructuring, the dispute is ongoing after the insolvency trustee of VÍTKOVICE POWER ENGINEERING a.s. became the new plaintiff.

### 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 2018, the Company used up funds in the amount of CZK 534,964 thousand (2017: CZK 531,971 thousand).

### Other

In 2018, the Company was involved in the project "Education of REGRADA members as a joint path to the region's development", which is co-funded by the European Union. Education as part of the project was provided at a discounted price and the remaining costs were funded by the subsidy's recipient, which is the Regional Development and Cooperation Council based in Třinec.

### 3.15. POST BALANCE SHEET EVENTS

With effect from 1 January 2019, the following change was made to the composition of the Company's Supervisory Board.

Position	Original member	New member	Date of change
Member	František Ližocki	–	31 December 2018
Member	–	Jana Kantorová	1 January 2019

## 10

Financial Part II.  
– Consolidated  
Financial  
Statements**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018**

<b>NAME OF THE COMPANY:</b>	TŘINECKÉ ŽELEZÁRNY, a. s.
<b>REGISTERED OFFICE:</b>	Průmyslová 1000, Staré Město, 739 61 Třinec
<b>LEGAL STATUS:</b>	Joint Stock Company
<b>CORPORATE ID:</b>	180 50 646

**Components of the Consolidated Financial Statements:**

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

These consolidated financial statements were prepared on 25 March 2019.

STATUTORY BODY OF THE REPORTING ENTITY:	SIGNATURE
<b>Jan Czudek</b> Chairman of the Board of Directors	
<b>Radomíra Pekárková</b> Member of the Board of Directors	

## CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

	31. 12. 2018		31. 12. 2017	
	Gross	Adjustment	Net	Net
<b>TOTAL ASSETS</b>	<b>82 685 311</b>	<b>-37 817 751</b>	<b>44 867 560</b>	<b>40 648 041</b>
<b>B. Fixed assets</b>	<b>62 361 004</b>	<b>-36 981 235</b>	<b>25 379 769</b>	<b>23 388 618</b>
<b>B.I. Intangible fixed assets</b>	<b>1 467 559</b>	<b>-447 724</b>	<b>1 019 835</b>	<b>707 659</b>
B.I.1. Development	4 553	-4 553		
B.I.2. Valuable rights	563 958	-429 261	134 697	150 698
B.I.2.1. Software	322 164	-297 353	24 811	32 110
B.I.2.2. Other valuable rights	241 794	-131 908	109 886	118 588
B.I.3. Goodwill	349	-349		
B.I.4. Other intangible fixed assets	896 719	-13 561	883 158	552 729
B.I.5. Prepayments for intangible fixed assets and intangible fixed assets under construction	1 980		1 980	4 232
B.I.5.2. Intangible fixed assets under construction	1 980		1 980	4 232
<b>B.II. Tangible fixed assets</b>	<b>59 968 996</b>	<b>-36 426 321</b>	<b>23 542 675</b>	<b>21 922 138</b>
B.II.1. Land and structures	15 565 332	-7 682 903	7 882 429	7 279 438
B.II.1.1. Land	800 300		800 300	741 769
B.II.1.2. Structures	14 765 032	-7 682 903	7 082 129	6 537 669
B.II.2. Tangible movable assets and sets of tangible movable assets	42 709 819	-28 640 620	14 069 199	13 352 541
B.II.4. Other tangible fixed assets	99 592	-80 222	19 370	16 168
B.II.4.3. Other tangible fixed assets	99 592	-80 222	19 370	16 168
B.II.5. Prepayments for tangible fixed assets and tangible fixed assets under construction	1 594 253	-22 576	1 571 677	1 273 991
B.II.5.1. Prepayments for tangible fixed assets	213 339		213 339	201 334
B.II.5.2. Tangible fixed assets under construction	1 380 914	-22 576	1 358 338	1 072 657
<b>B.III. Non-current financial assets</b>	<b>419 588</b>	<b>-90 627</b>	<b>328 961</b>	<b>370 921</b>
B.III.1. Equity investments – controlled or controlling entity	391 386	-74 171	317 215	360 776
B.III.3. Equity investments in associates	26 201	-16 456	9 745	8 144
B.III.5. Other non-current securities and investments	2 001		2 001	2 001
<b>B.IV. Goodwill on consolidation</b>	<b>350 192</b>	<b>-16 563</b>	<b>333 629</b>	<b>251 029</b>
B.IV.1. Positive goodwill on consolidation	364 758	-16 806	347 952	251 029
B.IV.2. Negative goodwill on consolidation	-14 566	243	-14 323	
<b>B.V. Securities and equity interests under equity accounting</b>	<b>154 669</b>		<b>154 669</b>	<b>136 871</b>

TABLE CONTINUES ON THE FOLLOWING PAGE 

## CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

<b>C.</b>	<b>Current assets</b>	<b>20 324 307</b>	<b>-836 516</b>	<b>19 487 791</b>	<b>17 259 423</b>
<b>C.I.</b>	<b>Inventories</b>	<b>14 461 791</b>	<b>-727 502</b>	<b>13 734 289</b>	<b>11 762 248</b>
C.I.1.	Material	6 365 650	-417 542	5 948 108	5 108 190
C.I.2.	Work in progress and semifinished goods	4 739 247	-242 882	4 496 365	4 066 105
C.I.3.	Products and goods	3 341 555	-67 078	3 274 477	2 571 456
C.I.3.1.	Products	3 281 634	-65 084	3 216 550	2 538 139
C.I.3.2.	Goods	59 921	-1 994	57 927	33 317
C.I.5.	Prepayments for inventories	15 339		15 339	16 497
<b>C.II.</b>	<b>Receivables</b>	<b>4 734 365</b>	<b>-96 466</b>	<b>4 637 899</b>	<b>4 623 244</b>
<b>C.II.1.</b>	<b>Long-term receivables</b>	<b>39 281</b>		<b>39 281</b>	<b>37 821</b>
C.II.1.1.	Trade receivables	23 788		23 788	24 477
C.II.1.4.	Deferred tax asset	326		326	273
C.II.1.5.	Receivables – other	15 167		15 167	13 071
C.II.1.5.2.	Long-term prepayments made	1 156		1 156	2 199
C.II.1.5.4.	Sundry receivables	14 011		14 011	10 872
<b>C.II.2.</b>	<b>Short-term receivables</b>	<b>4 492 928</b>	<b>-96 466</b>	<b>4 396 462</b>	<b>4 410 348</b>
C.II.2.1.	Trade receivables	3 925 109	-75 227	3 849 882	3 586 918
C.II.2.2.	Receivables – controlled or controlling entity	21 087		21 087	24 040
C.II.2.4.	Receivables – other	546 732	-21 239	525 493	799 390
C.II.2.4.3.	State – tax receivables	433 517		433 517	663 862
C.II.2.4.4.	Short-term prepayments made	18 619	-26	18 593	12 625
C.II.2.4.5.	Estimated receivables	28 278		28 278	92 881
C.II.2.4.6.	Sundry receivables	66 318	-21 213	45 105	30 022
<b>C.II.3.</b>	<b>Other assets</b>	<b>202 156</b>		<b>202 156</b>	<b>175 075</b>
C.II.3.1.	Deferred expenses	64 560		64 560	55 935
C.II.3.2.	Complex deferred expenses	136 299		136 299	118 847
C.II.3.3.	Accrued income	1 297		1 297	293
<b>C.III.</b>	<b>Current financial assets</b>	<b>12 548</b>	<b>-12 548</b>		
C.III.2.	Other current financial assets	12 548	-12 548		
<b>C.IV.</b>	<b>Cash</b>	<b>1 115 603</b>		<b>1 115 603</b>	<b>873 931</b>
C.IV.1.	Cash on hand	4 814		4 814	4 704
C.IV.2.	Cash at bank	1 110 789		1 110 789	869 227

## CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES &amp; EQUITY

(IN CZK THOUSAND)

	31. 12. 2018	31. 12. 2017
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>44 867 560</b>	<b>40 648 041</b>
<b>A. Equity</b>	<b>30 388 782</b>	<b>27 935 420</b>
<b>A.I. Share capital</b>	<b>8 109 863</b>	<b>8 109 863</b>
A.I.1. Share capital	8 109 863	8 109 863
<b>A.II. Share premium and capital funds</b>	<b>88 826</b>	<b>94 715</b>
A.II.2. Capital funds	88 826	94 715
A.II.2.1. Other capital funds	111 805	110 247
A.II.2.2. Gains or losses from the revaluation of assets and liabilities (+/-)	-22 979	-15 532
<b>A.III. Funds from profit</b>	<b>3 312 852</b>	<b>3 312 852</b>
A.III.1. Other reserve funds	3 312 852	3 312 852
<b>A.IV. Retained earnings (+/-)</b>	<b>14 603 057</b>	<b>14 254 204</b>
A.IV.1. Accumulated profits or losses brought forward (+/-)	14 603 057	14 254 204
<b>A.V. Profit or loss for the current period net of minority interests</b>	<b>3 665 779</b>	<b>1 560 659</b>
A.V.1. Profit or loss for the current period	3 642 703	1 555 381
A.V.2. Share of income from associates	23 076	5 278
<b>A.VII. Consolidation reserve fund</b>	<b>608 405</b>	<b>603 127</b>
<b>B.+C. Liabilities</b>	<b>14 197 025</b>	<b>12 324 459</b>
<b>B. Reserves</b>	<b>488 477</b>	<b>427 701</b>
B.1. Reserve for pensions and similar liabilities	3 931	4 288
B.3. Reserves under special legislation	9 836	11 517
B.4. Other reserves	474 710	411 896
<b>C. Payables</b>	<b>13 708 548</b>	<b>11 896 758</b>
<b>C.I. Long-term payables</b>	<b>4 212 766</b>	<b>3 797 558</b>
C.I.2. Payables to credit institutions	2 514 774	2 208 306
C.I.4. Trade payables	36 918	49 790
C.I.8. Deferred tax liability	1 661 074	1 539 322
C.I.9. Payables – other		140
C.I.9.3. Sundry payables		140

TABLE CONTINUES ON THE FOLLOWING PAGE 

## CONSOLIDATED BALANCE SHEET FULL VERSION – LIABILITIES &amp; EQUITY

(IN CZK THOUSAND)

<b>C.II.</b>	<b>Short-term payables</b>	<b>9 455 666</b>	<b>8 067 402</b>
C.II.2.	Payables to credit institutions	1 465 938	1 734 625
C.II.3.	Short-term prepayments received	20 473	27 062
C.II.4.	Trade payables	5 320 252	4 733 984
C.II.8.	<i>Other payables</i>	2 649 003	1 571 731
C.II.8.2.	Short-term financial borrowings	101	154
C.II.8.3.	Payables to employees	510 597	461 548
C.II.8.4.	Social security and health insurance payables	219 235	189 038
C.II.8.5.	State – tax payables and subsidies	1 418 499	597 752
C.II.8.6.	Estimated payables	415 642	234 680
C.II.8.7.	Sundry payables	84 929	88 559
<b>C.III.</b>	<b>Other liabilities</b>	<b>40 116</b>	<b>31 798</b>
C.III.1.	Accrued expenses	28 585	15 776
C.III.2.	Deferred income	11 531	16 022
<b>D.</b>	<b>Minority equity</b>	<b>281 753</b>	<b>388 162</b>
D.1.	Minority share capital	58 800	83 300
D.2.	Minority capital funds	5 080	4 404
D.3.	Minority profit funds including accumulated profits and accumulated losses	191 028	278 393
D.5.	Minority profit or loss for the current period	26 845	22 065

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

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
I. Sales of products and services	51 683 486	45 225 486
II. Sales of goods	136 812	93 070
A. Purchased consumables and services	<b>39 288 482</b>	<b>36 590 383</b>
A.1. Costs of goods sold	97 569	78 896
A.2. Consumed material and energy	35 172 502	32 466 873
A.3. Services	4 018 411	4 044 614
B. Change in internally produced inventory (+/-)	-906 872	-741 719
C. Own work capitalised (-)	-1 068 102	-989 429
D. Staff costs	<b>7 326 952</b>	<b>6 399 835</b>
D.1. Payroll costs	5 210 490	4 528 828
D.2. Social security and health insurance costs and other charges	<b>2 116 462</b>	<b>1 871 007</b>
D.2.1. Social security and health insurance costs	1 839 350	1 569 234
D.2.2. Other charges	277 112	301 773
E. Adjustments to values in operating activities	<b>2 154 204</b>	<b>1 792 004</b>
E.1. <i>Adjustments to values of intangible and tangible fixed assets</i>	2 157 250	1 898 236
E.1.1. Adjustments to values of intangible and tangible fixed assets – permanent	2 139 778	1 906 150
E.1.A. Release of positive consolidation difference (goodwill)	16 806	
E.1.B. Release of negative consolidation difference (goodwill)	-243	
E.1.2. Adjustments to values of intangible and tangible fixed assets – temporary	909	-7 914
E.2. Adjustments to values of inventories	-3 886	-105 910
E.3. Adjustments to values of receivables	840	-322
III. Other operating income	<b>965 864</b>	<b>893 559</b>
III.1. Sales of fixed assets	60 314	17 539
III.2. Sales of material	164 747	122 749
III.3. Sundry operating income	740 803	753 271

TABLE CONTINUES ON THE FOLLOWING PAGE 

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

(IN CZK THOUSAND)

F.	Other operating expenses	<b>1 271 109</b>	<b>1 121 995</b>
F.1.	Net book value of sold fixed assets	18 200	7 483
F.2.	Net book value of sold material	170 936	102 368
F.3.	Taxes and charges	67 631	60 199
F.4.	Reserves relating to operating activities and complex deferred expenses	45 262	153 363
F.5.	Sundry operating expenses	969 080	798 582
*	<b>Operating profit or loss (+/-)</b>	<b>4 720 389</b>	<b>2 039 046</b>
IV.	Income from non-current financial assets – equity investments	<b>4 515</b>	<b>2 415</b>
IV.1.	Income from equity investments - controlled or controlling entity	4 431	2 391
IV.2.	Other income from equity investments	84	24
VI.	Interest income and similar income	<b>962</b>	<b>223</b>
VI.1.	Interest income and similar income – controlled or controlling entity	356	21
VI.2.	Other interest income and similar income	606	202
I.	Adjustments to values and reserves relating to financial activities	37 816	1 740
J.	Interest expenses and similar expenses	<b>64 419</b>	<b>37 155</b>
J.1.	Interest expenses and similar expenses – controlled or controlling entity	893	
J.2.	Other interest expenses and similar expenses	63 526	37 155
VII.	Other financial income	92 175	103 235
K.	Other financial expenses	173 411	164 292
*	<b>Financial profit or loss (+/-)</b>	<b>-177 994</b>	<b>-97 314</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>4 542 395</b>	<b>1 941 732</b>
L.	Income tax	<b>872 847</b>	<b>364 286</b>
L.1.	Due income tax	823 580	312 806
L.2.	Deferred income tax (+/-)	49 267	51 480
**	<b>Profit or loss net of tax (+/-)</b>	<b>3 669 548</b>	<b>1 577 446</b>
**	<b>Consolidated profit or loss net of share of income from associates</b>	3 669 548	1 577 446
	Consolidated profit or loss net of minority interests	3 642 703	1 555 381
	Minority profit or loss	26 845	22 065
*	<b>Share of income from associates</b>	23 076	5 278
	Profit or loss for the current period (+/-)	3 692 624	1 582 724
***	<b>Profit or loss for the current period net of minority interests (+/-)</b>	<b>3 665 779</b>	<b>1 560 659</b>
*	Net turnover for the current period	<b>52 883 814</b>	<b>46 317 988</b>

**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 from associates	TOTAL EQUITY
<b>Balance at 31 December 2016</b>	<b>8 109 863</b>	<b>107 578</b>	<b>3 312 852</b>	<b>13 819 430</b>	<b>1 836 091</b>	<b>582 410</b>	<b>20 716</b>	<b>27 788 940</b>
Distribution of profit or loss		1 342		434 749	-436 091	20 716	-20 716	
Profit shares paid					-1 400 000			-1 400 000
Revaluation of assets		-14 180						-14 180
Reclassification/use of funds		-25		25				
Profit or loss for the current period					1 555 381		5 278	1 560 659
Other						1		1
<b>Balance at 31 December 2017</b>	<b>8 109 863</b>	<b>94 715</b>	<b>3 312 852</b>	<b>14 254 204</b>	<b>1 555 381</b>	<b>603 127</b>	<b>5 278</b>	<b>27 935 420</b>
Distribution of profit or loss		4 951		350 430	-355 381	5 278	-5 278	
Profit shares paid					-1 200 000			-1 200 000
Revaluation of assets		-10 840						-10 840
Impact of changes in the consolidation group				-1 577				-1 577
Profit or loss for the current period					3 642 703		23 076	3 665 779
<b>Balance at 31 December 2018</b>	<b>8 109 863</b>	<b>88 826</b>	<b>3 312 852</b>	<b>14 603 057</b>	<b>3 642 703</b>	<b>608 405</b>	<b>23 076</b>	<b>30 388 782</b>

**CONSOLIDATED CASH FLOW STATEMENT**

(IN CZK THOUSAND)

	Year ended 31. 12. 2018	Year ended 31. 12. 2017
<b>P.</b>		
<b>Opening balance of cash and cash equivalents</b>	<b>859 264</b>	<b>1 280 513</b>
<b>Cash flows from ordinary activities (operating activities)</b>		
Z.		
Profit or loss from ordinary activities before tax	4 542 395	1 941 732
A.1.		
Adjustments for non-cash transactions	2 260 840	1 983 422
A.1.1.		
Depreciation of fixed assets excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	2 156 341	1 906 150
A.1.2.		
Change in provisions and reserves	80 940	40 957
A.1.3.		
Profit/(loss) on the sale of fixed assets	-42 114	-10 056
A.1.4.		
Revenues from profit shares, except for those paid from consolidation entities	-4 515	-2 415
A.1.5.		
Interest expense and interest income	63 457	36 932
A.1.6.		
Adjustments for other non-cash transactions	6 731	11 854
<b>A.*</b>		
<b>Net operating cash flow before changes in working capital</b>	<b>6 803 235</b>	<b>3 925 154</b>
A.2.		
Change in working capital	-869 548	-276 613
A.2.1.		
Change in operating receivables and other assets	24 186	657 820
A.2.2.		
Change in operating payables and other liabilities	775 729	177 462
A.2.3.		
Change in inventories	-1 669 359	-1 113 995
A.2.4.		
Change in current financial assets	-104	2 100
<b>A.**</b>		
<b>Net cash flow from operations before tax</b>	<b>5 933 687</b>	<b>3 648 541</b>
A.3.		
Interest paid	-65 755	-36 981
A.4.		
Interest received	845	1 212
A.5.		
Income tax paid from ordinary operations	-134 876	-272 840
A.6.		
Received profit shares	9 793	23 132
<b>A.***</b>		
<b>Net operating cash flows</b>	<b>5 743 694</b>	<b>3 363 064</b>

TABLE CONTINUES ON THE FOLLOWING PAGE 

## CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

<b>Cash flows from investing activities</b>			
B.1.	Fixed assets expenditures	-2 782 299	-3 690 667
B.2.	Proceeds from fixed assets sold	61 026	19 681
B.3.	Loans and borrowings to related parties	3 032	-24 032
B.4.	Cash flows from the purchase of business or its part	-1 241 173	
<b>B.***</b>	<b>Net investment cash flows</b>	<b>-3 959 414</b>	<b>-3 695 018</b>
<b>Cash flow from financial activities</b>			
C.1.	Change in payables from financing	-329 967	1 319 917
C.2.	Impact of changes in equity	-1 212 740	-1 409 212
C.2.6.	Profit shares paid, except for profit shares paid between Group entities	1 212 740	-1 409 212
<b>C.***</b>	<b>Net financial cash flows</b>	<b>-1 542 707</b>	<b>-89 295</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>241 573</b>	<b>-421 249</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>1 100 837</b>	<b>859 264</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

### 1. GENERAL INFORMATION

#### 1.1. INCORPORATION AND DESCRIPTION OF THE COMPANY

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

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

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

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

#### 1.2. MATERIAL EVENTS RECORDED IN THE REGISTER OF COMPANIES

During the year ended 31 December 2018, a change in the composition of the Company’s Supervisory Board was recorded in the Register of Companies. On 30 September 2018, the position of Marcel Pielesz as a Supervisory Board member expired following his resignation from the office. With effect from 1 October 2018, Marcel Pielesz was elected a Supervisory Board member by the Company’s employees.

#### 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 2018, the Company was controlled by MORAVIA STEEL a.s. as the sole shareholder. MORAVIA STEEL a.s. is controlled by FINITRADING, a.s., which is its sole shareholder.

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

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

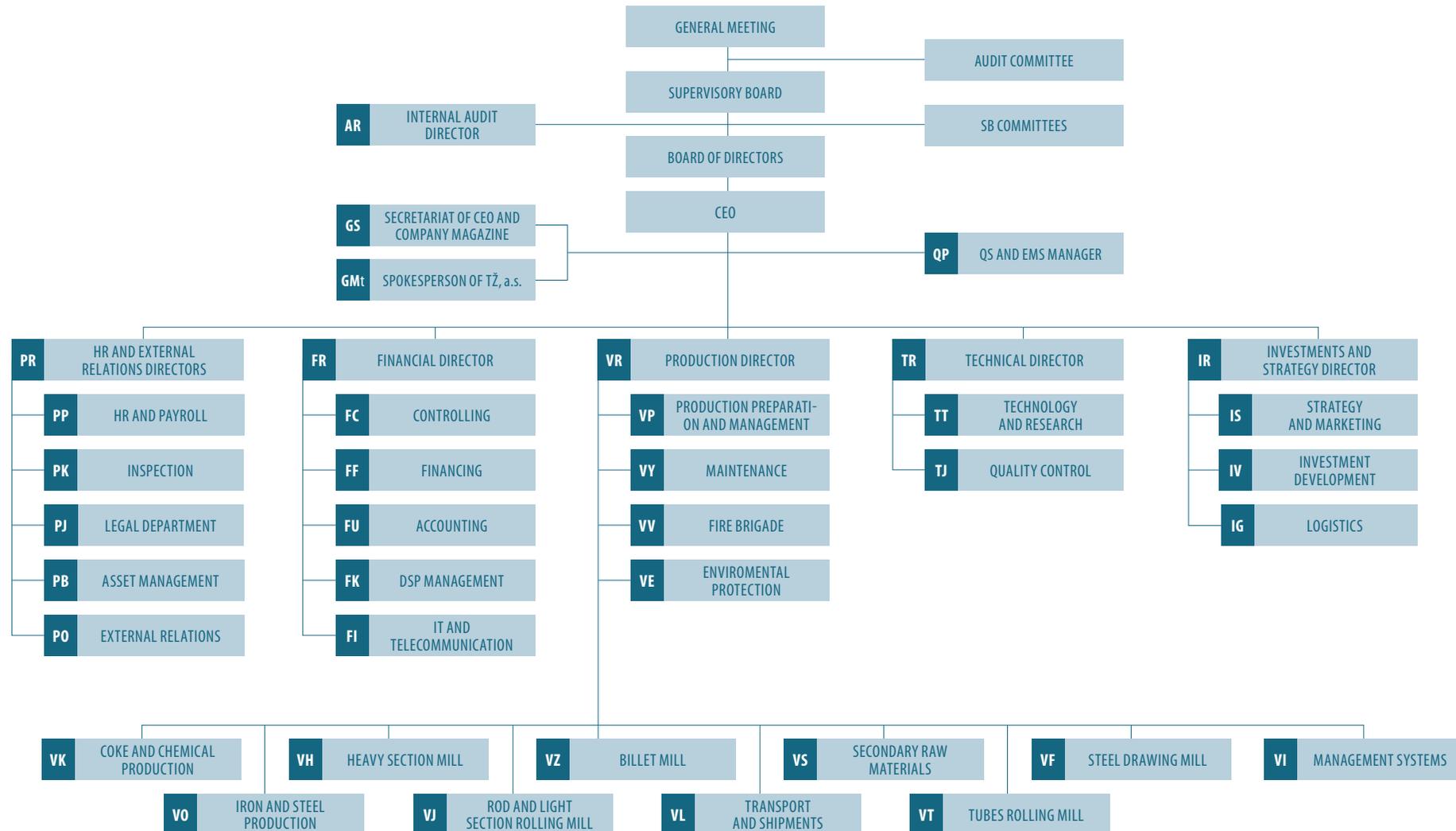
**1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2018**

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

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

### 2.1. ORGANISATIONAL STRUCTURE

Basic Organisational Structure of the Company as of 31 December 2018



The bodies of the Company are as follows:

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

## 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 2018:

### Subsidiaries:

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2018
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" SPÓŁKA AKCYJNA	ulica ŚWIĘTEJ ROZALII nr 10, lok. 12, 97-500 Radomsko, Poland	Production of nails, wire and wire products	100.00 %
"D&D" Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság*	3527 Miskolc, Sajószigeti utca 4., Hungary	Production of wire products	100.00 %
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00 %
HŽP a.s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00 %
SV servisní, s.r.o.	Dolní 3137/100, 796 01 Prostějov	Electricity trading and distribution, gas trading and distribution	100.00 %
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	100.00 %
BOHEMIA RINGS s.r.o.**	č.p. 10, 565 43 Zámorsk	Smithery and metalworking	100.00 %
Řetězárna a.s.	Polská 48, 790 81 Česká Ves	Production of chains, chain products and drawn wire	51.00 %

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

\*\* previously operating under the company name of Brück AM spol. s r.o.

### Associate:

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2018
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 726, Kanská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00 %

In 2018, the consolidation group was extended to include BOHEMIA RINGS s.r.o. as a result of acquiring a 100% equity investment in the entity. The entity was incorporated in the consolidation group as of 29 March 2018.

Owing to the acquisition of a 49% equity investment in REFRASIL, s.r.o., which increased the Company's equity investment to the present value of 100%, the minority share in the entity's profit or loss will be reported in minority equity only until the date of acquiring the 49% equity investment, ie until 10 August 2018.

### The following companies were included in the consolidated group for the year ended 31 December 2017:

#### Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2017
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00%
Slévárny Třinec, a.s.	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00%
VÚHŽ a.s.	č.p. 240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%
Šroubárna Kyjov, spol. s r.o.	Jiráskova 987/50, 697 01 Kyjov	Railway route operation, locksmithing, tool engineering, metalworking	100.00%
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00%
"METALURGIA" SPÓŁKA AKCYJNA	ulica ŚWIĘTEJ ROZALII nr 10, lok. 12, 97-500 Radomsko, Poland	Production of nails, wire and wire products	100.00%
"D&D" Drótáru Zrt.	3527 Miskolc, Sajósziget utca 4., Hungary	Production of wire products	100.00%
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%
HŽP a. s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00%
SV servisní, s.r.o.	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, Kónská, 739 61 Třinec	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%

#### Associate:

Name of the company	Registered office	Business activities	Equity investment at 31 Dec 2017
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 726, Kónská, 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 2018 and 2017. “METALURGIA” SPÓŁKA AKCYJNA 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 (the “Accounting Act”); 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 2018 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2017;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2017;
- The statement of changes in equity contains comparative amounts as of 31 December 2017; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2017.

### 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, development) with an acquisition cost greater than CZK 60 thousand on an individual basis and an estimated useful life greater than one year.

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

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

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

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

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

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

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

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

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

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

## Depreciation for Accounting Purposes

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

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

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

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

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

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

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

## Provisioning

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

## Impairment

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

## 4.2. NON-CURRENT FINANCIAL ASSETS

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

## Valuation

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

### At the consolidated balance sheet date:

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

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

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

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

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

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

### Provisioning against Equity Investments

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

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

### 4.3. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

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

#### **4.4. CURRENT FINANCIAL ASSETS AND CASH**

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

Current financial assets are carried at cost upon acquisition.

Cash consists of cash on hand and cash at bank.

#### **4.5. INVENTORY**

##### **Valuation**

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

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

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

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

### Provisioning

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

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

## 4.6. RECEIVABLES

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

### Provisioning

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

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

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

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

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

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

## 4.7. PAYABLES

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

## 4.8. PAYABLES TO CREDIT INSTITUTIONS

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

#### 4.9. RESERVES

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

#### 4.10. FOREIGN CURRENCY TRANSLATION

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

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

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

#### 4.11. FINANCE LEASES

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

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

#### 4.12. TAXATION

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

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/1992 Coll., on Income Taxes, with the exception of assets used by TŘINECKÉ ŽELEZÁRNY, a. s. in the Tube Rolling Mill (the VT operation), VZ – Sochorová válcovna plant and the Univerzální trať plant and the Track Fastenings Plant and assets used by Slévárny Třinec, a.s., ŽDB DRÁTOVNA a.s. and BOHEMIA RINGS s.r.o. 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. DEVELOPMENT EXPENDITURE

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

#### 4.18. SUBSIDIES

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

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

#### 4.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

	(IN CZK THOUSAND)	
	<b>31 Dec 2018</b>	<b>31 Dec 2017</b>
Cash on hand	4 814	4 704
Cash at bank	1 110 789	869 227
Other current financial assets	12 548	12 548
Provisions against other current financial assets	-12 548	-12 548
<b>Total current financial assets and cash</b>	<b>1 115 603</b>	<b>873 931</b>
Cash and cash equivalents not included in the cash flow	-14 771	-14 667
<b>Total cash and cash equivalents</b>	<b>1 100 832</b>	<b>859 264</b>

The difference between cash and cash equivalents as of 31 December 2018 and 2017 reported in the cash flow statement as opposed to the current financial assets and cash disclosed in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

#### 4.20. CONSOLIDATION RULES

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

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

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

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

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

Amortisation charges of goodwill arising on consolidation are recognised in a special consolidated profit and loss account line item 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 2018 and 2017 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 2018 and 2017 (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.

#### **4.21. CHANGES IN THE CLASSIFICATION OF FINANCIAL STATEMENT ITEMS**

From 2018 onwards, the Company has reported accruals and deferrals as part of receivables and payables (items C.II.3. and C.III.).

#### **4.22. CHANGES IN ACCOUNTING POLICIES**

With effect from the reporting period beginning on 1 January 2019, financial gifts intended to cover the recipient's operating activities will be reported in the profit and loss account in the line 'Sundry operating expenses'. Previously, the gifts were reported through financial profit or loss in the line 'Sundry financial expenses'. If the Company provides a financial gift that is not intended to cover the recipient's operating activities, it will be reported through financial profit or loss in the line 'Sundry financial expenses'.

With effect from the reporting period beginning on 1 January 2019, prepayments for tangible and intangible fixed assets reported in a foreign currency as of the balance sheet date will be translated using the Czech National Bank's exchange rate prevailing on the financial statements preparation date. Prior to the balance sheet date of 31 December 2018, if the prepayment is non-refundable and considered to form part of the acquisition cost of a specific fixed asset as of the balance sheet date, prepayments for fixed assets are not translated using the Czech National Bank's exchange rate.

## 5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

### 5.1. CONSOLIDATED PROFIT/LOSS FOR 2018

#### 5.1.1. Structure of the Consolidated Profit/Loss for 2018

(IN CZK THOUSAND)

Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a. s.	3 334 039
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	41 702
Profit/(loss) of the current period – Slévárny Třinec, a.s.	23 136
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	45 854
Profit/(loss) of the current period – Strojírny a stavby Třinec, a.s.	43 850
Profit/(loss) of the current period – VÚHŽ a.s.	39 902
Profit/(loss) of the current period – "METALURGIA" SPÓŁKA AKCYJNA	-19 660
Profit/(loss) of the current period – "D&D" Drótáru Zrt.	107 360
Profit/(loss) of the current period – ŽDB DRÁTOVNA a.s.	80 268
Profit/(loss) of the current period – HŽP a.s.	27 222
Profit/(loss) of the current period – SV servisní, s.r.o.	6 627
Profit/(loss) of the current period – BOHEMIA RINGS s.r.o.	63 230
Share in profit of the current period – REFRASIL, s.r.o.	9 149
Share in profit of the current period – Řetězárna a.s.	22 870
Share in profit of the current period – v ekvivalenci	23 076
Adjustments within the full method of consolidation (see below)	-177 568
Adjustments within the equity method of consolidation (see below)	-5 278
<b>Consolidated profit</b>	<b>3 665 779</b>

#### 5.1.2. Adjustments within Full Consolidation for 2018

(IN CZK THOUSAND)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	-1 106
Write-off of the revaluation of assets at fair value	-30 684
Write-offs of the margin from the sale of assets value including the deferred tax impact	12 434
Elimination of the margin from the sale of emission allowances	9 562
Elimination of declared profit shares of the consolidated group entities	-205 260
Elimination of provisioning against "D&D" Drótáru Zrt.	-13 700
Write-off of positive goodwill arising on consolidation of ŽDB DRÁTOVNA a.s.	-12 510
Write-off of positive goodwill arising on consolidation of BOHEMIA RINGS s.r.o.	-4 296
Write-off of negative goodwill arising on consolidation of REFRASIL, s.r.o.	243
Elimination of the reserve for emission allowances including the deferred tax impact	67 749
<b>Total adjustments</b>	<b>-177 568</b>

### 5.1.3. Adjustments to the Profit or Loss within the Equity Method for 2018

(IN CZK THOUSAND)

Elimination of paid profit shares of VESUVIUS ČESKÁ REPUBLIKA, a.s.	-5 278
<b>Total adjustments</b>	<b>-5 278</b>

## 5.2. CONSOLIDATED PROFIT/LOSS FOR 2017

### 5.2.1. Structure of the Consolidated Profit/Loss for 2017

(IN CZK THOUSAND)

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

### 5.2.2. Adjustments within Full Consolidation for 2017

(IN CZK THOUSAND)

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

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

(IN CZK THOUSAND)

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

## 6. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

### 6.1. INTANGIBLE FIXED ASSETS

#### Cost

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	New acquisition	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2018
Development	4 553	0	0	0	0	4 553
Valuable rights	552 599	9 161	10 688	7 993	-497	563 958
Goodwill	356	0	0	0	-7	349
Other intangible FA	565 610	0	1 403 772	1 072 663	0	896 719
Intangible FA under construction	4 232	710	430 198	433 160	0	1 980
<b>Total</b>	<b>1 127 350</b>	<b>9 871</b>	<b>1 844 658</b>	<b>1 513 816</b>	<b>-504</b>	<b>1 467 559</b>

#### Accumulated Amortisation

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	New acquisition	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2018
Development	4 553	0	0	0	0	4 553
Valuable rights	401 901	6 227	29 519	7 993	-393	429 261
Goodwill	356	0	0	0	-7	349
Other intangible FA	12 881	0	638	0	42	13 561
<b>Total</b>	<b>419 691</b>	<b>6 227</b>	<b>30 157</b>	<b>7 993</b>	<b>-358</b>	<b>447 724</b>

#### Net Book Value

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Development	0	0
Valuable rights	150 698	134 697
Goodwill	0	0
Other intangible FA	552 729	883 158
Intangible FA under construction	4 232	1 980
<b>Total</b>	<b>707 659</b>	<b>1 019 835</b>

In the tables presenting movements in intangible fixed assets, the 'New acquisition' column represents the extension of the consolidation group in 2018 to include BOHEMIA RINGS s.r.o.

### Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 30,098 thousand and CZK 35,897 thousand as of 31 December 2018 and 2017, respectively.

Other intangible assets primarily include allowances.

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

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

### 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 38,856 thousand and CZK 40,832 thousand as of 31 December 2018 and 2017, respectively.

In 2018, Šroubárna Kyjov, spol. s r.o. disposed of the fully amortised Baan software (acquisition cost of CZK 6,934 thousand) and the Cognos management information system (acquisition cost of CZK 646 thousand).

## 6.2. TANGIBLE FIXED ASSETS

### Cost

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	New acquisition	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2018
Land	741 769	57 180	15 303	13 478	-474	800 300
Structures	13 699 078	722 495	380 822	29 993	-7 370	14 765 032
Tangible movable assets and sets thereof	39 752 060	1 363 201	1 985 861	370 335	-20 968	42 709 819
Other tangible FA	96 650	78	6 397	2 877	-656	99 592
Prepayments for tangible FA	201 334	18 472	604 380	610 847	0	213 339
Tangible FA under construction	1 088 385	5 656	2 667 364	2 380 373	-118	1 380 914
<b>Total</b>	<b>55 579 276</b>	<b>2 167 082</b>	<b>5 660 127</b>	<b>3 407 903</b>	<b>-29 586</b>	<b>59 968 996</b>

**Accumulated Depreciation**

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	New acquisition	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2018
Structures	7 105 768	200 166	356 261	27 003	-3 477	7 631 715
Tangible movable assets and sets thereof	26 389 142	873 908	1 746 127	361 686	-15 745	28 631 746
Other tangible FA	80 482	0	2 821	2 684	-430	80 189
<b>Total</b>	<b>33 575 392</b>	<b>1 074 074</b>	<b>2 105 209</b>	<b>391 373</b>	<b>-19 652</b>	<b>36 343 650</b>

**Provisions**

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	New acquisition	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2018
Structures	55 641	0	31	4 484	0	51 188
Tangible movable assets and sets thereof	10 377	0	4 352	5 855	0	8 874
Other tangible FA	0	0	35	2	0	33
Tangible FA under construction	15 728	0	7 171	323	0	22 576
<b>Total</b>	<b>81 746</b>	<b>0</b>	<b>11 589</b>	<b>10 664</b>	<b>0</b>	<b>82 671</b>

**Net Book Value**

(IN CZK THOUSAND)

Net book value	Balance at 31 Dec 2017	Balance at 31 Dec 2018
Land	741 769	800 300
Structures	6 537 669	7 082 129
Tangible movable assets and sets thereof	13 352 541	14 069 199
Other tangible FA	16 168	19 370
Prepayments for tangible FA	201 334	213 339
Tangible FA under construction	1 072 657	1 358 338
<b>Total</b>	<b>21 922 138</b>	<b>23 542 675</b>

In the tables presenting movements in intangible fixed assets, the 'New acquisition' column represents the extension of the consolidation group in 2018 to include BOHEMIA RINGS s.r.o.

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

(IN CZK THOUSAND)

Hatebur 1 forging line	70 693
Long and short single-line tank pickling lines	67 270
Acquisition of combustion products desulphurisation	60 223
Acquisition of a grinding line	54 154
Acquisition of annealing furnaces	53 069
Hsw300 horizontal boring machine	52 686
DUO 1100 rolling mill	38 014
TZ pickling lines	34 757
TZ pickling lines with drying furnaces	31 497
Drilling and sawing machine	24 524
BBS 16 bar grinder	24 141
Chamber filter press	22 779
BSR1 forging press	17 693
Reconstruction of the SACM11 press and storage equipment	14 310
Pilger roll machining tool	13 369
Roller; PFWE 4-1800/80 S	12 549
Dango handling device	11 786
"Andromat" grinding machine including a hydraulic aggregate	10 613

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

(IN CZK THOUSAND)

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

During the year ended 31 December 2018, the disposals of tangible fixed assets in TŘINECKÉ ŽELEZÁRNY, a. s., included assets with the aggregate net book value of CZK 20,550 thousand. Major disposals principally comprised partial liquidation of VP 6 air heater No. 61 owing to modernisation, liquidation of the Boehl-CollMaster MK I packaging machine, partial liquidation of the non-functioning gas analyser and disposal of land owing to its sale.

For the year ended 31 December 2018, the disposals of tangible fixed assets in Strojírny a stavby Třinec, a.s. included items with the net book value of CZK 4,526 thousand that had already been fully depreciated. The most significant disposals included the WD200A boring machine.

## The most significant disposals of tangible fixed assets of ŽDB DRÁTOVNA a.s. in 2018 included:

	(IN CZK THOUSAND)
Galvanising shop hall	5 683
Changing and shower rooms in the galvanising shop	4 095
Galvanising shop sales	3 309
Tandem Deco crusher	3 018
TND hall – galvanising shop	2 659
Water management – Ebner 2	1 790
Double girder bridge crane no. 103	1 747
Double girder bridge crane no. 102	1 707
Double girder bridge crane no. 69	1 110

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

In 2018, the additions of VÚHŽ a.s. also included a portion of machinery and technical improvements on Hall 4 – the “Rolling Mill Modernisation/Reconstruction” project of CZK 60,904 thousand, even though the statutory requirements were not met in their entirety (final inspection, official-record takeover). These assets generate material revenues and profits and are only depreciated for accounting purposes. They were categorised in December 2018. Depreciation of the assets for accounting purposes has been in place since June 2018, when the assets started to be used for production, and was categorised in December 2018.

In 2018, the disposals of tangible fixed assets of VÚHŽ a.s. included items with the net book value of CZK 279 thousand. Most significant disposals primarily included the wrecked Škoda Octavia car.

During the year ended 31 December 2018, the disposals of tangible fixed assets in SV servisní, s.r.o., included items with the net book value of CZK 32 thousand. Most significant disposals primarily included the Back-up Solar Source.

In 2018, ENERGETIKA TŘINEC, a.s., updated a provision against the central warehouse of fuel oils in the total amount of CZK 38,467 thousand. The provision corresponds to 98% of the net book value of this asset as of 31 December 2018.

During the year ended 31 December 2018, the disposals of tangible fixed assets in ENERGETIKA TŘINEC, a.s., included items with the net book value of CZK 536 thousand. The most significant disposals predominantly included the disposal of the ČKD4 turbo-compressor in the acquisition cost of CZK 5,356 thousand.

As of 31 December 2018, the additions to tangible fixed assets of HŽP a.s., similarly to 2017, included predominantly acquired machines and equipment necessary for the production of leaf, parabolic and helical springs. Disposals comprise unnecessary or obsolete machines that were liquidated or sold during the year.

In the year ended 31 December 2018, REFRASIL, s.r.o., sold unneeded fully-depreciated movable assets for the selling price of CZK 339 thousand.

In 2018, an investment subsidy of CZK 28,156 thousand was used in respect of some tangible fixed assets acquired by Šroubárna Kyjov, spol. s r.o., which reduced the acquisition cost of the assets.

The most significant disposals of tangible fixed assets of Šroubárna Kyjov, spol. s r. o. in the year ended 31 December 2018 predominantly included a Scania truck (acquisition cost of CZK 1,999 thousand) and a Scania trailer (acquisition cost of CZK 1,035 thousand), which were disposed of through sale. Furthermore, they included a spectrometer (acquisition cost of CZK 1,398 thousand), an AKS 35M forging press (acquisition cost of CZK 1,893 thousand), induction heating (acquisition cost of CZK 1,436 thousand) and an AZM24 nut screwing line (acquisition cost of CZK 2,345 thousand), which were environmentally disposed of. The disposals of fixed assets were fully depreciated.

### Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 2,109,680 thousand and CZK 1,870,253 thousand as of 31 December 2018 and 2017, 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 867,561 thousand and CZK 827,093 thousand as of 31 December 2018 and 2017, respectively.

### Fair Value

As of the acquisition date in 2018, assets of BOHEMIA RINGS s.r.o. were measured at fair value. The revaluation of assets as of the acquisition date resulted in an increase in the value of fixed assets of CZK 278,539 thousand and the recognition of a deferred tax liability, with the application of a 19% tax rate of CZK 45,256 thousand.

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

### Finance Leases

#### 31.12.2018

(IN CZK THOUSAND)

	<b>Machinery and equipment</b>	<b>Balance at 31 Dec 2018</b>
	<b>New acquisitions</b>	
Total anticipated sum of rental payments	85 613	85 613
Payments actually made by 31 December 2018	84 044	84 044
Future payments falling due by 31 December 2019	1 569	1 569

**31 December 2017**

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

**Operating Lease**

Lease payments of CZK 64,902 thousand and CZK 63,596 thousand were made in the years ended 31 December 2018 and 2017, respectively.

**6.4. PLEDGED FIXED ASSETS****31 December 2018**

(IN CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	241 996	
Land	23 663	Loan from Česká spořitelna, a.s.
Tangible fixed assets	427 398	
Land	3 444	Loan from Česká spořitelna, a.s.
Tangible fixed assets	664 946	
Structures	132 389	
Land	3 458	Loan from Česká spořitelna, a.s.
Tangible fixed assets	2 465	
Land	39 986	Loan from Československá obchodní banka, a. s.
Tangible fixed assets	828 197	Loan from Československá obchodní banka, a. s.
Tangible fixed assets	870 673	Loan from Československá obchodní banka, a. s.
Tangible fixed assets	404 219	
Land	662	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	87 971	Collateral for an investment bank loan with UniCredit Bank Czech Republic and Slovakia, a.s.
Technologies	87 376	Raiffeisenbank a.s. – pledge for the long-term bank loan for funding the MoRe T4 – 110kV distribution point
Tangible fixed assets	98 742	Investment loan from ING Bank N.V.
Tangible fixed assets *	89 700	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, collateralised by machinery of up to PLN 15,000 thousand
Tangible fixed assets *	56 249	Loan from Bank BGŻ BNP Paribas S.A., collateralised by machinery of up to PLN 9,406 thousand
Tangible fixed assets *	36 662	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, collateralised by machinery of up to PLN 6,131 thousand
Tangible fixed assets, land	510	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	707	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 478	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	696	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	13 276	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 724	Investment loan from Raiffeisenbank a.s.

TABLE CONTINUES ON THE FOLLOWING PAGE



Tangible fixed assets, land	1 916	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	991	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	9 736	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	513	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets	3 474	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	170 467	
Technologies	187 734	Loan from Citibank Europe plc.
Land	4 871	
Tangible fixed assets	131 187	Investment and overdraft loan from Raiffeisenbank a.s.
Land	225	
Tangible fixed assets	21 830	Investment and overdraft loan from MONETA Money Bank, a.s.
Land	283	
Tangible fixed assets	64 446	Investment and overdraft loan from Česká spořitelna, a.s.
<b>Total</b>	<b>4 716 260</b>	

Note: \* translated using the Czech National Bank's exchange rate as of 31 December 2018

### 31 December 2017

(IN CZK THOUSAND)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	254 186	
Land	23 663	Loan from Česká spořitelna, a.s.
Tangible fixed assets	455 923	
Land	3 444	Loan from Česká spořitelna, a.s.
Tangible fixed assets	754 558	
Buildings	141 948	
Land	3 458	Loan from Česká spořitelna, a.s.
Tangible fixed assets	2 601	
Land	39 986	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	891 744	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	917 188	Loan from Československá obchodní banka, a.s.
Tangible fixed assets	428 076	
Land	664	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Tangible fixed assets	507 916	
Land	110 468	Loan from HSBC Bank plc – Prague branch
Tangible fixed assets	106 961	
Land	5 264	Overdraft from Československá obchodní banka, a.s.
Technology	100 993	Raiffeisenbank a.s. – pledge for the long-term bank loan for funding the MoRe T4 – 110kV distribution point
Tangible fixed assets	119 298	Investment loan from ING Bank N.V.

TABLE CONTINUES ON THE FOLLOWING PAGE 

Tangible fixed assets*	91 710	Loan from Bank Polska Kasa Opieki Spółka Akcyjna., collateralised by machinery up to PLN 15,000 thousand
Tangible fixed assets, land	748	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	754	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 552	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	832	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	272	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 808	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	2 180	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	1 074	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	8 368	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	361	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	120	Investment loan from Raiffeisenbank a.s.
Tangible fixed assets, land	11 455	Investment loan from Československá obchodní banka, a.s.
Land	13 089	
Technology	63 182	Loan from Citibank Europe plc.
<b>Total</b>	<b>5 065 844</b>	

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

## 6.5. NON-CURRENT FINANCIAL ASSETS

### Cost

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2018
Equity investments – controlled or controlling entity	395 531	436	5 960	1 379	0	391 386
Equity investments in associates	26 201	0	0	0	0	26 201
Other non-current securities and equity investments	2 089	4	92	0	0	2 001
<b>Total</b>	<b>423 821</b>	<b>440</b>	<b>6 052</b>	<b>1 379</b>	<b>0</b>	<b>419 588</b>

### Provisions

(IN CZK THOUSAND)

	Balance at 31 Dec 2017	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2018
Equity investments – controlled or controlling entity	34 755	65 030	25 614	0	0	74 171
Equity investments in associates	18 057	0	1 601	0	0	16 456
Other non-current securities and equity investments	88	0	88	0	0	0
<b>Total</b>	<b>52 900</b>	<b>65 030</b>	<b>27 303</b>	<b>0</b>	<b>0</b>	<b>90 627</b>

The most significant additions to non-current financial assets in the year ended 31 December 2018 include the following:

- Increase in the equity investment in TŘINECKÁ PROJEKCE, a. s., from 83.18% to 84.54%.

The plan for the merger by amalgamation of DALSELV DESIGN a.s., as the dissolving company, and Strojírny a stavby Třinec, a.s., as the successor company, was approved, the effective date being 1 January 2019.

## 6.6. SUMMARY OF UNCONSOLIDATED FINANCIAL INVESTMENTS

### 6.6.1. Equity Investments – Controlled or Controlling Entity

#### 31 December 2018

(IN 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	54 804	2 822	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	49 198	207	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	19 605	195	0	0
Moravia Security, a.s., Kinská, Třinec	12 000	12	100.00	39 313	3 643	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	45 025	1 821	0	0
DALSELV DESIGN a.s., Vítkovice, Ostrava*	2 000	20	100.00	4 030	-7 286	-0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 790	186	84.54	33 617	4 097	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	45 482	362	-9 725	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	48 000	-1 600	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	9 465	-	80	11 831	1 957	0	1 631
JuBo Jeseník s. r.o., Jeseník	2 325	-	80	2 907	766	0	800
Řetězárna servis s.r.o., Jeseník	4 469	-	100	4 569	3 578	0	2 000
IMOPRA s.r.o., Nivnice	2 000	0	100.00	105 811	13 534	-64 446	0
<b>Total</b>						<b>-74 171</b>	<b>4 431</b>

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

\* change in the registered office

**31 December 2017**

(IN CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	51 982	1 498	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	48 991	2 771	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	19 419	500	0	0
Moravia Security, a.s., Kinská, Třinec	12 000	12	100.00	35 670	3 055	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	43 200	-4 098	0	0
DALSELV DESIGN a.s., Mariánské Hory, Ostrava	2 000	20	100.00	11 378	-1 282	-22 958	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	29 521	7 635	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	46 131	72	-9 141	0
TRISIA, a.s., Lyžbice, Třinec	9 900	990	66.00	49 679	-1 274	0	0
Retaze Slovakia s.r.o., Skalica (SK)	9 477	-	80	11 846	1 505	0	2 151
JUBO Jeseník s. r.o., Jeseník	2 513	-	80	3 141	1 525	0	240
Řetězárna servis s.r.o., Jeseník	2 891	-	100	2 991	2 891	0	0
IMOPRA s.r.o., Nivnice	2 000	0	100.00	92 277	3 765	0	0
<b>Total</b>						<b>-32 099</b>	<b>2 391</b>

**6.6.2. Equity Investments – Associates****31 December 2018**

(IN CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Ocelářská unie a.s., Nové Město, Prague 1	16 427	27 379	39.28	45 143	1 687	-16 456	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	1 500	668	0	0
<b>Total</b>						<b>-16 456</b>	<b>0</b>

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

\* results for the period from 1 April 2018 to 31 March 2019

**31 December 2017**

(IN CZK THOUSAND)

Name of the entity, registered office	Nominal value	Number of securities	Equity investment %	Equity	Profit or loss for the period	Provision	Financial income
Ocelářská unie a.s., Nové Město, Prague 1**	16 427	27 379	39.28	43 765	3 878	-18 057	0
HRAT, s.r.o., Staré Město, Třinec*	100	0	23.26	949	323	0	0
<b>Total</b>						<b>-18 057</b>	<b>0</b>

Note: \* results for the period from 1 April 2017 to 31 March 2018

\*\* former Hutnictví železa, a.s.

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

#### 31 December 2018

(IN 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, Prague 8-Karlín	20	0	2.08	558	-548	0	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33.33	5 004	579	0	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100.00	181 729	-1 525	0	0	0
Veolia Energie ČR, a.s., Ostrava	0,89	1 700	0.00216	*	*	0	0	19
<b>TOTAL</b>						<b>0</b>	<b>-54</b>	<b>19</b>

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

\* data are unavailable

#### 31 December 2017

(IN 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, Prague 8-Karlín	20	0	2,08	794	828	0	-20	0
Kvalifikační a personální agentura, o.p.s., Staré Město, Třinec	34	0	33,33	3 823	-294	0	-34	0
Střední odborná škola Třineckých železáren, Kanada, Třinec	2 000	0	100,00	137 769	-1 582	0	0	0
Unirelex, a.s. v likvidaci, Praha	2,22	2 000	0,04306	*	*	0	-4	0
Veolia Energie ČR, a.s., Ostrava	0,89	1 700	0,00216	*	*	0	0	24
<b>TOTAL</b>						<b>0</b>	<b>-58</b>	<b>24</b>
"Huta Stalowa Wola" w Stalowej Woli (POL)**	13 900	1 390	0,0054	*	*	-13 900	0	0
RZPS "Raduskór" w Radomiu (POL)**	530	53	*	*	*	-530	0	0
TOTAL**						-14 430	0	0
<b>TOTAL***</b>						<b>-88</b>	<b>-58</b>	<b>24</b>

Note: \* data are unavailable

\*\* data in PLN

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

## 6.7. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

## 2018

(IN CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
<b>Positive goodwill arising on consolidation</b>						
ŽDB DRÁTOVNA a.s.	250 199	-12 510	237 689	0	12 510	0
BOHEMIA RINGS s.r.o.	114 559	-4 296	110 263	0	4 296	0
<b>Total</b>	<b>364 758</b>	<b>-16 806</b>	<b>347 952</b>	<b>0</b>	<b>16 806</b>	<b>0</b>
<b>Negative goodwill arising on consolidation</b>						
REFRASIL, s.r.o.	-14 566	243	-14 323	0	0	243
<b>Total</b>	<b>-14 566</b>	<b>243</b>	<b>-14 323</b>	<b>0</b>	<b>0</b>	<b>243</b>

The gross value of the positive goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 250,199 thousand as of 31 December 2018. The positive goodwill arising on consolidation includes the deferred tax arising from the difference from the revaluation of assets and liabilities. In 2018, the Company recognised a year-on-year change in this deferred tax of CZK 830 thousand. Total deferred tax in 2018 amounts to CZK 9,122 thousand.

In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. of CZK 12,510 thousand.

The gross value of the positive goodwill arising on consolidation of BOHEMIA RINGS s.r.o. amounts to CZK 114,559 thousand as of 31 December 2018. The positive goodwill arising on consolidation includes the deferred tax arising from the difference from the revaluation of assets and liabilities. As of 31 December 2018, the total deferred tax amounts to CZK 40,006 thousand.

In 2018, the Company recognised a write-off of the positive goodwill arising on consolidation of BOHEMIA RINGS s.r.o. of CZK 4,296 thousand.

As of 31 December 2018, the gross amount of the negative goodwill arising on consolidation of REFRASIL, s.r.o. amounts to CZK 14,566 thousand.

In 2018, the Company recognised a write-off of the negative goodwill arising on consolidation of REFRASIL, s.r.o. of CZK 243 thousand.

## 2017

(IN CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
<b>Positive goodwill arising on consolidation</b>						
ŽDB DRÁTOVNA a.s.	251 029	0	251 029	0	0	0
<b>Total</b>	<b>251 029</b>	<b>0</b>	<b>251 029</b>	<b>0</b>	<b>0</b>	<b>0</b>

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

**6.8. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING**

(IN CZK THOUSAND)

Securities and equity investments under equity accounting	2018	2017
VESUVIUS ČESKÁ REPUBLIKA, a.s.	154 669	136 871
<b>Total</b>	<b>154 669</b>	<b>136 871</b>

**6.9. PLEDGED NON-CURRENT FINANCIAL ASSETS**

As of 31 December 2018 and 2017, the Consolidated Group has non-current financial assets pledged as collateral in the nominal value of CZK 1,144,302 thousand and CZK 130,000 thousand, respectively.

**6.10. INVENTORY**

As of 31 December 2018, "METALURGIA" SPÓŁKA AKCYJNA has pledged the inventory up to PLN 13,000 thousand (CZK 77,740 thousand) with Bank BGŻ BNP Paribas S.A. in relation to the used loan. As of 31 December 2017, the inventory was pledged up to PLN 13,000 thousand (CZK 79,482 thousand).

**6.11. RECEIVABLES****6.11.1. Long-Term Receivables**

Long-term trade receivables generally include retained receivables from customers during guarantee periods.

As of 31 December 2018, the Company recorded long-term receivables with maturity period greater than five years of CZK 1,713 thousand (2017: CZK 4,814 thousand).

**6.11.2. Short-Term Receivables**

As of 31 December 2018 and 2017, gross short-term trade receivables past their due dates amounted to CZK 449,058 thousand (net CZK 374,245 thousand) and CZK 411,974 thousand (net CZK 338,549 thousand), respectively.

**Other Receivables**

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

As of 31 December 2018, State – tax receivables predominantly include a receivable arising from value added tax and prepayments for fees under Act No. 201/2012, Coll., on Air Protection. In 2017, State – tax receivables predominantly included a receivable arising from value added tax, corporate income tax prepayments and prepayments for fees under Act No. 201/2012, Coll., on Air Protection.

In 2018, other receivables principally include a receivable arising from an indisputable claim for a subsidy, a receivable arising from a loan contract and receivables from individuals. In 2017, other receivables principally included a receivable arising from an indisputable claim for a subsidy and receivables from individuals.

In 2018, estimated receivables principally include amounts due from anticipated insurance proceeds, from the utilisation of an operating subsidy, and from the refund of the value added tax paid abroad. In 2017, estimated receivables principally included 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.

### 6.11.3. Pledged Receivables

As of 31 December 2018, “METALURGIA” SPÓŁKA AKCYJNA records pledged receivables of PLN 4,080 thousand (CZK 24,398 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o. and pledged receivables of PLN 2,328 thousand (CZK 13,919 thousand) with Pekao Faktoring Sp. z o.o. As of 31 December 2017, it recorded pledged receivables of PLN 3,722 thousand (CZK 22,758 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o.

### 6.11.4. Intercompany Receivables

#### Short-term Receivables

(IN CZK THOUSAND)

Name of the entity	Relation	Balance at 31 Dec 2018	Balance at 31 Dec 2017
• Trade receivables			
Doprava TŽ, a.s.	Controlled entity	980	1 026
JuBo Jeseník s.r.o.	Controlled entity	5 945	3 846
Moravia Security, a.s.	Controlled entity	162	93
MORAVIA STEEL a.s.	Controlling entity	1 883 838	1 809 831
TRIALFA, s.r.o.	Controlled entity	3 419	4 005
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	121	154
DALSELV DESIGN a.s.	Controlled entity	0	535
Třinecké gastroslužby, s.r.o.	Controlled entity	1 269	1 282
TRISIA, a.s.	Controlled entity	9	13
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	5 211	4 224
Beskydská golfová, a.s.	Fellow subsidiary	73	281
NEOMET Sp. z o.o.	Fellow subsidiary	29	126
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	Controlled entity	18	19
M Steel Projects a.s.	Fellow subsidiary	13	10 663
Security Morava, s.r.o.	Controlled entity	12	11
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	2 945	3 189
Kovárna VIVA a.s.	Fellow subsidiary	402	6
MINERFIN a.s.	Group entity	2 050	452
Barrandov Studio a.s.	Fellow subsidiary	111	107
Refaze Slovakia, s.r.o.	Controlled entity	1 812	538

Řetězárna servis s.r.o.	Controlled entity	15	0
AHP HYDRAULIKA, a.s.	Fellow subsidiary	18	7 727
IMOPRA s.r.o.	Controlled entity	1	1
<b>Total</b>		<b>1 908 453</b>	<b>1 848 129</b>
• Receivables – controlled or controlling entity			
IMOPRA s.r.o.		21 087	24 040
<b>Total</b>		<b>21 087</b>	<b>24 040</b>
• Other receivables			
MORAVIA STEEL a.s.	Controlling entity	0	11
<b>Total</b>		<b>0</b>	<b>11</b>
• Short-term prepayments provided			
TRISIA, a.s.		1 210	2
<b>Total</b>		<b>1 210</b>	<b>2</b>
<b>Total short-term intercompany receivables</b>		<b>1 930 750</b>	<b>1 872 182</b>
Other than intercompany receivables		2 465 712	2 538 166
<b>Total short-term receivables</b>		<b>4 396 462</b>	<b>4 410 348</b>

As of 31 December 2018, no long-term intercompany receivables were recorded.

## 6.12. EQUITY

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

## Share Capital

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

## Proposal for the Allocation of Profit for 2018

In 2018, the Company generated net profit after tax of CZK 3,334,039 thousand. It is proposed to be allocated as follows:

- Profit share allocated to the sole shareholder: CZK 1,600,000 thousand
- Retained earnings brought forward: CZK 1,734,039 thousand

## 6.13. RESERVES

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

## 6.14. PAYABLES

### 6.14.1. Long-Term Payables

Long-term trade payables as of 31 December 2018 primarily include payables arising from retention fees from suppliers according to concluded contracts.

As of 31 December 2018 and 31 December 2017, the Company recorded long-term trade payables with maturities exceeding 5 years in the amounts of CZK 1,315 thousand and 1 363, respectively.

### 6.14.2. Short-Term Trade Payables

As of 31 December 2018, short-term trade payables past their due dates amount to CZK 100,451 thousand (2017: CZK 42,421 thousand).

Payables typically fall due for settlement within 30 days.

### 6.14.3. Other Payables

As of 31 December 2018, payables associated with social security and the state employment policy contribution amounted to CZK 145,575 thousand (2017: CZK 126,288 thousand), health insurance payables totalled CZK 64,340 thousand (2017: CZK 57,365 thousand). Payables arising from the additional pension scheme amounted to CZK 9,320 thousand (2017: CZK 5,385 thousand). No social securities and health insurance payables past their due dates were recorded.

In the year ended 31 December 2018, the category “State – tax payables and subsidies” principally comprised received subsidies for emission allowances and a payable arising from corporate and personal income taxes. In the year ended 31 December 2017, the category principally comprised received subsidies for emission allowances and a payable arising from personal income taxes.

In the years ended 31 December 2018 and 31 December 2017, 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.

In the years ended 31 December 2018 and 31 December 2017, other payables primarily comprise payables arising from the Group’s registration for value added tax, guarantees and employee contributions.

On 1 January 2017, the Group’s registration for value added tax was extended to include MORAVIA STEEL a.s. On 1 January 2019, the group will be extended to include the educational legal entity Střední odborná škola Třineckých železáren.

### 6.14.4. Intercompany Payables

#### Long-Term Payables

As of 31 December 2018, the Consolidated Group recorded no long-term intercompany payables.

Other than intercompany long-term payables as of 31 December 2018 and 2017 primarily include a deferred tax liability of CZK 1,661,074 thousand and CZK 1,539,322 thousand, respectively, and payables to credit institutions of CZK 2,514,774 thousand and CZK 2,208,306 thousand, respectively.

**Short-term Payables**

(IN CZK THOUSAND)

Name of the entity	Relation to the Company	Balance at 31 Dec 2018	Balance at 31 Dec 2017
<b>• Trade payables</b>			
JuBo Jeseník s.r.o.	Controlled entity	5	65
Refaze Slovakia, s.r.o.	Controlled entity	0	81
Řetězárna servis s.r.o.	Controlled entity	1 932	0
Doprava TŽ, a.s.	Controlled entity	13 169	13 511
Ocelářská unie, a.s.	Associate	795	37
MORAVIA STEEL a.s.	Controlling entity	2 791 848	2 253 920
Moravia Security, a.s.	Controlled entity	10 405	9 164
Security Morava, s.r.o.	Controlled entity	1 494	1 396
TRIALFA, s.r.o.	Controlled entity	18 605	14 404
TRISIA, a.s.	Controlled entity	991	942
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	7 174	3 984
Třinecké gastroslužby, s.r.o.	Controlled entity	9 711	10 002
VESUVIUS ČESKA REPUBLIKA, a.s.	Associate	12 211	8 498
Beskydská golfová, a.s.	Fellow subsidiary	32 011	3 025
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	1 772	2 158
"ZAMECZEK BŁOGOCICE" Sp. z o.o.	Controlled entity	100	103
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	146 921	166 009
HRAT, s.r.o.	Associate	37	37
DALSELV DESIGN a.s.	Controlled entity	40	3 162
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	615	366
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	186	133
MORAVIA STEEL IBÉRIA, S.A.	Fellow subsidiary	76	0
MORAVIA STEEL UK LIMITED	Fellow subsidiary	39	107
Moravia Steel Deutschland GmbH	Fellow subsidiary	1 792	1 237
NEOMET Sp. z o.o.	Fellow subsidiary	99 636	88 613
MINERFIN, a.s.	Group company	0	4 210
<b>Total</b>		<b>3 151 565</b>	<b>2 585 164</b>
<b>• Other payables</b>			
MORAVIA STEEL, a.s.	Controlling entity	58 023	62 026
<b>Total</b>		<b>58 023</b>	<b>62 026</b>
<b>• Estimated payables</b>			
MORAVIA STEEL a.s.	Controlling entity	2 170	5 023
<b>Total</b>		<b>2 170</b>	<b>5 023</b>
<b>Total short-term intercompany payables</b>		<b>3 211 758</b>	<b>2 652 213</b>
Other than intercompany payables		6 243 908	5 415 189
<b>Total short-term payables</b>		<b>9 455 666</b>	<b>8 067 402</b>

Short-term payables outside of the group as of 31 December 2018 and 2017 predominantly include payables to credit institutions of CZK 1,465,938 thousand and CZK 1,734,625 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.

(IN CZK THOUSAND)			
Deferred tax basis	Tax rate in %	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Difference between tax and accounting net book value of fixed assets	19	-10 219 935	-9 588 440
Difference between tax and accounting net book value of fixed assets	9	-110 786	-75 023
Remeasurement of securities available for sale	19	54	58
Remeasurement of assets to fair value charged against equity	19	-124 410	-141 415
Remeasurement of assets to fair value charged against equity	9	-35 256	-36 895
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	19	-258 563	-52 379
Accounting reserves	19	543 018	405 850
Provisions	19	768 103	799 777
Provisions	9	3 523	3 490
Outstanding default interest	19	0	40
Expenses to be allowable in subsequent periods	19	397 167	196 830
Expenses to be allowable in subsequent periods	9	0	493
Unrealised gains on the intragroup sale of inventory	19	31 091	29 728
Unrealised gains on intragroup sales of tangible and intangible fixed assets	19	188 557	299 384
Unrealised gains on intragroup sales of tangible and intangible fixed assets (equity)	19	-68	0
<b>Total tax base</b>		<b>-8 817 505</b>	<b>-8 158 502</b>
<b>Deferred tax liability</b>		<b>-1 661 074</b>	<b>-1 539 322</b>

(IN CZK THOUSAND)	
Analysis of movements	
<b>31 Dec 2017</b>	<b>-1 539 322</b>
New acquisition	-36 856
Current changes charged to the profit and loss account	-49 320
Current changes recognised in equity	3 598
Recognition against the goodwill arising on consolidation	-39 175
Other	1
<b>31 Dec 2018</b>	<b>-1 661 074</b>

**6.15.2. Deferred Tax Asset**

(IN CZK THOUSAND)

	Tax rate in%	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Difference between the tax and accounting net book value of fixed assets	19	-255	-251
Accounting reserves	19	1 800	1 590
Provisions	19	169	97
<b>Total tax base</b>		<b>1 714</b>	<b>1 436</b>
<b>Deferred tax asset</b>		<b>326</b>	<b>273</b>

(IN CZK THOUSAND)

**Analysis of movements**

<b>31 Dec 2017</b>	<b>273</b>
Current changes charged to the profit and loss account	53
<b>31 Dec 2018</b>	<b>326</b>

**6.16. PAYABLES TO CREDIT INSTITUTIONS****Long-Term Payables to Credit Institutions**

(IN CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Form of collateral at 31 Dec 2018
Investment loan	CZK	720 000	748 980	Immovable and movable assets, securities, promissory note
Investment loan	EUR	57 599	73 523	Hermes guarantee insurer
Investment loan	EUR	71 277	99 070	ODL guarantee insurer
Investment loan	CZK	0	120 000	Immovable and movable assets, promissory note
Investment loan	CZK	0	60 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	480 000	720 000	Immovable and movable assets, insurance receivables, promissory note
Acquisition loan	EUR	643 125	0	Securities, promissory note
Investment loan	CZK	11 189	4 512	Pledge of real estate
Investment loan	EUR	40 226	27 464	Pledge of real estate
Investment loan	CZK	118 562	0	Blank promissory note, pledge of movable assets,
Investment loan	CZK	57 000	72 200	Pledge of assets, blank promissory note
One-time investment loan	CZK	75 669	100 892	Movable and immovable assets
One-time investment loan	EUR	63 965	84 674	Movable and immovable assets
Investment loan	EUR	38 574	43 194	Blank promissory note, pledge of movable assets
Investment loan	EUR	0	5 108	
Investment loan	EUR	3 859	7 662	
Investment loan	PLN	0	16 110	Secured with tangible assets (machinery, equipment) and insurance

TABLE CONTINUES ON THE FOLLOWING PAGE 

Investment loan	CZK	58 087	24 917	Two blank promissory notes
Investment loan	EUR	46 794	0	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	14 148	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	14 700	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
<b>Total</b>		<b>2 514 774</b>	<b>2 208 306</b>	

### Short-Term Payables to Credit Institutions

(IN CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2018	Balance at 31 Dec 2017	Form of collateral at 31 Dec 2018
Investment loan	EUR	16 457	16 339	Hermes guarantee insurer
Investment loan	EUR	5 145	5 108	
Investment loan	EUR	3 859	3 831	
Investment loan	EUR	0	1 545	
Overdraft loan	PLN	52 851	50 314	Pledge – goods, material, products and insurance
Investment loan	PLN	15 756	6 443	Secured with tangible assets (machinery, equipment) and insurance
Overdraft loan	PLN	39 806	42 757	Pledge – machinery, equipment and insurance, assignment of trade receivables
Investment loan	PLN	17 121	23 741	Pledge – machinery
One-time loan	CZK	25 223	25 223	Movable and immovable assets
Revolving loan	EUR	0	25 540	Receivables
One-time investment loan	EUR	21 322	21 168	Movable and immovable assets
Overdraft	EUR	4 134	0	Receivables
Overdraft – credit cards	CZK	125	5	Not secured
Investment loan	CZK	240 000	240 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	EUR	28 511	28 306	ODL guarantee insurer
Investment loan	CZK	0	60 000	Securities, promissory note
Investment loan	CZK	0	189 474	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	120 000	120 000	Immovable and movable assets, promissory note
Investment loan	CZK	60 000	75 000	Immovable and movable assets, insurance receivables, promissory note
Investment loan	CZK	240 000	187 245	Immovable and movable assets, insurance receivables, promissory note
Acquisition loan	EUR	171 500	0	Securities, promissory note
Overdraft loan	CZK	0	257 909	Promissory note
Overdraft loan	CZK	0	248 046	Promissory note
Investment loan	CZK	2 645	410	Pledge of real estate
Investment loan	EUR	9 508	2 497	Pledge of real estate
Passive balance of a current account (including accounts in foreign currency)	CZK	0	1	Promissory note

Investment loan	CZK	15 200	15 200	Pledge of assets, blank promissory note
Investment loan	CZK	19 773	0	Blank promissory note, pledge of movable assets
Investment loan	EUR	14 027	13 926	Promissory note, pledge of movable assets
Overdraft loan	CZK	12 153	1 812	Not secured
Overdraft loan	CZK	8 165	10 024	Blank promissory note
Overdraft loan	CZK/EUR	62 468	0	Blank promissory note
Overdraft loan	CZK	31 552	0	Blank promissory note
Overdraft loan	CZK	0	60 981	No collateral
Investment loan	CZK	15 842	1 780	Two promissory notes
Operating loan	CZK	145 329	0	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Operating loan	EUR	33 076	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	26 857	0	Pledge of immovable assets, transfer of ownership title to movable assets as security, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	3 858	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
Investment loan	EUR	3 675	0	Pledge of immovable assets, blank promissory note, restriction of the right of disposal of immovable asset insurance
<b>Total</b>		<b>1 465 938</b>	<b>1 734 625</b>	

Repayments of long-term payables to credit institutions with maturities exceeding five years amount to CZK 19,653 thousand.

## 6.17. OFF BALANCE SHEET ASSETS AND LIABILITIES AND LEGAL DISPUTES

### TŘINECKÉ ŽELEZÁRNY, a. s.

#### Provided Guarantees

##### 31 December 2018

Type	Total amount	Balance at 31 Dec 2018
<b>Guarantees</b>		
To other entities	EUR 2 652 thousand	CZK 68 218 thousand

##### 31 December 2017

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

## Received Guarantees

### 31 December 2018

Type	Total amount	Balance at 31 Dec 2018
<b>Guarantees</b>		
From other entities	EUR 3 789 thousand	CZK 97 462 thousand
	CZK 119 876 thousand	CZK 119 876 thousand

### 31 December 2017

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

## Legal Disputes

Dispute initiated by certain former shareholders of the Company for reviewing the adequacy of the payments that belong to former shareholders according to the resolution of the extraordinary general meeting of the Company held on 31 July 2013, on the transfer of the shares of the Company owned by other shareholders to MORAVIA STEEL, a.s., as the majority shareholder, were filed at the Regional Court in Ostrava. The Company is referred to as another participant in the proceedings. Through its ruling of 8 June 2018, the Regional Court in Ostrava has so far ineffectively determined that the amount of an adequate payment per each share with the nominal value of CZK 1,000 thousand issued by the Company is CZK 2,284. The dispute is ongoing and is subject to appellate proceedings with the Head Court in Olomouc.

Dispute initiated by the insolvency trustee of the debtor VÍTKOVICE GEARWORKS a.s., regarding the ineffectiveness of the agreement on the extinguishment of mutual obligations concluded between the Company, Strojírny a stavby Třinec, a.s., and this debtor, based on which the Company's obligation to pay an amount to this debtor, the settlement of which is now being sought by the insolvency trustee, ceased to exist. Through its resolution of 23 May 2018, the Head Court in Olomouc revoked the ruling of the Regional Court in Ostrava and referred the matter back to the court for additional proceedings. Following the completion of the debtor's restructuring, the dispute is ongoing after the insolvency trustee of VÍTKOVICE POWER ENGINEERING a.s. became the new plaintiff.

### 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 2018, the Company used up funds in the amount of CZK 534,964 thousand (2017: CZK 531,971 thousand).

### Other

In 2018, the Company was involved in the project “Education of REGRADA members as a joint path to the region's development”, which is co-funded by the European Union. Education as part of the project was provided at a discounted price and the remaining costs were funded by the subsidy's recipient, which is the Regional Development and Cooperation Council based in Třinec.

### ENERGETIKA TŘINEC, a.s.

#### Collateral for loans

(IN CZK THOUSAND)

Type of liability	Balance at 31 Dec 2018	Balance at 31 Dec 2017
Blank bills of exchange – collateral for own overdraft loans	350 000	350 000
Blank bills of exchange – collateral for own long-term loans	145 000	145 000
<b>Total</b>	<b>495 000</b>	<b>495 000</b>

### Environmental Liabilities

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

## VÚHŽ a.s.

### 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.

### Legal Disputes

As of 31 December 2018, the company was involved in a labour-law dispute with a former employee regarding the compensation of damage to health of CZK 251 thousand. VÚHŽ a.s. recognised a reserve for this amount.

### 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.

## **HŽP a.s.**

### **Potential material losses**

HŽP a.s. recognised provisions and reserves for all known and material potential losses.

### **Liabilities related to construction and to the acquisition of assets**

As of the consolidated balance sheet date, HŽP a.s. records future payables arising from capital costs resulting from concluded contracts of CZK 11,913 thousand.

### **Environmental Liabilities**

The re-certification audit “Bureau Veritas Certification” under ISO 14001 was accomplished in April 2018. 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 14001:2015 in the area of certification – design, development and manufacturing of screw, leaf and parabolic springs. The certificate is valid until 13 May 2020.

## **SV servisní, s.r.o.**

### **Legal disputes**

Payment command and distraint relating to outstanding receivables of SV servisní, s.r.o.

## **Řetězárna a.s.**

### **Derivatives**

As of 31 December 2018, Řetězárna a.s. has concluded contracts on currency derivatives to hedge against the risks arising from exchange rate changes until December 2020. Řetězárna a.s. does not maintain hedge accounting; as a result, changes in fair values are recorded in the profit and loss account as of the balance sheet date.

## 7. ADDITIONAL CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

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

#### 7.1.1. The Group's Income from Ordinary Activities and Sale of Goods for 2018

(IN CZK THOUSAND)

Activities	Domestic	Export	Total
Metallurgic production	40 427 554	5 370 812	45 798 366
Other production	1 754 490	3 216 646	4 971 136
Sale of goods	17 580	119 232	136 812
Services	794 168	119 816	913 984
<b>Total</b>	<b>42 993 792</b>	<b>8 826 506</b>	<b>51 820 298</b>

#### 7.1.2. The Group's Income from Ordinary Activities and Sale of Goods for 2017

(IN CZK THOUSAND)

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

### 7.2. GRANTS AND SUBSIDIES

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

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

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

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

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

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

### 7.3. TOTAL REMUNERATION CHARGED BY THE AUDITOR

(IN CZK THOUSAND)

	Year ended 31 December 2018	Year ended 31 December 2017
Obligatory audit of the financial statements	10 179	9 605
Other assurance services	228	313
Tax advisory	32	138
Other non-audit services	0	6
<b>Total</b>	<b>10 439</b>	<b>10 062</b>

### 7.4. OTHER EXPENSES AND INCOME

Other operating income as of 31 December 2018 and 2017 predominantly includes the drawing of the grant for allowances of CZK 638,005 thousand and CZK 470,578 thousand, respectively.

Other financial income in 2018 and 2017 predominantly includes foreign exchange rate gains of CZK 88,604 thousand and CZK 92,747 thousand, respectively.

Other operating expenses as of 31 December 2018 and 2017 predominantly include the use of emission allowances of CZK 765,496 thousand and CZK 579,554 thousand, respectively.

Other financial expenses as of 31 December 2018 predominantly include foreign exchange rate losses of CZK 105,572 thousand and financial gifts of CZK 52,202 thousand. Other financial expenses as of 31 December 2017 predominantly included foreign exchange rate losses of CZK 125,992 thousand and financial gifts of CZK 27,343 thousand.

### 7.5. TOTAL DEVELOPMENT COSTS

(IN CZK THOUSAND)

	31 Dec 2018	31 Dec 2017
Development costs (less grants)	91 266	104 895

### 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.

## 2018

(IN CZK THOUSAND)

Entity	Relation to the company	Fixed assets	Inventory – material, products and goods	Services	Other income	Financial income	Total
Refaze Slovakia s.r.o.	Controlled entity	0	17 792	21	491	0	18 304
JuBo Jeseník s.r.o.	Controlled entity	17	8 402	31	378	0	8 828
Řetězárna servis, s.r.o.	Controlled entity	25	0	80	16	0	121
Doprava TŽ, a.s.	Controlled entity	0	23 412	4 292	2	0	27 706
TRIALFA, s.r.o.	Controlled entity	0	28 707	3 946	31	0	32 684
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	316	1 028	0	0	1 344
Třinecké gastroslužby, s.r.o.	Controlled entity	0	4 131	6 786	498	0	11 415
Security Morava, s.r.o.	Controlled entity	0	0	73	0	0	73
TRISIA, a.s.	Controlled entity	0	5	186	0	0	191
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	25 451	8 378	98	0	33 927
Moravia Security, a.s.	Controlled entity	0	275	1 417	1	0	1 693
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	328	277	2	0	607
DALSELV DESIGN a.s.	Controlled entity	0	31	0	2	0	33
IMOPRA, s.r.o.	Controlled entity	0	0	40	0	312	352
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	628	0	0	0	628
MORAVIA STEEL a.s.	Controlling entity	0	38 870 823	168 985	43	0	39 039 851
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	253	0	0	253
Barrandov Studio, a.s.	Fellow subsidiary	0	0	1 100	0	0	1 100
Beskydská golfová, a.s.	Fellow subsidiary	0	79	166	0	0	245
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	864	1 070	23 089	0	25 023
Kovárna VIVA a.s.	Fellow subsidiary	0	2 293	8	0	0	2 301
M Steel Projects a.s.	Fellow subsidiary	0	50 121	144	0	0	50 265
NEOMET Sp. z o.o.*	Fellow subsidiary	0	0	584	81	0	665
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	2 782	0	0	0	2 782
Hotel Golf Ropice, a.s.	Fellow subsidiary	0	0	4	0	0	4
MSPProjects International, s.ro.	Fellow subsidiary	0	0	4	0	0	4
MINERFIN, a.s.	Group entity	0	20 142	0	0	0	20 142
<b>Total</b>		<b>42</b>	<b>39 056 582</b>	<b>198 873</b>	<b>24 732</b>	<b>312</b>	<b>39 280 541</b>

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

Revenues from profit shares of Group entities for the period from 1 January 2018 to 31 December 2018 are disclosed in Note 6.6.

## 2017

(IN CZK THOUSAND)

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

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

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

## 7.6.2. Purchases from Related Parties

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

2018

(IN CZK THOUSAND)

Entity	Type of entity	Fixed assets	Inventory – material, products and goods	Services	Other expenses	Total
Refaze Slovakia, s.r.o.	Controlled entity	0	579	967	0	1 546
JuBo Jeseník s.r.o.	Controlled entity	0	532	0	0	532
Řetězárna servis, s.r.o.	Controlled entity	0	0	9 498	0	9 498
Doprava TŽ, a.s.	Controlled entity	9	91 331	7 416	19	98 775
TRIALFA, s.r.o.	Controlled entity	0	7 399	19 187	73 547	100 133
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	38 292	0	13 335	0	51 627
Třinecké gastroslužby, s.r.o.	Controlled entity	7	18 022	10 245	104 318	132 592
Ocelářská unie, a.s.	Associate	0	0	2 726	140	2 866
TRISIA, a.s.	Controlled entity	0	10	12 163	216	12 389
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	2 381	0	85 605	0	87 986
Moravia Security, a.s.	Controlled entity	2 465	180	78 182	0	80 827
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	2 598	5 828	0	8 426
"ZAMECZEK BŁOGOCICE" Sp. z o.o.	Controlled entity	0	0	1 213	0	1 213
HRAT, s.r.o.	Associate	0	0	120	0	120
DALSELV DESIGN a.s.	Controlled entity	598	1 744	741	0	3 083
Security Morava, s.r.o.	Controlled entity	0	0	15 123	0	15 123
MORAVIA STEEL a.s.	Controlling entity	209	25 151 103	386 094	-110	25 537 296
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	0	0	405	0	405
MORAVIA STEEL IBÉRIA, S.A.	Fellow subsidiary	0	0	478	0	478
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	1 297	0	1 297
Moravia Steel Deutschland GmbH*	Fellow subsidiary	0	0	8 886	0	8 886
MORAVIA STEEL UK LIMITED *	Fellow subsidiary	0	0	146	0	146
Beskydská golfová, a.s.	Fellow subsidiary	28 242	558	5 672	0	34 472
Moravskoslezský kovošrot	Fellow subsidiary	0	1 451 044	0	0	1 451 044
NEOMET Sp. z o.o. *	Fellow subsidiary	0	1 175 805	0	0	1 175 805
ALPER a.s.	Fellow subsidiary	0	51	0	0	51
MINERFIN, a.s.	Group entity	0	4 365	0	0	4 365
<b>Total</b>		<b>72 203</b>	<b>27 905 321</b>	<b>665 327</b>	<b>178 130</b>	<b>28 820 981</b>

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

## 2017

(IN CZK THOUSAND)

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

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 2018

(IN CZK THOUSAND)

	Number	Total staff costs
Employees	12 483	7 022 394
Management	85	304 558
<b>Total</b>	<b>12 568</b>	<b>7 326 952</b>

#### 31 December 2017

(IN CZK THOUSAND)

	Number	Total staff costs
Employees	12 153	6 093 039
Management	81	306 796
<b>Total</b>	<b>12 234</b>	<b>6 399 835</b>

The remuneration to members of the Supervisory Boards in the years ended 31 December 2018 and 2017 amounted to CZK 15,778 thousand and CZK 14,978 thousand, respectively.

The number of employees is based on the number of employees during the reporting period.

For the purposes of these notes to the consolidated financial statements, the category of management includes the members of the statutory bodies and specialised directors. In respect of TŘINECKÉ ŽELEZÁRNY, a. s., they also include managers of operations, branch and specialised units.

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

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

(IN CZK THOUSAND)

	2018	2017
Use of management cars (the figure increases the tax base of employees)	7 667	7 757
Contribution for life insurance	204	157
Liability insurance	893	695

## 9. POST BALANCE SHEET EVENTS

### TŘINECKÉ ŽELEZÁRNY, a. s.

With effect from 1 January 2019, the following change was made to the composition of the Supervisory Board:

Position	Original member	New member	Date of change
Member	František Ligocki	–	31 Dec 2018
Member	–	Jana Kantorová	1 Jan 2019

# 11

## Report on Related Party Transactions for the Year 2018

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 2018 reporting period (hereinafter the “reporting period”).

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

### A. CONTROLLING ENTITIES

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**MORAVIA STEEL ITALIA s.r.l.**, registered office: Corso Sempione 39, 20145 Milano, Italy,

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

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

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

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

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

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

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

**MORAVIA STEEL ISRAEL Ltd.**, registered office: 23 Efal St., Petach Tikva 49 511, P.O.B. 3286 Israel

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

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

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

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

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

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

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

**Kovárna VIVA a.s.**, registered office: Vavrečkova 5333, 760 01 Zlín, Corporate ID: 46978496

Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s. from 26 April 2018

**M Steel Projects, s.r.o.**, registered office: Vojtecha Tvrdeho 793/21, Žilina 010 01, Slovakia, Corporate ID: 46685570

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Moravia Steel Nepremičnine d.o.o.**, registered office: Ljubljanska cesta 3A, 3000 Celje, Slovenia  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s.

**ALPER a.s.**, registered office: Vrahovická 4530, 796 01 Prostějov, Corporate ID: 27126226  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s. since 26 April 2018

**SwissCentrum Engineering, s.r.o.**, registered office: Vrahovická 4643, 796 01 Prostějov, Corporate ID: 63494957  
Relation: In the reporting period, the entity was controlled by MORAVIA STEEL a.s. since 26 April 2018

### C. ENTITIES CONTROLLED BY TŽ

**ENERGETIKA TŘINEC, a.s.**, registered office: Průmyslová 1024, Staré Město, 739 61 Třinec, Corporate ID: 47675896  
Relation: In the reporting period, the entity was controlled by TŽ.

**Slévárny Třinec, a.s.**, registered office: registered office: Průmyslová 1001, Staré Město, 739 61 Třinec, Corporate ID: 25830716  
Relation: In the reporting period, the entity was controlled by TŽ.

**Třinecké gastroslužby, s.r.o.**, registered office: Průmyslová 1035, Staré Město, 739 61 Třinec, Corporate ID: 25838148  
Relation: In the reporting period, the entity was controlled by TŽ.

**Doprava TŽ, a.s.**, registered office: Třinec-Staré Město, Průmyslová 1008, 73965, Corporate ID: 25398083  
Relation: In the reporting period, the entity was controlled by TŽ.

**TRIALFA, s.r.o.**, registered office: Třinec-Kanada, ul. Míru 272, 73965, Corporate ID: 25839888  
Relation: In the reporting period, the entity was controlled by TŽ.

**Řetězárna a.s.**, registered office: Polská 48, 790 81 Česká Ves, Corporate ID: 47672081  
Relation: In the reporting period, the entity was controlled by TŽ.

**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, Corporate ID: 48391514  
Relation: In the reporting period, the entity was controlled by TŽ.

**Řetězárna servis s.r.o.**, registered office: U Jatek 600/2, 790 01 Jeseník, Corporate ID: 05644267  
Relation: In the reporting period, the entity was controlled by TŽ.

**TRISIA, a.s.**, registered office: nám. Svobody 526, Lyžbice, 739 61 Třinec, Corporate ID: 64610152  
Relation: In the reporting period, the entity was controlled by TŽ.

**REFRASIL, s.r.o.**, registered office: Průmyslová 720, Kanská, 739 61 Třinec, Corporate ID: 48395862  
Relation: In the reporting period, the entity was controlled by TŽ.

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

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

**Šroubárna Kyjov, spol. s r.o.**, registered office: Jiráskova 987/50, 697 01 Kyjov, Corporate ID: 42293588  
Relation: In the reporting period, the entity was controlled by TŽ.

**Moravia Security, a.s.**, registered office: Průmyslová 725, Kanská, 739 61 Třinec, Corporate ID: 27835481  
Relation: In the reporting period, the entity was controlled by TŽ.

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

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

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

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

**“METALURGIA” Spółka Akcyjna**, registered office: ulica 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: Pohraniční 693/31, Vítkovice, 703 00 Ostrava, Corporate ID: 28262913

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

**HŽP, a.s.**, registered office: Dolní 3137/100, 796 01 Prostějov, Corporate ID: 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, Corporate ID: 607 25 974

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

**IMOPRA s.r.o.**, registered office: U Dvora 217, 687 51 Nivnice, Corporate ID: 262 77 697

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

**BOHEMIA RINGS s.r.o.**, registered office: 10, 565 43 Zámorsk, previously performing its activities under the name Brück AM spol. s r. o., Corporate ID: 49685643

Relation: In the reporting period the entity was controlled by TŽ since 29 March 2018

The registered office addresses disclosed in Chapter I have been outlined in accordance with the status as of 31 December 2018.

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

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

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

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

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

### III. LIST OF ACTS AND CONTRACTS

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

- a) In the reporting period, TŽ recorded no acts at the initiative or in the interest of the controlling entity or entities controlled by the controlling entity that would relate to assets exceeding 10% of the equity of TŽ identified according to the financial statements for the year ended 31 December 2017 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;
  - MSProjects International s.r.o. in part J; and
  - Kovárna VIVA a.s. 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, effective until 29 June 2018 – provision of security and asset guards, fire protection, postal services, pricing services, dispatching management, environmental protection and selected accounting services.
4. Service level agreement of 29 June 2018 – provision of security and asset guards, fire protection, filing office, documenting and archiving services, forwarding and customs clearance, IT services, pricing services, payroll and HR services, dispatching management, selected technical services, environmental protection and selected accounting services.
5. Lease contract of 9 March 2000 – lease of yielded premises, movable assets and lease of parking places in the area of TŽ in Třinec.
6. Lease contract of 1 January 2004 – lease of offices in the administration building in Buštěhrad and lease of movable assets – office equipment.
7. Contracts for lease of non-residential premises of 23 January 1997 – lease of garage parking in the area of TŽ in Třinec.

8. 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.
9. Lease contract of 1 January 2011 – lease of non-residential premises and movable assets in the area of TŽ in Ostrava-Vítkovice.
10. 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.
11. Contract for lease of non-residential premises of 20 December 2011 – lease of non-residential services in a building located in Staré Město.
12. Accommodation contract of 28 April 2005 – accommodation in a building of TŽ in Prague 4-Nusle, accommodation unit no. S4.
13. Framework accommodation contract of 20 August 2018 – accommodation of employees on business trips in a building of TŽ in Prague-Nusle.
14. Contract on the provision of telecommunication services of 31 December 1998.
15. Contract on Internet connection via the network of TŘINECKÉ ŽELEZÁRNY, a.s., of 20 July 1999.
16. Consignment agreement of 13 August 2007 on representing the committer in customs proceedings – customs proceedings services.
17. Consignment agreement of 3 January 2005 on representing the committer in customs proceedings – customs proceedings services.
18. Contract on the supply of the Třinecký hutník weekly in 2018 (order of 15 December 2016).
19. Contract on transport using passenger cars in 2018 (order of 15 December 2016).
20. Contract on business cooperation in the supplies of rails for Dopravní podnik hl.m. Prahy, a.s., of 7 April 2016.
21. Contract on business cooperation in the supplies of rails for Správa železniční dopravní cesty, state organisation, of 31 October 2016.
22. Master purchase contract of 30 January 2008 and partial purchase contracts concluded pursuant to this master contract – sale of goods from inventory.
23. Contract on the supply of norms for 2018 (order of 6 March 2017 and 21 December 2018).
24. Contract on the supply of printed material and magazines for 2018 (order of 17 January 2018).
25. Contract on services related to the management of post administration for 2018 (order of 21 December 2018).
26. Contract on the provision of services of 11 August 2003 – services related to smart cards.
27. Contract on business cooperation in the supplies of rails – steel class R 260 for Správa železniční dopravní cesty, state organisation, of 28 August 2017.
28. Assignment contract on representation in customs proceedings of 19 July 2017.
29. Contract on business cooperation in the supplies of permanent way material and construction material for ŽSR of 26 February 2018.
30. Contract on business cooperation in the supplies of fine rolled railway track material – first part for SŽDC of 10 April 2018.
31. Contract on business cooperation in the supplies of fine rolled railway track material – second part for SŽDC of 10 April 2018.
32. Contract on business cooperation in the supplies for the public tender “Flat steel connectors 2018” for SŽDC of 31 August 2018.
33. Contract on business cooperation in the supplies for the public tender “Rail supplies – R260 steel class for investment events (CNM II)” of 10 October 2018.
34. Contract on services related to the WHEELER project for 2018 of 1 October 2018.
35. Contract on the sale of prisms and rods of 16 May 2018.

**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. Contracts for securing accommodation at inland and foreign fairs for 2018 (order of 20 February 2018).
7. Contract for the provision of services in terms of invoicing of 1 January 2017.
8. Framework agreement on conditions for the settlement of selected costs of 8 June 2018.
9. Purchase contract of 22 February 2018 on the purchase of low-value assets.
10. Contract on the conditions of cooperation for the re-sale of packaging material of 4 September 2018.
11. Contract on ensuring transfer of rods for the VF – Tažírna oceli plant (order of 6 April 2018).

**B.4. Other Contracts**

1. Master contract on the supplies related to the organisation and implementation of the events entitled “Královna ocel 2018” and “Hutnický den 2018” of 10 April 2018 and partial contracts concluded pursuant to this master contract.
2. Agreement on the method of payment of trade payables dated 17 December 2008.
3. Agreement on publishing contracts pursuant to Act No. 340/2015 of 9 May 2017.
4. Agreement on mutual rights and obligations of VAT Group members of 3 January 2017.
5. Agreement on electronic approval and conclusion of contracts of 28 February 2018.
6. Financial loan agreement of 26 March 2018.

### 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 3 January 2018).
2. Contract on the provision of services of 1 January 2011, effective until 29 June 2018 – filing office, IT and HR services.
3. Contract on the provision of services of 29 June 2018 – filing office, IT and HR services.
4. Contract on the provision of access to Internet services via the network of TŘINECKÉ ŽELEZÁRNY, a.s. of 31 July 2009.
5. Contract on the purchase of IT technology (order of 14 August 2018).

#### 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 28 December 2017 – securing advertising at the golf course in Ropice between 1 January 2018 and 31 December 2018.
2. Lease contract of 31 May 2006 – lease of an apartment in the clubhouse located at the golf course Ropice.
3. Purchase contract of 20 December 2018 – immovable assets.
4. Purchase contract of 20 December 2018 – movable assets

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

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

1. Lease contract of 10 June 2013 – lease of scrap yard and non-residential premises in a building in Třinec.
2. Master contracts of 4 January 2010 and partial contracts concluded based on one of these master contracts – sale of waste.
3. Lease contract and contract on the placement of containers of 1 June 2013 – lease of warehousing premises in Třinec.
4. Contract No. 10 0007 2928 on takeover, utilisation or removal of waste of 15 January 2018 – iron metal filings and chips.
5. Contract No. 10 0007 2929 on takeover, utilisation or removal of waste of 15 January 2018 – iron and steel.
6. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles based on the Framework agreement on the conditions of delivery of metal waste of 7 January 2015.
7. Contract on the provision of access to Internet network services of 18 October 2018.
8. Service level agreement of 10 October 2018.

**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, effective until 29 June 2018 – filing office services, IT services, asset security and protection and road maintenance.
3. Contract on the provision of services of 29 June 2018 – filing office services, IT services, asset security and protection and road maintenance
4. Mandate contract of 30 December 2009 – procurement of matters related to customs clearance.
5. Contract on the provision of access to internet services through the computer network of TŘINECKÉ ŽELEZÁRNY, a.s., of 15 March 2016.
6. Framework accommodation agreement of 25 July 2018.

**F. LIST OF CONTRACTS BETWEEN TŽ AND “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ****F.1. Contracts the subject of which relates to the provision of products or services by TŽ in favour of “NEOMET” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ**

1. Contracts on services related to the supply of scrap – verification of the chemical composition, transfer, weighing and placement of vehicles based on the Framework agreement on the conditions of the delivery of metal waste of 7 January 2015.

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

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

**G. LIST OF CONTRACTS BETWEEN TŽ AND 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 effective until 29 June 2018 – IT services.
2. Contract on the provision of services of 29 June 2018 – 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 effective until 29 June 2018 – filing office services.
2. Contract on the provision of services of 29 June 2018 – 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 MSProjects International s.r.o.

1. Contract on the provision of services of 31 December 2015 effective until 29 June 2018 – filing office services.
2. Contract on the provision of services of 29 June 2018 – filing office services.

## K. LIST OF CONTRACTS BETWEEN TŽ AND KOVÁRNA VIVA A.S.

### M.1. Contract the subject of which relates to the provision of products or services by TŽ in favour of Kovárna VIVA a.s.

1. Contract on the provision of access to the Internet network services of 23 July 2018.
2. Service level agreement of 1 October 2018.

## 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 25 March 2019



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



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