

14 2015 **2016** 2017 20

ANNUAL REPORT



MORAVIA STEEL



CONTENTS

01. OPENING STATEMENT OF THE CHAIRMAN OF THE SUPERVISORY BOARD	03
02. COMPANY PROFILE	07
03. STATUTORY BODIES AND MANAGEMENT OF THE COMPANY	06
04. REPORT OF THE BOARD OF DIRECTORS	09
Development of the Industry	09
Development of the Company	10
Logistics, Freight Transportation	14
Management System, Human Resources	16
05. REPORT OF THE SUPERVISORY BOARD	17
06. REPORT OF THE AUDIT COMMITTEE	18
07. AUDITOR'S REPORT	20
08. FINANCIAL PART I. – FINANCIAL STATEMENTS	22
Balance Sheet Full Version – Assets	23
Balance Sheet Full Version – Liabilities and Equity	25
Profit and Loss Account	26
Statement of Changes in Equity	28
Cash Flow Statement	29
Notes to the Financial Statements	31

09. FINANCIAL PART II. – CONSOLIDATED FINANCIAL STATEMENTS	60
Consolidated Balance Sheet Full Version – Assets	61
Consolidated Balance Sheet Full Version – Liabilities and Equity	63
Consolidated Profit and Loss Statement	65
Consolidated Statement of Changes in Equity	67
Consolidated Cash Flow Statement	68
Notes to the Consolidated Financial Statements	71
10. REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 31 DECEMBER 2016	120

01

OPENING STATEMENT OF THE CHAIRMAN
OF THE SUPERVISORY BOARD

In 2016,
MORAVIA STEEL a.s.
reported a profit
of CZK 2.326 billion.


**TO SHAREHOLDERS, BUSINESS PARTNERS
AND EMPLOYEES**

In 2016, world production of raw steel increased by 0.8% year-on-year and thus reached 1,628.5 million tonnes. The Asian continent increased its production by 1.6% and thus exceeded a volume of 1,125 million tonnes. Growth was reported also by the countries of the Commonwealth of Independent States (CIS). On the other hand, Europe, North and South

America and Africa experienced a decline. Production in EU countries reached 162.3 million tonnes, thereby decreasing by 2.3%. The EU share in global production decreased very slightly but stayed at 10%.

The largest global producer of raw steel out of the individual countries is still decidedly China, having produced 808.4 million tonnes in 2016. This represents a 1.2% year-on-year increase. China's share in world production grew slightly, to 49.6%. The most marked increase in steel production in 2016 occurred in India, whose production grew by 7.4% to 95.6 million tonnes. South American countries experienced a rather steep decline, with a year-on-year decrease in steel production by 10.6% to 39.2 million tonnes. In the case of Brazil, the decrease was of 9.2% and the volume of production amounted to 30.2 million tonnes.

The global consumption of steel continues in a trend of slight growth which can be expected to persist in the near future. However, the steel sector must deal with fluctuations of prices of entry raw material and excess of production capacities, which create a pressure on the prices of final production.



This development is characteristic also of the EU countries, which are additionally forced to comply with strict EU legislation in the area of the protection of the environment. Average use of the overall global production capacities in 2016 stayed at a similar level as in the previous year – it decreased slightly from 69.7% to 69.3%.

A persistent threat for EU countries and their steel industry comes primarily from the disproportionately cheap Chinese imports. They decreased considerably in 2016 thanks to anti-dumping duties, but it is extremely important going forward for the EU to continue maintaining fair business conditions for companies from the individual European countries, including the Czech Republic.

The production of raw steel in the Czech Republic grew from 5.26 million tonnes to 5.31 million tonnes. TŘINECKÉ ŽELEZÁRNY, a. s. – a subsidiary of MORAVIA STEEL a.s. – produced over 2.6 million tonnes of raw steel in 2016, an almost 3% increase. The Třinec ironworks continue to retain their position as the largest Czech producer of steel.

The 2016 results of MORAVIA STEEL a.s. reflect the long-term strategy of the MS/TŽ Group. This strategy focuses on products with a higher processing grade and the creation of product chains, with a focus on products intended for the engineering, energy, oil or automotive industries. For this reason, the group prefers the production of rolled wire for the production of screws, springs, bearings and cords, special bar steel, steel treated in the final phase, and wide and flat tool steel.

MORAVIA STEEL a.s. has operated in the metallurgical production market since 1996. Since then it has held a strong and stable position both in the Czech Republic and in foreign markets. In addition, MORAVIA STEEL a.s. provides intrastate and international transportation, and the purchase and sale of raw materials, including other inputs necessary for metallurgical production.

In 2016, MORAVIA STEEL a.s. reported a profit of CZK 2.326 billion. In 2015, it generated a profit of CZK 2.776 billion. Sales of goods in 2016 amounted to CZK 49.845 billion.



The Company's assets recorded a year-on-year increase from CZK 19.388 billion to CZK 19.966 billion. The Company's fixed assets decreased very slightly to CZK 8.619 billion.

In 2016, the Company's equity amounted to CZK 14.854 billion. In the previous year, it was lower, amounting to CZK 14.529 billion.

In the long-term, the most significant commodities of MS/TŽ include rolled wire and bars. Rolled wire was the most significant product in terms of volume as usual; in 2016, its sales amounted to over 981 kt. In the previous year, it was almost 945 kt.

In 2016, MORAVIA STEEL a.s. sold metallurgical production in the total volume of 2,361.5 kt. In the previous year, sales were on a similar level and exceeded 2,366 kt. Export increased, with almost 1,617 products intended for foreign markets in 2016; the year before, it was approximately 1,592 kt. Sales to the local market experienced a year-on-year decrease from 775 kt to almost 745 kt of metallurgical products.

A key export territory for MORAVIA STEEL a.s. continues to be the EU in the long-term. It had an 89.2% share in the Company's overall export. Another important territory for the Company are the American markets, which were the destination of 7.4% of metallurgical production.

In 2016, Germany remained MORAVIA STEEL a.s.'s key customer among the individual EU countries, with a 29.8% share in export to the EU. Italy received 17.1%, Slovakia 15.1% and Poland 12.1% of the total export to the EU. Important customers in terms of volume also include Hungary and the United Kingdom.

Dear Shareholders, Business Partners and Employees,

thank you all for your work and I believe that our suitably selected long-term strategy will make us successful in 2017 as well.

Yours sincerely,

Ing. Tomáš Chrenek, Ph.D.

Chairman of the Supervisory Board
MORAVIA STEEL a.s.

02

COMPANY
PROFILE

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

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

The key economic indicators of MORAVIA STEEL a.s. between 2012 and 2016 prove the Company's ability to cope with less favourable periods in global economic development and in the metallurgical and steel industry.

ECONOMIC INDICATORS BETWEEN 2012 – 2016

(in CZK million)

INDICATOR	2012	2013	2014	2015	2016
Sales of goods	61 254	60 039	59 479	56 903	49 845
Sales of own products and services	656	625	685	639	611
Operating profit or loss	1 571	1 118	1 385	1 588	1 167
Financial profit or loss	-264	1 207	-23	1 484	1 386
Profit or loss for the reporting period	1 012	1 967	1 105	2 776	2 326
Total assets	17 301	22 226	20 941	19 388	19 966
Fixed assets	7 352	8 295	8 481	8 643	8 619
Equity	10 680	12 648	13 753	14 529	14 854
Share of liabilities including accrued expenses (%)	38,27%	43,09%	34,33%	25,06%	25,60%
EBIT	1 325	2 358	1 407	1 612	1 196

03

STATUTORY BODIES
AND MANAGEMENT OF THE COMPANY

SUPERVISORY BOARD OF THE COMPANY AS OF 31 DECEMBER 2016



Tomáš Chrenek
Chairman



Evžen Balko
Vice-Chairman



Ján Moder
Vice-Chairman



Mária Blašková
Member

BOARD OF DIRECTORS OF THE COMPANY AS OF 31 DECEMBER 2016



Petr Popelář
Chairman



Krzysztof Ruciński
Vice-Chairman

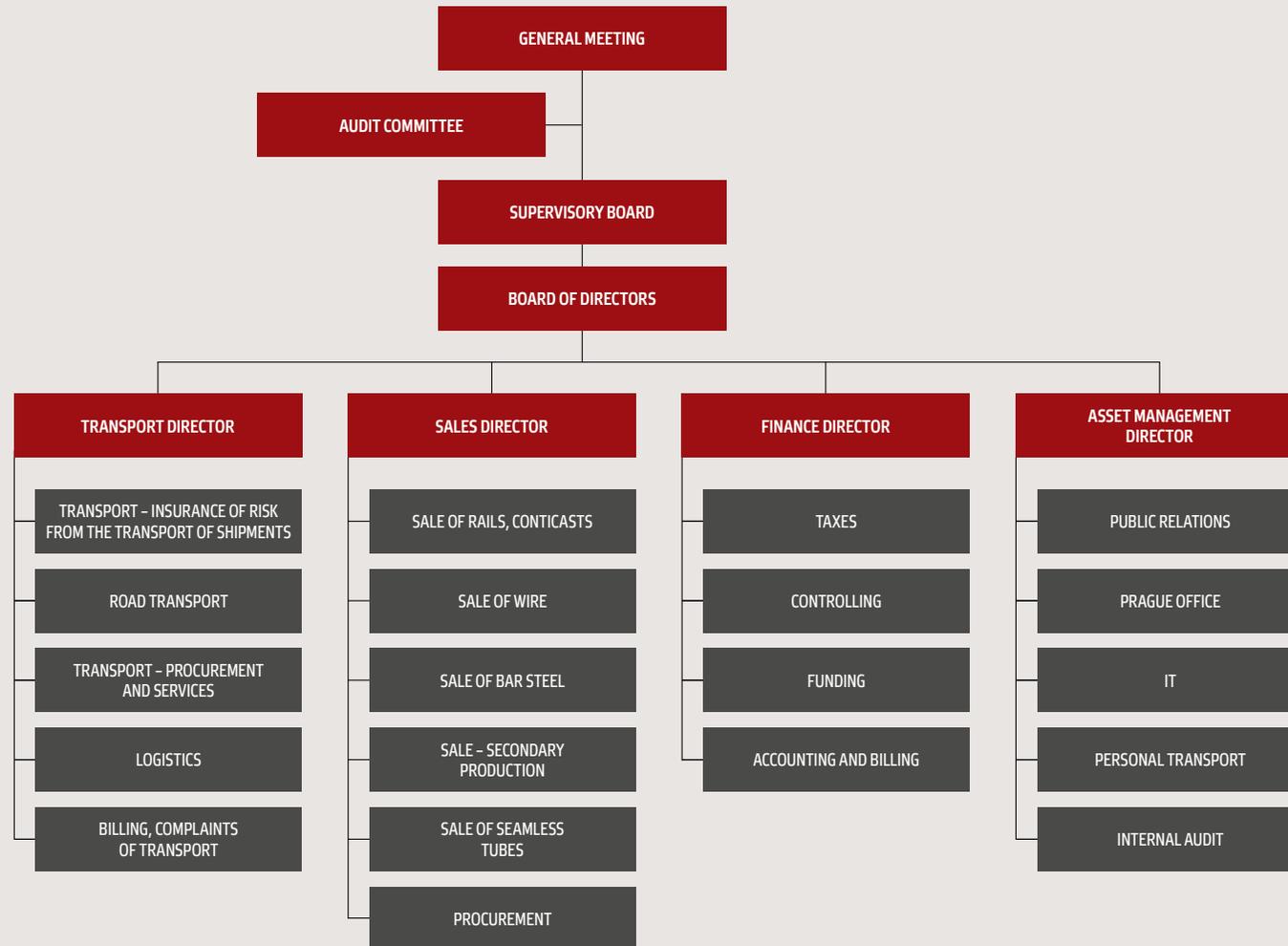


Mojmír Kašpiřin
Member



Urřula Novotná
Member

ORGANISATIONAL STRUCTURE OF THE COMPANY



04

REPORT OF THE BOARD
OF DIRECTORS**DEVELOPMENT OF THE INDUSTRY**

According to the global steel association WORLD-STEEL, the global production of raw steel grew by 13 million tonnes in 2016 and thus reached the level of 1,628.5 million tonnes. In terms of volume, the most important territory in the world is Asia, which produced 1,125 million tonnes of raw steel in total. The Asian as well as global production is dominated by China, with a volume exceeding 808 million tonnes. Steelworks in North America produced 111 million tonnes of steel in 2016, of which the USA accounted for over 78 million tonnes. Production in CIS countries exceeded 102 million tonnes of raw steel, with Russia producing almost 71 million tonnes and Ukraine 24.2 million tonnes.

The production of raw steel in the EU decreased slightly to 162.3 million tonnes. Germany experi-

enced a decrease of 1.4% to 42.1 million tonnes. Italy reported an increase of almost 6% to 23.3 million tonnes. On the other hand, Spanish production decreased slightly by 0.8% to 13.7 million tonnes.

The production of raw steel in the Czech Republic grew by 0.8% year-on-year to 5.31 million tonnes. TRINECKÉ ŽELEZÁRNY a.s. remain the largest local producer with a share of approximately 49%, having produced 2.605 million tonnes of steel in 2016. The Třinec ironworks are a subsidiary of MORAVIA STEEL a.s.

Export of iron and steel from the Czech Republic grew by 7.9% year-on-year to 5.01 million tonnes. As follows from the information of the Steel Federation, the increase concerned primarily the export of semi-finished distribution products and flat rolled products. Import increased by 5.8% to

6.6 million tonnes. Its growth is attributable primarily to the import of duplicate semi-finished products for the production of flat products at Vítkovice Steel, where the production of raw steel had been discontinued. This shutdown caused a loss of approximately 370,000 tonnes.

The consumption of steel products increased slightly in 2016 by a little less than 1% to 6.63 million tonnes. The consumption of flat rolled products used especially in the automotive industry grew. On the other hand, the consumption of long rolled products and steel tubes used primarily in the construction industry decreased. According to the Czech Statistical Office, the construction industry decreased year-on-year by 5.9%.



DEVELOPMENT OF THE COMPANY

In 2016, MORAVIA STEEL a.s. sold more than 2,361 kt of metallurgical products. In the previous year, the amount was 2,367 kt. More than 1,616 kt of products were exported, the local market consumed almost 745 kt. Total sales of goods in 2016 amounted to CZK 49.845 billion. In the previous year, they amounted to CZK 56.903 billion. The Company's total assets at the end of 2016 amounted to CZK 19.966 billion. The year before, the Company's assets amounted to CZK 19.388 billion. In 2016, MORAVIA STEEL a.s. generated a profit of CZK 2.326 billion. In 2015, the Company made a profit of CZK 2.776 billion.

DEVELOPMENT IN SALES BETWEEN 2012 AND 2016, MORAVIA STEEL A.S.

SUPPLIES IN TONNES	2012	2013	2014	2015	2016
Export	1 538 546	1 586 700	1 479 673	1 592 029	1 616 696
Domestic	745 794	767 860	753 529	774 651	744 822
TOTAL	2 284 341	2 354 560	2 233 201	2 366 680	2 361 518

STRUCTURE OF EXPORTS AS A PERCENTAGE OF THE TOTAL SUPPLIES OF MORAVIA STEEL A.S.

STRUCTURE OF EXPORTS IN %	2012	2013	2014	2015	2016
European Union	75,3	77,4	75,8	75,7	75,7
Other European countries	1,4	1,3	1,1	0,6	0,7
Africa	0,0	0,0	0,0	0,0	0,0
Asie	0,7	0,0	0,2	1,6	2,7
America	10,5	9,1	11,0	9,2	7,4
Australia	0,1	0,0	0,0	0,0	0,0
Slovakia	12,0	12,2	11,9	12,9	13,5
TOTAL	100,0	100,0	100,0	100,0	100,0

DEVELOPMENT IN THE PRODUCT RANGE STRUCTURE OF METALLURGICAL PRODUCT SALES OF MORAVIA STEEL A.S.

SALES IN THOUSANDS OF TONNES	2012	2013	2014	2015	2016
Rolled wire	923 018	951 207	819 540	944 588	981 702
Billets and continual castings	293 492	285 989	297 578	274 855	276 517
Reinforcing steel	19 496	17 256	9 070	3 957	0
Rails	246 958	247 229	247 094	253 560	216 900
Products of the Kladno factory	283 350	294 975	282 728	298 741	276 273
UT Bohumín	48 193	47 294	44 688	45 863	47 831
Products of VF – operations	66 979	73 467	78 622	81 650	86 985
Other (bars, sections, etc)	290 651	325 993	338 311	354 147	368 716
Pipes – VTTŽ Ostrava	97 145	94 604	96 768	91 663	95 492
Rail fastenings	15 059	16 546	18 802	17 656	11 102
TOTAL	2 284 341	2 354 560	2 233 201	2 366 680	2 361 518



Accounting for 41.6% of the total production, rolled wire remains the most significant item of the production programme.

In 2016, TŽ sold over 974 kt of rolled wire, of which approx. 859 kt at the Wire Rolling Mill (KDT) and approx. 115 kt at the Continuous Fine Rolling Mill (KJT). This represents a year-on-year increase of 37 kt, with 35.5 at KDT and 1.5 kt at KJT.

In terms of the structure of individual steel groups produced at the KDT, the total volume of medium- and high-carbon steel amounted to 56%, which is comparable to the 2015 volume. With 22%, the second biggest item is low-carbon steel, which did not record any change either. The share of electrode calibres remains stable at around 11%. The share of cord steel, screw-type steel and alloy steel ranges between 7% and 9%.

The most significant commodity of KJT are the screw-type wires with a share of 34%, followed by carbon calibres with 24%, low-carbon with 21 %, spring-type of 11% and free-cutting with 7%. The rest consists of a minor amount of chain and bearing steel.

The second most important portfolio item in terms of volume is bar steel. It includes the production of the Medium Rolling Mill and the Continuous Fine Rolling Mill in Třinec and the rolling mill in the TŽ Kladno plant.

The sales of bar steel in 2016 amounted to 645 kt, of which 12.4 kt related to bars from the Medium Rolling Mill (+2.5 kt, i.e. approx. +2.5% compared to 2015), 356.3 kt from the Continuous Fine Rolling Mill (+11.1 kt, i.e. approx. +3.2%) and 276.3 kt from the Kladno plant (–22.5 kt, i.e. –8.5%).

The increase in the sale of bar steel at the Medium and Continuous Fine Rolling Mill was due particularly to the continued strong demand from the automotive industry and other engineering industries. The growth of sales from KJT in 2016 was also supported by the possibility of offering higher volumes of heat-treated material from the new treatment line.

On the other hand, the decreased sale of bars from the Kladno plant was due to the deteriorating situation of the petrochemical sector and the high volume of cheap imports from China, Russia and Belarus especially in the first half of 2016.



Realisation prices of bar steel have always been closely linked to the prices of raw material, which experienced a long-time low in early 2016. In the automotive industry, the realisation price of bar steel is affected especially by the price of scrap and the amount of scrap surcharge. It was the development of this raw material that had a very negative impact on the realisation prices of bar steel and in combination with the different development of prices of iron ore and coking coal, it had an unfavourable effect on the profitability achieved.

This fact was reflected in the generated sales. Despite the increase in the volume of sale of the Medium and Continuous Fine Rolling Mill of 3.8% in total, sales decreased by 6.6%. In the Kladno mill, the lower amount of sale combined with lower realisation prices led to a year-on-year decrease in sales of approx. 2%.

In 2016, sales of wide flat steel from the TŽ Universal Rolling Mill in Bohumín amounted to approximately 48 kt, which represents an increase of roughly 2 kt compared to 2015. Most contracts in 2016 were arranged in brands of structural steel. Given the market situation and the pressure put on selling prices, sales decreased approximately by 4% year-on-year, i.e. by CZK 37 million.

On the drawn steel market, we endeavoured to continue increasing the volume of sale in 2016. The realised volume amounted to nearly 87 kt and it was approximately 5.3 kt higher than in 2015. The trend of increase in sale volumes continued especially for free cutting and carbon steels in the area of automotive industry.

The Company produced 6.72 kt of drawn, annealed and phosphatised wire in coils. This amount was similar to the previous year and it was primarily directed at automotive customers and bearing producers.

The volume of seamless tubes supplied by the Company amounted to 95.5 kt. The continued decline in contracts for the OCTG market was supplemented by sales to the market with mechanical tubes (engineering and construction, automotive industry).

The supplies of rails experienced a decline in 2016 compared to previous periods and overall production dropped to almost 217 kt. The decrease in volume was caused primarily by the lowered demands of the local and Polish markets, where financing from EU funds had been substantially used up and the assessment of new construction projects slowed down significantly. At the same time, we



were subject to strong competitive pressure both in the Czech Republic and in other territories. In most tenders that the MS/TŽ group participated in, the prices of other producers (e.g. Denmark, Finland, Egypt) decreased significantly. The volume of orders from North American and Canadian railway companies remained stable. However, supplies to the North American market in the following periods will be heavily dependent on the increase of mechanical levels of the rails, especially hardness.

In addition, European tenders increase the demands placed on supplies of long rails of 120 m as well as heat-treated rails. These demands are in many cases incorporated in the conditions for the cumulated offer or in the assessment criteria (e.g. Switzerland, Belgium, Hungary). The realisation of supplies of rail fastenings developed similarly, meaning that we faced a decrease in demand especially on the local and Polish market. The total volume of supplies reached 11 kt. Despite this decrease, the traditionally largest customers still include Poland, the Czech Republic, Hungary and Switzerland. An increased volume compared to previous years was supplied to Spain and Romania. Orders of rail fastenings of the conventional type produced by TŽ are increasingly more divided into smaller units and include non-standard requirements.

The sale of continuous castings and semi-finished casting products in 2016 reached similar volumes as in the previous year, with a slight increase to 277 kt. Key customers continue to include particularly producers of rail wheelsets and wheels, as well as forges supplying rolled rings and components in the wind power segment. Customers in the Czech Republic used a total of 148 kt of semi-finished products made of our steel, approx. 129 kt were delivered to export markets.

Most orders from foreign customers in 2016 remained steadily at a similar level as in previous years. In order to appreciate continuous castings and semi-finished casting products, they need to be re-moulded and processed into final products. In order to maintain the volume of supplies for the wind power segment, it is also necessary to test the possibility of casting larger continuous castings. The impulse for the production of these larger sizes is the trend of increasing the power output of wind turbines, leading to a need for rolled circles with larger diameters. We continue to focus on increasing the volume of orders in the higher classes of steel for the area of engineering, power industry and automotive industry. The orientation on these industries increases the value of our products as well the prestige of the technical level of the MS/TŽ group.

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

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



LOGISTICS, FREIGHT TRANSPORTATION

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

The sector is characterised in the long term by a high share in the performances of the Czech Republic's transport network.

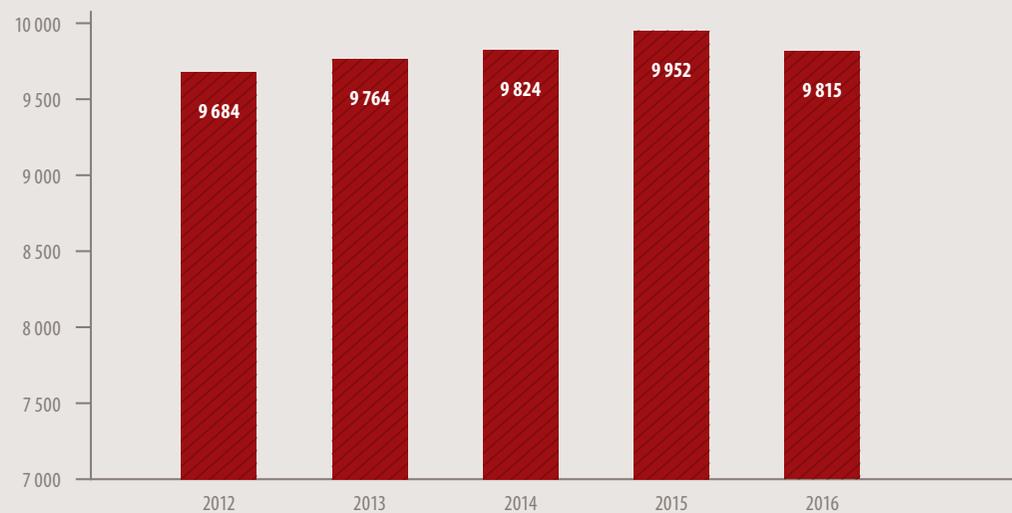
In 2016, the internationally oriented logistics system was further advanced as an important determinant of growth in efficiency focused on supplying customers as well as suppliers with the requested level of services.

The transportation volume of 2016 was affected primarily by investments in the technologies of the production plants of the MS/TŽ group.

STRUCTURE OF THE TRANSPORTED VOLUME OF MORAVIA STEEL A.S. (IN THOUSANDS OF TONNES)



DEVELOPMENT IN THE TRANSPORTED VOLUME OF MORAVIA STEEL A.S. (IN THOUSANDS OF TONNES)



Project activities focused on the following areas in particular:

Process and capacity optimisation

- Extension of information system functionalities, provision of services through web applications;
- Digitalisation of the order system and the document administration system;
- Performance indicators as part of the quality system; and
- Assessment of IT service providers for the transport and logistics sectors.

Increase in logistics performance

- Audits of strategic surfaces and warehouse systems;
- Use of innovative cargo units (costs of securing products during transformation); and
- Reverse product logistics.

Risk management

- Elimination of risks of long-term supplier chain failures;
- Information on the operating conditions in terms of the inadequacy of the transport infrastructure, preventive measures; and
- Cyber risks.

Assessment and analyses also comprised growth and development trends in the transport sector:

- EU policy for transport infrastructure between 2014–2020;
- Czech transport policy for 2014–2020 with an outlook until 2050 and relating documents;
- Approval of the amendment to the Railway Act and relating amendments to other regulations (concerning the operation of service equipment on certain tracks, new rules for access to tracks and official review of the issue, carrier licencing, railway infrastructure financing);
- Imposition of a charge on using the EU transport infrastructure;

- Environment – impact of the Paris Agreement (2015) on the provision of power for transport – emission limits, alternative fuels and drives, implementation of the IMO agreement to decrease the allowed level of emissions in maritime transport (MARPOL);
- Concentration and competition in the transport industry;
- EU – social dumping in road transportation;
- Innovation of logistic technologies, robotisation;
- Structural changes of global trade – EU (Brexit).

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



MANAGEMENT SYSTEM, HUMAN RESOURCES

In 2016, the Company started a project concerning the change of the model for trading on the German market. As part of this project, all software standards of the MS/TŽ group were applied. The aim of the project is to increase the efficiency of and set a comprehensive process for the sale of metallurgical products in Germany.

Another project of equal importance initiated in 2016 was the Business Relations Database project, with the objective of creating a unified environment and binding procedures for the realisation of business relation between the individual companies in the MS/TŽ group in order to document individual transactions and create an “audit trail”. The resulting database provides space for the provision of aggregated information used to manage business relations in the M/TŽ group, including transfer pricing (TP), financial statements, consolidated financial statements, reports on related party transactions and corporate income tax returns. As part of the project, concluded contracts are recorded in full including appendices and amendments in electronic form.

During 2016, the Company also started a project of changing the system of HR management of MORAVIA STEEL a.s., which should improve the quality of processes in this area.

In addition, the Company continuously developed the sales portal internet application enabling clients – both suppliers and customers – to receive or send tax documents in electronic form in line with applicable legislation. During the course of 2016, the Company saw customers’ continued interest in this method of transferring documents in electronic form.

The primary objective of the continuous development of the above projects is to increase the reliability, accuracy, safety and rapidity of transfers of documents, resulting in better management of the individual activities of the MS/TŽ Group.

MORAVIA STEEL a.s. supports the professional development of its employees on an ongoing basis via further education and qualifications, primarily in the form of specialised training, workshops, language courses and IT courses.

The Company also provides its employees with above-standard employee benefits.

The basic conduct towards employees is set in the Code of Ethics, with which all employees have been made duly familiar.

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

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

MORAVIA STEEL a.s. has no organisational branches abroad.

No events occurred subsequent to the Annual Report date that would have a significant impact on the Annual Report.

05

REPORT OF THE SUPERVISORY BOARD



The Supervisory Board of MORAVIA STEEL a.s. reviewed the regular financial statements and the regular consolidated financial statements of MORAVIA STEEL a.s. for the year ended 31 December 2016 based on the presented documents discussed by the Board of Directors of MORAVIA STEEL a.s. and discussed the proposed allocation of profit for 2016.

Based on the audit of the consolidated annual report of MORAVIA STEEL a.s. as of 31 December 2016 performed by Deloitte Audit s.r.o. and their Report, which includes unqualified opinions, the Supervisory Board recommends that the above document, including the proposal of the Board of Directors for the allocation of profit for 2016, be approved by the general meeting.

The Supervisory Board also reviewed the Report on Relations for the year ended 31 December 2016 and, with regard to the opinion of Deloitte Audit s.r.o., it has come to the conclusion that the Report on Relations was prepared in accordance with the Act on Business Corporations and the true state of the relations between the controlling and the controlled entities.

Ing. Tomáš Chrenek, Ph.D.

Chairman of the Supervisory Board
MORAVIA STEEL a.s.

06

REPORT OF THE AUDIT COMMITTEE



In line with its plan of activities, the Audit Committee of MORAVIA STEEL a.s. ("MS") monitored the procedure used for the preparation of MS's financial statements and consolidated financial statements. Furthermore, the Audit Committee monitored the process of the statutory audit of the financial statements prepared by the individual companies controlled by MS in the year ended 31 December 2016, of MS's financial statements for the year ended 31 December 2016 and MS's consolidated financial statements for the year ended 31 December 2016. The procedure used in the preparation of MS's financial statements for the year ended 31 December 2016 and MS's consolidated financial statements for the year ended 31 December 2016 complied

with Czech as well as International Accounting Standards, and the financial statements have been audited.

As part of its activities, the Audit Committee also obtained assessment information relating to the external auditor's activities and monitored the effectiveness of the statutory audit. The Audit Committee participated in the communication between the external auditor and MS's management and assessed the manner in which MS's management followed the recommendations provided by the auditor. The Audit Committee also monitored the integrity of the financial information provided by MS, reviewing the consistency and appropriateness of the accounting methods used in MS.

The Audit Committee also focused on risk management information and was kept informed about the activities of the Internal Audit Department and the implementation of the 2016 internal audit plan; it discussed the main findings of internal audits and became acquainted with the planned activities of the Internal Audit Department for 2017. The Audit Committee monitored the effectiveness of internal control, risk management systems, internal audit and its functional independence.

The Audit Committee assessed the independence and impartiality of the statutory auditor and audit firm, worked together with the auditor and reviewed the nature and scope of the additional services provided by the auditor. The Audit Committee and the auditor discussed the risks threatening its independence and the protective measures adopted.



The following persons had been invited to attend the Committee's meeting: principal members of the external auditor's team, MS's Chief Financial Officer, Head of MS's Internal Audit Department and MS's employees responsible for the activities or involved in the activities which the Audit Committee focused on in performing its task.

The Audit Committee informed the Supervisory Board about the result of the obligatory audit and its findings gained from the observation of the obligatory audit process. The Audit Committee also informed the Supervisory Board about the ways in which the obligatory audit contributed to the maintenance of integrity of the accounting and financial reporting systems.

To conclude, the Audit Committee may state that, in respect of the activities with which it has been entrusted by the applicable legal regulations and MS's Articles of Association, ie in respect of:

(I) Monitoring the procedure used in preparing the financial statements and the consolidated financial statements;

(II) Monitoring the efficiency of MS's internal control and risk management systems;
 (III) Monitoring the process of the statutory audit of the financial statements and the consolidated financial statements; and
 (IV) Assessing the independence of the statutory auditor, including the provision of additional services.

The Audit Committee did not, either during the course of 2016 or the part of 2017 up to the time of the general meeting, identify any serious shortcomings or facts about which the general meeting of MS acting in the capacity of the general meeting should be informed.

Dana Trezziová

Chairwoman of the Audit Committee
 MORAVIA STEEL a.s.



AUDITOR'S REPORT

Deloitte.

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Tax ID No.: CZ49620592

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

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

Opinion on the Financial Statements and Consolidated Financial Statements

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

In our opinion:

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

Basis for Opinion

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

Other Information in the Annual Report

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

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.

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AUDITOR'S REPORT

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

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

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

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

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

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

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

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

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

In Prague on 26 May 2017

Audit firm:

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



Statutory auditor:

Václav Loubek
registration no. 2037



08

FINANCIAL PART I. FINANCIAL STATEMENTS

NAME OF THE COMPANY:	MORAVIA STEEL a.s.
REGISTERED OFFICE:	Průmyslová 1000, Staré Město, 739 61 Třinec
LEGAL STATUS:	Joint Stock Company
CORPORATE ID:	634 74 808
RECORD IN THE REGISTER OF COMPANIES:	Recorded in File 1297, Section B of the Register of Companies held by the Regional Court in Ostrava.

Components of the Financial Statements:

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

These financial statements were prepared on 13 April 2017.

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

BALANCE SHEET FULL VERSION – ASSETS

(IN CZK THOUSAND)

		31.12.2016			31.12.2015
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	20 716 233	750 090	19 966 143	19 388 064
B.	Fixed assets	9 086 326	467 238	8 619 088	8 643 451
<i>B.I.</i>	<i>Intangible fixed assets</i>	175 281	30 020	145 261	163 130
<i>B.I.2.</i>	<i>Valuable rights</i>	174 283	29 110	145 173	125 007
<i>B.I.2.1.</i>	Software	1 679	1 419	260	
<i>B.I.2.2.</i>	Other valuable rights	172 604	27 691	144 913	125 007
<i>B.I.4.</i>	Other intangible fixed assets	998	910	88	111
<i>B.I.5.</i>	<i>Prepayments for intangible fixed assets and intangible fixed assets under construction</i>				38 012
<i>B.I.5.1.</i>	Prepayments for intangible fixed assets				38 012
<i>B.II.</i>	<i>Tangible fixed assets</i>	97 317	69 145	28 172	27 724
<i>B.II.2.</i>	Tangible movable assets and sets of tangible movable assets	97 317	69 145	28 172	27 624
<i>B.II.5.</i>	<i>Prepayments for tangible fixed assets and tangible fixed assets under construction</i>				100
<i>B.II.5.1.</i>	Prepayments for tangible fixed assets				100
<i>B.III.</i>	<i>Non-current financial assets</i>	8 813 728	368 073	8 445 655	8 452 597
<i>B.III.1.</i>	Equity investments – controlled or controlling entity	8 525 322	368 073	8 157 249	8 155 444
<i>B.III.3.</i>	Equity investments in associates	178 197		178 197	178 197
<i>B.III.7.</i>	<i>Other non-current financial assets</i>	110 209		110 209	118 956
<i>B.III.7.2.</i>	Prepayments for non-current financial assets	110 209		110 209	118 956
C.	Current assets	11 555 867	282 852	11 273 015	10 722 538
<i>C.I.</i>	<i>Inventories</i>	113 604		113 604	102 088
<i>C.I.1.</i>	Material	1 388		1 388	1 649
<i>C.I.3.</i>	<i>Products and goods</i>	112 216		112 216	100 439
<i>C.I.3.2.</i>	Goods	112 216		112 216	100 439
<i>C.II.</i>	<i>Receivables</i>	7 842 405	282 852	7 559 553	7 360 104
<i>C.II.1.</i>	Long-term receivables	169 606		169 606	126 060
<i>C.II.1.2.</i>	Receivables – controlled or controlling entity	59 000		59 000	
<i>C.II.1.5.</i>	Receivables – other	110 606		110 606	126 060
<i>C.II.1.5.2.</i>	Long-term prepayments made	514		514	1 127
<i>C.II.1.5.4.</i>	Sundry receivables	110 092		110 092	124 933

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

C.II.2.	Short-term receivables	7 672 799	282 852	7 389 947	7 234 044
C.II.2.1.	Trade receivables	7 455 611	280 702	7 174 909	6 873 644
C.II.2.2.	Receivables – controlled or controlling entity				273 323
C.II.2.4.	Receivables – other	217 188	2 150	215 038	87 077
C.II.2.4.3.	State – tax receivables	48 013		48 013	13 250
C.II.2.4.4.	Short-term prepayments made	35 435		35 435	15 622
C.II.2.4.5.	Estimated receivables	112 051		112 051	43 379
C.II.2.4.6.	Sundry receivables	21 689	2 150	19 539	14 826
C.IV.	Cash	3 599 858		3 599 858	3 260 346
C.IV.1.	Cash on hand	729		729	131
C.IV.2.	Cash at bank	3 599 129		3 599 129	3 260 215
D.	Other assets	74 040		74 040	22 075
D.1.	Deferred expenses	56 798		56 798	6 179
D.2.	Complex deferred expenses	72		72	166
D.3.	Accrued income	17 170		17 170	15 730

BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(IN CZK THOUSAND)

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	19 966 143	19 388 064
A.	Equity	14 854 245	14 528 545
A.I.	<i>Share capital</i>	3 157 000	3 157 000
A.I.1.	Share capital	3 157 000	3 157 000
A.III.	<i>Funds from profit</i>	631 400	631 400
A.III.1.	Other reserve funds	631 400	631 400
A.IV.	Retained earnings (+/-)	8 740 145	7 964 470
A.IV.1.	Accumulated profits brought forward	8 740 145	7 964 470
A.V.	Profit or loss for the current period (+/-)	2 325 700	2 775 675
B.+C.	Liabilities	5 061 591	4 849 273
B.	Reserves	897	1 147
B.IV.	Other reserves	897	1 147
C.	Payables	5 060 694	4 848 126
C.II.	Short-term payables	5 060 694	4 848 126
C.II.1.	Bonds issued		
C.II.2.	Payables to credit institutions		75 014
C.II.3.	Short-term prepayments received	242 638	584 527
C.II.4.	<i>Trade payables</i>	4 298 180	3 972 088
C.II.8.	Other payables	519 876	216 497
C.II.8.1.	Payables to partners	45 650	
C.II.8.3.	Payables to employees	14 615	15 902
C.II.8.4.	Social security and health insurance payables	4 583	5 223
C.II.8.5.	State – tax payables and subsidies	120 965	136 730
C.II.8.6.	Estimated payables	334 048	58 626
C.II.8.7.	Sundry payables	15	16
D.	Other liabilities	50 307	10 246
D.1.	Accrued expenses	50 170	10 132
D.2.	Deferred income	137	114

PROFIT AND LOSS ACCOUNT

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	611 345	638 614
II.	Sales of goods	49 844 809	56 903 226
A.	Purchased consumables and services	48 940 319	55 505 650
A.1.	Costs of goods sold	47 834 002	54 415 675
A.2.	Consumed material and energy	7 777	7 284
A.3.	Services	1 098 540	1 082 691
D.	Staff costs	336 633	420 962
D.1.	Payroll costs	268 800	344 737
D.2.	Social security and health insurance costs and other charges	67 833	76 225
D.2.1.	Social security and health insurance costs	64 728	73 721
D.2.2.	Other charges	3 105	2 504
E.	Adjustments to values in operating activities	589	40 031
E.1.	<i>Adjustments to values of intangible and tangible fixed assets</i>	29 048	23 522
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	29 048	23 522
E.3.	Adjustments to values of receivables	-28 459	16 509
III.	Other operating income	93 545	95 017
III.1.	Sales of fixed assets	1 324	37 691
III.2.	Sales of material	1 493	1 405
III.3.	Sundry operating income	90 728	55 921
F.	Other operating expenses	104 956	81 911
F.1.	Net book value of sold fixed assets	549	1 672
F.2.	Net book value of sold material	1 498	1 424
F.3.	Taxes and charges	1 070	978
F.4.	Reserves relating to operating activities and complex deferred expenses	-692	373
F.5.	Sundry operating expenses	102 531	77 464
*	Operating profit or loss (+/-)	1 167 202	1 588 303
IV.	Income from non-current financial assets – equity investments	1 452 837	1 652 870
IV.1.	Income from equity investments – controlled or controlling entity	1 452 837	1 652 870
VI.	Interest income and similar income	8 449	8 445
VI.1.	Interest income and similar income – controlled or controlling entity	3 425	3 127
VI.2.	Other interest income and similar income	5 024	5 318

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

I.	Adjustments to values and reserves relating to financial activities	7 114	
J.	Interest expenses and similar expenses	584	14 758
J.1.	Interest expenses and similar expenses – controlled or controlling entity		13 567
J.2.	Other interest expenses and similar expenses	584	1 191
VII.	Other financial income	312 721	441 690
K.	Other financial expenses	380 460	604 725
*	Financial profit or loss (+/-)	1 385 849	1 483 522
**	Profit or loss before tax (+/-)	2 553 051	3 071 825
L.	Income tax	227 351	296 150
L.1.	Due income tax	227 351	296 150
**	Profit or loss net of tax (+/-)	2 325 700	2 775 675
***	Profit or loss for the current period (+/-)	2 325 700	2 775 675
*	Net turnover for the current period	52 323 706	59 739 862

STATEMENT OF MORAVIA STEEL A.S. CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Capital funds	Funds from profit, reserve fund	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2014	3 157 000		631 400	8 859 291		1 105 179	13 752 870
Profit shares paid				-894 821		-1 105 179	-2 000 000
Profit or loss for the current period						2 775 675	2 775 675
Balance at 31 December 2015	3 157 000		631 400	7 964 470		2 775 675	14 528 545
Profit shares paid				775 675		-2 775 675	-2 000 000
Profit or loss for the current period						2 325 700	2 325 700
Balance at 31 December 2016	3 157 000		631 400	8 740 145		2 325 700	14 854 245

CASH FLOW STATEMENT

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
P.	Opening balance of cash and cash equivalents	3 260 346	4 075 015
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss before tax	2 553 051	3 071 825
A.1.	Adjustments for non-cash transactions	-1 453 151	-1 651 650
A.1.1.	Depreciation of fixed assets	29 048	23 522
A.1.2.	Change in provisions and reserves	-21 595	16 789
A.1.3.	Profit/(loss) on the sale of fixed assets	-775	-36 019
A.1.4.	Revenues from profit shares	-1 452 837	-1 652 870
A.1.5.	Interest expense and interest income	-7 865	6 313
A.1.6.	Adjustments for other non-cash transactions	873	-9 385
A.*	Net operating cash flow before changes in working capital	1 099 900	1 420 175
A.2.	Change in working capital	333 512	585 779
A.2.1.	Change in operating receivables and other assets	-5 955	712 518
A.2.2.	Change in operating payables and other liabilities	350 983	-450 478
A.2.3.	Change in inventories	-11 516	323 739
A.**	Net cash flow from operations before tax	1 433 412	2 005 954
A.3.	Interest paid	-589	-34 563
A.4.	Interest received	8 449	8 445
A.5.	Income tax paid from ordinary operations	-264 236	-350 589
A.6.	Received profit shares	1 462 837	1 662 870
A.***	Net operating cash flows	2 639 873	3 292 117
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-12 348	-1 857 703
B.2.	Proceeds from fixed assets sold	1 324	37 691
B.3.	Loans and borrowings to related parties	-214 323	-161 816
B.***	Net investment cash flows	-225 347	-1 981 828
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	-75 014	-124 958
C.2.	Impact of changes in equity	-2 000 000	-2 000 000
C.2.6.	Profit shares paid	-2 000 000	-2 000 000
C.***	Net financial cash flows	-2 075 014	-2 124 958
F.	Net increase or decrease in cash and cash equivalents	339 512	-814 669
R.	Closing balance of cash and cash equivalents	3 599 858	3 260 346

TABLE OF CONTENTS

1. GENERAL INFORMATION	31		
1.1. Incorporation and Description of the Business	31		
1.2. Changes and Amendments to the Register of Companies	31		
1.3. Board of Directors and Supervisory Board as of 31 December 2016	31		
1.4. Organisational Structure of the Company as of 31 December 2016	32		
2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES	33		
3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	33		
3.1. Tangible Fixed Assets	33		
3.2. Intangible Fixed Assets	34		
3.3. Non-Current Financial Assets	34		
3.4. Inventory	35		
3.5. Current Financial Assets	35		
3.6. Receivables	35		
3.7. Trade Payables	36		
3.8. Loans	36		
3.9. Foreign Currency Translation	36		
3.10. Reserves	36		
3.11. Finance Leases	36		
3.12. Taxation	37		
3.12.1. Tax Depreciation of Fixed Assets	37		
3.12.2. Current Tax Payable	37		
3.12.3. Deferred Tax	37		
3.13. Impairment	37		
3.14. Use of Estimates	38		
3.15. Revenue Recognition	38		
3.16. Extraordinary Expenses and Income	38		
3.17. Cash Flow Statement	38		
3.18. Year-on-Year Changes in the Classification and Designation of Balance Sheet and Profit and Loss Account Items and their Substance	38		
4. ADDITIONAL INFORMATION ON THE BALANCE SHEET AND PROFIT AND LOSS ACCOUNT	39		
4.1. Fixed Assets	39		
4.1.1. Intangible Fixed Assets	39		
4.1.2. Tangible Fixed Assets	39		
4.2. Non-Current Financial Assets	41		
4.2.1. Equity Investments – Controlled or Controlling Entities	42		
4.2.2. Equity Investments – Associates	44		
4.2.3. Pledged Non-Current Financial Assets and Current Equity Securities	44		
4.3. Inventory	44		
4.4. Receivables	45		
4.4.1. Long-Term Receivables	45		
4.4.2. Trade Receivables	45		
4.4.3. Aging of Receivables from Customers	45		
4.4.4. Intercompany Trade Receivables	46		
4.4.5. Receivables from Controlled or Controlling Entities	47		
4.4.6. Pledged Receivables	47		
4.4.7. State – Tax Receivables	47		
4.5. Current Financial Assets	47		
4.6. Shareholders' Equity	47		
4.6.1. Share Capital	47		
4.6.2. Changes in Equity	48		
4.7. Payables	48		
4.7.1. Long-Term Payables	48		
4.7.2. Short-Term Trade Payables	48		
4.7.3. Aging of Payables to Suppliers	48		
4.7.4. Intercompany Payables	49		
4.7.5. Collateralised Payables or Otherwise Covered	49		
4.7.6. Payables to Partners and Association Members	49		
4.7.7. Estimated Payables	49		
4.7.8. Due Amounts from Social Security and Health Insurance	50		
4.7.9. State – Tax Payables	50		
4.7.10. Short-term Bank Loans	50		
4.7.11. Short-Term Prepayments Received	50		
4.7.12. Accrued Expenses	50		
4.7.13. Deferred Taxation	51		
4.8. Income Tax on Ordinary and Extraordinary Activities	51		
4.9. Details of Income	52		
4.10. Costs of Goods Sold	52		
4.11. Services	52		
4.12. Change in Reserves and Provisions Relating to Operating Activities and Complex Deferred Expenses	53		
4.13. Other Operating Expenses and Income	53		
4.14. Other Financial Expenses and Income	53		
4.15. Related Party Transactions	54		
4.15.1. Income Generated with Related Parties	54		
4.15.2. Purchases	56		
5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES	58		
5.1. Staff Costs and Number of Employees	58		
5.2. Loans, Borrowings and Other Benefits Provided	58		
6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS AND LEGAL DISPUTES	59		
7. POST BALANCE EVENTS	59		

1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

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

As of 31 December 2016, the Company's issued share capital is CZK 3,157,000 thousand.

The Company's financial statements have been prepared as of and for the year ended 31 December 2016.

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

Shareholders	Ownership percentage
FINITRADING, a.s., nám. Svobody 526, Třinec	100%
Total	100%

The Company is primarily engaged in purchasing goods for resale and sale, which accounts for 98.79% of its revenues. The Company is additionally involved in providing domestic and international shipping services.

The Company's operations are principally focused on Třinecké železářny, a.s. and its subsidiary companies (for further details refer to Notes 4.16).

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

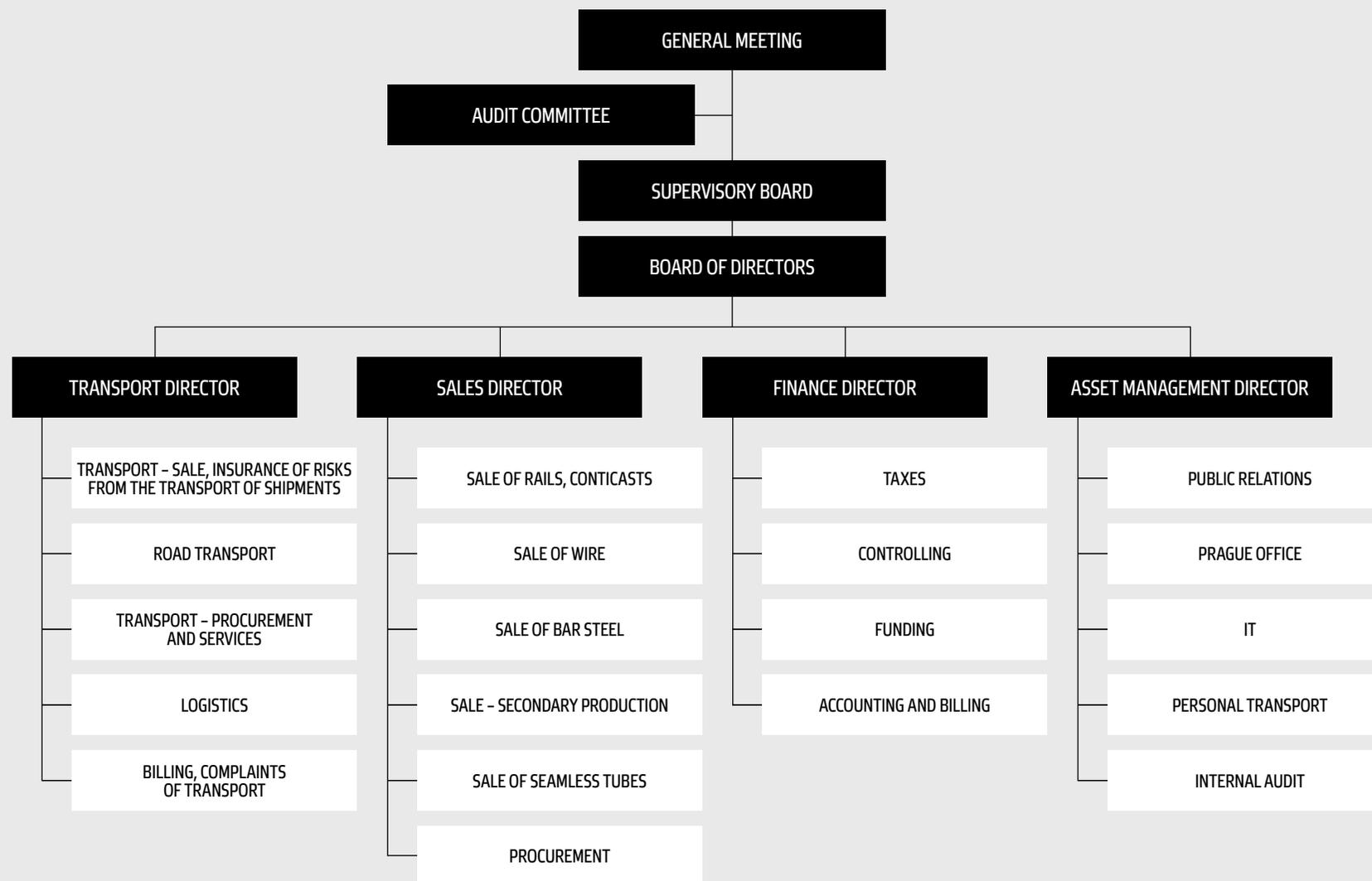
1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2016, the following changes or amendments to the Register of Companies were made: a change in the type of shares from ordinary registered shares in the certificate form to ordinary registered shares in the book-entry form. The change was recorded in the Register of Companies on 13 September 2016. Furthermore, a change was made to the addresses of certain Supervisory Board members.

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

	Position	Name
Board of Directors	Chairman	Petr Popelář
	Vice Chairman	Krzysztof Ruciński
	Member	Mojmír Kašpříšín
	Member	Uršula Novotná
Supervisory Board	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Balko
	Member	Mária Blašková

1.4. ORGANISATIONAL STRUCTURE OF THE COMPANY AS OF 31 DECEMBER 2016



2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1. TANGIBLE FIXED ASSETS

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

Purchased tangible fixed assets are stated at cost less accumulated depreciation and any recognised impairment losses. The Company carried no internally developed tangible fixed assets during the year ended 31 December 2016.

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

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

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

Provisioning

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

The Company recorded no provisions against tangible and intangible fixed assets in the year ended 31 December 2016.

3.2. INTANGIBLE FIXED ASSETS

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

Purchased intangible fixed assets are stated at cost.

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

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

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

3.3. NON-CURRENT FINANCIAL ASSETS

Non-current financial assets principally consist of equity investments.

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

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

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

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

At the balance sheet, equity investments in subsidiaries and associates are stated at cost net of any provisions.

Provisioning

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

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

3.4. INVENTORY

Valuation

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

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

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

Provisions

No provisions were recognised in respect of inventory in 2016.

3.5. CURRENT FINANCIAL ASSETS

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

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

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

3.6. RECEIVABLES

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

Provisioning

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

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

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

3.7. TRADE PAYABLES

Trade payables are stated at their nominal value.

3.8. LOANS

Loans are stated at nominal value.

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

3.9. FOREIGN CURRENCY TRANSLATION

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

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

3.10. RESERVES

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

3.11. FINANCE LEASES

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

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

3.12. TAXATION

3.12.1. Tax Depreciation of Fixed Assets

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

3.12.2. Current Tax Payable

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

3.12.3. Deferred Tax

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

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

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

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

3.13. IMPAIRMENT

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

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

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

3.14. USE OF ESTIMATES

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

3.15. REVENUE RECOGNITION

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

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

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

3.16. EXTRAORDINARY EXPENSES AND INCOME

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Company as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.

3.17. CASH FLOW STATEMENT

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

	(IN CZK THOUSAND)	
	31 Dec 2016	31 Dec 2015
Cash on hand	729	131
Cash at bank and cash in transit	3 599 129	3 260 215
Total current financial assets	3 599 858	3 260 346
Total cash and cash equivalents	3 599 858	3 260 346

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

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

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

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

4.1. FIXED ASSETS

4.1.1. Intangible Fixed Assets

Cost (IN CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Start-up costs	72	–	–	72	–	–	72
Software	1 372	–	–	1 372	307	–	1 679
Valuable rights	76 296	135 083	75 963	135 416	37 188	–	172 604
Other intangible FA	926	–	–	926	–	–	926
Intangible FA under construction	–	–	–	–	37 494	37 494	–
Prepayments and advances for intangible FA	–	136 098	98 086	38 012	–	38 012	–
Total	78 666	271 181	174 049	175 798	74 989	75 506	175 281

Accumulated Amortisation (IN CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Start-up costs	72	–	–	72	–	–	72
Software	1 339	33	–	1 372	47	–	1 419
Valuable rights	73 019	13 352	75 962	10 409	17 282	–	27 691
Other intangible FA	792	23	–	815	23	–	838
Total	75 222	13 408	75 962	12 668	17 352	–	30 020

Net Book Value

(IN CZK THOUSAND)

	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Start-up costs	–	–
Software	–	260
Valuable rights	125 007	144 913
Other intangible FA	111	88
Intangible FA under construction	–	–
Prepayments and advances for intangible FA	38 012	–
Total	163 130	145 261

Amortisation of intangible fixed assets was CZK 17,352 thousand and CZK 12,141 thousand as of 31 December 2016 and 31 December 2015, respectively.

4.1.2. Tangible Fixed Assets**Cost**

(IN CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Tangible movable assets	89 393	11 175	7 773	92 795	13 055	8 533	97 317
• <i>Machines and equipment</i>	12 589	1 024	–	13 613	261	–	13 874
• <i>Vehicles</i>	70 187	10 092	7 759	72 520	12 794	8 506	76 808
• <i>Furniture and fixtures</i>	6 617	59	14	6 662	–	27	6 635
Tangible FA under construction	–	–	–	–	12 334	12 334	–
Prepayments for tangible FA	–	100	–	100	–	100	–
Total	89 393	11 275	7 773	92 895	25 389	20 967	97 317

Accumulated Depreciation

(IN CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Tangible movable assets	61 157	11 787	7 773	65 171	11 696	7 722	69 145
• <i>Machines and equipment</i>	11 733	647	–	12 380	582	–	12 962
• <i>Vehicles</i>	42 990	11 020	7 759	46 251	11 077	7 695	49 633
• <i>Furniture and fixtures</i>	6 434	120	14	6 540	37	27	6 550
Total	61 157	11 787	7 773	65 171	11 696	7 722	69 145

Net Book Value

(IN CZK THOUSAND)

	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Tangible movable assets	27 624	28 172
• <i>Machines and equipment</i>	1 233	912
• <i>Vehicles</i>	26 269	27 175
• <i>Furniture and fixtures</i>	122	85
Prepayments for tangible FA	100	–
Total	27 724	28 172

The Company principally acquired cars in 2015 and 2016.

The Company acquired tangible assets that were charged directly to expenses in the amounts of CZK 1,770 thousand and CZK 1,261 thousand for the years ended 31 December 2016 and 2015, respectively. These assets are low value tangible assets comprising other movable assets and sets of movable assets with an estimated useful life greater than one year not reported within fixed assets. These assets are directly expensed on a one-off basis.

Depreciation of tangible fixed assets amounted to CZK 11,696 thousand and CZK 11,381 thousand as of 31 December 2016 and 31 December 2015, respectively.

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

(IN CZK THOUSAND)

	Balance at 31 Dec 2014	Additions	Disposals	Balance at 31 Dec 2015	Additions	Disposals	Balance at 31 Dec 2016
Equity investments – controlled or controlling entities	8 504 936	11 467	–	8 516 403	8 919	–	8 525 322
Equity investments – associates	178 197	–	–	178 197	–	–	178 197
Acquisition of non-current financial assets	–	12 589	12 589	–	–	–	–
Prepayments for non-current financial assets	126 888	–	7 932	118 956	–	8 747	110 209
Total	8 810 021	24 056	20 521	8 813 556	8 919	8 747	8 813 728

Pursuant to the mandate contract between MORAVIA STEEL a.s., CYRRUS CORPORATE FINANCE, a.s. and TŘINECKÉ ŽELEZÁRNY, a.s. dated 25 July 2013, the purchase of participation securities from allocated funds continued during 2016. This increased the investment by CZK 8,919 thousand, ie from CZK 6,956,840 thousand to CZK 6,965,760 thousand.

4.2.1. Equity Investments – Controlled or Controlling Entities

2016

(IN CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TŘINECKÉ ŽELEZÁRNY, a.s.**)	Třinec	6 965 760	8 109 863	100	25 731 979	1 439 564	–	1 400 000
Barrandov Studio a.s.	Prague	746 439	197 112	99,85	764 091	–15 800	150 000	–
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	6 853	1 494	–	–
Moravia Steel Italia, srl	Milan	2 580	2 075	66	85 470	27 392	–	17 837
Moravia Steel Ibéria, s.a.	Lisbon	10 850	2 533	99,33	19 830	1 988	–	–
Moravia Goel Trade, d.o.o.*)	Samobor	59	59	60	*)	*)	59	–
MS – Slovensko s.r.o.	Bratislava	161	160	100	3 066	2 189	–	–
Moravia Steel Israel Ltd.	Petach Tikva	605	466	100	–10	–56	–	–
Beskydská golfová, a.s	Ropice	254 342	230 000	100	213 808	174	100 000	–
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	274 150	36 886	18 014	20 000
M Steel Projects a.s.	Třinec	218 875	10 000	100	282 126	111 719	100 000	–
Moravia Steel UK Ltd	Cheshire	1 449	728	100	67 635	1 545	–	–
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	104 749	29 686	–	–
NEOMET Sp. Z o.o.	Radomsko	4 127	4 856	100	88 224	22 823	–	–
Moravia Mining Plc	Addis Ababa	3 153	3 157	76	2 817	–749	–	–
Total		8 525 322	8 565 501		27 644 788	1 658 885	368 073	1 437 837

*) In liquidation

**) During 2016, the purchase of participation securities of TŘINECKÉ ŽELEZÁRNY, a.s. continued, the amount increased by CZK 8,919 thousand, ie from CZK 6,956,840 thousand to CZK 6,965,760 thousand.

2015 (IN CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
TRINECKÉ ŽELEZÁRNY, a.s.**)	Třinec	6 956 840	8 109 863	100	27 336 741	3 025 737	–	1 600 000
Barrandov Studio a.s.	Prague	746 439	197 112	99.85	779 891	43 498	150 000	–
Moravia Steel Slovenija, d.o.o.	Celje	1 573	867	51	5 361	2 412	–	–
Moravia Steel Italia, srl	Milan	2 580	2 075	66	85 127	23 854	–	17 870
Moravia Steel Ibéria, s.a.	Lisbon	10 850	2 533	99.33	17 846	2 669	–	–
Moravia Goel Trade, d.o.o.*)	Samobor	59	59	60	*)	*)	59	–
MS – Slovensko s.r.o.	Bratislava	161	160	100	878	–113	–	–
Moravia Steel Israel Ltd.	Petach Tikva	605	466	100	–10	–18	–	–
Beskydská golfová, a.s.	Ropice	254 342	230 000	100	213 634	2 010	100 000	–
Moravskoslezský kovošrot, a.s.	Ostrava	202 209	2 000	100	257 263	35 841	–	20 000
M Steel Projects a.s.	Třinec	218 875	10 000	100	170 329	85 403	110 900	–
Moravia Steel UK Ltd	Cheshire	1 449	728	100	77 129	120	–	–
Moravia Steel Deutschland GmbH	Kürten	113 140	1 625	100	75 091	13 835	–	–
NEOMET Sp. Z o.o.	Radomsko	4 128	4 856	100	67 961	25 858	–	–
Moravia Mining Plc***)	Addis Ababa	3 153	3 157	76	3 660	–243	–	–
Total		8 516 403	8 565 501		29 090 901	3 260 863	360 959	1 637 870

*) In liquidation

**) During 2015, the purchase of participation securities of TRINECKÉ ŽELEZÁRNY, a.s. continued, the amount increased by CZK 8,314 thousand, ie from CZK 6,948,526 thousand to CZK 6,956,840 thousand.

***) On 24 April 2015, Moravia Mining Private Limited Company was formed in Ethiopia. The investment totalled CZK 3,153 thousand.

4.2.2. Equity Investments – Associates

2016 (IN CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
Kovárna VIVA a.s.	Zlín	175 311	25 000	50	865 857	139 691	–	15 000
Moravia Steel Middle East FZO	Dubai	2 886	2 841	40	143 285	40 503	–	–
Total		178 197	27 841		1 009 142	180 194	–	15 000

2015 (IN CZK THOUSAND)

Name	Registered office	Cost	Nominal value	Ownership %	Equity	Profit/loss	Provision	Dividend income for the period
Kovárna VIVA a.s.	Zlín	175 311	25 000	50	757 448	142 887	–	15 000
Moravia Steel Middle East FZO	Dubai	2 886	2 841	40	97 735	19 724	–	–
Total		178 197	27 841		855 183	162 611	–	15 000

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

None of the Company's non-current financial assets or current equity securities were pledged in 2016 and 2015.

4.3. INVENTORY

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
• Material	1 388	1 649
• Inventory – raw material	53 479	14 665
• Inventory – metallurgical products	58 737	85 774
Total	113 604	102 088

In the year ended 31 December 2016, the Company recognised no provision against inventory.

No prepayments for inventory were provided in the reporting periods.

4.4. RECEIVABLES

4.4.1. Long-Term Receivables

As of 31 December 2016, the Company reports a long-term receivable of CZK 169,606 thousand.

During 2015, the Company provided two loans to HC OCELÁŘI TŘINEC o.s. with the aggregate value of CZK 100,000 thousand (CZK 50,000 thousand each). The loans will be due in 2019.

As of 31 December 2016, the Company records an intercompany receivable from Barrandov Studio, a.s. As of 31 December 2016, this receivable amounted to CZK 79,000 thousand, and it is due between 2017 and 2018. The long-term portion of the receivable of CZK 59,000 thousand is reported in line C.II.1.2. 'Receivables – controlled or controlling entities' and of CZK 10,000 thousand in line C.II.1.5.4. 'Other receivables'; the short-term portion of this receivable of CZK 0 thousand is reported in line C.II.2.2. 'Receivables – controlled or controlling entities' and of CZK 10,000 thousand in line C.II.2.4. 'Other receivables'.

As of 31 December 2016 and 2015, the Company records no long-term receivables with maturity exceeding 5 years.

4.4.2. Trade Receivables

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Short-term		
• Customers	7 452 267	7 179 496
• Bills of exchange to be collected	3 344	3 344
• Provisions – customers	–277 358	–305 852
• Provisions – bills of exchange to be collected	–3 344	–3 344
Total	7 174 909	6 873 644

4.4.3. Aging of Receivables from Customers

(IN CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2016	Gross	6 576 067	876 200	7 452 267
	Provisions	0	277 358	277 358
31 Dec 2015	Gross	6 269 560	909 936	7 179 496
	Provisions	5 393	300 459	305 852

Receivables typically mature within 30 days.

Past due receivables:

CZK thousand)

Year ended	Local	Cross-border	Total
31 Dec 2016	142 511	733 689	876 200
31 Dec 2015	115 492	794 444	909 936

4.4.4. Intercompany Trade Receivables

(IN CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Short-term trade receivables		
TRINECKÉ ŽELEZÁRNY, a.s.	1 578 529	1 171 999
Strojírny a stavby Třinec, a.s.	57	90
ENERGETIKA TŘINEC, a.s.	15 340	22 177
Slévárny Třinec, a.s.	27 231	3 130
Moravia Steel Deutschland GmbH, Německo	684 117	469 075
Řetězárna a.s.	14 944	6 524
HŽP a.s.	32 010	29 923
Moravia Steel UK Ltd	1	–
DOPRAVA TŽ, a.s.	–	–
Beskydská golfová, a.s.	61	55
VÚHŽ, a.s.	11 381	7 800
Šroubárna Kyjov spol. s r.o.	17 760	15 522
Kovárna VIVA a.s.	75 051	71 827
M STEEL PROJECTS a.s.	121	199 052
ŽDB DRÁTOVNA a.s.	215 457	234 744
„NEOMET“ sp.z o.o.	237	1 119
Total short-term intercompany receivables	2 672 297	2 233 037
Receivables outside the Group	4 783 314	4 949 803
Receivables outside the Group	7 455 611	7 182 840

4.4.5. Receivables from Controlled or Controlling Entities

The total receivable as of the balance sheet date, ie 31 December 2016, amounts to CZK 0 thousand, of which the interest amounts to CZK 0 thousand. In the year ended 31 December 2015, the receivable amounted to CZK 273,323 thousand, of which the interest amounted to CZK 3,074 thousand.

4.4.6. Pledged Receivables

In prior years, the Company pledged some of its receivables under loan arrangements. Under these agreements, receivables were pledged in 30-day cycles as they fell due. As of 31 December 2016, the value of pledged receivables was CZK 0 thousand (2015: CZK 217,529 thousand).

4.4.7. State – Tax Receivables

State – tax receivables principally comprise a receivable arising from the corporate income tax reduced by the anticipated income tax for 2016 of CZK 48,013 thousand as of 31 December 2016 (2015: CZK 13,251 thousand).

4.5. CURRENT FINANCIAL ASSETS

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Cash on hand	729	131
Total cash	729	131
Current accounts and cash in transit	3 599 129	3 260 215
Term deposits	–	–
Total bank accounts	3 599 129	3 260 215
Total current financial assets	3 599 858	3 260 346

4.6. SHAREHOLDERS' EQUITY

4.6.1. Share Capital

The Company's share capital in the aggregate amount of CZK 3,157,000 thousand as of 31 December 2016 is composed of 1,514 registered shares with a nominal value of CZK 500 thousand each, 100 registered shares with a nominal value of CZK 10,000 thousand each and 2 registered shares with a nominal value of CZK 700,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board.

4.6.2. Changes in Equity

Based on the decision of the General Meeting of Shareholders held on 29 June 2016, the profit of CZK 2,775,675 thousand for the year ended 31 December 2015 was allocated as follows:

- CZK 775,675 thousand was transferred to retained earnings; and
- CZK 2,000,000 thousand was used for the payment of dividends.

It is anticipated that the profit of CZK 2,325,700 thousand for the year ended 31 December 2016 will be distributed as follows: CZK 2,000,000 thousand will be used for the payment of dividends and CZK 325,700 thousand will be transferred to retained earnings.

4.7. PAYABLES

4.7.1. Long-Term Payables

As of 31 December 2016, the Company reported no long-term payables.

The Company records no long-term trade payables with maturities exceeding five years as of 31 December 2016.

4.7.2. Short-Term Trade Payables

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Short-term payables		
• Suppliers	4 298 180	3 972 088
• Other payables	–	–
Total	4 298 180	3 972 088

4.7.3. Aging of Payables to Suppliers

(IN CZK THOUSAND)

Balance at	Category	Before due date	Past due date	Total
31 Dec 2016	Short-term	4 294 548	3 632	4 298 180
31 Dec 2015	Short-term	3 955 931	16 157	3 972 088

Payables typically mature within 45 days.

4.7.4. Intercompany Payables

(IN CZK THOUSAND)

Name of the entity	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Short-term trade payables		
TŘINECKÉ ŽELEZÁRNY, a.s.	1 919 099	1 776 496
Strojírny a stavby Třinec, a.s.	2	4
Řetězárna a.s.	–	2 038
REFRASIL, s.r.o.	5 322	8 381
FINITRADING, a.s.	–	177 518
Moravia Steel Italia, srl	15 070	39 069
Moravia Steel Ibéria, s.a.	730	1 892
Moravia Steel Slovenija, d.o.o.	3 277	3 222
DOPRAVA TŽ, a.s.	20	112
VESUVIUS ČESKÁ REPUBLIKA, a.s.	27 378	26 233
ŽDB DRÁTOVNA a.s.	–	1 115
Beskydská golfová a.s.	3	3
Třinecké gastroslužby, s.r.o.	284	277
Minerfin a.s.	99 763	93 746
Moravia Steel Deutschland GmbH	–	–
Moravia Steel UK Ltd	11 024	17 234
Total intercompany short-term payables	2 081 972	2 147 340
Payables to other than Group companies	2 216 208	1 824 748
Total short-term trade payables	4 298 180	3 972 088

4.7.5. Collateralised Payables or Otherwise Covered

As of the last quarter of 2016, the Company no longer collateralises payables arising from the Company's bank loans by the conditional pledge or assignment of receivables (refer to Notes 4.4.6. and 4.7.10.).

4.7.6. Payables to Partners and Association Members

As of 31 December 2016, the Company recorded no payables to partners and association members.

4.7.7. Estimated Payables

Estimated payables principally consist of unbilled supplies of raw materials amounting to CZK 229,214 thousand (2015: CZK 32,767 thousand), unbilled supplies of work and services amounting to CZK 56,555 thousand (2015: CZK 22,760 thousand) and an estimated payable for staff costs in the amount of CZK 48,279 thousand (2015: CZK 3,099 thousand).

4.7.8. Due Amounts from Social Security and Health Insurance

As of 31 December 2016, the aggregate amount of due amounts related to social security, state employment policy and health insurance contributions was CZK 4,583 thousand (2015: CZK 5,223 thousand). These payables were fully settled as of the balance sheet date.

4.7.9. State – Tax Payables

State – tax payables principally comprise a payable arising from VAT amounting to CZK 119,169 thousand as of 31 December 2016 (2015: a payable of CZK 133,127 thousand).

4.7.10. Short-term Bank Loans

During the year ended 31 December 2016, the Company repaid all of its bank loans including interest.

In the year ended 31 December 2016, the interest rates on bank loans ranged between 0.5% and 0.625% p.a.

2015

Purpose	Currency	Balance at 31 Dec 2015 in CZK '000	Collateral
Current bank accounts			
Overdraft	CZK	14	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Debt financing	CZK	25 000	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Financing of operating needs	CZK	25 000	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Financing of operating needs	CZK	25 000	Pledged receivables, blank bills issued by MORAVIA STEEL a.s.
Total		75 014	

In the year ended 31 December 2015, the interest rates on bank loans ranged between 0.555% and 0.675% p.a.

4.7.11. Short-Term Prepayments Received

In the year ended 31 December 2016, the Company recorded short-term prepayments received of CZK 242,638 thousand (2015: CZK 584,527 thousand).

4.7.12. Accrued Expenses

Accrued expenses largely comprise costs related to the year ended 31 December 2016 for transportation and other services paid in 2017 in the amount of CZK 50,170 thousand (2015: CZK 10,126 thousand) and banking fees and bank interest payable on short-term and long-term operating loan facilities in the amount of CZK 0 thousand (2015: CZK 6 thousand).

4.7.13. Deferred Taxation

The deferred tax asset is analysed as follows:

Deferred Tax Arising from

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Accumulated depreciation and amortisation of fixed assets	-4 280	-2 221
Estimated payable arising from outstanding vacation days	779	589
Estimated payable arising from extraordinary bonuses	8 394	
Provisions – receivables	7 956	12 606
Unpaid (un-received) penalty	-893	-954
Total recognised tax asset (+) / liability (-)	11 596	10 020

Due to its immateriality, the Company decided not to recognise the deferred tax asset.

4.8. INCOME TAX ON ORDINARY AND EXTRAORDINARY ACTIVITIES

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

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Profit before tax	2 553 051	3 071 825
Tax at the domestic income tax rate of 19%	485 080	583 647
Tax effect of permanent differences	-256 115	-288 181
Deferred tax liability	0	0
Additional taxes of prior years	-1 614	684
Total income tax on ordinary activities	227 351	296 150

4.9. DETAILS OF INCOME

(IN CZK THOUSAND)

	2016			2015		
	Local	Cross-border	Total	Local	Cross-border	Total
Goods – raw material	15 296 672	–	15 296 672	17 293 883	–	17 293 883
Goods – metallurgical products	10 541 503	24 006 634	34 548 137	12 522 036	27 087 307	39 609 343
Sales of goods	25 838 175	24 006 634	49 844 809	29 815 919	27 087 307	56 903 226
Sales of services	524 679	86 666	611 345	552 811	85 803	638 614
Total sales of own products and services	524 679	86 666	611 345	552 811	85 803	638 614

The line entitled 'Goods – raw material' represents the income from the purchases of input raw material for Třinecké železárny, a. s., and its subsidiaries. The line entitled 'Goods – metallurgical products' largely relates to sales of products purchased from Třinecké železárny, a. s.

Sales of services principally comprise the provision of forwarding services of CZK 503,391 thousand for the year ended 31 December 2016 (2015: CZK 526,728 thousand). The sales of services also comprise revenues arising from remuneration and commissions based on mandatory contracts.

4.10. COSTS OF GOODS SOLD

(IN CZK THOUSAND)

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Purchase of goods – raw materials	14 912 060	16 717 804
Purchase of goods – metallurgical products	30 995 404	35 663 526
Costs for transport of goods – metallurgical products	1 926 538	2 034 345
Total costs of goods sold	47 834 002	54 415 675

4.11. SERVICES

(IN CZK THOUSAND)

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Transportation costs – services	471 382	492 654
Lease of trademark	123 000	123 000
Commissions	115 190	145 348
Advertising	160 616	137 545
Rental fees	9 643	10 603
Telecommunications	11 511	10 827
Legal advisory and auditing activities	84 596	34 075
Other services	122 602	128 639
Total	1 098 540	1 082 691

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

(IN CZK THOUSAND)

	Year ended 31 Dec 2016	Year ended 31 Dec 2015
Settlement of complex deferred expenses	94	94
Changes in provisions under special legislation	-3 990	-12 076
• provisions against receivables	-3 990	-12 076
Changes in tax non-deductible provisions:	-24 469	28 854
• provisions against receivables	-24 469	28 854
Changes in reserves	-786	280
Total	-29 151	16 882

4.13. OTHER OPERATING EXPENSES AND INCOME

Other operating expenses primarily include the costs of the write-off of receivables due to the completed insolvency proceedings and sale of receivables of CZK 701 thousand (2015: CZK 3,758 thousand) and the costs of insurance of supplies and other insurance in the aggregate amount of CZK 46,631 thousand (2015: CZK 48,470 thousand). Other operating income primarily includes discounts and rebates of CZK 17,987 thousand (2015: CZK 15,968 thousand) and supplies of insurance companies arising from insurance of receivables of CZK 62,803 thousand (2015: CZK 26,962 thousand).

4.14. OTHER FINANCIAL EXPENSES AND INCOME

Other financial income is composed of foreign exchange rate gains of CZK 312,721 thousand (2015: CZK 441,690 thousand).

Other financial expenses principally comprise foreign exchange rate losses of CZK 376,633 thousand (2015: CZK 600,223 thousand). The remaining balance consists of other financial expenses such as fees under letters of credit, fees under loan agreements, banking fees and other financial costs of CZK 3,827 thousand (2015: CZK 4,502 thousand).

4.15. RELATED PARTY TRANSACTIONS

4.15.1. Income Generated with Related Parties

2016							(IN CZK THOUSAND)
Entity	Relation to the Company	Goods	Services	Other income	Fin. income	Total	
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	14 807 818	353 495	43 823	–	15 205 136	
Barrandov Studio a.s.	Subsidiary	–	–	59 961	456	60 417	
Beskydská golfová, a.s.	Subsidiary	–	600	85	–	685	
Hanácké železářny a pérovny, a.s.	Subsidiary of the subsidiary	220 160	8 891	1 091	–	230 142	
Moravia Steel Italia s.r.l.	Subsidiary	–	–	89	–	89	
Moravia Steel Ibéria, s.a.	Subsidiary	–	–	–	–	–	
Moravia Steel UK Ltd	Subsidiary	477	26	–	–	503	
Kovárna VIVA a.s.	Subsidiary	324 373	1 048	416	–	325 837	
M STEEL PROJECTS a.s.	Subsidiary	924 577	7 133	–	2 968	934 678	
Strojírny a stavby Třinec, a.s.	Subsidiary of the subsidiary	100	588	730	–	1 418	
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	384 807	–	2 362	–	387 169	
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	104 295	10 413	694	–	115 402	
REFRASIL, s.r.o.	Subsidiary of the subsidiary	–	–	124	–	124	
Řetězárna a.s.	Subsidiary of the subsidiary	158 030	–	683	–	158 713	
DOPRAVA TŽ, a.s.	Subsidiary of the subsidiary	–	31	12	–	43	
Moravia Steel Deutschland GmbH	Subsidiary	6 069 660	1 347	124	–	6 071 131	
VÚHŽ, a.s.	Subsidiary of the subsidiary	92 406	4 764	382	–	97 552	
Šroubárna Kyjov, spol. s r.o.	Subsidiary of the subsidiary	248 196	9 091	669	–	257 956	
ŽDB DRÁTOVNA a.s.	Subsidiary of the subsidiary	1 337 446	96 667	2 438	–	1 436 551	
FINITRADING, a.s.	Controlling entity	–	–	69	–	69	
NEOMET Sp. Z o.o.	Subsidiary	–	5 112	178	–	5 290	
Minerfin a.s.	Group entity	385	382	–	–	767	
„Metalurgia“ Spółka akcyjna	Subsidiary of the subsidiary	41 300	159	620	–	42 079	
„D&D“ Drótáru	Subsidiary of the subsidiary	834 766	–	95	–	834 861	
Moravskoslezský kovošrot, a.s.	Subsidiary	–	3 289	101	–	3 390	
Total		25 548 796	503 036	114 746	3 424	26 170 002	

2015							(IN CZK THOUSAND)
Entity	Relation to the Company	Goods	Services	Other income	Fin. income	Total	
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	16 801 262	363 457	46 670	–	17 211 389	
Barrandov Studio a.s.	Subsidiary	–	–	1 098	642	1 740	
Beskydská golfová, a.s.	Subsidiary	–	600	103	–	703	
Hanácké železářny a pérovny, a.s.	Subsidiary of the subsidiary	215 673	10 963	1 042	–	227 678	
Moravia Steel Italia s.r.l.	Subsidiary	–	–	–	–	–	
Moravia Steel Ibéria, s.a.	Subsidiary	–	–	–	–	–	
Moravia Steel UK Ltd	Subsidiary	258	2	–	–	260	
Kovárna VIVA a.s.	Subsidiary	357 692	1 378	336	–	359 406	
M STEEL PROJECTS a.s.	Subsidiary	223 897	2 637	–	2 484	229 018	
Strojírny a stavby Třinec, a.s.	Subsidiary of the subsidiary	–	700	739	–	1 439	
ENERGETIKA TŘINEC, a.s.	Subsidiary of the subsidiary	481 499	59	2 527	–	484 085	
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	11 874	17 743	868	–	30 485	
REFRASIL, s.r.o.	Subsidiary of the subsidiary	–	–	143	–	143	
Řetězárna a.s.	Subsidiary of the subsidiary	176 615	–	7	–	176 622	
DOPRAVA TŽ, a.s.	Subsidiary of the subsidiary	–	227	11	–	238	
Moravia Steel Deutschland GmbH	Subsidiary	6 581 901	–	13	–	6 581 914	
VÚHŽ, a.s.	Subsidiary of the subsidiary	120 852	2 963	352	–	124 167	
Šroubárna Kyjov, spol. s r.o.	Subsidiary of the subsidiary	339 958	9 540	647	–	350 145	
ŽDB DRÁTOVNA a.s.	Subsidiary of the subsidiary	1 459 595	99 765	2 792	–	1 562 152	
FINITRADING, a.s.	Controlling entity	–	–	–	–	–	
NEOMET Sp. Z o.o.	Subsidiary	–	10 790	156	–	10 946	
Minerfin a.s.	Group entity	4 793	805	–	–	5 598	
„Metalurgia“ Spółka akcyjna	Subsidiary of the subsidiary	74 975	144	772	–	75 891	
„D&D“ Drótaru	Subsidiary of the subsidiary	861 053	–	47	–	861 100	
Moravskoslezský kovošrot, a.s.	Subsidiary	–	3 463	97	–	3 560	
Total		27 711 897	525 236	58 420	3 126	28 298 679	

4.15.2. Purchases

2016

(IN CZK THOUSAND)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	30 924 703	502	168 005	239	–	31 093 449
Moravia Steel Italia, s.r.l.	Subsidiary	–	–	67 498	–	–	67 498
Moravia Steel Ibéria, s.a.	Subsidiary	–	–	11 061	–	–	11 061
Moravia Steel Slovenija, d.o.o.	Subsidiary	–	–	12 471	–	–	12 471
Barrandov Studio, a.s.	Subsidiary	–	–	–	–	–	–
Moravia Steel Deutschland GmbH	Subsidiary.	–	–	638	41 260	–	41 898
Moravia Steel UK Ltd.	Subsidiary	–	–	21 160	–	–	21 160
Beskydská golfová, a.s.	Subsidiary	–	–	9 159	6	–	9 165
HŽP, a.s.	Subsidiary of the subsidiary	–	–	–	13	–	13
Strojírny a stavby Třinec, a.s.	Subsidiary of the subsidiary	–	1	26	–	–	27
REFRASIL, s.r.o.	Subsidiary of the subsidiary	79 325	–	–	–	–	79 325
DOPRAVA TŽ, a.s.	Subsidiary of the subsidiary	253	–	650	–	–	903
TRISIA, a.s.	Subsidiary of the subsidiary	–	73	5 466	27	–	5 566
Třinecké gastroslužby, s.r.o.	Subsidiary of the subsidiary	–	–	884	3 079	–	3 963
FINITRADING, a.s.	Controlling entity	1 741 484	–	–	–	–	1 741 484
VESUVIUS ČESKÁ REPUBLIKA, a.s.	–	122 626	–	–	–	–	122 626
Minerfin a.s.	Group entity	739 140	–	–	–	–	739 140
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	21	–	–	–	–	21
Total		33 607 552	576	297 018	44 624	–	33 949 770

2015 (IN CZK THOUSAND)

Entity	Relation to the Company	Goods	Material	Services	Other expenses	Extra-ordinary expenses	Total
TŘINECKÉ ŽELEZÁRNY, a.s.	Subsidiary	35 326 182	203	170 924	729	–	35 498 038
Moravia Steel Italia, s.r.l.	Subsidiary	–	–	90 657	–	–	90 657
Moravia Steel Ibéria, s.a.	Subsidiary	–	–	14 125	–	–	14 125
Moravia Steel Slovenija, d.o.o.	Subsidiary	–	–	11 459	–	–	11 459
Barrandov Studio, a.s.	Subsidiary	–	–	45	–	–	45
Moravia Steel Deutschland GmbH	Subsidiary	12	–	–	–	–	12
Moravia Steel UK Ltd.	Subsidiary	–	–	32 815	–	–	32 815
Beskydská golfová, a.s.	Subsidiary	–	–	7 183	9	–	7 192
Strojírny a stavby Třinec, a.s.	Subsidiary of the subsidiary	–	–	17	–	–	17
REFRASIL, s.r.o.	Subsidiary of the subsidiary	85 443	–	–	–	–	85 443
DOPRAVA TŽ, a.s.	Subsidiary of the subsidiary	389	–	443	–	–	832
TRISIA, a.s.	Subsidiary of the subsidiary	–	–	3 295	101	–	3 396
Třinecké gastroslužby, s.r.o.	Subsidiary of the subsidiary	–	–	884	3 117	–	4 001
FINITRADING, a.s.	Controlling entity	2 067 380	–	286	–	–	2 067 666
VESUVIUS ČESKÁ REPUBLIKA, a.s.	–	119 001	–	12	–	–	119 013
Minerfin a.s.	Group entity	510 094	–	–	19	–	510 113
Slévárny Třinec, a.s.	Subsidiary of the subsidiary	450	–	–	–	–	450
Total		38 108 951	203	332 145	3 975	–	38 445 274

5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The average number of the Company's employees and managers and staff costs for the years ended 31 December 2016 and 2015 are as follows:

2016						(IN CZK THOUSAND)
	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs	
Employees	291	163 097	50 508	3 013	216 618	
Management	15	12 957	14 220	92 838	120 015	
Total	306	176 054	64 728	95 851	336 663	

2015						(IN CZK THOUSAND)
	Number	Payroll costs	Social security and health insurance	Other costs	Total staff costs	
Employees	285	171 136	55 554	2 445	229 135	
Management	15	15 946	18 167	157 714	191 827	
Total	300	187 082	73 721	160 159	420 962	

The number of employees is based on the average recalculated headcount. As of 31 December 2016, management includes the Finance Director and Board Chairman, Sales Director and Board Vice Chairman, Asset Management Director and Board member, Transportation Director and Board member, Procurement Director, Sale of Wires Director, Re-processing Director, Bar Steel Director for TŽ, Sale of Rails and Semi-Finished Products Director, Sale of Seamless Tubes Director, Audit Committee Chairman, Supervisory Board Chairman, Supervisory Board Vice Chairmen and Supervisory Board members.

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

5.2. LOANS, BORROWINGS AND OTHER BENEFITS PROVIDED

The Company provides members of the Board of Directors and Supervisory Board with company cars and other movable assets for both business and private purposes

(the amount presented in the table below increases the tax base of employees):

			(IN CZK THOUSAND)	
	2016	2015		
Board of Directors	1 147	1 103		
Supervisory Board	190	390		
Total	1 337	1 493		

Management of the Company includes the Board of Directors.

Benefits provided to the members of the Supervisory Board and Board of Directors also included the payment of premiums under the liability insurance for damage caused in performing professional duties of a statutory member. Insurance for 2016 for all members of the Board of Directors and the Supervisory Board totalled CZK 884 thousand (2015: CZK 804 thousand).

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

As of 31 December 2016, the Company was involved in no legal dispute, the outcome of which would significantly impact the Company.

As of 31 December 2016, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 5 thousand.

The Regional Court in Ostrava is conducting, under file ref. no. 15 Cm 151/2013, court proceedings to review the adequacy of payment. The proceedings had been initiated based on a petition filed by 75 petitioners – former minority shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. The proceedings are being conducted against TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s., with the petitioners seeking a review of the adequacy of the payment provided by the majority shareholder, MORAVIA STEEL a.s., to minority shareholders. TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. consider the amount of the payment, which had been decided by the general meeting of shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. on 31 July 2013, to be appropriate. In 2016, the court engaged an expert institute for the proceedings, instructing it to determine the value of a single share of TŘINECKÉ ŽELEZÁRNY, a. s. and to explain differences, if any, between the valuations of shares presented in the expert opinions submitted by the participants in the proceedings. The expert institute has yet to provide the court with its expert opinion.

On 26 February 2013, the subsidiary Moravia Steel Deutschland GmbH received a legal action filed by the group entities of Deutsche Bahn (DB Netz AG and companies) with the State Court in Frankfurt am Main whereby the plaintiffs are claiming from Moravia Steel Deutschland GmbH and other entities (inter alia also MORAVIA STEEL a.s.) compensation for damage arising from unlawful cartel arrangements. The same legal action was delivered to MORAVIA STEEL a.s. on 29 March 2013 where the liability for damage is derived from one economic unit that the Company allegedly formed with Moravia Steel Deutschland GmbH.

The legal dispute is in the phase of first-instance procedures and preparation of the first verbal proceedings where the parties are presenting their written statements on the case to the court. As a next step, replies of defendants shall be presented to the court. Legal proceedings in this matter have not yet commenced.

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

The Company's financial statements include no adjustments in respect of the legal dispute referred to above.

7. POST BALANCE EVENTS

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements.



FINANCIAL PART II. CONSOLIDATED FINANCIAL STATEMENTS

NAME OF THE COMPANY:	MORAVIA STEEL a.s.
REGISTERED OFFICE:	Průmyslová 1000, Staré Město, 739 61 Třinec
LEGAL STATUS:	Joint Stock Company
CORPORATE ID:	634 74 808
RECORD IN THE REGISTER OF COMPANIES:	Recorded in File 1297, Section B of the Register of Companies held by the Regional Court in Ostrava.

Components of the Financial Statements:

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

These Consolidated financial statements were prepared on 28 April 2017.

STATUTORY BODY OF THE REPORTING ENTITY	SIGNATURE
Ing. Petr Popelář, MBA Chairman of the Board of Directors	
Ing. Mojmír Kašpiřin Member of the Board of Directors	

CONSOLIDATED BALANCE SHEET

(IN CZK THOUSAND)

		31.12.2016		31.12.2015	
		Gross	Adjustment	Net	Net
TOTAL ASSETS		84 514 092	35 218 015	49 296 077	47 865 819
A.	Receivables for subscribed capital				40
B.	Fixed assets	57 478 786	33 894 144	23 584 642	22 567 280
<i>B.I.</i>	<i>Intangible fixed assets</i>	1 692 965	796 224	896 741	808 149
B.I.1.	Research and development	4 553	4 553		
B.I.2.	<i>Valuable rights</i>	1 076 479	777 876	298 603	292 400
B.I.2.1.	Software	338 373	298 599	39 774	45 612
B.I.2.2.	Other valuable rights	738 106	479 277	258 829	246 788
B.I.3.	Goodwill	357	357		
B.I.4.	Other intangible fixed assets	597 953	13 438	584 515	465 451
B.I.5.	<i>Prepayments for intangible fixed assets and intangible fixed assets under construction</i>	13 623		13 623	50 298
B.I.5.1.	Prepayments for intangible fixed assets	54		54	38 112
B.I.5.2.	Intangible fixed assets under construction	13 569		13 569	12 186
<i>B.II.</i>	<i>Tangible fixed assets</i>	54 391 389	32 951 093	21 440 296	20 550 990
B.II.1.	Land and structures	14 991 851	7 175 946	7 815 905	7 736 986
B.II.1.1.	Land	1 172 555		1 172 555	1 139 861
B.II.1.2.	Structures	13 819 296	7 175 946	6 643 350	6 597 125
B.II.2.	Tangible movable assets and sets of tangible movable assets	38 020 193	25 572 302	12 447 891	11 741 493
B.II.3.	Valuation difference on acquired assets				
B.II.4.	<i>Other tangible fixed assets</i>	202 408	185 107	17 301	14 374
B.II.4.3.	Other tangible fixed assets	202 408	185 107	17 301	14 374
B.II.5.	<i>Prepayments for tangible fixed assets and tangible fixed assets under construction</i>	1 176 936	17 737	1 159 199	1 058 137
B.II.5.1.	Prepayments for tangible fixed assets	176 555		176 555	93 775
B.II.5.2.	Tangible fixed assets under construction	1 000 381	17 737	982 644	964 362
<i>B.III.</i>	<i>Non-current financial assets</i>	281 148	97 965	183 183	190 361
B.III.1.	Equity investments – controlled or controlling entity	251 956	78 919	173 037	179 946
B.III.3.	Equity investments in associates	26 201	18 057	8 144	8 413
B.III.5.	Other non-current securities and investments	2 991	989	2 002	2 002
B.IV.	Goodwill on consolidation	417 070	48 862	368 208	374 533
B.IV.1.	Positive goodwill on consolidation	417 070	48 862	368 208	374 533
B.V.	Securities and equity investments under equity accounting	696 214		696 214	643 247

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

C.	Current assets	26 807 313	1 323 872	25 483 442	25 099 211
<i>C.I.</i>	Inventories	11 534 205	818 915	10 715 290	10 346 582
C.I.1.	Material	5 191 539	361 069	4 830 470	4 362 772
C.I.2.	Work in progress and semifinished goods	3 486 590	320 075	3 166 515	3 056 620
C.I.3.	Products and goods	2 852 477	137 771	2 714 706	2 924 153
C.I.3.1.	Products	2 824 736	137 408	2 687 328	2 866 726
C.I.3.2.	Goods	27 741	363	27 378	57 427
C.I.5.	Prepayments for inventories	3 599	0	3 599	3 037
<i>C.II.</i>	Receivables	9 486 704	489 909	8 996 795	8 690 863
C.II.1.	Long-term receivables	249 972	0	249 972	293 364
C.II.1.1.	Trade receivables	54 640	0	54 640	120 766
C.II.1.4.	Deferred tax asset	24 840	0	24 840	59 228
C.II.1.5.	Receivables – other	170 492	0	170 492	113 370
C.II.1.5.2.	Long-term prepayments made	62 191	0	62 191	2 428
C.II.1.5.4.	Sundry receivables	108 301	0	108 301	110 942
<i>C.II.2.</i>	Short-term receivables	9 236 732	489 909	8 746 823	8 397 499
C.II.2.1.	Trade receivables	7 380 691	406 358	6 974 333	7 166 160
C.II.2.2.	Receivables – controlled or controlling entity	26 211	26 211		
C.II.2.4.	<i>Receivables – other</i>	1 829 830	57 340	1 772 490	1 231 339
C.II.2.4.1.	Receivables from partners		0		312
C.II.2.4.3.	State – tax receivables	1 000 628	0	1 000 628	887 289
C.II.2.4.4.	Short-term prepayments made	79 484	27 512	51 972	234 062
C.II.2.4.5.	Estimated receivables	475 411	0	475 411	48 079
C.II.2.4.6.	Sundry receivables	274 307	29 828	244 479	61 597
<i>C.III.</i>	Current financial assets	50 752	15 048	35 704	43 095
C.III.2.	Other current financial assets	50 752	15 048	35 704	43 095
<i>C.IV.</i>	Cash	5 735 652	0	5 735 652	6 018 671
C.IV.1.	Cash on hand	9 067	0	9 067	5 508
C.IV.2.	Cash at bank	5 726 585	0	5 726 585	6 013 163
D.	Other assets	227 993	0	227 993	199 288
D.1.	Deferred expenses	115 792	0	115 792	124 276
D.2.	Complex deferred expenses	86 326	0	86 326	71 001
D.3.	Accrued income	25 875	0	25 875	4 011

CONSOLIDATED BALANCE SHEET

(IN CZK THOUSAND)

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	49 296 077	47 865 819
A.	Equity	36 705 345	35 535 137
A.I.	Share capital	3 157 000	3 157 000
A.I.1.	Share capital	3 157 000	3 157 000
A.II.	Share premium and capital funds	-72 576	-56 709
A.II.2.	Capital funds	-72 576	-56 709
A.II.2.1.	Other capital funds	16 420	16 237
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-88 996	-72 946
A.III.	Funds from profit	1 800 138	1 799 953
A.III.1.	Other reserve funds	1 800 138	1 799 953
A.IV.	Retained earnings (+/-)	27 879 234	25 460 366
A.IV.1.	Accumulated profits brought forward	27 933 203	25 557 477
A.IV.2.	Accumulated losses brought forward (-)	-53 969	-97 111
A.V.	Profit or loss for the current period, net of minority interests	3 185 338	4 519 833
A.V.1.	Profit or loss for the period (+/-)	3 095 088	4 419 142
A.V.2.	Share in the profit/(loss) of equity accounted investments	90 250	100 691
VII.	Consolidation reserve fund	756 211	654 694
B.+C.	Liabilities	12 090 644	11 879 460
B.	Reserves	535 686	482 119
B.I.	Reserve for pensions and similar liabilities	8 746	8 659
B.III.	Reserves under special legislation	17 254	10 621
B.IV.	Other reserves	509 686	462 839
C.	Payables	11 554 958	11 397 341
C.I.	Long-term payables	3 338 114	3 097 263
C.I.2.	Payables to credit institutions	1 773 056	1 565 838
C.I.3.	Long-term prepayments received	331	826
C.I.4.	Trade payables	57 108	32 324
C.I.8.	Deferred tax liability	1 507 389	1 497 856
C.I.9.	<i>Payables – other</i>	230	419
C.I.9.3.	Sundry payables	230	419

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

C.II.	Short-term payables	8 216 844	8 300 078
C.II.2.	Payables to credit institutions	994 445	1 306 755
C.II.3.	Short-term prepayments received	530 708	941 942
C.II.4.	Trade payables	4 894 210	4 227 290
C.II.8.	Other payables	1 797 481	1 824 091
C.II.8.1.	Payables to partners	45 650	563
C.II.8.2.	Short-term financial borrowings	16 033	32 912
C.II.8.3.	Payables to employees	487 740	496 617
C.II.8.4.	Social security and health insurance payables	186 428	193 289
C.II.8.5.	State – tax payables and subsidies	456 112	782 069
C.II.8.6.	Estimated payables	501 462	162 960
C.II.8.7.	Sundry payables	104 056	155 681
D.	Other liabilities	98 001	50 340
D.1.	Accrued expenses	80 751	26 919
D.2.	Deferred income	17 250	23 421
E.	Minority equity	402 087	400 882
E.I.1	Minority share capital	85 454	85 454
E.I.2	Minority capital funds	3 285	3 558
E.I.3	Minority funds from profit, including retained earnings and losses	295 070	288 991
E.V.	Minority profit or loss for the current period	18 278	22 879

CONSOLIDATED PROFIT AND LOSS STATEMENT

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	43 529 617	48 551 332
II.	Sales of goods	637 197	155 453
A.	Purchased consumables and services	31 892 737	34 873 105
A.1.	Costs of goods sold	570 386	131 024
A.2.	Consumed material and energy	26 786 770	30 157 812
A.3.	Services	4 535 581	4 584 269
B.	Change in internally produced inventory (+/-)	-166 240	-90 125
C.	Own work capitalised (-)	-710 393	-780 258
D.	Staff costs	6 577 483	6 614 121
D.1.	Payroll costs	4 641 799	4 682 294
D.2.	Social security and health insurance costs and other charges	1 935 684	1 931 827
D.2.1.	Social security and health insurance costs	1 582 485	1 563 949
D.2.2.	Other charges	353 199	367 878
E.	Adjustments to values in operating activities	2 027 434	1 878 958
E.1.	Adjustments to values of intangible and tangible fixed assets	2 025 329	1 776 192
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	1 956 711	1 814 277
E.1.2.	Adjustments to values of intangible and tangible fixed assets – temporary	66 175	-38 085
E.2.	Adjustments to values of inventories	75 139	119 594
E.3.	Adjustments to values of receivables	-73 034	-16 828
III.	Other operating income	954 881	1 123 692
III.1.	Sales of fixed assets	39 197	53 715
III.2.	Sales of material	87 793	107 719
III.3.	Sundry operating income	827 891	962 258
F.	Other operating expenses	1 515 285	1 566 040
F.1.	Net book value of sold fixed assets	17 817	6 790
F.2.	Net book value of sold material	79 626	94 327
F.3.	Taxes and charges	62 176	64 314
F.4.	Reserves relating to operating activities and complex deferred expenses	42 571	-13 883
F.5.	Sundry operating expenses	1 313 095	1 414 492
E.1.A.	Amortisation of positive goodwill on consolidation	2 443	9 414
*	Operating profit or loss (+/-)	3 985 389	5 759 222

POKRAČOVÁNÍ TABULKY NA NÁSLEDUJÍCÍ STRANĚ 

IV.	Income from non-current financial assets – equity investments	2 186	2 234
IV.1.	Income from equity investments – controlled or controlling entity	2 162	2 196
IV.2.	Other income from equity investments	24	38
VI.	Interest income and similar income	7 541	10 715
VI.1.	Interest income and similar income – controlled or controlling entity	80	82
VI.2.	Other interest income and similar income	7 461	10 633
I.	Adjustments to values and reserves relating to financial activities	7 417	-22 242
J.	Interest expenses and similar expenses	48 347	81 232
J.1.	Interest expenses and similar expenses – controlled or controlling entity	-1	
J.2.	Other interest expenses and similar expenses	48 348	81 232
VII.	Other financial income	370 574	561 686
K.	Other financial expenses	470 309	778 038
*	Financial profit or loss (+/-)	-145 772	-262 393
**	Profit or loss before tax (+/-)	3 839 617	5 496 829
L.	Income tax	726 251	1 054 809
L.1.	Due income tax	678 948	958 351
L.2.	Deferred income tax (+/-)	47 303	96 458
**	Profit or loss net of tax (+/-)	3 113 366	4 442 020
**	Consolidated profit or loss net of share of income of associates	3 113 366	4 442 020
	Consolidated profit or loss net of share of minority interests	3 095 088	4 419 141
	Minority profit or loss	18 278	22 879
**	Share of profit or loss of equity accounted investments	90 250	100 691
***	Profit or loss for the current period (+/-)	3 203 616	4 542 711
***	Profit or loss for the current period net of minority interests (+/-)	3 185 338	4 519 832
***	Profit or loss for the current period incl. minority interests (+/-)	3 203 616	4 542 711
***	Profit or loss for the current period net of minority interests before tax (+/-)	3 911 589	5 574 641
*	Net turnover for the current period	45 501 996	50 405 112

CONSOLIDATED STATEMENT OF MORAVIA STEEL A.S. CHANGES IN EQUITY

(IN CZK THOUSAND)

	Share capital	Share premium and capital funds	Funds from profit, reserve fund	Profit or loss brought forward	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2014	3 157 000	46 779	1 799 032	22 768 304	4 605 181	578 945	73 576	33 028 817
Allocation of profit		257	903	3 498 842	-3 500 002	73 576	-73 576	
Dividends paid				-894 821	-1 105 179			-2 000 000
Impact of changes in the consolidated group		-87 232	18	88 045				831
Revaluation of assets and liabilities		-16 516				2 173		-14 343
Profit for the current period					4 419 142		100 691	4 519 833
Other		3		-4				-1
Balance at 31 December 2015	3 157 000	-56 709	1 799 953	25 460 366	4 419 142	654 694	100 691	35 535 137
Allocation of profit		88	185	2 418 869	-2 419 142	100 691	-100 691	
Dividends paid					-2 000 000			-2 000 000
Revaluation of assets and liabilities		-15 955				1 242		-14 713
Profit for the current period					3 095 088		90 250	3 185 338
Other				-1		-416		-417
Balance at 31 December 2016	3 157 000	-72 576	1 800 138	27 879 234	3 095 088	756 211	90 250	36 705 345

CONSOLIDATED CASH FLOW STATEMENT

(IN CZK THOUSAND)

		Year ended 31.12.2016	Year ended 31.12.2015
P.	Opening balance of cash and cash equivalents	6 044 994	6 398 262
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss before tax	3 839 617	5 496 829
A.1.	Adjustments for non-cash transactions	2 115 047	1 908 124
A.1.1.	Depreciation of fixed assets	1 959 154	1 823 691
A.1.2.	Change in provisions and reserves	118 269	28 555
A.1.3.	Profit/(loss) on the sale of fixed assets	-21 381	-46 925
A.1.4.	Revenues from profit shares	-2 187	-2 234
A.1.5.	Interest expense and interest income	40 807	70 517
A.1.6.	Adjustments for other non-cash transactions	20 385	34 520
A.*	Net operating cash flow before changes in working capital	5 954 664	7 404 953
A.2.	Change in working capital	-241 640	895 461
A.2.1.	Change in operating receivables and other assets	-285 083	-132 359
A.2.2.	Change in operating payables and other liabilities	490 271	30 610
A.2.3.	Change in inventories	-446 831	987 423
A.2.4.	Change in current financial assets	3	9 787
A.**	Net cash flow from operations before tax	5 713 024	8 300 414
A.3.	Interest paid	-53 099	-106 740
A.4.	Interest received	13 315	16 564
A.5.	Income tax paid from ordinary operations	-1 144 412	-1 389 857
A.6.	Received profit shares	40 295	41 036
A.***	Net operating cash flows	4 569 123	6 861 417
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-2 780 769	-2 442 685
B.2.	Proceeds from fixed assets sold	38 962	59 601
B.3.	Loans and borrowings to related parties		-1 648 088
B.***	Net investment cash flows	-2 741 807	-4 031 172
	Cash flow from financial activities		
C.1.	Change in payables from financing	-100 917	-1 165 815
C.2.	Impact of changes in equity	-2 016 803	-2 017 698
C.2.1.	Cash increase in share capital		997
C.2.6.	Profit shares paid	-2 016 803	-2 018 695
C.***	Net financial cash flows	-2 117 720	-3 183 513
F.	Net increase or decrease in cash and cash equivalents	-290 405	-353 268
R.	Closing balance of cash and cash equivalents	5 754 589	6 044 994

TABLE OF CONTENTS

1. GENERAL INFORMATION	71	4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	77
1.1. Incorporation and Description of the Business	71	4.1. Tangible and Intangible Fixed Assets	77
1.2. Changes and Amendments to the Register of Companies	71	4.2. Non-Current Financial Assets	79
1.3. Board of Directors and Supervisory Board as Recorded in the Register of Companies as of 31 December 2016	71	4.3. Derivative Financial Transactions	80
1.4. Organisational Structure of the Parent Company	72	4.4. Current Financial Assets	80
2. DEFINITION OF THE CONSOLIDATED GROUP, CONSOLIDATION SYSTEM AND METHODS	73	4.5. Inventory	80
2.1. Definition of the Consolidated Group	73	4.6. Receivables	81
2.1.1. Consolidation Method	73	4.7. Payables	81
2.1.2. Names and Registered offices of Subsidiaries and Associates included in the Consolidated Group	73	4.8. Loans and Borrowings	81
2.1.3. Balance Sheet Dates of the Companies Included in the Group	75	4.9. Reserves	82
2.1.4. Companies Excluded from Consolidation	75	4.10. Foreign Currency Translation	82
3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES	76	4.11. Finance Leases	82
		4.12. Taxation	82
		4.12.1. Depreciation of Fixed Assets for Tax Purposes	82
		4.12.2. Current Tax Payable	82
		4.12.3. Deferred Tax	83
		4.13. Borrowing Costs	83
		4.14. Costs Relating to Employees Hired through an Employment Agency	83
		4.15. Revenue Recognition	83
		4.16. Use of Estimates	83
		4.17. Research and Development Expenditure	84
		4.18. Year-on-Year Changes in Valuation, Depreciation or Accounting Policies	84
		4.19. Grants	84
		4.20. Cash Flow Statement	84
		4.21. Consolidation Rules	85
		4.22. Extraordinary Expenses and Income	86
		4.23. Year-on-Year Changes in the Classification and Designation of Balance Sheet and Profit and Loss Account Items and their Substance	86

5. ANALYSIS OF IMPACTS ON PROFIT/LOSS	86	7. ADDITIONAL INFORMATION OF THE PROFIT AND LOSS ACCOUNT	112
5.1. Consolidated Profit/Loss for 2016	86	7.1. Income from Current Activities of the Group	112
5.1.1. Structure of the Consolidated Profit/Loss for 2016	86	7.2. Other Income and Expenses	113
5.1.2. Profit/(Loss) Adjustments under Full Consolidation for 2016	87	7.3. Grants and Subsidies	113
5.1.3. Adjustments under Equity Consolidation for 2016	87	7.4. Aggregate Research and Development Expenditure	114
5.2. Consolidated Profit/Loss for 2015	87	7.5. Related Party Transactions	114
5.2.1. Structure of the Consolidated Profit/Loss for 2015	87	7.5.1. Income Generated with Related Parties	114
5.2.2. Profit/(Loss) Adjustments under Full Consolidation for 2015	88	7.5.2. Costs Incurred with Related Parties	116
5.2.3. Adjustments under Equity Consolidation for 2015	88		
6. ADDITIONAL INFORMATION ON THE BALANCE SHEET	88	8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES	118
6.1. Intangible Fixed Assets	88	8.1. Staff Costs and Number of Employees	118
6.2. Tangible Fixed Assets	91	8.1.1. Staff Costs and Number of Employees for 2016	118
6.3. Assets Held under Finance and Operating Lease Agreements	93	8.2. Loans, Borrowings, and Other Benefits Provided	118
6.4. Fixed Assets Pledged as Security	94		
6.5. Summary of Unconsolidated investments	96	9. POST BALANCE SHEET EVENTS	119
6.5.1. Summary of Unconsolidated Investments in 2016	96		
6.5.2. Summary of Unconsolidated Investments in 2015	97		
6.6. Accounting for Goodwill Arising on Consolidation	99		
6.7. Securities and Equity Investments under Equity Accounting	99		
6.8. Non-Current Financial Assets Pledged as Security	100		
6.9. Inventory	100		
6.10. Receivables	100		
6.10.1. Structure of Short-Term Receivables	100		
6.10.2. Receivables Pledged as Security	100		
6.10.3. Intercompany Receivables	101		
6.11. Equity and Share Capital	102		
6.11.1. Equity	102		
6.11.2. Share Capital	102		
6.12. Reserves	102		
6.13. Payables	102		
6.13.1. Long-Term Payables	102		
6.13.2. Short-Term Trade Payables	102		
6.13.3. Other Payables	103		
6.13.4. Intercompany Payables	103		
6.14. Deferred Tax Liability and Deferred Tax Asset	104		
6.14.1. Deferred Tax Liability	104		
6.14.2. Deferred Tax Asset	105		
6.15. Bank Loans and Borrowings	106		
6.16. Other Off-Balance Sheet Liabilities	108		

1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

MORAVIA STEEL a.s. (henceforth the “Parent Company” or the “Company”) was formed by a Memorandum of Association as a joint stock company on 27 July 1995 and was incorporated following its registration in the Register of Companies held at the Regional Court in Brno-venkov on 23 August 1995 (File B, Insert 1680), currently registered at the Regional Court in Ostrava (File B, Insert 1297). The principal business activities of the Company include trade activities – purchase of goods for resale and sale, which represents 98.89% of the Company’s revenues. Additional business activities include domestic and international shipping services.

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

The Company’s share capital is CZK 3,157,000 thousand.

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

Shareholder	Ownership percentage
FINITRADING, a.s., nám. Svobody 526, Třinec	100%
Total	100%

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

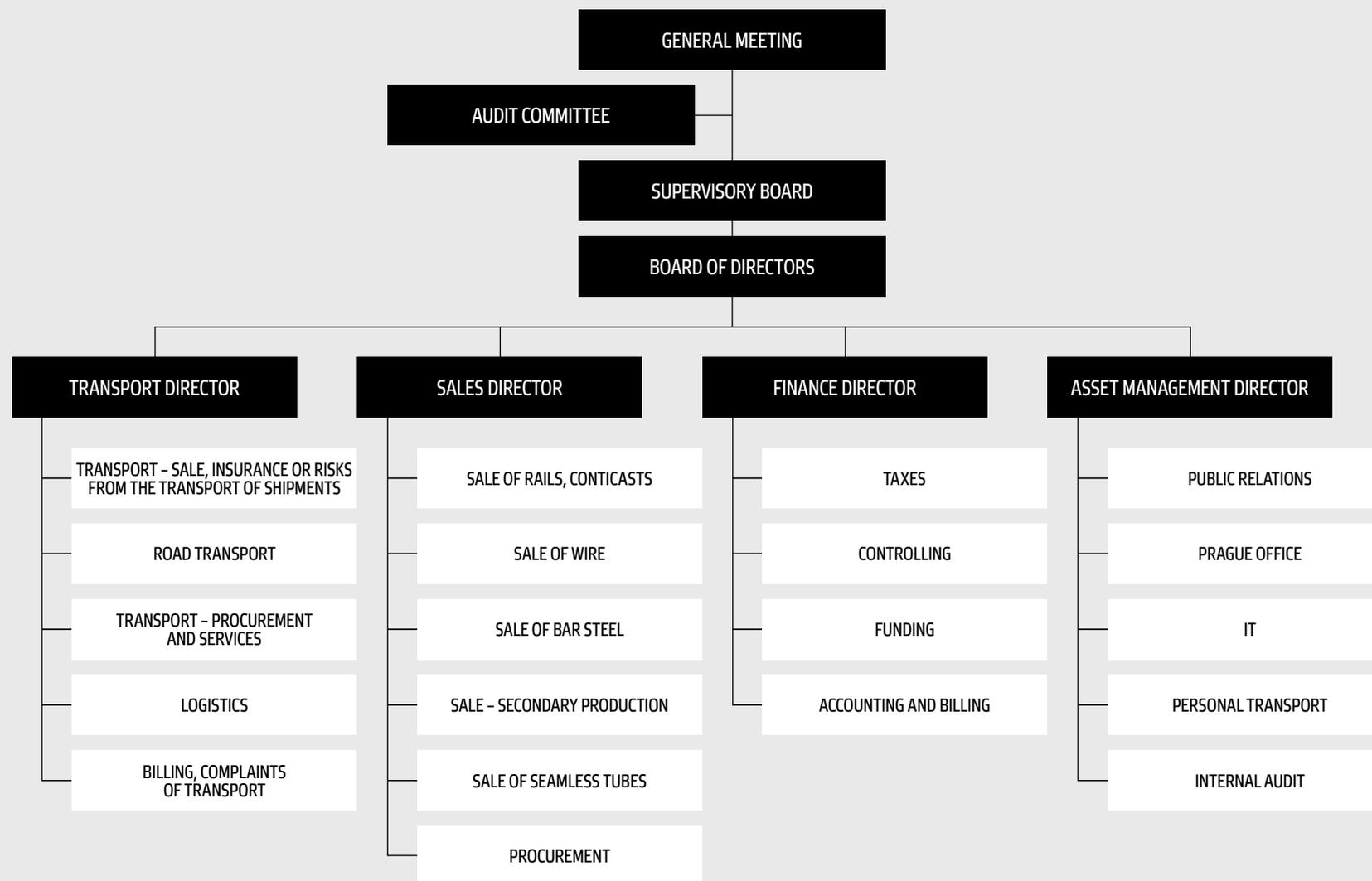
1.2. CHANGES AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2016, the type of shares changed from ordinary registered shares in the certificate form to ordinary registered shares in the book-entry form. The change was affected 1,514 shares in the nominal value of CZK 500,000, 100 shares in the nominal value of CZK 10,000,000 and two shares in the nominal value of CZK 700,000,000.

1.3. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS RECORDED IN THE REGISTER OF COMPANIES AS OF 31 DECEMBER 2016

	Position	Name
Board of Directors	Chairman	Petr Popelář
	Vice Chairman	Krzysztof Ruciński
	Member	Mojmír Kašpříšín
	Member	Uršula Novotná
Supervisory Board	Chairman	Tomáš Chrenek
	Vice Chairman	Ján Moder
	Vice Chairman	Evžen Balko
	Member	Mária Blašková

1.4. ORGANISATIONAL STRUCTURE OF THE PARENT COMPANY



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

2.1. DEFINITION OF THE CONSOLIDATED GROUP

2.1.1. Consolidation Method

The consolidation was performed using the proportionate consolidation method.

2.1.2. Names and Registered offices of Subsidiaries and Associates included in the Consolidated Group

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

Subsidiaries

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2016	Share of share capital at 31 Dec 2015
TŘINECKÉ ŽELEZÁRNY, a. s.	Průmyslová 1000, Staré Město, 739 61 Třinec	Manufacture of metallurgical products	100.00%	100.00%
Barrandov Studio a.s.	Prague 5, Hlubočepy, Kříženeckého nám. 322/5	Creation and production of films and other audio–visual material	99.85%	99.85%
MORAVIA STEEL ITALIA S.R.L.	Milan, Italy	Distribution of metallurgical products	66.00%	66.00%
Beskydská golfová, a.s.	Ropice 415, 739 56	Provision of sport services	100.00%	100.00%
Hotel Golf Ropice a.s.	Ropice 415, 739 56	Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00%	100.00%
MS – Slovensko s.r.o.	Námestie Ľudovíta Štúra 2 811 02 Bratislava	Purchase and sale of goods in retail and wholesale, mediation services in the extent of notifiable trade	100.00%	100.00%
Moravskoslezský kovošrot a.s.	Božkova 936/73, Přívoz, 702 00 Ostrava	Purchase, processing and sales of metal scrap and non–ferrous metals	100.00%	100.00%
M Steel Projects a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00%	100.00%
Moravia Steel Deutschland GmbH	Kürten, Germany	Distribution of metallurgical products	100.00%	100.00%
MORAVIA STEEL UK LIMITED	Sandbach, United Kingdom	Distribution of metallurgical products	100.00%	100.00%
"NEOMET" Sp.z o.o.	Św. Rozalii 10,97–500 Radomsko, Poland	Trading with metal scrap and metal processing	100.00%	100.00%
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00%	100.00%
Slévárny Třinec, a.s.	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00%	100.00%
VÚHŽ a.s.	240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00%	100.00%
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00%	100.00%
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00%	100.00%
"METALURGIA" S.A.	ulica Świętej Rozalii nr 10/12, 97–500, Radomsko, Poland	Production of nails, wire and wire products	100.00%	100.00%
"D&D" Drótaru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	100.00%	100.00%

ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00%	100.00%
HŽP a.s.*	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00%	100.00%
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00%	100.00%
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00%	51.00%
REFRASIL, s.r.o.**	Průmyslová 720, Kinská, 739 65 Třinec	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00%	51.00%
M Steel Projects, s.r.o.	Žilina, 010 01, Vojtecha Tvrdeho 793/21	Purchase of goods for sale, mediation activities, advertising Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00%	100.00%
MSPProjects International s.r.o.	nám.Svobody 526, Lyžbice, 739 61 Třinec	Purchase of goods for sale, mediation activities, advertising Production, trade and services not listed in Appendices 1 to 3 to the Trade Licensing Act	100.00%	100.00%
MPS International AZ Ilc	SEYID AZIM SHIRVANI STREET, bldg. 1, apt. 115 AZ1142, BAKU city	Production, trade and services pursuant to the legislative of the Republic of Azerbaijan	95.00%	95.00%
Moravia Mining Plc	Bole 03, Addis Ababa 5/001-405A, Ethiopia	Mining and extraction of mineral materials	76.00%	76.00%

Notes: * Until 31 October 2015, the company was recorded in the Register of Companies under the name Hanácké železářny a pérovny, a.s.

** Until 18 September 2015, the registered office of this entity recorded in the Register of Companies was Třinec-Kinská, Průmyslová 720, 73965; on 18 September 2015, the Commercial Court changed the registered office in the Register of Companies to Průmyslová 720, Kinská, 739 61 Třinec.

During 2016, no changes were made to the consolidation group.

In 2015, the consolidation group was extended to include MSP International AZ. The entity was formed on 3 November 2015 by MSPProjects International s.r.o.

In 2015, the consolidation group was extended to include Moravia Mining Plc. The entity was formed on 24 April 2015 by MORAVIA STEEL a.s.

In 2015, the consolidation group was extended to include Hotel Golf Ropice a.s. The entity was acquired by Beskydská golfová, a.s. on 16 October 2014.

In 2015, the consolidation group was extended to include MS – Slovensko s.r.o. The entity was formed in 2004 by MORAVIA STEEL a.s., but due to its immateriality, it was not consolidated.

During the year ended 31 December 2013, MORAVIA STEEL a.s. purchased 1,349,501 shares of TŘINECKÉ ŽELEZÁRNY, a.s. pursuant to the contract for the purchase of securities concluded with FINITRADING a.s. Another 53,160 of shares of TŘINECKÉ ŽELEZÁRNY, a.s. were purchased from individual minority shareholders pursuant to contracts for the transfer of securities for consideration. In addition, the Company purchased all other equity securities of TŘINECKÉ ŽELEZÁRNY, a.s. pursuant to the resolution of an extraordinary general meeting of the Company held on 31 July 2013 on the transfer of the shares owned by other shareholders to MORAVIA STEEL a.s., as the principal shareholder, pursuant to the mandate contract concluded between MORAVIA STEEL a.s., CYRRUS CORPORATE FINANCE, a.s. and TŘINECKÉ ŽELEZÁRNY, a.s. on 25 July 2013. This increased the investment by CZK 2,633,858 thousand, ie from CZK 4,290,014 thousand to CZK 6,923,872 thousand as of 31 December 2013. During 2015 and 2016, the Company continued to purchase equity securities using the allocated funds. In 2016, this increased the investment by CZK 8,919 thousand, ie from CZK 6,956,840 thousand to the current amount of CZK 6,965,760 thousand.

The purchase of the equity securities will continue in 2017 using the funds allocated by mandatories in the amount of CZK 110,209 thousand. The difference between the acquisition cost and the equity investment of CZK 1,697,058 thousand was recognised in the consolidated profit or loss in 2013.

Associates

Name of the company	Registered office	Business activities	Equity share at 31 Dec 2016	Equity share at 31 Dec 2015
Kovárna VIVA a.s.	Zlín, Vavrečkova 5333, 760 01	Production of die forgings	50.00%	50.00%
Moravia Steel Middle East FZCO	Jebel Ali Free Zone, Dubai, U.A.E.	Distribution of metallurgical products	40.00%	40.00%
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Průmyslová 715, Kinská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00%	40.00%

In 2015, the consolidation group was narrowed down to exclude AHP HYDRAULIKA, a.s. due to immateriality.

Since the trading strategy of the associated undertaking, Kovárna VIVA, is substantially performed by a different company, the Parent Company opted to consolidate the entity using the equity method of accounting.

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

The financial statements of the companies included in the Group were prepared as of and for the years ended 31 December 2016 and 2015. The companies included in the Group are based in the Czech Republic, with the exception of Moravia Steel Deutschland GmbH, which is based in Germany, MORAVIA STEEL ITALIA S.R.L., based in Italy, MORAVIA STEEL UK LIMITED based in the UK, "D&D" Drótáru Zrt. based in Hungary, METALURGIA S.A. and NEOMET Sp. Z o.o. based in Poland, Moravia Steel Middle East FZCO based in the United Arab Emirates, M Steel Projects, s.r.o. and MS – Slovensko s.r.o. based in Slovakia, MSP International AZ based in Azerbaijan and Moravia Mining Plc based in Ethiopia.

2.1.4. Companies Excluded from Consolidation

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

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

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

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

3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

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

The consolidated financial statements of the Group for the year ended 31 December 2016 were prepared as follows:

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

4.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

Valuation

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

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

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

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

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

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

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

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

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

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

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

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

Depreciation for Accounting Purposes

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

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

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

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

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

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

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

Provisioning

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

Impairment

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

4.2. NON-CURRENT FINANCIAL ASSETS

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

Valuation

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

At the consolidated balance sheet date, the Group records:

Equity investments at cost less any provisions against equity investments.

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

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

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

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

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

Provisioning against Equity Investments

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

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

4.3. DERIVATIVE FINANCIAL TRANSACTIONS

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

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

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

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

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

4.4. CURRENT FINANCIAL ASSETS

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

Current financial assets are carried at cost upon acquisition.

4.5. INVENTORY

Valuation

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

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

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

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

Provisioning

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

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

4.6. RECEIVABLES

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

Provisioning

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

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

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

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

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

4.7. PAYABLES

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

4.8. LOANS AND BORROWINGS

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

4.9. RESERVES

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

4.10. FOREIGN CURRENCY TRANSLATION

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

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

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

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

4.11. FINANCE LEASES

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

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

4.12. TAXATION

4.12.1. Depreciation of Fixed Assets for Tax Purposes

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

4.12.2. Current Tax Payable

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

4.12.3. Deferred Tax

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

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

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

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

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

4.13. BORROWING COSTS

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

4.14. COSTS RELATING TO EMPLOYEES HIRED THROUGH AN EMPLOYMENT AGENCY

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

4.15. REVENUE RECOGNITION

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

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

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

4.16. USE OF ESTIMATES

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

4.17. RESEARCH AND DEVELOPMENT EXPENDITURE

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

4.18. YEAR-ON-YEAR CHANGES IN VALUATION, DEPRECIATION OR ACCOUNTING POLICIES

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

As of 1 January 2016, changes in internally produced inventory and capitalisation are reported on accounts of account group no.58. This applies for the entire group.

4.19. GRANTS

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

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

4.20. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

	(IN CZK THOUSAND)	
	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Cash at hand	9 067	5 508
Current accounts	5 726 585	6 013 163
Term deposits	0	0
Short-term securities	50 752	58 143
Total current financial assets	5 786 404	6 076 814
Cash and cash equivalents not included in the cash flow	-16 767	-16 771
Provision against short-term securities and investments	-15 048	-15 048
Total cash and cash equivalents	5 754 589	6 044 995

Comments on the Cash Flow Statement:

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

4.21. CONSOLIDATION RULES

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

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

Goodwill arising on consolidation represents the difference between the cost of an investment in a subsidiary and its value determined on the basis of the Parent 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 securities or equity investments). The acquisition date is the date from which the effectively controlling entity starts to exercise influence over the consolidated company.

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

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

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

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

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

The financial statements for the years ended 31 December 2016 and 2015 prepared by the companies included in the consolidated group, as well as the financial statements of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statements date are available in the registered office of the Parent Company.

The consolidation rules for 2016 and 2015 (definition of the consolidated group, method of transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Parent Company.

4.22. EXTRAORDINARY EXPENSES AND INCOME

Extraordinary items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the Group as well as income or expenses from events or transactions that are not expected to recur frequently or regularly.

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

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

5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

5.1. CONSOLIDATED PROFIT/LOSS FOR 2016

5.1.1. Structure of the Consolidated Profit/Loss for 2016

(IN CZK THOUSAND)

Current year's profit made by MORAVIA STEEL a.s.	2 325 700
Current year's profit made by M Steel Projects a.s.	120 795
Current year's profit made by M Steel Projects s.r.o.	101
Current year's profit made by MSPProjects International s.r.o.	11 024
Current year's profit made by Beskydská golfová, a.s.	174
Current year's loss made by Hotel Golf Ropice a.s.	-11
Current year's loss made by Barrandov Studio a.s.	-15 409
Current year's profit made by MORAVIA STEEL ITALIA S.R.L.	17 824
Current year's profit made by Moravia Steel Deutschland, GmbH	29 686
Current year's profit made by MORAVIA STEEL UK LIMITED	1 546
Current year's profit made by the TŽ, a.s. consolidation group	1 836 091
Current year's profit made by MS – Slovensko s.r.o.	2 189
Share in profit of equity accounted investments of Moravia Mining Plc	-749
Share in profit of equity accounted investments of MSP International AZ	7 140
Current year's profit made by Moravskoslezský kovošrot a.s.	36 886
Current year's profit made by "NEOMET" Sp.z o.o.	22 823
Share in profit of equity accounted investments	85 261
Adjustments under full consolidation (see Note 5.1.2.)	-1 300 722
Adjustments under the equity method (see Note 5.1.3.)	4 989
Consolidated profit	3 185 338

5.1.2. Profit/(Loss) Adjustments under Full Consolidation for 2016

(IN CZK THOUSAND)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact and elimination of minority profit or loss	181 329
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	5 804
Other consolidation adjustments	-35 018
Elimination of dividends paid by MORAVIA STEEL ITALIA S.R.L. TŽ, a.s., Moravskoslezský kovošrot a.s., Kovárna VIVA a.s.	-1 452 837
Total adjustments	-1 300 722

5.1.3. Adjustments under Equity Consolidation for 2016

(IN CZK THOUSAND)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	4 989
Total adjustments	4 989

5.2. CONSOLIDATED PROFIT/LOSS FOR 2015**5.2.1. Structure of the Consolidated Profit/Loss for 2015**

(IN CZK THOUSAND)

Current year's profit made by MORAVIA STEEL a.s.	2 775 675
Current year's profit made by M Steel Projects a.s.	85 403
Current year's profit made by M Steel Projects s.r.o.	3 704
Current year's profit made by MSPProjects International s.r.o.	19 877
Current year's profit made by Beskydská golfová, a.s.	2 010
Current year's loss made by Hotel Golf Ropice a.s.	-3
Current year's profit made by Barrandov Studio a.s.	43 498
Current year's profit made by MORAVIA STEEL ITALIA S.R.L.	23 854
Current year's profit made by Moravia Steel Deutschland, GmbH	13 835
Current year's profit made by MORAVIA STEEL UK LIMITED	120
Current year's profit made by the TŽ, a.s. consolidation group	3 002 629
Current year's loss made by MS – Slovensko s.r.o.	-113
Share in profit of equity accounted investments of Moravia Mining Plc	-243
Share in profit of equity accounted investments of MSP International AZ	-150
Current year's profit made by Moravskoslezský kovošrot a.s.	35 841
Current year's profit made by "NEOMET" Sp.z o.o.	25 858
Share in profit of equity accounted investments	102 442
Adjustments under full consolidation (see Note 5.1.2.)	-1 612 653
Adjustments under the equity method (see Note 5.1.3.)	-1 751
Consolidated profit	4 519 833

5.2.2. Profit/(Loss) Adjustments under Full Consolidation for 2015

(IN CZK THOUSAND)

Elimination of profit from unrealised intercompany inventory, including the deferred tax impact and elimination of minority profit or loss	37 879
Elimination of the provision against investments, inventory and receivables, including the deferred tax impact	2 338
Elimination of dividends paid by MORAVIA STEEL ITALIA S.R.L. TŽ, a.s., Moravskoslezský kovošrot a.s., Kovárna VIVA a.s.	-1 652 870
Total adjustments	-1 612 653

5.2.3. Adjustments under Equity Consolidation for 2015

(IN CZK THOUSAND)

Elimination of profit from sales of unrealised inventory among associates, including the deferred tax impact	-1 751
Total adjustments	-1 751

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

(IN CZK THOUSAND)

	Balance at 1 Jan 2015	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2015
Research and development	4 553	0	0	0	4 553
Start-up costs	93	0	0	0	93
Goodwill	379	0	0	-9	370
Software	316 527	18 297	1 973	-300	332 551
Valuable rights	604 987	163 540	77 003	-306	691 218
Other intangible FA	249 025	1 194 716	965 361	0	478 380
Intangible FA under construction	32 351	369 754	389 920	1	12 186
Prepayments for intangible FA	0	136 198	98 086	0	38 112
Total	1 207 915	1 882 505	1 532 343	-614	1 557 463

(IN CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Research and development	4 553	0	0	0	4 553
Start-up costs	93	0	93	0	0
Goodwill	370	0	0	-13	357
Software	332 551	6 672	862	12	338 373
Valuable rights	691 218	47 217	527	198	738 106
Other intangible FA	478 380	926 019	806 464	-4	597 953
Intangible FA under construction	12 186	436 989	435 658	52	13 569
Prepayments for intangible FA	38 112	65	38 123	0	54
Total	1 557 463	1 416 962	1 281 727	245	1 692 965

Accumulated Amortisation and Provisions

(IN CZK THOUSAND)

	Balance at 1 Jan 2015	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2015
Research and development	4 553	0	0	0	4 553
Start-up costs	93	0	0	0	93
Goodwill	379	0	0	-9	370
Software	275 442	13 746	1 975	-274	286 939
Valuable rights	492 482	54 243	102 041	-254	444 430
Other intangible FA	12 252	686	0	-9	12 929
Total	785 201	68 675	104 016	-546	749 314

(IN CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Research and development	4 553	0	0	0	4 553
Start-up costs	93	0	93	0	0
Goodwill	370	0	0	-13	357
Software	286 939	11 661	0	-1	298 599
Valuable rights	444 430	61 156	26 502	193	479 277
Other intangible FA	12 929	1 015	529	23	13 438
Intangible FA under construction	0	0	0	0	0
Total	749 314	73 832	27 124	202	796 224

Net Book Value

(IN CZK THOUSAND)

	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Software	45 612	39 774
Valuable rights	246 788	258 829
Other intangible FA	465 451	584 515
Intangible FA under construction	12 186	13 569
Prepayments for intangible FA	38 112	54
Total	808 149	896 741

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

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets charged to expenses amounted to CZK 47,229 thousand and CZK 46,715 thousand for the years ended 31 December 2016 and 2015, respectively.

Other intangible assets include greenhouse gas emission allowances.

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

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

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

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

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

The aggregate balance of low-value intangible assets not reported on the face of the balance sheet was CZK 42,925 thousand and CZK 47,015 thousand as of 31 December 2016 and 2015, respectively.

6.2. TANGIBLE FIXED ASSETS

Cost

(IN CZK THOUSAND)

	Balance at 1 Jan 2015	New acquisitions	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2015
Land	1 130 557	10 368	1 627	1 835	-856	1 139 861
Structures	12 992 107	0	462 300	15 072	-8 874	13 430 461
Individual tangible movable assets	34 611 047	0	2 198 457	651 829	-22 502	36 135 173
Other tangible FA	197 986	0	4 641	1 295	-723	200 609
Tangible FA under construction	1 462 046	2 638	2 156 546	2 645 485	-627	975 118
Prepayments	92 647	0	175 970	174 842	0	93 775
Total	50 486 390	13 006	4 999 541	3 490 358	-33 582	51 974 997

(IN CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Land	1 139 861	32 719	302	277	1 172 555
Structures	13 430 461	478 761	84 726	-5 199	13 819 297
Individual tangible movable assets	36 135 173	2 396 239	501 269	-9 950	38 020 193
Other tangible FA	200 609	4 202	2 806	403	202 408
Tangible FA under construction	975 118	2 900 365	2 874 924	-178	1 000 381
Prepayments	93 775	363 529	280 749	0	176 555
Total	51 974 997	6 175 815	3 744 776	-14 647	54 391 389

Accumulated Depreciation and Provisions

(IN CZK THOUSAND)

	Balance at 1 Jan 2015	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2015
Structures	6 549 566	308 230	20 437	-4 023	6 833 336
Individual tangible movable assets	23 603 733	1 460 469	653 503	-17 019	24 393 680
Other tangible FA	182 411	5 704	1 371	-509	186 235
Tangible FA under construction	35 040	989	25 273	0	10 756
Total	30 370 750	1 775 392	700 584	-21 551	31 424 007

(IN CZK THOUSAND)

	Balance at 1 Jan 2016	Additions	Disposals	Impact of FX differences	Balance at 31 Dec 2016
Structures	6 833 336	385 532	38 547	-4 375	7 175 946
Individual tangible movable assets	24 393 680	1 608 841	422 031	-8 187	25 572 303
Other tangible FA	186 235	3 668	5 073	277	185 107
Tangible FA under construction	10 756	12 721	5 740	0	17 737
Total	31 424 007	2 010 762	471 391	-12 285	32 951 093

Net Book Value

(IN CZK THOUSAND)

Net book value	Balance at 31 Dec 2015	Balance at 31 Dec 2016
Land	1 139 861	1 172 555
Structures	6 597 125	6 643 350
Individual tangible movable assets	11 741 493	12 447 891
Other tangible FA	14 374	17 301
Tangible FA under construction	964 362	982 644
Prepayments for tangible FA	93 775	176 555
Total	20 550 990	21 440 296

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

(IN CZK THOUSAND)

Acquisition of coke oven battery no. 11	601 442
Acquisition of extrusion and compacting vehicle no. 8	178 573
Acquisition of annealing furnace STC no. 4 and 5	163 072
Direct drawing bull-block S1200/8 group 56	28 469
Line for thermal processing of forgings in protective atmosphere no. 2	27 666

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

(IN CZK THOUSAND)

Construction of new cowper no. 64	146 470
Construction of a new crowbar cleaning plant	121 159
Innovation of large forgings – transfer to furan mixture	92 275
Reconstruction and modernisation of the blooming mill	41 744
Short Film buildings	25 119

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

(IN CZK THOUSAND)

NK14 – boiler (subsidy of CZK 362,410 thousand)	544 005
Renovation of the KKO gas cleaning plant – 1. stage	221 986
Renovation of facilities for the purpose of casting D525 format on 3. cast line	75 115
Renovation of roof girders, strengthening the roof on the KKO steel mill building	66 871
NK14 boiler house	62 915

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

(IN CZK THOUSAND)

Modernisation and renovation of KB 11	255 054
Construction of 2 STC furnaces	212 067
Use of waste heat of the VM carousel furnace	8 301

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,909,482 thousand and CZK 1,767,562 thousand for the years ended 31 December 2016 and 2015, respectively.

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

The aggregate cost of low-value tangible fixed assets not included in the balance sheet totalled CZK 799,252 thousand and CZK 786,321 thousand as of 31 December 2016 and 2015, respectively.

Fair Value

In 2016 and 2015, no assets were revalued to fair value at any of the entities.

6.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS**Finance Leases**

(IN CZK THOUSAND)

31 December 2016	Passenger cars	Machinery and equipment	Balance at 31 Dec 2016
Total estimated sum of lease instalments	4 756	64 149	68 905
Payments made as of 31 Dec 2016	790	10 361	11 151
Due in the following years	0	0	0

(IN CZK THOUSAND)

31 December 2015	Passenger cars	Machinery and equipment	Balance at 31 Dec 2015
Total estimated sum of lease instalments	4 757	65 438	70 195
Payments made as of 31 Dec 2015	2 742	53 973	56 715
Due in the following years	2 015	11 465	13 480

Operating Leases

In the years ended 31 December 2016 and 2015, rental amounted to CZK 61,833 thousand and CZK 56,602 thousand, respectively.

6.4. FIXED ASSETS PLEDGED AS SECURITY

31 December 2016

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA	255 304	Loan from Česká spořitelna, a.s.
Land	23 663	
TFA	492 847	Loan from Česká spořitelna, a.s.
Land	3 444	
TFA	179 600	Loan from Československá obchodní banka, a.s.
Land	10 513	
TFA	2 706	Loan from Československá obchodní banka, a.s.
Land	39 986	
TFA	915 886	Loan from Československá obchodní banka, a.s.
TFA	464 261	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
Land	664	
TFA	548 883	Loan from HSBC Bank plc – Prague branch
Land	110 468	
TFA	126 803	Overdraft loan from Československá obchodní banka, a.s.
Land	10 567	
Technologies	114 610	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction
TFA	90 829	Loans from Česká spořitelna, a.s.
Land	5 346	
TFA	136 744	Investment loan from ING Bank N.V
TFA*	91 890	Loan from Bank Polska Kasa Opieki Spółka Akcyjna, collateralised by machinery up to PLN 15,000 thousand
TFA, land	987	Loan from Citibank Europe plc.
TFA, land	969	Loan from Citibank Europe plc.
TFA, land	362	Loan from Citibank Europe plc.
TFA, land	12 186	Investment loan from Československá obchodní banka, a.s.
TFA, land	15	Investment loan from Československá obchodní banka, a.s.
Land	13 089	Loan from Citibank Europe plc. .
Technologies	36 231	
TFA, land	15 468	Loan from UniCredit Bank a.s.
TFA, land, buildings	145 813	Loan from Raiffeisenbank, a.s.
Total	3 850 134	

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

31 December 2015

Description of assets	Net book value	Description, scope and purpose of pledge/lien
TFA	261 371	Loan from Česká spořitelna, a.s.
Land	23 663	
TFA	519 072	Loan from Česká spořitelna, a.s.
TFA	186 285	Loan from Československá obchodní banka, a.s.
Land	10 513	
TFA	2 811	Loan from Československá obchodní banka, a.s.
Land	40 484	
TFA	973 686	Loan from Československá obchodní banka, a.s.
Land	664	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
TFA	503 391	
TFA	589 833	
Land	110 496	Loan from HSBC Bank plc – Prague branch
TFA	21 955	Loan for an investment from UniCredit Bank Czech Republic and Slovakia, a.s.
TFA	121 022	Overdraft loan from Československá obchodní banka, a.s.
Land	10 567	
Technology	128 227	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction
TFA	76 546	
Land	5 346	Loans from Česká spořitelna, a.s.
Technology	50 765	
TFA*)	95 100	Loan from ING Bank Śląski S.A., collateralised by machinery up to PLN 15,000 thousand
TFA, land	1 226	Loan from Citibank Europe plc.
TFA, land	1 106	Loan from Citibank Europe plc.
TFA, land	453	Loan from Citibank Europe plc.
TFA, land	32	Loan from Citibank Europe plc.
TFA, land	12 922	Investment loan from Československá obchodní banka, a.s.
TFA, land	18	Investment loan from Československá obchodní banka, a.s.
TFA, land	36 157	Loan from UniCredit Bank, a.s.
TFA, land	159 241	Loan from Raiffeisenbank, a.s.
TFA, land	58 654	Loan from Oberbank AG
TFA, land	6 087	Loan from Oberbank Leasing spol. s r.o.
TFA, land	0	Loan from Citibank Europe plc.
Land	52 000	Loan from Raiffeisenbank, a.s.
Total	4 059 693	

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

6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

6.5.1. Summary of Unconsolidated Investments in 2016

Balance at 31 December 2016

(IN CZK THOUSAND)

Equity investments – subsidiaries							
Company name	Cost	Nominal value	Share in %	Equity	Profit/loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	867	51.00	6 853	1 494	0	1 573
Moravia Steel Ibéria,s.a.	10 850	2 534	99.33	19 830	1 988	0	10 850
Moravia Goel Trade, d.o.o.*)	59	59	60.00	*	*	-59	0
Moravia Steel Israel Ltd.	605	466	100.00	-10	-56	0	605
Barrandov Productions s.r.o.	100	100	100.00	1 700	-256	0	100
Barrandov Studios Productions s.r.o.	200	200	100.00	1 055	69	0	200
FILMOVÁ NADACE **)	500	500	100.00	1 933	-205	0	500
Total	13 887					-59	13 828

*) In liquidation

**) Balance at 31 December 2016, reporting period ended 28 February 2017

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

(IN CZK THOUSAND)

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

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

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

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

(IN CZK THOUSAND)

Equity investments – subsidiary							
Name of the entity	Cost	Nominal value	Share in %	Equity	Profit or loss	Provision	Net cost
MSK Polska Sp. z o.o.	48 345	48 345	84	-24 368		-48 345	0
Total	48 345	48 345				-48 345	0

In 2016 (2015) the Company held a 84% equity investment in a subsidiary in Poland called MSK Polska Sp. z o.o., which entered liquidation and bankruptcy on 21 December 2012. As of the balance sheet date 31 December 2016 (31 December 2015), the equity investment was recalculated to the amount of CZK 0.

The Group did not generate any material financial income from the unconsolidated investments in the year ended 31 December 2016.

6.5.2. Summary of Unconsolidated Investments in 2015**Balance at 31 December 2015**

(IN CZK THOUSAND)

Equity investments – subsidiaries							
Company name	Cost	Nominal value	Share in %	Equity	Profit/loss	Provision	Net cost
Moravia Steel Slovenija, d.o.o.	1 573	867	51.00	5 361	2 412	0	1 573
Moravia Steel Ibéria, s.a.	10 850	2 533	99.33	17 846	2 669	0	10 850
Moravia Goel Trade, d.o.o.*)	59	59	60.00	*)	*)	-59	0
Moravia Steel Israel Ltd.	605	466	100.00	-10	-18	0	605
Barrandov Productions s.r.o.	100	100	100.00	1 956	-228	0	100
Barrandov Studios Productions s.r.o.	200	200	100.00	1 175	991	0	200
FILMOVÁ NADACE **)	500	500	100.00	2 494	-179	0	500
Total	13 887	4 725				-59	13 828

*) In liquidation

**) Balance at 31 December 2015, reporting period ended 29 February 2016

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

(IN CZK THOUSAND)

Equity investments – subsidiaries							
Company name	Nominal value	Number of securities	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	48 100	1 253	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	43 542	3 432	0	0
TRIALFA, s.r.o., Třinec-Kanada	100	0	100.00	18 647	161	0	0
Reťaze Slovakia s.r.o., Skalica (SK)	0	0	80.00	14 342	2 038	0	2 196
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 475	309	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	52 304	-1 930	0	0
"ZAMECZEK BŁOGOCICE" Spółka z ograniczoną odpowiedzialnością, Cieszyn (POL)	48 558	0	88.00	48 796	-969	-7 663	0
Moravia Security, a.s., Kanská, Třinec	12 000	12	100.00	22 483	2 423	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	18 199	2 278	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	20 977	10 171	-15 703	0
JuBo Jeseník s. r. o.	0	0	80.00	*	*	0	0
Total						-23 366	2 196

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

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

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

(IN CZK THOUSAND)

Equity investments – subsidiary					
Name of the entity	Cost	Nominal value	Share in %	Equity	Provision
MSK Polska Sp. z o.o.	48 345	48 345	84	-24 368	-48 345
Total	48 345	48 345		-24 368	-48 345

* In 2015, Moravskoslezský kovošrot, a.s. held the 84% equity investment in the Polish entity MSK Polska Sp. z o.o. that was placed into liquidation and bankruptcy proceedings on 21 December 2012. As of the balance sheet date on 31 December 2015 (2014), the net value of the equity investment amounted to CZK 0.

The Group did not generate any material financial income from the unconsolidated investments in the year ended 31 December 2015.

6.6. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2016

(IN CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	Recognition in equity
Positive goodwill arising on consolidation					
Barrandov Studio a.s.	34 362	34 362	0	0	0
Hanácké železářny a pérovny a.s.	130 507	14 500	116 007	0	0
Moravia Steel UK LIMITED	1 234	0	1 234	0	0
"D&D" Drótáru Zrt.	0	0	0	2 443	4 088
ŽDB DRÁTOVNA a.s.	250 967	0	250 967	0	0
Total	417 070	48 862	368 208	2 443	4 088

2015

(IN CZK THOUSAND)

	Gross	Adjustment	Net	Recognition in expenses	
Positive goodwill arising on consolidation					
Barrandov Studio a.s.		34 362	34 362	0	0
Hanácké železářny a pérovny a.s.		130 507	14 500	116 007	0
Moravia Steel UK LIMITED		1 234	0	1 234	0
"D&D" Drótáru Zrt.		364 778	358 247	6 531	9 414
ŽDB DRÁTOVNA a.s.		250 761	0	250 761	0
Total		781 642	407 109	374 533	9 414

6.7. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(IN CZK THOUSAND)

Securities and equity investments under equity accounting	2016	2015
VESUVIUS ČESKÁ REPUBLIKA, a.s.	152 309	154 701
Kovárna VIVA a.s.	486 591	449 452
Moravia Steel Middle East FZCO	57 314	39 094
Total	696 214	643 247

6.8. NON-CURRENT FINANCIAL ASSETS PLEDGED AS SECURITY

As of 31 December 2016, the Company records non-current financial assets pledged as security with the nominal value of CZK 132,000 thousand. As of 31 December 2015, the Company recorded non-current financial assets pledged as security with the nominal value of CZK 132,000 thousand.

6.9. INVENTORY

As of 31 December 2016, "METALURGIA" S.A. has pledged inventory up to PLN 13,000 thousand (CZK 79,638 thousand) with Bank BGŻ BNP Paribas S.A. in relation to the used loan. In 2015, the inventory was pledged up to PLN 13,000 thousand (CZK 82,420 thousand).

6.10. RECEIVABLES

6.10.1. Structure of Short-Term Receivables

As of 31 December 2016, gross short-term trade receivables past their due dates amounted to CZK 1,432,639 thousand (net CZK 1,031,783 thousand). As of 31 December 2015, gross short-term trade receivables past their due dates amounted to CZK 1,722,905 thousand (net CZK 1,252,274 thousand).

Other Short-Term Receivables

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

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

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

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

Receivables typically mature within 30 days.

6.10.2. Receivables Pledged as Security

During 2016 and 2015, HŽP a.s. provided short-term receivables before their due dates of CZK 60 million as a pledge for loans from Česká spořitelna, a.s., with a monthly renewal.

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

As of 31 December 2016, VÚHŽ a.s. records pledged receivables of CZK 10,296 thousand with Československá obchodní banka, a.s. which are used as a pledge for short-term loans (overdraft) and the Contract on Rules for Provision of Letters of Credit and Bank Guarantees. As of 31 December 2015, this pledge amounted to CZK 10,520 thousand.

As of 31 December 2016, "METALURGIA" S.A. records pledged receivables of PLN 4,751 thousand (CZK 29,104 thousand) with BGŻ BNP Paribas Faktoring Sp. z o. o. As of 31 December 2015, pledged receivables amounted to PLN 2,732,894.17 thousand (CZK 17,327 thousand) with ING Commercial Finance Polska S.A.

6.10.3. Intercompany Receivables

Short-Term Receivables

(IN CZK THOUSAND)

Entity	Balance at 31 Dec 2016	Balance at 31 Dec 2015
DOPRAVA TŽ, a.s.	1 746	2 327
Kovárna VIVA a.s.	75 051	71 833
Moravia Security, a.s.	118	89
Security Morava, s.r.o.	9	4
TRIALFA, s.r.o.	1 920	2 318
TRISIA, a.s.	13	15
TŘINECKÁ PROJEKCE, a.s.	53	90
Třinecké gastroslužby, s.r.o.	1 201	1 314
VESUVIUS ČESKA REPUBLIKA, a.s.	4 564	1 993
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	30	37
Steel Consortium Partners, a.s.	0	0
AHP Hydraulika, a.s.	1 378	0
JuBo Jeseník s.r.o.	4 549	4 751
DALSELV DESIGN a.s.	45	2 662
Reťaze Slovaki, s.r.o.	1 247	0
MINERFIN a.s.	451	0
Total short-term intercompany receivables	92 375	87 433
Other than intercompany receivables	8 654 448	8 310 066
Total net short-term receivables	8 746 823	8 397 499

Long-Term Receivables

(IN CZK THOUSAND)

Entity	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Barrandov Productions, s.r.o.	2 290	4 580
Total long-term intercompany receivables	2 290	4 580
Other than intercompany receivables	247 682	288 784
Total net long-term receivables	249 972	293 364

As of 31 December 2016, the Group records long-term receivables with due dates of more than 5 years of CZK 2,262 thousand; as of 31 December 2015, no such receivables were recorded.

6.11. EQUITY AND SHARE CAPITAL

6.11.1. Equity

Allocations to the statutory reserve fund are made at 5% of net profit until the fund reaches 20% of the share capital of the consolidated entities that are based in the Czech Republic, as required by legislation.

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

In the year ended 31 December 2016, dividends in the amount of CZK 2,000,000 thousand were declared and paid out.

Proposal for the allocation of profit for 2016

In 2016, the consolidation group generated net profit after tax of CZK 3,113,366 thousand. The profit will be transferred to retained earnings brought forward and the consolidated reserve fund.

6.11.2. Share Capital

As of 31 December 2016, the share capital amounted to CZK 3,157,000 thousand. The Company's share capital is composed of 1,514 registered shares in book-entry form with a nominal value of CZK 500 thousand each, 100 registered shares in book-entry form with a nominal value of CZK 10,000 thousand each and 2 registered shares in book-entry form with a nominal value of CZK 700,000 thousand each. The shares are not readily marketable but are fully transferable subject to the prior consent of the Company's Supervisory Board.

6.12. RESERVES

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

6.13. PAYABLES

6.13.1. Long-Term Payables

As of 31 December 2016 and 2015, primarily payables arising from retention fees to suppliers according to concluded contracts are reported under long-term trade payables.

6.13.2. Short-Term Trade Payables

As of 31 December 2016, short-term trade payables past their due dates amount to CZK 154,783 thousand (2015: CZK 166,116 thousand).

6.13.3. Other Payables

As of 31 December 2016 and 2015, due amounts arising from social security and state employment policy contributions and public health insurance amounted to CZK 186,428 thousand and CZK 193,289 thousand, respectively. These payables were duly settled as of the balance sheet date.

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

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

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

6.13.4. Intercompany Payables

Short-Term Payables

(IN CZK THOUSAND)

Entity	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Doprava TŽ, a.s.	10 899	11 729
Hutnictví železa, a.s.	563	691
Moravia Security, a.s.	11 481	9 513
TRIALFA, s.r.o.	16 221	21 101
TRISIA, a.s.	1 183	1 020
TŘINECKÁ PROJEKCE, a.s.	2 900	5 091
Třinecké gastroslužby, s.r.o.	10 374	10 589
VESUVIUS ČESKÁ REPUBLIKA, a.s.	35 737	34 945
Security Morava s.r.o.	1 234	1 032
ZAMECZEK BŁOGOCICE Sp. zo.o.	103	106
FINITRADING, a.s.	0	177 518
Moravia Steel Ibéria, s.a.	730	1 892
MORAVIA STEEL SLOVENIJA d.o.o.	3 647	3 536
MORAVIA STEEL MIDDLE EAST, Ltd.	0	7 540
MORAVIA STEEL MIDDLE EAST FZCO	20 463	22 028
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	1 329	938
Kovárna VIVA a.s.	0	0
HRAT, s.r.o.	36	55
DALSELV DESIGN a.s.	3 314	8 725
MINERFIN, a.s.	100 789	94 882
Total short-term intercompany payables	221 003	411 795
Other than intercompany payables	6 985 363	6 548 614
Total short-term payables	7 206 366	6 960 411

6.14. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET

6.14.1. Deferred Tax Liability

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

(IN CZK THOUSAND)

Deferred tax arising from	Tax rate in %	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Difference between the tax and accounting carrying values of fixed assets	19	9 257 760	8 901 017
Difference between the tax and accounting carrying values of fixed assets	10	0	128 206
Revaluation of securities available for sale	19	-58	-959
Revaluation of assets to fair value charged to equity	19	195 319	173 670
Revaluation of assets to fair value charged to consolidation goodwill	10	0	40 881
Revaluation of assets to fair value charged to consolidation goodwill	19	52 050	50 971
Accounting reserves	19	-216 580	-215 122
Provisions	19	-931 769	-782 263
Provisions	10	0	-4 743
Provisions	9	5 927	0
Outstanding default interest	19	-714	20 965
Expenses deductible for tax purposes in the following years	19	-159 652	-61 233
Expenses deductible for tax purposes in the following years	10	0	-60
Utilisable tax loss	19	0	0
Unrealised profit on the sale of inventory within the Group	19	-28 961	-22 720
Unrealised profit on the sale of tangible FA within the Group	19	-268 673	-281 195
Other	10	0	26 324
Total temporary differences		8 004 683	7 973 739
Deferred tax liability		1 507 389	1 497 856

(IN CZK THOUSAND)

Analysis of movements	
1 Jan 2015	1 418 125
Current changes charged to the profit and loss account	83 572
Current changes charged to equity	-3 850
Charge against positive goodwill on consolidation	9
31 Dec 2015	1 497 856
Current changes charged to the profit and loss account	12 915
Current changes charged to equity	501
Charge against positive goodwill on consolidation	-3 883
31 Dec 2016	1 507 389

6.14.2. Deferred Tax Asset

(IN CZK THOUSAND)

	Tax rate (%)	Balance at 31 Dec 2016	Balance at 31 Dec 2015
Difference between the tax and accounting net book value of fixed assets	19	369	-109
Accounting reserves	19	900	210
Provisions	19	184	0
Expenses deductible for tax purposes in the following years	19	0	0
Unrealised profit on the sale of inventory and assets within the Group	19	86 053	311 626
Deferred expenses	19	43 232	0
Total temporary differences		130 738	311 727
Deferred tax asset		24 840	59 228

(IN CZK THOUSAND)

Analysis of movements	
1 Jan 2015	72 114
Current changes charged to the profit and loss account	-12 886
31 Dec 2015	59 228
Current changes charged to the profit and loss account	-34 388
31 Dec 2016	24 840

6.15. BANK LOANS AND BORROWINGS

Long-Term Bank Loans

(IN CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Form of collateral at 31 Dec 2016
Investment loan	CZK	0	63 140	Immovable and movable assets, securities, receivables from insurance, promissory bill of exchange
Investment loan	EUR	95 069	112 376	Hermes guarantee insurer
Investment loan	CZK	60 000	120 000	Securities, promissory bill of exchange
Investment loan	EUR	134 757	164 733	ODL guarantee insurer
Investment loan	CZK	192 500	442 105	Immovable and movable assets, securities, promissory bill of exchange
Investment loan	CZK	240 000	360 000	Immovable and movable assets, promissory bill of exchange
Investment loan	CZK	135 000	180 000	Immovable and movable assets, receivables from insurance, promissory bill of exchange
Tem loan	CZK	610 319	0	Receivables, pledge of real estate including its parts and accessories
Investment loan	EUR	0	1 955	Pledge of real estate
Investment loan	EUR	0	2 861	Pledge of real estate
Investment loan	CZK	37 500	75 000	Blank bill of exchange, pledge of movable assets
Investment loan	CZK	57 400	0	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of immovable and movable assets, pledge of trade receivables
One-time loan	CZK	55 137	0	Movable and immovable assets
One-time loan	EUR	74 909	0	Movable and immovable assets
Investment loan	EUR	0	3 054	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of immovable and movable assets
Investment loan	CZK	0	2 000	Pledge of real estate, pledge of movable assets, pledge of receivables from insurance of immovable and movable assets
Investment loan	EUR	10 808	0	KPH 600 machine, KLM measurement system
Investment loan	EUR	0	2 000	Collateral by tangible assets
Investment loan	EUR	1 635	4 905	
Investment loan	PLN	22 596	30 068	Collateral by tangible assets (machines, equipment)
Investment loan	CZK	290	920	
Raiffeisenbank a.s.	CZK	41 250	0	Pledge of financed asset
Raiffeisenbank a.s.	CZK	3 886	0	Pledge of financed asset
Total		1 773 056	1 565 838	

Short-Term Bank Loans

(IN CZK THOUSAND)

Type of loan	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Form of collateral at 31 Dec 2016
Investment loan	EUR	16 973	17 288	Hermes guarantee insurer
Investment loan	CZK	63 140	126 320	Immovable and movable assets, securities, bill of exchange
Investment loan	EUR	5 404	0	KEH8, KER8 line
Investment loan	EUR	0	4 324	KPH 600 machine, KLM measurement system
Investment loan	EUR	2 000	7 135	Collateral by tangible assets
Investment loan	EUR	3 270	3 270	
Overdraft	PLN	3 785	13 554	Pledge
Overdraft	PLN	6 348	35 337	Pledge – machines, equipment, receivables
Investment loan	EUR	1 955	3 349	Pledge of real estate
One-time loan	CZK	11 905	0	Movable and immovable assets
Revolving loan	EUR	0	162 150	Assets and receivables
Investment loan	CZK	152 580	0	Immovable and movable assets, insurance receivable, promissory note
Investment loan	EUR	29 946	29 952	ODL guarantee insurer
Investment loan	CZK	60 000	60 000	Securities, promissory blank bill of exchange
Investment loan	CZK	252 631	252 632	Immovable and movable assets, securities, receivables from insurance, promissory bill of exchange
Investment loan	CZK	120 000	120 000	Immovable and movable assets, promissory bill of exchange
Investment loan	CZK	60 000	60 000	Immovable and movable assets, receivables from insurance, promissory bill of exchange
Investment loan	EUR	2 860	2 862	Pledge of real estate
Overdraft	CZK	4 000	6 500	Pledge of immovable and movable assets, pledged receivables from insurance of immovable and movable assets
Overdraft	CZK	0	2 397	Blank bill of exchange, pledge of real estate
Investment loan	CZK	7 600	0	Pledge of assets, blank bill of exchange
Investment loan	CZK	0	4 687	Pledge of immovable and movable assets, pledged receivables from insurance of immovable and movable assets, pledge of trade receivables
Investment loan	EUR	3 054	3 053	Pledge of immovable and movable assets, pledged receivables from insurance of immovable and movable assets
Investment loan	CZK	2 000	4 000	Pledge of immovable and movable assets, pledged receivables from insurance of immovable and movable assets
Operating overdraft	CZK	45 286	113 232	Promissory blank bill of exchange
Investment loan	CZK	37 500	37 500	Pledge of movable assets, promissory bill of exchange
Investment loan	PLN	6 456	5 011	Pledge of movable assets (machines, equipment)
Sweep accounts	HUF	8	0	
Overdraft	CZK	0	14	Pledge of receivables, blank bill of exchange issued by MORAVIA STEEL a.s.
Operating loan	CZK	0	25 000	Pledge of receivables, blank bill of exchange issued by MORAVIA STEEL a.s.
Operating loan	CZK	0	25 000	Pledge of receivables, blank bill of exchange issued by MORAVIA STEEL a.s.
Operating loan	CZK	0	25 000	Pledge of receivables, blank bill of exchange issued by MORAVIA STEEL a.s.
Current bank loan	CZK	582	537	–
Overdraft	CZK	43 162	25 962	Pledge of real estate, bill of exchange
Operating loan	CZK	11 000	0	Pledge of real estate
Investment loan	CZK	6 000	0	Pledge of financed asset
Operating loan	CZK	35 000	130 000	Pledge of real estate
Investment loan	EUR	0	689	Pledge of financed asset
Total		994 445	1 306 755	

Short-Term Financial Borrowings

(IN CZK THOUSAND)

Purpose	Currency	Balance at 31 Dec 2016	Balance at 31 Dec 2015	Provider
Short-term	EUR	15 669	27 106	Slovenská plavka a prístavy a.s.
Short-term	CZK	0	75	ANGLONA s.r.o.
Short-term	PLN	0	89	BNP PARIBAS Bank Polska SA
Short-term	EUR	364	5 642	ANGLONA s.r.o.
Total		16 033	32 912	

6.16. OTHER OFF-BALANCE SHEET LIABILITIES**MORAVIA STEEL a.s.**

As of 31 December 2016, the guarantees issued by the bank on behalf of the Company in favour of third parties amounted to CZK 5 thousand.

The Regional Court in Ostrava is conducting, under file ref. no. 15 Cm 151/2013, court proceedings to review the adequacy of payment. The proceedings had been initiated based on a petition filed by 75 petitioners – former minority shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. The proceedings are being conducted against TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s., with the petitioners seeking a review of the adequacy of the payment provided by the majority shareholder, MORAVIA STEEL a.s., to minority shareholders. TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. consider the amount of the payment, which had been decided by the general meeting of shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. on 31 July 2013, to be appropriate. In 2016, the court engaged an expert institute for the proceedings, instructing it to determine the value of a single share of TŘINECKÉ ŽELEZÁRNY, a. s. and to explain differences, if any, between the valuations of shares presented in the expert opinions submitted by the participants in the proceedings. The expert institute has yet to provide the court with its expert opinion.

On 26 February 2013, the subsidiary Moravia Steel Deutschland GmbH received a legal action filed by the group entities of Deutsche Bahn (DB Netz AG and companies) with the State Court in Frankfurt am Main whereby the plaintiffs are claiming from Moravia Steel Deutschland GmbH and other entities (inter alia also MORAVIA STEEL a.s.) compensation for damage arising from unlawful cartel arrangements. The same legal action was delivered to MORAVIA STEEL a.s. on 29 March 2013 where the liability for damage is derived from one economic unit that the Company allegedly formed with Moravia Steel Deutschland GmbH.

The legal dispute is in the phase of first-instance procedures and preparation of the first verbal proceedings where the parties are presenting their written statements on the case to the court. As a next step, replies of defendants shall be presented to the court. Legal proceedings in this matter have not yet commenced.

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

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

Moravia Steel Deutschland GmbH

On 26 February 2013, MORAVIA STEEL DEUTSCHLAND GMBH received a legal action filed by the group entities of Deutsche Bahn with the State Court in Frankfurt am Main. The Company records a reserve for this legal dispute. For more information refer to Other payables that are not recorded by MORAVIA STEEL a.s.

TŘINECKÉ ŽELEZÁRNY, a. s.

Provided Guarantees

31 December 2016

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

31 December 2015

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

Legal Disputes

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP association against the company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the company on 14 December 2012.

The substance of the legal dispute did not involve determining the amount of the company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff or whether the former shareholders of the Company are the creditors.

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

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

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

Environmental Liabilities

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

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

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.

ENERGETIKA TŘINEC, a.s.

Collateral for loans

(IN CZK THOUSAND)

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

VÚHŽ a.s.

Easements

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

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

Environmental Liabilities

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

ŽDB DRÁTOVNA a.s.**Environmental Liabilities**

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

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

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

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

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

Šroubárna Kyjov, spol. s r.o.

Šroubárna Kyjov, spol. s r.o. stores material of another entity amounting to CZK 3,155 thousand in its warehouse.

HŽP, a.s.

As of the consolidated balance sheet date, HŽP, a.s. records future payables arising from capital costs resulting from concluded contracts of CZK 127,812 thousand (CZK 18,316 thousand and EUR 4,052 thousand).

Environmental Liabilities

In April 2014, a recertification audit Bureau Veritas Certification according to the ISO 14001 standard was performed. During the audit, no defects were found and it was confirmed that the environmental management system of the company complies with the requirements of the ISO 14001:2004 standard in the field of certification, ie draft, development and manufacturing of screw, leaf and parabolic springs. The authorisation is valid until 13 May 2017.

Strojírny a stavby Třinec, a.s.

Legal Disputes

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

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

Environmental Liabilities

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

“D&D” Drótáru Zrt., SV servisní, s.r.o., Řetězárna a.s., REFRASIL, s.r.o., “METALURGIA” S.A., Strojírny a stavby Třinec, a.s., Slévárny Třinec, a.s., VESUVIUS ČESKÁ REPUBLIKA, a.s., Beskydská golfová a.s., MORAVIA STEEL ITALIA S.R.L., Moravskoslezský kovošrot a.s., M Steel Projects a. s., M Steel Projects s.r.o., NEOMET Sp.z o.o., Barrandov Studio a.s., MORAVIA STEEL UK LIMITED, MSPProjects International s.r.o., Kovárna VIVA a.s., Moravia Steel Middle East FZCO, MS – Slovensko s.r.o., MSP International AZ, Moravia Mining Plc and Hotel Golf Ropice a.s. have no off-balance sheet or contingent liabilities.

7. ADDITIONAL INFORMATION OF THE PROFIT AND LOSS ACCOUNT

7.1. INCOME FROM CURRENT ACTIVITIES OF THE GROUP

2016				(IN CZK THOUSAND)
Activities	Inland	Cross-Border	Total	
Metallurgic production	9 321 224	28 622 539	37 943 763	
Other production	1 417 520	2 075 695	3 493 215	
Sale of goods	184 490	452 707	637 197	
Services	1 864 560	228 079	2 092 639	
Total	12 787 794	31 379 020	44 166 814	

(IN CZK THOUSAND)			
2015			
Activities	Inland	Cross-Border	Total
Metallurgic production	12 965 358	29 442 199	42 407 557
Energy production	1 686 153	2 128 913	3 815 066
Sale of goods	55 480	99 973	155 453
Services	2 078 592	250 117	2 328 709
Total	16 785 583	31 921 202	48 706 785

7.2. OTHER INCOME AND EXPENSES

Costs of advisory, consulting and audit activities amounted to CZK 199,459 thousand and CZK 126,516 thousand as of 31 December 2016 and 2015, respectively.

Other operating income as of 31 December 2016 and 2015 predominantly included the use of the grant for greenhouse gas emission allowances in the amounts of CZK 493,617 thousand and CZK 661,713 thousand, respectively.

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

Other financial income and expenses in the years ended 31 December 2016 and 2015 predominantly included foreign exchange rate gains and losses.

7.3. GRANTS AND SUBSIDIES

In the year ended 31 December 2016, TŘINECKÉ ŽELEZÁRNY, a. s. returned a subsidy for the acquisition of environmental investments of CZK 1,842 thousand, recognised an estimated payable of CZK 354 thousand arising from returning the subsidy for the acquisition of environmental investments and made a correction in the recognition of a subsidy for 2015 in the amount of CZK 2,427 thousand, affecting the profit and loss account and the Company's fixed assets. In the year ended 31 December 2015, TŘINECKÉ ŽELEZÁRNY, a. s., drew funding under a subsidy for the acquisition of environmental assets (acquisition of tangible fixed assets) in the amount of CZK 887,539 thousand.

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

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

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

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

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

7.4. AGGREGATE RESEARCH AND DEVELOPMENT EXPENDITURE

(IN CZK THOUSAND)

	31 Dec 2016	31 Dec 2015
Research and development expenditure (net of grants)	95 197	59 843

7.5. RELATED PARTY TRANSACTIONS**7.5.1. Income Generated with Related Parties**

"Relation to the Company" is given from the perspective of MORAVIA STEEL a.s.

2016

(IN CZK THOUSAND)

Entity	Relation to the Company	Goods and Products	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	19 540	26	411	0	19 977
JuBo Jeseník s.r.o.	Controlled entity	5 904	3	0	0	5 907
Doprava TŽ, a.s.	Controlled entity	22 034	4 337	15	0	26 526
TRIALFA, s.r.o.	Controlled entity	21 789	4 202	22	0	26 013
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	357	654	2	0	1 013
Třinecké gastroslužby, s.r.o.	Controlled entity	4 078	5 393	546	6	10 023
Security Morava, s.r.o.	Controlled entity	0	55	0	0	55
TRISIA, a.s.	Controlled entity	6	194	0	0	200
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	7 956	19 518	51	0	27 525
Moravia Security, a.s.	Controlled entity	243	3 323	20	0	3 587
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	73	415	0	0	488
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	393	0	0	393
DALSELV DESIGN a.s.	Controlled entity	20 569	0	0	0	20 569
MORAVIA STEEL SLOVENIJA d.o.o.	Controlled entity	172	0	0	0	172
Kovárna VIVA a.s.	Associate	324 373	1 060	416	0	325 849
AHP HYDRAULIKA, a.s.	Associate	22 394	0	0	0	22 394
MINERFIN, a.s.	Group entity	1 777	382	0	0	2 159
Barrandov Productions, s.r.o.	Controlled entity	–	0	–	69	69
FILMOVÁ NADACE	Controlled entity	0	0	409	0	409
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	3	0	3
Barrandov Studios Productions.r.o.	Controlled entity	0	0	974	0	974
R.F.G., a.s. – v likvidaci	Group entity	0	8	0	0	8
Total		451 265	39 955	2 870	75	496 813

2015 (IN CZK THOUSAND)

Entity	Relation to the Company	Goods and Products	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	21 983	18	0	0	22 001
JuBo Jeseník s.r.o.	Controlled entity	6 267	6	0	0	6 273
Doprava TŽ, a.s.	Controlled entity	24 186	4 569	11	0	28 766
TRIALFA, s.r.o.	Controlled entity	24 826	4 019	139	0	28 984
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	400	689	1	0	1 090
Třinecké gastroslužby, s.r.o.	Controlled entity	4 020	7 213	625	7	11 865
Security Morava, s.r.o.	Controlled entity	0	52	0	0	52
TRISIA, a.s.	Controlled entity	37	168	0	0	205
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	8 761	21 892	141	0	30 794
Moravia Security, a.s.	Controlled entity	187	2 790	0	0	2 977
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	73	449	0	0	522
“ZAMECZEK BŁOGOCICE” Sp. Z o.o.	Controlled entity	0	1	0	0	1
DALSELV DESIGN a.s.	Controlled entity	11 187	0	0	0	11 187
MORAVIA STEEL SLOVENIJA d.o.o.	Controlled entity	3 564	0	0	0	3 564
Kovárna VIVA a.s.	Associate	357 692	1 391	336	0	359 419
AHP HYDRAULIKA, a.s.	Associate	1 025	0	0	0	1 025
Barrandov Productions, s.r.o.	Controlled entity	0	0	150	0	150
FILMOVÁ NADACE	Controlled entity	0	0	3	0	3
MINERFIN a.s.	Group entity	4 793	805	0	0	5 598
Barrandov Studios Productions.r.o.	Controlled entity	0	3	20 400	0	20 403
Total		469 001	44 067	21 806	7	534 881

7.5.2. Costs Incurred with Related Parties

“Relation to the Company” is given from the perspective of MORAVIA STEEL a.s.

2016

(IN CZK THOUSAND)

Entity	Relation to the Company	Fixed assets	Inventory	Services	Other expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	507	1 140	0	1 647
JuBo Jeseník s.r.o.	Controlled entity	0	784	0	0	784
Doprava TŽ, a.s.	Controlled entity	5	23 601	71 576	17	95 199
TRIALFA, s.r.o.	Controlled entity	0	6 961	22 972	60 698	90 631
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	40 471	0	13 625	0	54 096
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 547	10 920	95 010	123 477
Hutnictví železa, a.s.	Associate	0	0	5 784	132	5 916
TRISIA, a.s.	Controlled entity	0	74	17 431	180	17 685
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	122 747	81 787	0	204 534
Moravia Security, a.s.	Controlled entity	2 635	58	89 347	326	92 366
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	5	5 611	0	5 616
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 247	0	1 247
HRAT, s.r.o.	Associate	127	0	120	0	247
DALSELV DESIGN a.s.	Controlled entity	144 215	69	3 810	0	148 094
Security Morava, s.r.o.	Controlled entity	0	0	8 630	0	8 630
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	11 061	0	11 061
Moravia Steel Slovenija, d.o.o.	Controlled entity	0	0	13 466	0	13 466
FINITRADING, a.s.	Controlling entity	0	1 741 484	0	0	1 741 484
MORAVIA STEEL MIDDLE EAST.FZCO	Associate	0	196 169	0	0	196 169
MINERFIN a.s.	Group entity	0	748 784	0	0	748 784
Barrandov Studios Productions.r.o.	Controlled entity	0	0	15	0	15
Total		187 453	2 858 790	358 542	156 363	3 561 148

2015							(IN CZK THOUSAND)
Entity	Relation to the Company	Fixed assets	Inventory	Services	Other expenses	Total	
Reťaze Slovakia, s.r.o.	Controlled entity	0	552	727	0	1 279	
JuBo Jeseník s.r.o.	Controlled entity	0	102	0	0	102	
Doprava TŽ, a.s.	Controlled entity	46	27 620	72 851	101	100 618	
TRIALFA, s.r.o.	Controlled entity	0	7 881	23 329	70 577	101 787	
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	30 741	0	11 124	0	41 865	
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 788	18 620	90 235	126 643	
Hutnictví železa, a.s.	Associate	0	0	5 427	116	5 543	
TRISIA, a.s.	Controlled entity	0	54	14 700	373	15 127	
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	119 079	80 553	1	199 633	
Moravia Security, a.s.	Controlled entity	2 616	131	83 303	1 028	87 078	
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	3 248	36	6 811	0	10 095	
"ZAMECZEK BŁOGOCICE" Sp. z o.o.	Controlled entity	0	0	1 313	0	1 313	
HRAT, s.r.o.	Associate	16	0	120	0	136	
DALSELV DESIGN a.s.	Controlled entity	91 492	293	2 663	0	94 448	
Security Morava, s.r.o.	Controlled entity	0	0	10 911	0	10 911	
Kovárna VIVA a.s.	Associate	0	271	0	0	271	
Moravia Steel Ibéria, s.a.	Controlled entity	0	0	14 125	0	14 125	
Moravia Steel Slovenija, d.o.o.	Controlled entity	0	0	12 401	0	12 401	
FINITRADING, a.s.	Controlling entity	0	2 067 380	286	0	2 067 666	
MORAVIA STEEL MIDDLE EAST.FZCO	Associate	0	88 178	0	0	88 178	
MINERFIN a.s.	Group entity	0	510 094	0	19	510 113	
Barrandov Studios Productions.r.o.	Controlled entity	0	0	25 077	0	25 077	
Total		128 159	2 839 429	384 341	162 450	3 514 379	

8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

8.1.1. Staff Costs and Number of Employees for 2016

The number of the Company's employees as of 31 December 2016 was 12,724, of which 105 managers. The number of the Company's employees as of 31 December 2015 was 12,847, of which 109 managers.

The staff costs of employees in the year ended 31 December 2016 amounted to CZK 6,577,483 thousand and staff costs of managers amounted to CZK 319,647 thousand. The staff costs of employees in the year ended 31 December 2015 amounted to CZK 6,614,121 thousand and staff costs of managers amounted to CZK 437,712 thousand. The remuneration to members of the Supervisory Board in the years ended 31 December 2016 and 2015 amounted to CZK 49,179 thousand and CZK 120,111 thousand, respectively. The remuneration to members of the Audit Committee in the years ended 31 December 2016 and 2015 amounted to CZK 0 thousand and CZK 720 thousand, respectively.

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

8.2. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

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

(IN CZK THOUSAND)

	2016	2015
Use of management cars (the figure increases the tax base of employees)	8 378	7 949
Contribution for life insurance	2 132	3 092
Liability insurance	2 047	2 013

9. POST BALANCE SHEET EVENTS

TŘINECKÉ ŽELEZÁRNY, a. s.

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

VÚHŽ a.s.

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

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

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

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

Strojírny a stavby Třinec, a.s.

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

Řetězárna a.s.

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

Šroubárna Kyjov, spol. s r.o.

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

10

REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 31 DECEMBER 2016

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

This report on related party transactions has been prepared for the reporting period from 1 January 2016 to 31 December 2016 (hereinafter the “reporting period”).

I. STRUCTURE OF RELATIONS IN THE BUSINESS GROUP, ROLE OF THE CONTROLLED ENTITY, METHOD AND MEANS OF CONTROL

A. CONTROLLING ENTITY

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

Relation: Throughout the reporting period, FINITRADING, a.s., as the sole shareholder, pursuant to Sections 73 (1) and 74 (3) of the Act on Business Corporations, acted as the Controlling Entity towards the Company. As the majority shareholder holding a 100% share in the share capital and voting rights, it controlled the Company by making decisions of the sole owner acting in the capacity of the General Meeting and, thus, the Company was subject to its direct control.

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

B. ENTITIES CONTROLLED BY THE SAME CONTROLLING ENTITY

R.F.G., a.s., “in liquidation”, with its registered office at nám. Svobody 526, Lyžbice, 739 61 Třinec, corporate ID 63079658

Relation: entity controlled by FINITRADING, a.s., as the sole shareholder pursuant to Sections 73 and 74 (3) of the Act on Business Corporations, holding a 100% share in the share capital and voting rights; subsidiary of the controlling entity. The company was placed into liquidation on 1 January 2016 and completed the liquidation on 14 November 2016. The Company dissolved on 11 January 2017 following its removal from the Register of Companies.

C. ENTITIES CONTROLLED BY THE COMPANY

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

MORAVIA GOEL TRADE d.o.o. “in liquidation” with its registered office at Josipa Jelačica 205, 104 30 Samobor, Croatia (60% share)

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

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

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

Relation: subsidiary of the Company

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

Relation: subsidiary of the Company

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

Furthermore, MORAVIA STEEL a.s. has a 50% share in **Kovárna VIVA a.s.**, with its registered office at Vavrečkova 5333, 760 01 Zlín, corporate ID 469 78 496. However, in this company, the Company is not in the position of a controlling entity.

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

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

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

II. DESCRIPTION OF RELATIONS

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

A. 1. Sales

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

A. 2. Purchases

A. 2.1. Purchase of Zaporizhia aglo-ore

On 30 January 2015, the Company concluded Master Purchase Contract No. S-150003 with FINITRADING, a.s., for the period from 1 February 2015 to 31 January 2016, the subject matter of which is the controlling entity's obligation to provide supplies of Zaporizhia aglo-ore for the Company. Amendment no. 5 to this contract extended its validity until 31 December 2016. During 2016, the purchase prices were regulated by amendments to the contract, namely Amendment 4 of 30 December 2015, Amendment 6 of 30 March 2016, Amendment 7 of 29 April 2016, Amendment 8 of 29 June 2016 and Amendment 9 of 29 September 2016.

A. 2.2. Purchase of Krivbas aglo-ore

On 30 January 2015, the Company concluded Master Purchase Contract No. S-150004 with FINITRADING, a.s., for the period from 1 February 2015 to 31 January 2016, the subject matter of which is the controlling entity's obligation to provide supplies of Krivbas aglo-ore for the Company. Amendment no. 5 to this contract extended its validity until 31 December 2016. During 2016, the purchase prices were regulated by amendments to the contract, namely Amendment 4 of 30 December 2015, Amendment 6 of 30 March 2016, Amendment 7 of 29 April 2016, Amendment 8 of 29 June 2016 and Amendment 9 of 29 September 2016.

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

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

A.4. Assessment of Detriment

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

B. LIST OF MUTUAL CONTRACTS OF THE COMPANY AND R.F.G., A.S. "IN LIQUIDATION", (THE ENTITY CONTROLLED BY THE SAME CONTROLLING ENTITY) AND THE DESCRIPTION OF RELATIONS OF THE COMPANY TO THIS ENTITY

B. 1. List of Mutual Contracts

In the reporting entity, the Company did not conclude any contracts with R.F.G., a.s. "in liquidation". No mutual purchases of goods or services were recorded in the reporting period.

B. 2. List of Acts at the Initiative or in the Interest of the Controlling Entity

In the reporting period, the Company recorded no acts at the initiative or in the interest of R.F.G., a.s. "in liquidation" under Section 82 (2) d) of the Act on Business Corporations.

B. 3. Assessment of Detriment

As no contracts were concluded between the Company and R.F.G., a.s. "in liquidation" in the reporting period and the Company made no acts at the initiative or in the interest of R.F.G., a.s. "in liquidation", the Company incurred no detriment from relations with R.F.G., a.s. "in liquidation".

III. ASSESSMENT OF RELATIONS BETWEEN ENTITIES IN THE BUSINESS GROUP ACCORDING TO SECTION 82 (4) OF THE ACT ON BUSINESS CORPORATIONS

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

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

In Třinec on 27 February 2017

Board of Directors of MORAVIA STEEL a.s.



.....
Petr Popelář

Chairman of the Board of Directors



.....
Krzysztof Ruciński

Vice-Chairman of the Board of Directors