

2014

ANNUAL REPORT



**TŘINECKÉ ŽELEZÁRNY**

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Report on Related Party Transactions for the Year 2014

## 01

COMPANY  
PROFILE

**175<sup>TH</sup> ANNIVERSARY  
OF TŘINECKÉ  
ŽELEZÁRNY WAS  
COMMEMORATED  
IN 2014**

**T**řinecké železárny is a successor of a long tradition of steelmaking in Těšín Silesia. The Třinec Iron and Steel Works was established by the Chamber of Těšín of the archduke Karl von Hapsburg in 1839. At present, Třinecké železárny is the largest Czech steel company. The strategy of Třinecké železárny is a dynamic increase in the growth of the share of long products with higher added value and its control within the up and downstream product chains.

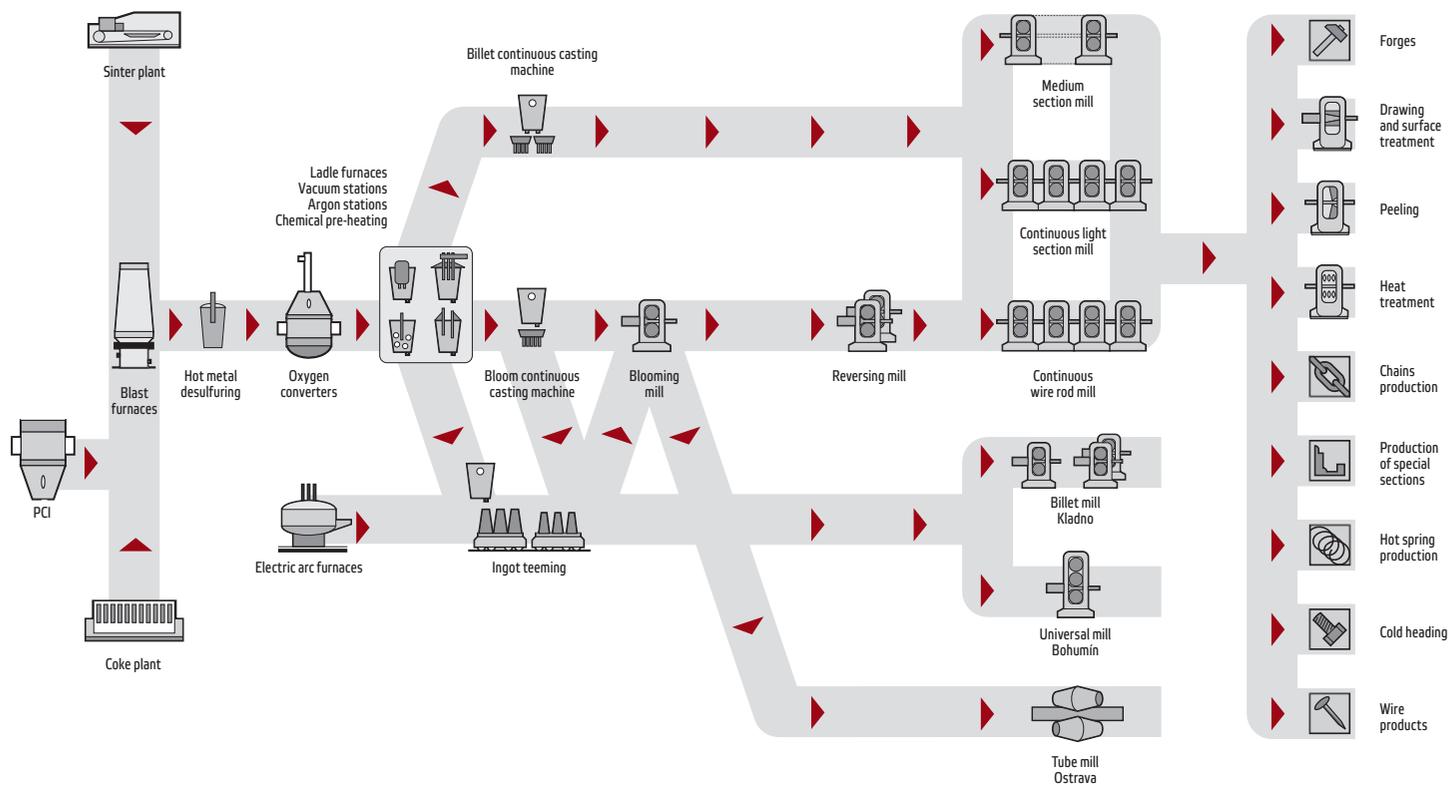
The sole shareholder of Třinecké železárny is commercial company MORAVIA STEEL a.s.

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

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



## MATERIAL FLOWS AND TECHNOLOGY



## 01

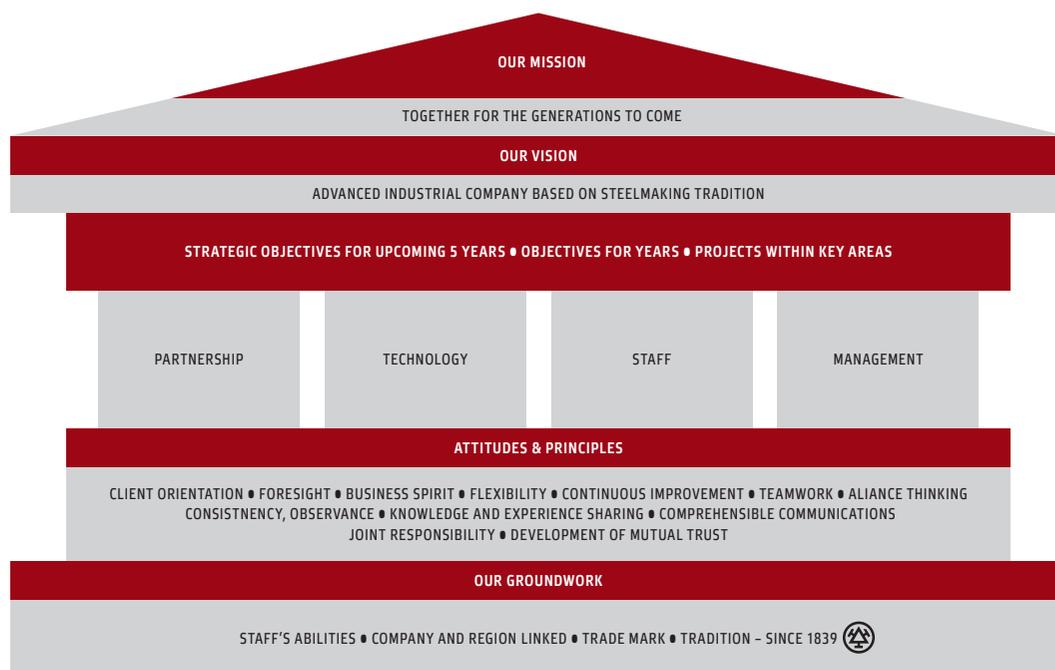
COMPANY PROFILE

Třinecké železářny has a capital share in 29 companies that are part of the product chains of Třinecké železářny or that provide other services.

The production facilities are located in Třinec, Kladno, Staré Město near Uherské Hradiště, Bohumín, Česká Ves near Jeseník, Ostrava, Dobrá near Frýdek-Místek, Kyjov, Prostějov, Radomsko (Poland), and Miskolc (Hungary).

To date, Třinecké železářny has produced more than 175 million tonnes of steel. Our products have been placed on the domestic market as well as bought by customers all over the world. More than half of the annual production of high-quality steel products bearing the trademark of three hammers in a circle has been directed to customers in more than 60 countries worldwide.

The corporate mission of Třinecké železářny “Together for the Generations to Come” highlights the role of a historically-dominant industrial company that influences a region with approximately 100,000 citizens. Responsibility for the further development of the surrounding region is included in the corporate mission.





# 02 [ SELECTED ECONOMIC INDICATORS 2010 – 2014

Selected economic indicators 2010 – 2014

INDICATOR	UNIT	2010	2011	2012	2013	2014
Pig iron production	kt	2 043	2 029	2 005	2 068	2 061
Crude steel production	kt	2 498	2 480	2 493	2 553	2 540
Of which continuous castings	kt	2 370	2 360	2 389	2 440	2 424
Sales of rolled products including steel	kt	2 338	2 302	2 332	2 405	2 272
Total revenues	CZK mil.	34 672	41 327	38 425	37 765	40 849
Income from sales of products, goods and services	CZK mil.	32 459	38 897	37 111	36 701	38 354
Export share	%	55.8	56.7	56.9	58.4	66.6
Total costs excluding income tax	CZK mil.	35 581	39 641	37 421	36 378	37 077
Net profit or loss	CZK mil.	-632	1 377	793	1 082	3 048
Consolidated profit or loss	CZK mil.	-1 047	1 376	1 055	1 376	3 518
Net total assets	CZK mil.	25 458	26 914	26 967	30 378	33 462
Brute tangible fixed assets	CZK mil.	26 940	27 816	28 388	29 934	33 372
Adjustments	CZK mil.	16 717	17 639	18 370	19 204	20 479
Equity	CZK mil.	18 111	19 361	20 155	21 264	24 512
Capital investments	CZK mil.	1 307	545	744	1 653*	2 007*
Other capital including other liabilities	CZK mil.	7 347	7 552	6 812	9 115	8 950
Employees (average adjusted total)	persons	5 905	5 943	5 962	6 099	6 909
Average monthly wage	CZK/person	24 201	27 402	27 500	27 750	28 396

\*without subsidies

## 03

SUPERVISORY BOARD AND  
BOARD OF DIRECTORS

## SUPERVISORY BOARD



Tomáš Chrenek



Ján Moder



Evžen Balko



Jozef Blaško



Jiří Cieňciała



František Ligocki

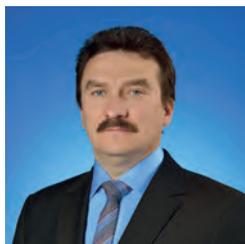
TITLE	NAME	RESIDENCE	CHANGES
Chairman	Tomáš Chrenek	Praha 9, Koloděje, Podzámecká 1, Postcode 190 16	
1st Vice-Chairman	Ján Moder	Bystřice 1241, Postcode 739 95	
2nd Vice-Chairman	Evžen Balko	Bystřice 1241, Postcode 739 95	
Member	Jozef Blaško	Košice, Československého odboja 74, Slovak Republic, Postcode 04 001	
Member	Jiří Cieňciała	Vendryně 902, Postcode 739 94	
Member	František Ligocki	Jablunkov 311, Postcode 739 91	



## BOARD OF DIRECTORS



Jan Czudek



Česlav Marek



Petr Popelář



Henryk Huczala



Radomíra Pekárková



Ivo Žižka

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SUPERVISORY BOARD AND  
BOARD OF DIRECTORS

TITLE	NAME	RESIDENCE	CHANGES
Chairman	Jan Czudek	Jablunkov 373, Postcode 739 91	
1st Vice-Chairman	Česlav Marek	Třinec, Oldřichovice 202, Postcode 739 61	
2nd Vice-Chairman	Petr Popelář	Ostrava-Dubina, Václava Košaře 86/21, Postcode 700 30	till 31.3.2014
2nd Vice-Chairman	Henryk Huczala	Komorní Lhotka 223, Postcode 739 53	since 1.4.2014
Member	Henryk Huczala	Komorní Lhotka 223, Postcode 739 53	till 31.3.2014
Member	Radomíra Pekárková	Bohumín , Čsl. legii 182, Starý Bohumín, Postcode 735 81	since 1.4.2014
Member	Ivo Žižka	Třinec, Oldřichovice 873, Postcode 739 61	

# 04 [ INTRODUCTORY WORD OF THE CHAIRMAN OF THE SUPERVISORY BOARD

## TO OUR CUSTOMERS, PARTNERS AND EMPLOYEES

Five years have passed, since the last global crisis; it seems that the situation is slowly improving and returning to normal. Steel industry, however, is a discipline that is very responsive not only to every fluctuation of the economy, but also to the ad hoc decisions, where for example aims to improve the environment finally mean a dramatic threat to the competitiveness of the European steel industry. Steel industry is also a field, where the consequences of management decisions are reflected years later, sometimes even decades, in either a positive or a negative way.

Therefore, in the case of our company I can speak on the results of the great commitment of all stakeholders, such as the management, employees, customers, suppliers as well as our other partners. I am pleased to be a messenger of good news that even in these increasingly uncertain times we achieved a profit after tax of slightly more than CZK 3 billion, which is comparable to our record year in 2007.

In comparison to 2007, also shows the hurdles that the European steel industry has overcome in the last seven years and how it was influenced by the economic crisis that erupted in 2008–2009, from which many manufacturers have not yet fully recovered. Production in EU countries dropped almost 20 %, and its range is below 170 million tons. Steel consumption in Europe as a whole fared even worse, as it has decreased by more than 30 % within given period. The only consolation for us in this situation is the fact that the segment of long products with higher utility value has not been affected to such an extent as other product groups.

For 2015, we still expect some recovery in developed countries, which compensates for weaker growth dynamics in developing countries. In the case of China, it shows the implications of structural economic transformation. Causes of the slowdown in consumption of steel in Latin America and the former Soviet Union are commodity prices as well as some geopolitical tensions. On the other hand, thanks to economic reforms, India is successfully keeping growth dynamics of the consumption of steel holding at a higher level. Countries of the Middle East and Africa, where the potential for growth in consumption of steel products is highest, are gradually becoming the drivers of growth in global steel consumption.



**WITH REGARD TO  
CURRENT CONDITIONS  
OF EUROPEAN STEEL  
INDUSTRY OUR  
ACHIEVEMENTS DO NOT  
COME AUTOMATICALLY**



Besides the continuation of moderate recovery, the steel industry within the European Union is expecting important decisions that have to be adopted within the highest bodies of the EU at the end of 2015. EU leaders are starting to realise that setting unrealistic targets on climate change may ultimately lead to an increase in industrial production drifting away from the EU, with all kinds of social and economic consequences. Therefore, we all welcome the material from the European Commission entitled "Action Plan for a competitive and sustainable steel industry in Europe," and we believe that the highest authorities of the EU choose more realistic targets in their decision making process in the field of climate change. Limits, which are currently being negotiated, are in fact technically almost unattainable and do not take into account steel's contribution as an essential material for the vast majority of environmental projects. We also should not forget the issues regarding energy policy, which is also critically important for the steel industry.

Our achievements were not done in vain in the current conditions of the European steel industry. They are the culmination of the great involvement of our employees in their daily work, as well as continuously improving collaboration with our partners and responsible decisions on the part of our managers. Thank you all for recent as well as any future cooperation in the implementation of our corporate strategy.

] 04

INTRODUCTORY WORD  
OF THE CHAIRMAN OF  
THE SUPERVISORY BOARD

**Tomáš Chrenek**

Chairman of the Supervisory Board

## 05

BOARD OF DIRECTORS'  
REPORT**DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION**

In 2014, the gross domestic product in the Czech Republic recorded a growth of 2.0% in comparison with the previous year. After two years of decline of the gross domestic product (2012–2013), the result of 2014 hit the same number as in 2011. The Czech economy has achieved very good financial highlights in comparison with the other European countries where economic growth recorded was smaller by half. The main driving force of demand in every quarter of the previous year was foreign trade, where the export year-on-year growth (9.6%) surpassed the import (8.8%). In 2014 the economic growth was supported by the final consumption of households and the expenditure of government institutions. The highest share of gross domestic product in supply was represented by the manufacturing industry, particularly by the transportation industry, machines and facilities and production of metals and constructions. Its share in the growth of gross domestic product was more than half in every quarter of the previous year. Transport, services in the field of properties and public administration recorded a significant increase. On the contrary construction and agriculture slightly decreased.



**TŘINECKÉ ŽELEZÁRNY  
HAS MAINTAINED  
ITS LEADING POSITION  
OF THE LARGEST STEEL  
MAKING COMPANY  
IN THE CZECH REPUBLIC**

In 2014, steel production in the Czech Republic increased year-on-year by 3.7%, from 5.17 million tonnes to 5.36 million tonnes of crude steel. Třinecké železářny produced almost the same volume of crude steel as in the previous year and retained the position of the biggest Czech steel producer. The Czech steel industry recorded stable development in 2014 with regard to production, consumption and commerce. Despite the gradual growth of steel production in the Czech Republic, the realised volumes in 2014 were lower by 20 to 25% than in 2007, this means before the beginning of the global financial crisis.

The total global production of crude steel has increased and recorded a new record for global crude steel production of more than 1.66 billion tonnes. Crude steel production in China reached the highest growth and amounted to 779 million tonnes, which is a 0.9% increase. Other Asian countries recorded a rise as well. Taking into consideration the achieved global crude steel production the difference between China – global top in crude steel production – and Japan that ranks second was more than 700 million tonnes in the previous year, this is almost half of the total global production of crude steel. A persisting issue in steelmaking in the last few years has been a surplus of demand that pushes the prices of final production down. The EU industry is still awaiting the consensus in climate-energetic strategic concept that would prevent the displacing of the European steel industry and strengthen its competitiveness.



## PRODUCTION AND POSITION ON THE MARKET

The production of crude steel grew by 20 million tonnes. According to worldsteel, global steel production reached 1,662 million tonnes, a 1.2 % decrease. Asia accounted for the biggest share in this growth (+16.2 million tonnes) with the highest volume of crude steel produced in China, growing by 7.3 million tonnes. The most dynamic growth of crude steel production was achieved in the Middle East, where the production increased year-on-year by 7.7 %. Moderate growth was recorded in North America as well. In Europe, steel production in the EU 28 countries grew by 1.7 % year-on-year to 169.2 million tonnes. On the contrary the conflict in the Ukraine affected the level of crude steel production in CIS countries where the production amounted to 105.1 million tonnes, a 2.8 % drop.

The share of EU 28 in the global steel production has remained approximately at the same level that is 10.2 %. The most significant growth was recorded in Poland (+0.7 million tonnes), France (+0.5 million tonnes), and Germany (+0.3 million tonnes). On the contrary, Italian steel production dropped year-on-year by 0.3 million tonnes. The average utilisation rate of the steel producing capacities in EU countries decreased to a level of 76.7 %.

The Czech steelmaking companies produced 5.36 million tonnes of steel in 2014, this is a 3.7 % growth in comparison to the previous year. The production of rolled products achieved 4.8 million tonnes in the last year, which matches the production results of 2013. The volume of annual steel production reached the same level that the domestic steel companies recorded before the global financial crisis in 2007. At present the Czech steelmaking industry shows stable development with regard to production, consumption and trade.

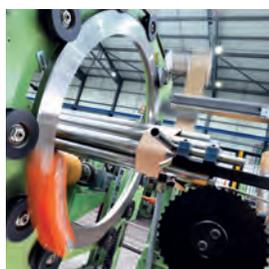
The recovery of the main consumption segments of steel (construction, machinery, transport measures) in the EU 28 is forecasted by the worldsteel association for the year 2015. The growth in consumption is expected to rise by 2.9 %. According to worldsteel, global steel production should increase by 2.0 % and reach 1,594 million tonnes in 2015. The most considerable growth is forecasted in Africa, the Middle East, South and Central America. A moderate increase in steel consumption is expected in North America as well.

In 2014 China recorded, for the first time in 14 years, a decrease in domestic steel consumption and that is why China has started to export the surplus of steel to foreign markets. The Chinese State Council plans to direct part of its steel overproduction towards foreign projects regarding the railway constructions in Russia and Thailand, as well as the contract between China and African countries that are considering the construction of transport infrastructure till 2025.

# 105

BOARD OF DIRECTORS'  
REPORT

## 05 [

BOARD OF DIRECTORS'  
REPORT

**WE HAVE INCREASED  
A SHARE OF  
PRODUCTION OF STEEL  
BARS AND PROFILES  
WITH HIGHER  
ADDED-VALUE**

The European steel market has been positively influenced by the decision of the European Central Bank, which has approved the realisation of approximately EUR 60 billion since March 2015 till September 2016 in support of economy recovery. The increasing demand on alloyed steel products in Europe provides an opportunity for European steelmaking companies to improve the added value of their products. Further European steel-makers are able to aim their products at growing markets in the Middle East and Africa.

The threat to the European steel industry from a global point of view would be an increase in the amount of cheap Chinese steel, high prices of energy, environment protection tax, an aging population and its decline and a reluctance to make necessary economic reforms.

Since 2009 Třinecké železářny has become the biggest crude steel producer in the Czech Republic. In 2014 Třinecké železářny produced 2.54 million tonnes of steel and our share on domestic production reached more than 47 %.

Třinecké železářny sold 2.27 million tonnes of long rolled products. Our sales of long rolled products decreased by 5.5 % in comparison with the previous year. This decline is connected with lower production as a result of a more than one month long interruption of production operations in the wire rod rolling mill, which was modernised during this time. Thanks to this investment, we have ranked among the top global producers of wire rod. Wire rod was the most significant part of our product portfolio and reached a volume of 815.4 thousand tonnes. The carbon steel designated for the production of exacting parts for the automotive industry and machinery recorded the highest growth. The sales of drawn wire rods designated for screw and bearing production has also been higher.

The merger by incorporation of the subsidiary Sochorová válcovna TŽ, a.s. (at present the production plant Sochorová válcovna in Kladno) to Třinecké železářny as the acquiring company has caused a change in reporting of the production portfolio. On the one hand, we recorded a year-on-year decrease of sales of semis (before the merger the deliveries of inputs to the subsidiary Sochorová válcovna TŽ, a.s.). On the other hand, we registered a growth of sales of profiles and bars.

The direct sale of semis without subsidiaries reached an amount of 297.6 thousand tonnes, which is a growth of 4.1 % year-on-year. The domestic sales of semis increased by 5.8 %, export recorded a growth of 2.4 %. We succeeded in increasing the export volumes for our customers particularly from Germany. Třinecké železářny delivered to its subsidiaries 7.2 thousand tonnes of semis.

Sales of profiles and bars amounted to 569.8 thousand tonnes in the last year. Thanks to the provided investment in a peeling and final treatment line, Třinecké železářny has been continuously increasing the share of profiles and bars with higher added value designated for the branch of transport measures and machinery. Sales of rails and railway accessories reached a total volume of 284.1 thousand tonnes, a growth of 0.2 %.

The domestic sale of rails and railway accessories increased by 44 %. Despite lower exports, we succeeded in supplying rails and railway accessories to Poland, the USA, Israel, and Brazil. Regarding transportation cost, rails are the only product in our product portfolio that we are able to export to all the countries all over the world.

The volume of sales of seamless tubes reached 96 thousand tonnes in 2014. The biggest share in the growing volume of sales is comprised of oil tubes delivered to the United States of America. The domestic supply of tubes amounted to approximately 12 %. The main export territories have remained Germany, the USA, Italy, and Poland. Seamless tubes produced in Třinecké železářny are intended particularly for building constructions and for further processing in machinery, energies and for raw material extraction and transport.

The volume of sales of wide steel produced in the universal strip mill in Bohumín was steady last year. The core deliveries are still to the construction steel grades for civil engineering. The year-on-year decrease of sales of wide steel by 5.5 % was caused by lower volumes of exports, while the demand has moved to smaller widths of steel with higher yield stress.

Drawn steel production and sales in Třinecké železářny increased year-on-year by 7.0 %. The volume of drawn bars recorded the highest growth. Drawn bars are used for further treatment in the branch of rapport measures and machinery, particularly for automotive parts that dampen road bumps, secondarily for steering and machining components. In 2014, the largest volumes were directed at the domestic market, further to Germany, Poland, Hungary, Slovakia, and Slovenia. Cooperation with Balkan and Nordic countries has been developing promisingly.

Continuous increase of the share of alloyed steel and the finalising of bars – drawing, peeling, heat treatment and the following belong to our priorities.

### Sales of long products 2012 – 2014

Sales (tonnes)	DOMESTIC			EXPORT			TOTAL		
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Wire rod	314 452	338 919	285 794	602 265	608 610	529 630	916 717	947 529	815 424
Semis	454 968	458 059	176 250 <sup>1</sup>	130 235	146 156	199 853	585 203	604 215	376 103 <sup>1</sup>
Profiles and bars	163 499	157 010	215 067 <sup>2</sup>	181 486	190 052	354 733 <sup>2</sup>	344 985	347 062	569 800 <sup>2</sup>
Rails	22 504	22 049 <sup>3</sup>	39 397 <sup>3</sup>	245 958	261 370 <sup>3</sup>	244 693 <sup>3</sup>	268 462	283 419 <sup>3</sup>	284 090 <sup>3</sup>
Tubes	13 310	11 413	11 437	82 379	83 772	84 862	95 689	95 185	96 299
Wide steel	6 323	6 454	7 091	41 886	40 911	37 652	48 209	47 365	44 743
Drawn bars	24 126	23 671	27 567	42 871	49 837	51 070	66 997	73 508	78 637
Drawn wire rod	3 329	3 773	4 259	2 416	2 825	2 752	5 745	6 598	7 011
<b>TOTAL</b>	<b>1 002 511</b>	<b>1 021 348</b>	<b>766 862</b>	<b>1 329 496</b>	<b>1 383 533</b>	<b>1 505 245</b>	<b>2 332 007</b>	<b>2 404 881</b>	<b>2 272 107</b>

<sup>1</sup> without semis for previous subsidiary Sochorová válcovna TŽ, a.s. Kladno

<sup>2</sup> together with profiles from the production unit Sochorová válcovna in Kladno

<sup>3</sup> sales of rails together with railway superstructure accessories

### Our export territories

EXPORT SHARE %	2012	2013	2014
European Union	88.1	89.2	86.4
– Germany	26.2	26.6	25.3
– Slovak Republic	13.3	13.5	11.7
– Italy	13.0	12.9	12.9
– Poland	13.1	12.3	12.7
Other Europe	1.3	1.6	0.8
America	9.1	7.7	11.1
Africa	0.3	1.0	0.8
Asia	1.2	0.5	0.9
<b>TOTAL</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

## 05 [

BOARD OF DIRECTORS'  
REPORT**INVESTMENTS AND MODERNISATIONS**

The technical development projects plan for 2014, which is a part of the business plan, fully corresponds with our commercial–production strategy defined as “Increasing growth in the share of long products with higher added value and its control within the product chains.” Our investment projects were aimed at the modernising, environmental projects resulting from the conclusions of the integrated permits, projects to cut the costs as well as the project of renewal of current facilities.

Třinecké železářny invested CZK 3,237 million. The state aid to the commenced environmental projects provided by the State Environmental Fund was CZK 1,230 million.

In 2014, 33 running projects were going on. The most significant of them are:

- Peeling and heat treatment line of steel bars; and
- Modernisation of the continuous wire rod mill.

Třinecké železářny newly commenced 38 investment projects. The most significant of them are:

- Threading of tubes and couplings;
- Reconstruction of gas cleaning facility of converter No. 1 and No. 2; and
- Construction of two STC furnaces.

In 2014, we continued the implementation of 11 environmental projects with 90 % of the funding coming from state and EU aid and 5 environmental projects with 40 % of the costs funded through state aid. The most significant of them are:

- Reconstruction of emission exhausts at teeming halls of blast furnaces;
- Secondary de-dusting of the BOF hall; and
- De-dusting of fumes and nodes at Sinter Plant No. 2.

**TECHNOLOGY AND RESEARCH**

The objective of the technological activities is to achieve the strategic aims of the company and full satisfaction of customers. The main role of technology is further management and total stabilisation of the production process with an emphasis put on production efficiency which represents for example the reduction of costs of production together with the improvement of qualitative parameters of the manufactured semis, which is essential for strengthening our competitiveness. One of the main technological activities is the constant quality control of production in conjunction with customer requirements through 14 key production programs, which are the following:

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

The field of technology is managed by the technological regulations and measures. It is aimed at managing this process in the production material flow from pig iron and steel production to final treatment operations in particular rolling mills. We put emphasis on product quality control and secondary production processes which bring added value to produced semis as hot treatment, or their drawing where needed.



**IN 2014 TŘINECKÉ  
ŽELEZÁŘNY INVESTED  
A RECORD-BREAKING  
LEVEL OF CZK 3.237  
BILLION**



Technological regulations and measures mentioned above are closely connected with the requirements of customers in synergy with the possibilities of production facilities and they are continuously updated with regard to research and development activities, eventually with innovation technology. The implemented “Quality Plans” and “Programme of Continual Improvement” as a part of the “Quality Objectives” are tools for guarantee of the most significant customers, eventually for the implementation of new technologies or new product.

In 2014 the Research and Development (R&D) concentrated on the issue of present quality of the whole product portfolio and at the same time on secondary raw materials and waste treatment recycling, repeatedly used in production of steel semis.

These activities are aimed at lowering or eliminating of non-conformity of production and achieving of maximum satisfaction of still growing quality demands of customers.

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

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

In 2014, Třinecké železářny managed 28 research projects, 5 of which were with state aid.

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BOARD OF DIRECTORS'  
REPORT

# 05 [

BOARD OF DIRECTORS'  
REPORT



## ENVIRONMENT

### Air protection

Compared to 2013, Třinecké železářny achieved a further decrease of solid emission by more than 5 %, at a record low level of 560 t/year. The highest decline of emission was recorded in the several sources of pollutants of the iron and Steel Production Plant and in many smaller sources as well. The slight drop was registered for nitrogen oxides. On the other hand, we recorded a slight increase of emissions of carbon monoxide and sulphur dioxide where the most considerable reason was the growth of sulphur in the feedstock and fuels, especially in sintering process with further impact on sulphur dioxide emission.

Slight increase in emissions marked as "other" is due to the increased number of pollutants that we have an obligation to track since 2014.

Třinecké železářny concluded the voluntary agreement with the Ministry of Environment of the Czech Republic in the first half of 2014. The aim of this agreement is to achieve further decrease of load value of landscape, particularly a decline of air pollution. By signing this agreement, Třinecké železářny accepted a total of 16 commitments for improving living conditions in the region.

### Water protection

When compared to 2013, there was not any significant recorded change in 2014 in the amount of industrial waste water discharged into the Olše River watercourse and in the pollution of water. This corresponds to the long-term stabilised state of our water management. The quality of wastewater has led to a sustainable level with respect to compliance with specified limits of pollution.

Also, in terms of the production of waste water per tonne of steel produced, the situation of 2014 is positive in comparison with the situation of 2013. The production of waste water decreased by more than 10 % from 1.75 to 1.57 cubic metres per tonne of steel produced.

During 2014, there was no instance of emergency that would result in the deterioration of, or threat to, the quality of groundwater or surface water.

# 05

BOARD OF DIRECTORS'  
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### Emissions from 2012 to 2014

YEAR	SOLID POLLUTANTS (t/year)	SULPHUR DIOXIDE (t/year)	NITROGEN OXIDES (t/year)	CARBON MONOXIDE (t/year)	OTHER EMISSIONS (t/year)
2012	581	2 323	1 453	59 769	66
2013	594	2 425	1 410	60 698	56
2014	560	2 566	1 362	62 999	64

### Pollution discharged into water flows in Třinecké železářny

YEAR	VOLUME OF WASTEWATER (m <sup>3</sup> /year)	UNDISSOLVED SUBSTANCE (t/year)	NON-POLAR EXTRACTED SUBSTANCE (t/year)	DISSOLVED INORGANICAL SALTS (t/year)	CHEMICAL OXYGEN CON- SUMPTION USING DICHROMATIC METHOD (t/year)	TOTAL IRON (t/year)
2012	4 370 584	42.0	0.80	2 142	73.6	4.6
2013	4 618 752	44.5	0.65	2 143	77.3	4.2
2014	3 992 219	28.0	0.42	2 047	44.3	3.7

## 05 [

BOARD OF DIRECTORS'  
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**A TOTAL OF CZK 1.533  
BILLION WAS INVESTED  
INTO ENVIRONMENTAL  
PROJECTS**

### Waste management

In 2014 there was a limitation of the species composition of the waste generated in connection with the TŽ main production activity, as well as an overall reduction in the amount of waste produced. The waste of the category “Other” – pollutants from the first sections of electrostatic separators of sinter plants together with previously hazardous waste – oily scales were reassigned to the mode of by-products.

The total amount of waste reached 158,602 tonnes, a 44 % decrease in comparison with the previous year (281,279 tonnes). The indicator of the amount of waste per one tonne declined as well and amounted to 62.4 kg/tonne, this is a 43.3 % drop compared with 2013 (110 kg/tonne).

The growth of the category “Hazardous waste” (an increase of 109 %) does not correspond with the total decline of waste produced. The rise of “Hazardous waste” was caused by the growth of fine sludge from the BOF steel plant’s former by-product; this year it was not possible to handle it to the certified product – Fe correction, and waste – oily mill scale from the Billet Mill in Kladno.

### Environmental Projects:

In 2014, the implementation of below stated environmental projects commenced or continued:

- Modernisation of the coke-oven battery No. 11 (preparatory stage);
- Processing the oily scales;
- De-dusting of fumes and nodes at sinter plant No. 2;
- Reconstruction of emission exhausts at teeming halls of the blast furnaces secondary de-dusting of the BOF hall;
- De-dusting of the workplace for flame cutting the ingots;
- Decrease of emissions at the facility for production the blast furnace charge;
- De-dusting of multi-functional facility for production of steel plant sinter;
- De-dusting of the iron ore pellet sorting line;
- Mobile de-dusting equipment;
- Multi-purpose de-dusting unit;
- De-dusting of tipplers No. 3 and 4;
- De-dusting of the coal unloading pit;
- Decreasing the fugitive emissions at the crushing lines and slag handling;
- Decreasing the fugitive emissions at the slag mill;
- Decreasing the fugitive emissions at the multi-purpose environmental area;
- Purchase of the universal spray-sweeper car;
- Decreasing the fugitive emissions at the iron ore belt conveyor – mist visor;
- Decreasing the fugitive emissions at the mobile industrial vacuum cleaners;
- De-dusting of RH 2 vacuum station;
- De-dusting of tundish section of the continuous casting machines No. 1 and 2; and
- Insulating greenery.

In 2014, a total of CZK 1,533 million was invested into environmental projects, of this CZK 1,230 million was in subsidies from the State Environmental Fund.



### Emissions of greenhouse gases

For the year 2013, the emissions of greenhouse gases from installations in the Třinec area of TŽ were in the amount of 2,735,869 tonnes, the value of specific emissions were 1.072 t of carbon dioxide per tonne of crude steel.

In 2014, Třinecké železářny has managed to reduce greenhouse gas emissions from its facilities in the area in Třinec to 2,630,157 tonnes. GHG emissions from installations in the Billet Mill plant in Kladno make 50,987 tonnes and 5,251 tonnes from the tube mill in Ostrava. The total amount of greenhouse gases from TŽ installations for the year 2014 amounted to 2,686,395 tonnes. The value of specific production emissions of carbon dioxide per ton of crude steel decreased to 1.057 tonnes, representing a decrease of 3.86 %. This decrease is mainly due to a decrease in consumption of blast furnace gas.

### Expected environmental projects in 2015

The technical development plan for 2015 includes the environmental investment projects plus those, for which Třinecké železářny has received state subsidy from the State Environmental Fund (call No. 36, 38 and 48), and those, which continue from the previous period:

- Modernisation of the coke-oven battery No. 11;
- Adding the active coal to the fumes of Sinter plants No. 1 and 2;
- De-sulphuring Sinter plants No. 1 and 2;
- Reconstruction of filling the container below the cloth filters at Sinter plant No. 1;
- Reconstruction of mixing the dusts at Sinter plant No. 2;

- Construction of hot stove No. 64;
- Reclamation of the Neboranka dump;
- De-dusting of the coal unloading pit;
- De-dusting of fumes and nodes at sinter plant No. 2;
- Reconstruction of emission exhausts at teeming halls of the blast furnaces;
- Secondary de-dusting of the BOF hall;
- De-dusting of the semis flame cutting place;
- Decrease of emissions at the facility for production the blast furnace charge;
- De-dusting of multi-functional facility for production of steel plant sinter;
- De-dusting of the iron ore pellet sorting line;
- Mobile de-dusting equipment;
- Multi-purpose de-dusting unit;
- De-dusting of tiplers No. 3 and 4;
- Decreasing the fugitive emissions via the mobile industrial vacuum cleaners;
- Decreasing the fugitive emissions at the iron ore belt conveyor - mist visor;
- Purchase of the universal spray-sweeper car;
- Decreasing the fugitive emissions at the crushing lines and slag handling;
- Decreasing the fugitive emissions at the multi-purpose environmental area;
- De-dusting of RH 2 vacuum station;
- De-dusting of tundish section of the continuous casting machines No. 1 and 2; and
- Insulating greenery.

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BOARD OF DIRECTORS'  
REPORT



# 05 [

BOARD OF DIRECTORS'  
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## EMPLOYEES

The key manners of behaviour of the employees of our company, including abiding by the principles of corporate social responsibility, are defined by the Conditions of Employment and Code of Ethics. The essential benefits of the employees are codified in the Corporate Collective Agreement and related Social Code. These documents are then elaborated in the related internal regulations that are obligatory for all the employees.

In 2014, attention within the human resources department was paid to acquiring technically educated graduates of high schools and universities in order to ensure the generation exchange and ordinary fluctuation, and to maintaining and further developing the qualification of employees with respect to maximum cost savings.

The graduates of the technical fields of the Střední odborná škola Třineckých železáren, a school which Třinecké železářny founded, were recruited in 2014. The 14th round of the training centre for university graduates was fulfilled and co-operation with the schools in all the various grades went on. An example of the successful human resource work is ensuring the smooth start up of the investment projects (new peeling and heat treatment line in the rolling mill of wire rod and light sections, increasing of production in drawing mill, recycling of oily scales, de-dusting of the hall of BOF steel plant and following environmental projects).

The education and training of employees reflected the organisational and personnel changes in order to ensure the qualification standard of employees within the whole range of professions. The education events focused especially on the professional preparation of employees and education regarding quality. The language courses as well as management training went on, workshops for adopting the specialist knowledge were organised. Within the project Corporate Academy, the application was created. The main objective is to support wider involvement of employees and internal coaches in the process of maintaining and developing the qualification standard in Třinecké železářny as well as to intensify the knowledge capacity of all employees. The Corporate Academy is an instrument for mutual discussion and shared learning.

Following the previous years, attention was paid to the premium health care of the employees. Using the financial support of Czech Industrial Health Insurance company, the wellness stays in spas as well as outpatient remedial were organised. As part of the anti-flu measures, preventive vaccination has been offered to employees as well as the provision of vitamins. As part of the traditional Health Days, an outpatient remedial was newly put in place that is comprised of prepared “activity packages” including a mix of exercises, relaxation and rehabilitation procedures and consultancy in the field of healthy diets. The integral part of the Health Days was the training of first aid and life saving.

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

In 2014, a total of 21 work accidents was recorded in Třinecké železářny with lost time accident longer than 3 days (12 work accidents occurred in relation with operating technologies). No fatal or serious accident occurred. The level of the accident rate for 2014 is 0.32 per 100 employees of Třinecké železářny.

There were no occupational diseases recorded in 2014.

Within the personnel work and motivation, all efforts were focused on maintaining the required volume of production, full utilisation of facilities while maintaining the high standard of quality, manning the start up of the implemented investment projects.

Fullfilling and exceeding the financial results enabled the achievement of average salary in the amount of CZK 28,396, which represents a significant growth of salary than it was concluded in the collective agreement. All other obligations contained in the collective agreement and social code were met. The high standards of care for employees and their health together with provision of employee benefits were enhanced.

The personnel strategy and its objectives incorporated into the Business plan for 2015–2019 was updated in relation to the results mentioned above.

In 2014, the average adjusted headcount grew to 6,909 employees. The increased number of employees was caused by the merger of Sochorová válcovna TŽ, a.s. and transfer of equity of the company to the acquiring company Třinecké železářny.

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BOARD OF DIRECTORS'  
REPORT



**EXCEEDED FINANCIAL RESULTS REFLECTED IN THE GROWTH OF AVERAGE SALARIES OF STAFF BEYOND THE FRAMEWORK AGREED IN THE CORPORATE COLLECTIVE AGREEMENT**

# 05 [

BOARD OF DIRECTORS'  
REPORT



## MANAGEMENT SYSTEM

The company management system is instrumental in implementing the business strategy with the aim of gradually increasing the proportion of high-grade steel products, creating and developing product chains and intensively using assets while increasing the return on sales.

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

During 2014, a series of measures were adopted to support the strategic objectives in all strategic areas (Partnership, Technology, Staff, and Management). The company managers, who are responsible for the strategy, attended the educational events regarding the legislation changes, presentation skills, and prevention of health damage due to the excessive stress.

The management system, including the information systems, did not change in 2014. As a result of the merger, the company Sochorová válcovna TŽ was incorporated into the organisational structure of TŽ according to existing rules management system. The information platform still consists of SAP and Lotus Notes.

Long term targeted effort on responsible behaviour towards the environment and people of the region continued in 2014 as events like cleaning the Olše riverbed, organising help of TŽ employees to NGOs or by signing up for the competition of the social responsibility announced by the Governor of the Region.

TŘINECKÉ ŽELEZÁRNY, a. s. has a share in 29 companies. Most subsidiaries are focused on activities directly or indirectly related to the business in the steel sector and this focus matches the long-term business strategy of the company.

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

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BOARD OF DIRECTORS'  
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**TŘINECKÉ ŽELEZÁRNY  
HAS A CAPITAL SHARE  
IN 29 COMPANIES**

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BOARD OF DIRECTORS'  
REPORT**FINANCIAL INFORMATION**

In 2014 the pre-tax profit amounted to CZK 3,772 million, which represents a growth by CZK 2,385 million year-on-year.

In 2014 Třinecké železářny merged in the form of merger so that Sochorová válcovna TŽ, a.s. was dissolved after a transfer of equity of the company to the acquiring company Třinecké železářny.

Compared to 2013, the amount of profit before taxation was positively influenced by higher volume of sold rolled products and steel together with the favourable price trends at the markets of the input materials as well as by implementation of new technology PCI (Pulverized Coal Injection) and the merger mentioned above.

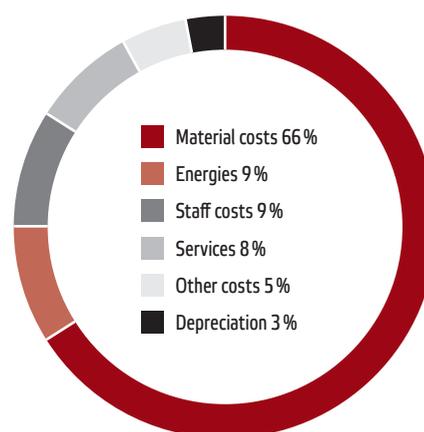
The production of the company reached the level of CZK 39,582 million, which represents a growth of CZK 2,474 million year-on-year. This increase was caused mainly by higher market prices of rolled products and steel (CZK +1,683 million) and growth in inventories of own activities by CZK 799 million which was further caused by an increase in the volume of semis and final products.

The purchased consumables were lower by CZK 251 million compared to 2013. The most significant influence on the year-on-year decline was the consumption of the raw materials in relation to the implementation of new technology PCI (Pulverized Coal Injection to Blast Furnaces), and thus decreasing prices of the decisive input commodities and lower steel production.

The added value amounted to CZK 8,411 million in 2014, which is CZK 2,724 million more than in 2013. The labour productivity from the added value was CZK 1,217 thousand per employee in 2014 which is a growth by 31 % year-on-year.

The operating profit grew by CZK 2,220 million year-on-year.

The financial result grew by CZK 165 million compared to 2013 (the increase year-on-year was influenced by the re-adjustments valuation on long-term financial investments in 2013).

**Cost structure****Development of Revenues**

Indicator (in CZK thousand)	2012	2013	2014
Rolled goods incl. steel	35 666	35 272	36 956
Other products	1 020	1 003	930
<b>Sales of own products</b>	<b>36 685</b>	<b>36 275</b>	<b>37 886</b>
Revenues from services	415	424	466
<b>Sale of own production, services and goods</b>	<b>37 100</b>	<b>36 699</b>	<b>38 352</b>



As of 31. 12. 2014, Třinecké železárny reported assets in the total amount of CZK 33,462 million, which is CZK 3,084 million more than on 31. 12. 2013.

Year-on-year increase was due to higher current assets and accrued by CZK 3,014 million. Fixed assets grew by CZK 70 million.

Compared to 2013, tangible and intangible assets increased by CZK 2,404 million (investments were higher than depreciation – the impact of the aforementioned merger by acquisition of a company Sochorová válcovna TŽ).

Long-term financial assets decreased by CZK 2,334 million, particularly in connection with the above-mentioned merger of the company Sochorová válcovna TŽ.

The increase in inventories of CZK 2,338 million has been due to an increase in material inventories and an increase in the volume of semi-finished and finished products in stock compared to the end of 2013, which related to the modernisation of the continuous wire rod mill and the above-mentioned merger of a company Sochorová válcovna TŽ. Receivables decreased by CZK 180 million due to a decrease in trade receivables.

Short-term financial assets grew by CZK 837 million, other assets by CZK 19 million.

Within liabilities, the share of own resources in the total resources of the company grew by CZK 3,249 million year-on-year thanks to the achieved profit after taxation.

External resources including the other liabilities dropped by CZK 165 million, especially due to the decrease of long-term bank loans (in connection with the early repayment of the syndicated loan financing the modernisation and reconstruction of coke oven battery No. 12) as well as the short-term bank loans. The reserves also decreased. Short-term liabilities grew especially due to the trade payables. Long-term liabilities grew due to the increase of deferred tax liability.

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BOARD OF DIRECTORS'  
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## STRATEGIC OBJECTIVES

Global steel consumption continues the trend of moderate growth that can be expected in the near future as well. The steel sector is facing price volatility of raw materials and excess production capacities, which negatively affect the margins of the industry. These trends are reflected in particular within the EU countries. Despite the anticipated closures of obsolete plants, the steel companies will continue to invest in new facilities. A large part of steelmaking capacity goes unused, especially in the range of products with lower added value.

To maintain the TŽ competitiveness in accordance with the adopted corporate strategy developing products of higher quality and utility parameters are investing in the treatment and processing capacities such as refining, peeling and drawing while reducing production costs and improving environmental protection. In 2014, we started production on a new peeling and processing line of steel bars, modernised the wire rod and brought a significant part of the de-dusting equipment for teeming halls of blast furnaces into operation.

In the near future, we plan to overhaul the coke oven battery No. 11, modernise the operations in steel production with the development of casting capacities, including the converters gas cleaning station reconstruction as well as modernise the blooming mill. Meantime, we are finalising the crucial environmental projects that will reduce the amount of air emissions by about one third in comparison with the previous year. The reconstruction of the secondary de-dusting of the BOF hall and de-dusting of flue gas and nodes of Sinter plant No. 2 are the most significant of them.

# 06 [ REPORT OF THE SUPERVISORY BOARD

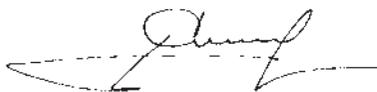
The Supervisory Board regularly checked the compliance of the business activities with legal regulations, the Articles of Association of TŘINECKÉ ŽELEZÁRNY, a. s., and resolutions of the General Meeting and the Supervisory Board. During the course of 2014, the Board of Directors informed it of the current economic situation of TŘINECKÉ ŽELEZÁRNY, a. s., as well as on fulfilling the Business Plan.

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

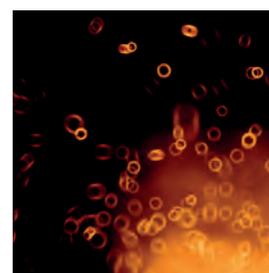
At its meeting on 27 April 2015, the Supervisory Board reviewed the regular financial statements and the regular consolidated financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. for 2014, the proposal for the distribution of profit generated in 2014 and the report of the Board of Directors on the business activity and the assets of the Company.

Based on the audit of the unconsolidated financial statements and consolidated financial statements as of 31 December 2014 by Deloitte Audit s.r.o. and their opinions, which were unqualified, the Supervisory Board recommends that the General Meeting of the shareholders of TŘINECKÉ ŽELEZÁRNY, a. s. approve the above-mentioned documents.

The Supervisory Board also reviewed the Report on Relations for the 2014 accounting period and, considering opinion of Deloitte Audit s.r.o., it concluded that it was prepared in conformity with the Law No. 90/2012 Coll. on commercial companies and cooperatives and the actual state of relations between TŘINECKÉ ŽELEZÁRNY, a. s., and controlling entities, as well as between TŘINECKÉ ŽELEZÁRNY, a. s., and entities controlled by the same controlling entity.



**Tomáš Chrenek**  
Chairman of the Supervisory Board



**THE PROFIT AFTER TAX  
AMOUNTED TO OVER  
CZK 3 BILLION, THIS IS  
COMPARABLE WITH OUR  
RECORD LEVEL IN 2007**

## 07

## REPORT OF THE AUDIT COMMITTEE



**LABOUR PRODUCTIVITY  
OF VALUE ADDED PER  
EMPLOYEE HAS RISEN  
BY 31 % YEAR-ON-YEAR**

The Audit Committee of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter “TŽ”) monitored the procedure of preparing the financial statements and the consolidated financial statements of TŽ in accordance with the schedule of the Audit Committee. The Audit Committee also monitored the course of the statutory audit of individual regular financial statements of individual companies controlled by TŽ in 2014 and the consolidated financial statements of TŽ for 2014. The procedure of preparing the individual and consolidated financial statements of TŽ for 2014 took place in accordance with Czech and International Accounting Standards; these financial statements are audited.

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

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

Moreover, the Audit Committee discussed at its meetings the information on risk management and hedging as well as the plan of activities for internal audit for 2015.

In conclusion, the Audit Committee is able to state that in regard to the main activities that are entrusted as the committee’s main activities by the applicable laws and the Articles of TŽ (i.e. monitoring the process of preparation of financial statements, including the consolidated financial statements, monitoring the process of the statutory audit of the financial statements and consolidated financial statements, assessing the effectiveness of the internal control system and evaluating the independence of the external auditor) the Audit Committee did not find any significant facts on the company’s activities in the course of 2014 or in the existing part of 2015 until the General Meeting, about which the General Meeting of TŽ, or the sole TŽ shareholder, should be informed at the General Meeting.

**Dana Trezziová**

Audit Committee Chairwoman



**Auditor's Responsibility**

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

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

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

**Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the TRINECKÉ ŽELEZÁRNY, a. s. consolidation group as of 31 December 2014, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.\*

**Report on the Related Party Transactions Report**

We have also reviewed the factual accuracy of the information included in the related party transactions report of TRINECKÉ ŽELEZÁRNY, a. s. for the year ended 31 December 2014 which is attached as an Appendix to this annual report. This related party transactions report is the responsibility of the Company's Statutory Body. Our responsibility is to express our view on the related party transactions report based on our review.

We conducted our review in accordance with Auditing Standard 56 issued by the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the related party transactions report is free of material factual misstatements. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not performed an audit of the related party transactions report and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information contained in the related party transactions report of TRINECKÉ ŽELEZÁRNY, a. s. for the year ended 31 December 2014 contains material factual misstatements.

The Company has decided not to disclose amounts under related party contracts. Our opinion is not modified in respect of this matter.

**Report on the Annual Report**

We have also audited the annual report of the Company as of 31 December 2014 for consistency with the financial statements referred to above. This annual report is the responsibility of the Company's Statutory Body. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company is consistent, in all material respects, with the financial statements referred to above.

In Prague on 27 April 2015

Audit firm:

Deloitte Audit s.r.o.  
certificate no. 79



Statutory auditor:

Václav Loubek  
certificate no. 2037



# 09

## FINANCIAL PART I. – FINANCIAL STATEMENTS

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

### Components of the Financial Statements:

Balance Sheet

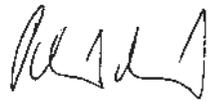
Profit and Loss Account

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 9 March 2015.

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

## BALANCE SHEET FULL VERSION – ASSETS

(CZK thousand)

		31.12.2014			31.12.2013
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>55 302 046</b>	<b>-21 840 056</b>	<b>33 461 990</b>	<b>30 378 064</b>
<b>B.</b>	<b>Fixed assets</b>	<b>40 857 734</b>	<b>-21 206 963</b>	<b>19 650 771</b>	<b>19 581 224</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<b>500 254</b>	<b>-215 076</b>	<b>285 178</b>	<b>45 792</b>
B.I.2.	Research and development	4 553	-4 553		
B.I.3.	Software	197 708	-170 142	27 566	15 997
B.I.4.	Valuable rights	73 622	-35 241	38 381	22 012
B.I.6.	Other intangible fixed assets	200 642	-5 140	195 502	
B.I.7.	Intangible fixed assets under construction	23 729		23 729	7 783
<i>B.II.</i>	<i>Tangible fixed assets</i>	<b>33 372 119</b>	<b>-20 520 493</b>	<b>12 851 626</b>	<b>10 687 411</b>
B.II.1.	Land	517 376		517 376	351 475
B.II.2.	Structures	8 058 877	-4 257 291	3 801 586	3 316 854
B.II.3.	Individual tangible movable assets and sets of tangible movable assets	24 092 441	-16 234 071	7 858 370	6 248 835
B.II.6.	Other tangible fixed assets	1 499		1 499	1 499
B.II.7.	Tangible fixed assets under construction	642 615	-29 131	613 484	519 883
B.II.8.	Prepayments for tangible fixed assets	59 311		59 311	248 865
<i>B.III.</i>	<i>Non-current financial assets</i>	<b>6 985 361</b>	<b>-471 394</b>	<b>6 513 967</b>	<b>8 848 021</b>
B.III.1.	Equity investments – subsidiary (controlled entity)	6 932 364	-453 532	6 478 832	8 813 073
B.III.2.	Equity investments in associates	50 995	-17 862	33 133	32 948
B.III.3.	Other securities and investments	2 002		2 002	2 000
<b>C.</b>	<b>Current assets</b>	<b>14 368 925</b>	<b>-633 093</b>	<b>13 735 832</b>	<b>10 741 060</b>
<i>C.I.</i>	<i>Inventories</i>	<b>9 925 881</b>	<b>-557 108</b>	<b>9 368 773</b>	<b>7 031 159</b>
C.I.1.	Material	3 608 357	-318 555	3 289 802	2 834 113
C.I.2.	Work in progress and semifinished goods	3 693 798	-178 045	3 515 753	2 415 991
C.I.3.	Products	2 620 155	-60 508	2 559 647	1 775 971
C.I.5.	Goods	536		536	2 225
C.I.6.	Prepayments for inventory	3 035		3 035	2 859
<i>C.II.</i>	<i>Long-term receivables</i>	<b>5 036</b>		<b>5 036</b>	<b>5 860</b>
C.II.1.	Trade receivables	147		147	888
C.II.5.	Long-term prepayments made	640		640	640
C.II.7.	Other receivables	4 249		4 249	4 332
<i>C.III.</i>	<i>Short-term receivables</i>	<b>3 217 726</b>	<b>-60 937</b>	<b>3 156 789</b>	<b>3 335 679</b>
C.III.1.	Trade receivables	2 645 351	-40 181	2 605 170	2 860 104
C.III.2.	Receivables – controlled or controlling entity	253 426		253 426	309 448
C.III.6.	State – tax receivables	171 075		171 075	92 671
C.III.7.	Short-term prepayments made	29 345		29 345	799
C.III.8.	Estimated receivables	1 930		1 930	7 879
C.III.9.	Other receivables	116 599	-20 756	95 843	64 778
<i>C.IV.</i>	<i>Current financial assets</i>	<b>1 220 282</b>	<b>-15 048</b>	<b>1 205 234</b>	<b>368 362</b>
C.IV.1.	Cash on hand	1 053		1 053	914
C.IV.2.	Cash at bank	1 204 117		1 204 117	367 379
C.IV.3.	Short-term securities and investments	15 112	-15 048	64	69
<b>D. I.</b>	<b>Other assets</b>	<b>75 387</b>		<b>75 387</b>	<b>55 780</b>
D.I.1.	Deferred expenses	33 847		33 847	15 441
D.I.2.	Complex deferred expenses	41 493		41 493	40 300
D.I.3.	Accrued income	47		47	39

## BALANCE SHEET FULL VERSION – LIABILITIES & EQUITY

(CZK thousand)

		31.12.2014	31.12.2013
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>33 461 990</b>	<b>30 378 064</b>
<b>A.</b>	<b>Equity</b>	<b>24 512 264</b>	<b>21 263 521</b>
<i>A.I.</i>	<i>Share capital</i>	<i>8 109 863</i>	<i>8 109 863</i>
A.I.1.	Share capital	8 109 863	8 109 863
<i>A.II.</i>	<i>Capital funds</i>	<i>103 739</i>	<i>103 743</i>
A.II.2.	Other capital funds	103 786	103 787
A.II.3.	Gains or losses from the revaluation of assets and liabilities	-47	-44
<i>A.III.</i>	<i>Funds from profit</i>	<i>2 858 219</i>	<i>2 858 219</i>
A.III.1.	Reserve fund	2 858 219	873 952
A.III.2.	Statutory and other funds		1 984 267
<i>A.IV.</i>	<i>Retained earnings</i>	<i>10 392 475</i>	<i>9 109 639</i>
A.IV.1.	Accumulated profits brought forward	10 392 475	9 109 639
<i>A.V.1.</i>	<i>Profit or loss for the current period (+ -)</i>	<i>3 047 968</i>	<i>1 082 057</i>
<b>B.</b>	<b>Liabilities</b>	<b>8 948 345</b>	<b>9 108 628</b>
<i>B.I.</i>	<i>Reserves</i>	<i>110 968</i>	<i>132 862</i>
B.I.1.	Reserves under special legislation	1 966	1 942
B.I.4.	Other reserves	109 002	130 920
<i>B.II.</i>	<i>Long-term liabilities</i>	<i>977 677</i>	<i>782 407</i>
B.II.1.	Trade payables	21 537	16 826
B.II.9.	Other payables		10 000
B.II.10.	Deferred tax liability	956 140	755 581
<i>B.III.</i>	<i>Short-term liabilities</i>	<i>5 221 963</i>	<i>4 376 385</i>
B.III.1.	Trade payables	3 853 301	3 784 165
B.III.5.	Payables to employees	358 641	299 553
B.III.6.	Social security and health insurance payables	124 168	84 863
B.III.7.	State – tax payables and subsidies	808 956	117 552
B.III.10.	Estimated payables	50 981	77 147
B.III.11.	Other payables	25 916	13 105
<i>B.IV.</i>	<i>Bank loans and borrowings</i>	<i>2 637 737</i>	<i>3 816 974</i>
B.IV.1.	Long-term bank loans	1 819 459	2 316 150
B.IV.2.	Short-term bank loans	818 278	1 500 824
<b>C. I.</b>	<b>Other liabilities</b>	<b>1 381</b>	<b>5 915</b>
C.I.1.	Accrued expenses	1 072	5 233
C.I.2.	Deferred income	309	682

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

(CZK thousand)

		Year ended 31.12.2014	Year ended 31.12.2013
I.	Sales of goods	2 391	2 402
A.	Costs of goods sold	2 346	2 356
+	<b>Gross margin</b>	<b>45</b>	<b>46</b>
II.	Production	39 581 841	37 108 324
II.1.	Sales of own products and services	38 351 779	36 699 065
II.2.	Change in internally produced inventory	770 652	-28 194
II.3.	Own work capitalised	459 410	437 453
B.	Purchased consumables and services	31 170 731	31 421 638
B.1.	Consumed material and energy	28 165 226	28 744 214
B.2.	Services	3 005 505	2 677 424
+	<b>Added value</b>	<b>8 411 155</b>	<b>5 686 732</b>
C.	Staff costs	3 512 897	3 016 731
C.1.	Payroll costs	2 361 363	2 059 433
C.2.	Remuneration to members of business corporation bodies	61 887	9 402
C.3.	Social security and health insurance costs	845 934	733 796
C.4.	Social costs	243 713	214 100
D.	Taxes and charges	28 899	30 267
E.	Depreciation of intangible and tangible fixed assets	1 096 345	943 817
III.	Sales of fixed assets and material	127 892	106 100
III.1.	Sales of fixed assets	2 873	6 604
III.2.	Sales of material	125 019	99 496
F.	Net book value of fixed assets and material sold	121 818	99 059
F.1.	Net book value of sold fixed assets	1 852	2 763
F.2.	Book value of sold material	119 966	96 296
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	20 026	-23 570
IV.	Other operating income	1 084 653	393 545
H.	Other operating expenses	1 022 247	518 866
*	<b>Operating profit or loss</b>	<b>3 821 468</b>	<b>1 601 207</b>
VI.	Proceeds from the sale of securities and investments		1 725
J.	Cost of securities and investments sold		100
VII.	Income from non-current financial assets	34 056	112 400
VII.1.	Income from equity investments in subsidiaries and associates	34 016	112 400
VII.2.	Income from other non-current securities and investments	40	
IX.	Income from the revaluation of securities and derivatives	84	503
M.	Change in reserves and provisions relating to financial activities	10 571	265 505
X.	Interest income	6 233	7 071
N.	Interest expenses	62 495	50 744
XI.	Other financial income	11 542	32 926
O.	Other financial expenses	28 647	52 968
*	<b>Financial profit or loss</b>	<b>-49 798</b>	<b>-214 692</b>
Q.	Income tax on ordinary activities	723 702	304 458
Q 1.	- due	621 896	18 281
Q 2.	- deferred	101 806	286 177
**	<b>Profit or loss from ordinary activities</b>	<b>3 047 968</b>	<b>1 082 057</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>3 047 968</b>	<b>1 082 057</b>
****	<b>Profit or loss before tax</b>	<b>3 771 670</b>	<b>1 386 515</b>

## STATEMENT OF CHANGES IN EQUITY

(CZK thousand)

	Share capital	Capital funds	Reserve fund	Statutory and other funds	Accumulated profits brought forward	Accumulated losses brought forward	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2012	8 109 863	103 770	834 279	1 984 267	8 384 399	-55 113	793 459	20 154 924
Impact of transformation at 1 January 2013					26 567			26 567
Balance at 1 January 2013	8 109 863	103 770	834 279	1 984 267	8 410 966	-55 113	793 459	20 181 491
Profit or loss for the current period							1 082 057	1 082 057
Distribution of profit or loss			39 673		698 673	55 113	-793 459	
Change in the revaluation of securities		-28						-28
Other		1						1
Balance at 31 December 2013	8 109 863	103 743	873 952	1 984 267	9 109 639		1 082 057	21 263 521
Impact of merger at 1 January 2014					200 779			200 779
Balance at 1 January 2014	8 109 863	103 743	873 952	1 984 267	9 310 418		1 082 057	21 464 300
Profit or loss for the current period							3 047 968	3 047 968
Distribution of profit or loss					1 082 057		-1 082 057	
Reclassification of funds			1 984 267	-1 984 267				
Change in the revaluation of securities		-3						-3
Other		-1						-1
Balance at 31 December 2014	8 109 863	103 739	2 858 219		10 392 475		3 047 968	24 512 264

## CASH FLOW STATEMENT

(CZK thousand)

		Year ended 31.12.2014	Year ended 31.12.2013
P.	Opening balance of cash and cash equivalents	342 921	588 380
	<i>Cash flows from ordinary activities</i>		
Z.	Profit or loss from ordinary activities before tax	3 771 670	1 386 515
A.1.	Adjustments for non-cash transactions	1 148 229	1 144 456
A.1.1.	Depreciation of fixed assets	1 096 345	943 817
A.1.2.	Change in provisions, reserves and complex deferred expenses	99 738	246 125
A.1.3.	Profit/(loss) on the sale of fixed assets	-1 021	-5 466
A.1.4.	Revenues from profit shares	-34 056	-112 400
A.1.5.	Interest expense and interest income	56 262	43 673
A.1.6.	Adjustments for other non-cash transactions	102	32 898
A.1.7.	Adjustments for non-cash transactions – merger, transformation	-69 141	-4 191
A.*	<b>Net operating cash flow before changes in working capital</b>	<b>4 919 899</b>	<b>2 530 971</b>
A.2.	Change in working capital	-1 039 435	101 575
A.2.1.	Change in operating receivables and other assets	108 163	-221 687
A.2.2.	Change in operating payables and other liabilities	-56 677	610 748
A.2.3.	Change in inventories	-1 089 805	-262 045
A.2.4.	Change in current financial assets	-1 116	-25 441
A.**	<b>Net cash flow from operations before tax and extraordinary items</b>	<b>3 880 464</b>	<b>2 632 546</b>
A.3.	Interest paid	-66 673	-53 497
A.4.	Interest received	6 545	7 561
A.5.	Income tax paid from ordinary operations	-96 810	
A.7.	Received profit shares	34 056	112 400
A.***	<b>Net operating cash flows</b>	<b>3 757 582</b>	<b>2 699 010</b>
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-1 998 303	-4 260 824
B.2.	Proceeds from fixed assets sold	2 948	8 294
B.3.	Loans provided to related parties	55 293	-24 000
B.5.	Increase in cash – merger, transformation	207 209	766
B.***	<b>Net investment cash flows</b>	<b>-1 732 853</b>	<b>-4 275 764</b>
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	-1 188 973	1 331 295
C.***	<b>Net financial cash flows</b>	<b>-1 188 973</b>	<b>1 331 295</b>
F.	<b>Net increase or decrease in cash and cash equivalents</b>	<b>835 756</b>	<b>-245 459</b>
R.	Closing balance of cash and cash equivalents	1 178 677	342 921

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

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

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

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

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

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

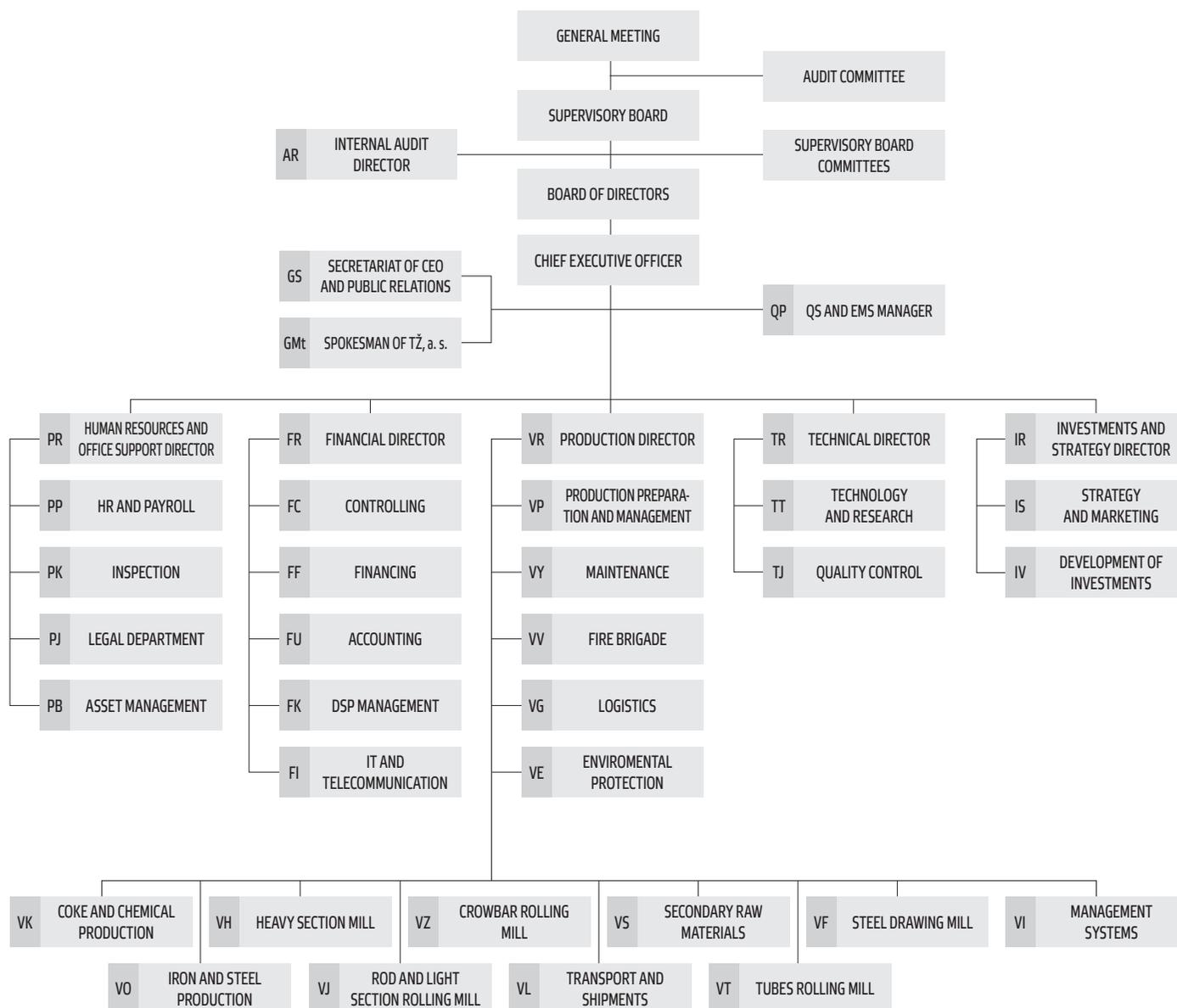
During the year ended 31 December 2014, a change was recorded in the Register of Companies relating to the change in business activities, composition of members of the Board of Directors, number and composition of members of the Supervisory Board, take-over of the aggregate net assets (including the rights and obligations arising from labour relations) of the dissolving company Sochorová válcovna TŽ, a.s. which was dissolved as a result of the merger by amalgamation with the Company, as the successor company (refer to Notes 1.5 and 2.1), and the change relating to the Company’s compliance with the act as a whole through the procedure according to Section 777 (5) of Act No. 90/2012 Coll., on Business Corporations and Cooperatives.

#### 1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

Bodies of the Company are as follows:

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

**The basic organisational structure of the Company effective as of 31 December 2014:**



**During the year ended 31 December 2014, the following changes were made in the organisational structure of the Company:**

- Cancellation of the TZ division - Testing Plants managed by TR - Technical Director.
- Formation of the IR division - Director for Investments and Strategy and the renaming of GA - Strategy and Marketing to IS - Strategy and Marketing and GI department - Development and Investments to IV - Development and Investments.
- Formation of the VZ plant - Sochorová válcovna managed by VR - Production Director.

#### 1.4. GROUP IDENTIFICATION

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

In 2014, the Company was controlled by MORAVIA STEEL a.s. Before 27 August 2014, MORAVIA STEEL a.s. was controlled by FINI-TRADING, a.s., and R.F.G., a.s., acting in concert.

Since 27 August 2014, MORAVIA STEEL a.s. has been controlled by FINITRADING, a.s., as the sole shareholder.

#### 1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2014

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

During the year ended 31 December 2014, the following changes were made in the composition of the Company's Board of Directors and Supervisory Board:

##### Board of Directors:

Position	Original member	New member	Date of change
Second Vice-Chairman	Petr Popelář	Henryk Huczala	1 April 2014
Member	Henryk Huczala	Radomíra Pekárková	1 April 2014

##### Supervisory Board:

Position	Original member	New member	Date of change
Member	Hanns Kurt Zöllner	-	1 Jan 2014
Member	Vladislav Heczko	-	1 Jan 2014
Member	Pablo Alarcón Espinosa	-	1 Jan 2014

## 2. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

### 2.1. REPORTING PERIOD

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

TŘINECKÉ ŽELEZÁRNY, a. s., as the successor company, with the effective date on 1 January 2014.

Given the merger, the financial statements of the Company as of 31 December 2014 are prepared as follows:

- The balance sheet contains comparative balances as of 31 December 2013 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2013;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2013 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2013;
- The statement of changes in equity contains comparative amounts for the year ended 31 December 2013 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2013. The effect of the merger is apparent from this statement; and
- The cash flow statement contains comparative amounts for the year ended 31 December 2013 taken over from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s., as of 31 December 2013. The effect of the merger on cash is provided separately in this statement.

Where the effect of the merger was material for individual groups of assets and liabilities, it is disclosed in the relevant notes to the financial statements.

#### Opening balance sheet of the Company as of 1 January 2014

(CZK thousand)

	Gross	Adjustment	Net
<b>TOTAL ASSETS</b>	<b>51 978 370</b>	<b>-21 115 190</b>	<b>30 863 180</b>
<i>Fixed assets</i>	<b>39 088 056</b>	<b>-20 532 531</b>	<b>18 555 525</b>
<i>Intangible fixed assets</i>	<b>262 722</b>	<b>-201 041</b>	<b>61 681</b>
Research and development	4 553	-4 553	0
Software	193 497	-162 036	31 461
Valuable rights	51 256	-29 245	22 011
Other intangible fixed assets	5 389	-5 207	182
Intangible fixed assets under construction	8 027	0	8 027
<i>Tangible fixed assets</i>	<b>31 839 969</b>	<b>-19 870 668</b>	<b>11 969 301</b>
Land	516 705	0	516 705
Structures	7 732 894	-4 085 619	3 647 275
Individual tangible movable assets and sets of tangible movable assets	22 762 148	-15 755 296	7 006 852
Other tangible fixed assets	1 499	0	1 499
Tangible fixed assets under construction	556 761	-29 753	527 008
Prepayments for tangible fixed assets	269 962	0	269 962
<i>Non-current financial assets</i>	<b>6 985 365</b>	<b>-460 822</b>	<b>6 524 543</b>
Equity investments – subsidiary (controlled entity)	6 932 364	-442 770	6 489 594
Equity investments in associates	50 995	-18 047	32 948
Other non-current securities and investments	2 006	-5	2 001
<b>Current assets</b>	<b>12 828 769</b>	<b>-582 659</b>	<b>12 246 110</b>
<i>Inventories</i>	<b>8 836 216</b>	<b>-525 773</b>	<b>8 310 443</b>
Material	3 721 164	-279 837	3 441 327
Work in progress and semi-finished goods	2 896 073	-175 960	2 720 113
Products	2 213 895	-69 976	2 143 919
Goods	2 225	0	2 225
Prepayments for inventory	2 859	0	2 859
<i>Long-term receivables</i>	<b>5 976</b>	<b>0</b>	<b>5 976</b>
Trade receivables	888	0	888
Long-term prepayments made	655	0	655
Other receivables	4 433	0	4 433
<i>Short-term receivables</i>	<b>3 395 958</b>	<b>-41 838</b>	<b>3 354 120</b>
Trade receivables	2 859 389	-29 296	2 830 093
Receivables – controlled or controlling entity	309 448	0	309 448
State – tax receivables	122 737	0	122 737
Short-term prepayments made	18 970	0	18 970
Estimated receivables	8 043	0	8 043
Other receivables	77 371	-12 542	64 829
<i>Current financial assets</i>	<b>590 619</b>	<b>-15 048</b>	<b>575 571</b>
Cash on hand	1 024	0	1 024
Cash at bank	574 478	0	574 478
Short-term securities and investments	15 117	-15 048	69
<b>Other assets</b>	<b>61 545</b>	<b>0</b>	<b>61 545</b>
Deferred expenses	21 104	0	21 104
Complex deferred expenses	40 300	0	40 300
Accrued income	141	0	141

(CZK thousand)

	<b>Net</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>30 863 180</b>
<b>Equity</b>	<b>21 464 300</b>
<i>Share capital</i>	<i>8 109 863</i>
Share capital	8 109 863
<i>Capital funds</i>	<i>103 743</i>
Other capital funds	103 787
Gains or losses from the revaluation of assets and liabilities	-44
<i>Funds from profit</i>	<i>2 858 219</i>
Reserve fund	873 952
Statutory and other funds	1 984 267
<i>Retained earnings</i>	<i>10 392 475</i>
Accumulated profits brought forward	10 392 475
<b>Liabilities</b>	<b>9 392 965</b>
<i>Reserves</i>	<i>143 632</i>
Reserves under special legislation	1 942
Other reserves	141 690
<i>Long-term liabilities</i>	<i>884 864</i>
Trade payables	20 528
Other payables	10 000
Deferred tax liability	854 336
<i>Short-term liabilities</i>	<i>4 547 495</i>
Trade payables	3 870 867
Payables to employees	320 583
Social security and health insurance payables	96 610
State – tax payables and subsidies	141 611
Estimated payables	103 431
Other payables	14 393
<i>Bank loans and borrowings</i>	<i>3 816 974</i>
Long-term bank loans	2 316 150
Short-term bank loans	1 500 824
<b>Other liabilities</b>	<b>5 915</b>
Accrued expenses	5 233
Deferred income	682

With effect from 31 August 2013, the dissolving company Strojírny Třinec, a.s. was demerged through demerger and following amalgamation with the effective date of 1 January 2013 into two successor companies. The “Track Fastenings Plant” part of the net assets of the dissolving company was taken over by TŘINECKÉ ŽELEZÁRNY, a. s. and the second part of the net assets, “Engineering Plants without the Track Fastenings Plant”, was taken over by the successor company D 5, akciová společnost, Třinec (currently Strojírny a stavby Třinec, a.s.).

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 3.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

##### Valuation

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

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

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

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

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

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

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

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

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

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

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

### Depreciation for Accounting Purposes

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

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

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

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

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

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

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

### Provisioning

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

### Impairment

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

## 3.2. NON-CURRENT FINANCIAL ASSETS

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

### Valuation

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

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

Equity investments are measured at cost less any provisions.

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

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

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

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

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

### Provisioning against Equity Investments

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

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

## 3.3. CURRENT FINANCIAL ASSETS

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

Current financial assets are carried at cost upon acquisition.

### **3.4. INVENTORY**

#### **Valuation**

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

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

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

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

#### **Provisioning**

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

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

### **3.5. RECEIVABLES**

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

#### **Provisioning**

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

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

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

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

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

### **3.6. PAYABLES**

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

### **3.7. LOANS**

#### **Valuation**

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

### **3.8. RESERVES**

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

### 3.9. FOREIGN CURRENCY TRANSLATIONS

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

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

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

### 3.10. TAXATION

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

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

#### 3.10.2. Current Tax Payable

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

#### 3.10.3. Deferred Tax

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

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

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

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

### 3.11. BORROWING COSTS

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

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

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

### 3.13. REVENUE RECOGNITION

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

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

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

### 3.14. USE OF ESTIMATES

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

### 3.15. RESEARCH AND DEVELOPMENT EXPENDITURE

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

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

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

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

Starting from 2013, the Company has changed the policy of reporting equity investments in companies that are not part of the business group in terms of Section 66a of the Commercial Code (newly Part 9 of the Act on Business Corporations). The equity investment in the educational corporate entity Střední odborná škola Třineckých železáren with the acquisition cost of CZK 2,000 thousand that was reported in 'Equity investments – subsidiary (controlled entity)' and the equity investment in Kvalifikační a personální agentura, o.p.s. with the acquisition cost of CZK 34 thousand that was reported in 'Equity investments in associates' are currently reported in 'Other non-current securities and investments'.

Starting from 2013, the Company has not reported the fee for air pollution in the amount of CZK 7,003 thousand in the profit and loss account as part of 'Other operating costs' but in the line 'Taxes and charges' in the profit and loss account.

### 3.17. SUBSIDIES

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

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

### 3.18. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

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

Cash and cash equivalents can be analysed as follows:

(CZK thousand)

	31 Dec 2014	Impact of the merger as of 1 Jan 2014	31 Dec 2013
Cash on hand	1 053	110	914
Current accounts	1 204 117	207 099	367 379
Short-term securities and equity investments	15 112	0	15 117
Provisions against short-term securities and equity investments	-15 048	0	-15 048
<b>Total current financial assets</b>	<b>1 205 234</b>	<b>207 209</b>	<b>368 362</b>
Cash and cash equivalents not included in the cash flow	-26 557	0	-25 441
<b>Total cash and cash equivalents</b>	<b>1 178 677</b>	<b>207 209</b>	<b>342 921</b>

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

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

### 4.1. FIXED ASSETS

#### 4.1.1. Intangible Fixed Assets

##### Cost

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Additions	Disposals	Balance at 31 Dec 2014
Research and development	4 553	0	0	0	4 553
Software	177 099	16 397	4 294	82	197 708
Valuable rights	51 257	0	22 365	0	73 622
Other intangible FA	0	5 389	1 413 251	1 217 998	200 642
Intangible FA under construction	7 783	245	42 270	26 569	23 729
<b>Total</b>	<b>240 692</b>	<b>22 031</b>	<b>1 482 180</b>	<b>1 244 649</b>	<b>500 254</b>

##### Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Additions	Disposals	Balance at 31 Dec 2014
Research and development	4 553	0	0	0	4 553
Software	161 102	933	8 189	82	170 142
Valuable rights	29 245	0	5 996	0	35 241
Other intangible FA	0	5 208	0	68	5 140
<b>Total</b>	<b>194 900</b>	<b>6 141</b>	<b>14 185</b>	<b>150</b>	<b>215 076</b>

##### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Balance at 31 Dec 2014
Research and development	0	0	0
Software	15 997	15 464	27 566
Valuable rights	22 012	0	38 381
Other intangible FA	0	181	195 502
Intangible FA under construction	7 783	245	23 729
<b>Total</b>	<b>45 792</b>	<b>15 890</b>	<b>285 178</b>

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

Amortisation of intangible fixed assets amounted to CZK 14,094 thousand and CZK 8,106 thousand as of 31 December 2014 and 2013, respectively.

Other intangible fixed assets primarily include emission allowances.

During 2014, the Company obtained 3,839,213 emission allowances for 2013 in the amount of CZK 679,522 thousand and 3,825,591 emission allowances for 2014 in the amount of CZK 732,968 thousand free of charge. As of the balance sheet date of 31 December 2014, the Company recognised a disposal of emission allowances for 2013 of CZK 406,067 thousand, consumption of emission allowances for 2013 of CZK 209 thousand and consumption of emission allowances for 2014 of CZK 514,665 thousand.

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

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

As of 31 December 2013, the Company was not allocated the emission allowances for 2013. For the year ended 31 December 2013, the Company recognised the consumption of emission allowances in the amount of CZK 381,730 thousand to the debit and credit of

account 347 – Subsidies for emission allowances with a corresponding entry to the relevant expense and income account. For 2013, the Company anticipated the allocation of 3,839,675 emission allowances that will fully cover the use of allowances in 2013. For this reason, the Company recognised no reserve for emission allowances.

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 29,281 thousand and CZK 25,504 thousand as of 31 December 2014 and 2013, respectively.

#### 4.1.2. Tangible Fixed Assets

##### Cost

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Additions	Disposals	Balance at 31 Dec 2014
Land	351 475	165 231	807	137	517 376
Structures	7 333 223	399 671	330 776	4 793	8 058 877
Individual tangible movable assets	21 449 612	1 312 535	1 758 425	428 131	24 092 441
Other tangible FA	1 499	0	0	0	1 499
Tangible FA under construction	549 636	7 124	2 175 923	2 090 068	642 615
Prepayments for tangible FA	248 865	21 097	185 887	396 538	59 311
<b>Total</b>	<b>29 934 310</b>	<b>1 905 658</b>	<b>4 451 818</b>	<b>2 919 667</b>	<b>33 372 119</b>

##### Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Additions	Disposals	Balance at 31 Dec 2014
Structures	4 016 369	69 251	177 185	5 514	4 257 291
Individual tangible movable assets	15 200 777	554 518	908 275	429 499	16 234 071
Tangible FA under construction	29 753	0	0	622	29 131
<b>Total</b>	<b>19 246 899</b>	<b>623 769</b>	<b>1 085 460</b>	<b>435 635</b>	<b>20 520 493</b>

##### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Balance at 31 Dec 2014
Land	351 475	165 231	517 376
Structures	3 316 854	330 420	3 801 586
Individual tangible movable assets	6 248 835	758 017	7 858 370
Other tangible FA	1 499	0	1 499
Tangible FA under construction	519 883	7 124	613 484
Prepayments for tangible FA	248 865	21 097	59 311
<b>Total</b>	<b>10 687 411</b>	<b>1 281 889</b>	<b>12 851 626</b>

Principal additions to tangible fixed assets for the year ended 31 December 2014 were as follows:

(CZK thousand)

Renovation of the KDT rolling mill	760 099
Acquisition of the peeling line	253 609
Acquisition of the peeling hall and refining line	164 006

Principal additions to tangible fixed assets under construction for the year ended 31 December 2014 were as follows:

(CZK thousand)

Acquisition of the second passing line	137 136
Acquisition of new technology – removal of exhaust gases and dust removal from nodes at sintering plant 2 using an environmental subsidy	47 621
Modernisation and renovation of KB 11	39 356

During the year ended 31 December 2014, assets with an aggregate net book value of CZK 18,928 thousand were removed from tangible fixed assets. Major disposals principally comprised the liquidation of the obsolete ADVANT Controlac 450 control system, liquidation of the obsolete system due to the renovation of the dust removal of the VP4 and VP 6 foundry and partial liquidation of the KDT rolling mill as part of the modernisation.

### Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,082,251 thousand and CZK 935,711 thousand as of 31 December 2014 and 2013, respectively.

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

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 509,845 thousand and CZK 466,778 thousand as of 31 December 2014 and 2013, respectively.

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

In the years ended 31 December 2014 and 2013, the Company made lease payments of CZK 47,314 thousand and CZK 31,874 thousand, respectively.

#### 4.1.4. Pledged Fixed Assets

##### 31 December 2014

(CZK thousand)

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

##### 31 December 2013

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	570 957	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc- Prague branch and CITIBANK Europe plc
Land	40 732	
Tangible FA	749 541	Loan from Česká spořitelna, a.s.
Land	26 630	
Tangible FA	199 503	Loan from Československá obchodní banka, a.s.
Land	10 640	
Land	699	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.
<b>Total</b>	<b>1 598 702</b>	

## 4.2. NON-CURRENT FINANCIAL ASSETS

### Cost

(CZK thousand)

	Balance at 31 Dec 2013	Impact of the merger at 1 Jan 2014	Additions	Disposals	Reclassification	Balance at 31 Dec 2014
Equity investments in subsidiaries	9 255 843	-2 323 479	0	0	0	6 932 364
Equity investments in associates	50 995	0	0	0	0	50 995
Other non-current securities and equity investments	2 000	6	0	0	-4	2 002
Acquired non-current financial assets	0	0	0	0	0	0
<b>Total</b>	<b>9 308 838</b>	<b>-2 323 473</b>	<b>0</b>	<b>0</b>	<b>-4</b>	<b>6 985 361</b>

Major additions to non-current financial assets as of 31 December 2013 were as follows:

- Increase in the equity investment in Sochorová válcovna TŽ, a.s., from 18 % to 100 %;
- Acquisition of the 100 % equity investment in Hanácké železářny a pérovny, a.s.;
- Increase in the equity investment in MATERIALOVÝ A METALURGICKÝ VÝZKUM s.r.o. from 89.11% to 90.01%; and
- Increase in the equity investment in Hutnictví železa, a.s. from 38.71 % to 38.78 %.

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

31 December 2014

(CZK thousand)

	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial income
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100.00	1 614 882	145 389	0	0
Strojirny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	675 050	41 113	0	0
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 506 305	69 252	0	0
Slévárny Třinec, a.s., Staré Město, Třinec	550 000	514	100.00	563 791	19 857	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	619 142	99 242	0	0
Hanácké železářny a pérovny, a.s., Prostějov	130 000	130 000	100.00	480 936	41 533	0	0
„D&D“ Drótáru Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100.00	65 284	-6 830	-408 133	0
„METALURGIA“ Spółka Akcyjna, Radomsko (Poland)	136 785	4 747 340	100.00	237 345	3 221	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	310 820	41 631	0	0
Řetězárna a.s., Česká Ves	61 200	515	51.00	514 544	16 004	0	5 610
REFRASIL, s.r.o., Třinec-Konská	25 500	0	51.00	234 289	19 756	0	5 610
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	46 896	2 837	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	40 110	4 773	0	0
TRIALFA, s.r.o., Třinec – Kanada	100	0	100.00	18 486	505	0	0
Moravia Security, a.s., Třinec - Konská	12 000	12	100.00	19 933	2 217	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 168	1 305	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	10 805	4 437	-22 653	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	15 921	3 186	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (Poland)	48 558	0	88.00	50 062	500	-4 875	0
TRISIA, a.s., Třinec	9 900	990	66.00	54 234	-1 880	0	0
Steel Consortium Partners, a.s., “in liquidation”, Třinec - Staré Město	19 000	117	100.00	1 129	-111	-17 871	0
<b>TOTAL</b>						<b>-453 532</b>	<b>11 220</b>

Note: *italics* – preliminary results as of 31 December 2014

31 December 2013

(CZK thousand)

	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial income
Sochorová válcovna TŽ, a.s., Třinec – Staré Město	401 000	518	100.00	2 524 256	248 099	0	0
ŽDB DRÁTOVNA a.s., Pudlov, Bohumín	2 000	2	100.00	1 469 493	142 576	0	0
Strojirny a stavby Třinec, a.s., Staré Město, Třinec	60 000	4 661	100.00	633 937	40 457	0	80 000
ENERGETIKA TŘINEC, a.s., Staré Město, Třinec	1 680 000	276	100.00	2 437 053	63 096	0	0
Slévárny Třinec, a.s., Třinec - Staré Město	550 000	514	100.00	543 934	2 202	0	0
Šroubárna Kyjov, spol. s r.o., Kyjov	140 000	0	100.00	519 899	86 693	0	0
Hanácké železářny a pérovny, a.s., Prostějov	130 000	130 000	100.00	439 403	39 101	0	0
„D&D“ Drótáru Zrt., 3527 Miskolc, Besenyői út 18 (HUN)	450	5	100.00	75 634	10 000	-393 960	0
„METALURGIA“ Spółka Akcyjna, Radomsko (Poland)	136 785	4 747 340	100.00	238 441	8 573	0	0
VÚHŽ a.s., Dobrá	16 817	336 336	100.00	269 189	22 433	0	12 000
Řetězárna a.s., Česká Ves	61 200	515	51.00	509 263	22 954	0	12 750
REFRASIL, s.r.o., Třinec-Konská	25 500	0	51.00	225 562	22 674	0	7 650
Třinecké gastroslužby, s.r.o., Třinec – Staré Město	25 800	0	100.00	44 057	2 575	0	0
Doprava TŽ, a.s., Třinec-Staré Město	16 000	115	100.00	36 298	1 863	0	0
TRIALFA, s.r.o., Třinec – Kanada	100	0	100.00	18 100	219	0	0
Moravia Security, a.s., Třinec - Konská	12 000	12	100.00	17 770	1 665	0	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	48 519	1 727	0	0
DALSELV DESIGN a.s.							
Ostrava-Mariánské Hory	1 360	12	68.00	1 264	-13 633	-25 670	0
TŘINECKÁ PROJEKCE, a.s., Třinec - Kanada	2 745	183	83.18	13 637	2 423	0	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyn (Poland)	48 558	0	88.00	50 494	517	-5 315	0
TRISIA, a.s., Třinec	9 900	990	66.00	56 115	-1 665	0	0
Steel Consortium Partners, a.s., Třinec - Staré Město	19 000	117	100.00	1 240	-161	-17 825	0
<b>TOTAL</b>						<b>-442 770</b>	<b>112 400</b>

**4.2.2. Equity Investments in Associates****31 December 2014**

(CZK thousand)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	40.00	388 488	59 506	0	22 796
Hutnictví železa, a.s., Prague 10	16 221	27 036	38.78	40 000	550	-17 862	0
HRAT, s.r.o., Třinec*	100	0	23.26	2004	397	0	0
<b>TOTAL</b>						-17 862	22 796

Note: *italics* – preliminary results of operation as of 31 December 2014

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

**31 December 2013**

(CZK thousand)

Company name and registered office	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Provision	Financial revenues
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	40.00	385 972	56 990	0	0
Hutnictví železa, a.s., Prague 10	16 221	27 036	38.78	40 328	-105	-18 047	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 607	377	0	0
<b>TOTAL</b>						-18 047	0

Note:

\* preliminary results for the period from 1 April 2013 – 31 March 2014

**4.2.3. Other Non-Current Securities and Equity Investments****31 December 2014**

(CZK thousand)

Name of the entity	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Prague 1 – Nové Město	20	0	2.08	906	-341	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec- Staré Město	34	0	33.33	11 012	-129	-34	0
Střední odborná škola Třineckých železáren, Třinec - Kanada	2 000	0	100.00	78 890	643	0	0
Unirelex, a.s. in liquidation, Prague	4.436	0	0.04306	0	0	-4	0
Dalkia Česká republika, a.s., Ostrava	1.508	0	0.00216	0	0	0	40
<b>TOTAL</b>		0				-58	40

Note: *italics* – preliminary results of operations as of 31 December 2014**31 December 2013**

(CZK thousand)

	Nominal value	Number of shares	Ownership %	Equity	Profit/loss for the period	Valuation difference	Financial revenues
ACRI – Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	-	2.08	1 054	228	-20	0
Kvalifikační a personální agentura, o.p.s., Třinec- Staré Město	34	0	33.33	11 667	36 033	-34	0
Střední odborná škola Třineckých železáren, Třinec - Kanada	2 000	0	100.00	78 397	-1 144	0	0
<b>TOTAL</b>						-54	0

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

As of 31 December 2014 and 2013, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 132,000 thousand and CZK 533,000 thousand, respectively.

### **4.3. INVENTORY**

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

As a result of the transformation (Note 2.1), the Company's inventory increased by the net amount of CZK 91,879 thousand as of 1 January 2013.

### **4.4. RECEIVABLES**

#### ***4.4.1. Short-Term Receivables***

As of 31 December 2014 and 2013, the Company records short-term trade receivables past their due dates in the gross amount of CZK 43,043 thousand and CZK 29,695 thousand (net CZK 2,862 thousand and CZK 1,550 thousand), respectively.

#### **Other Short-Term Receivables**

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

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

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

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

Receivables typically mature within 30 days.

**4.4.2. Intercompany and Other than Intercompany Receivables****Short-Term Receivables**

(CZK thousand)

Company name	Balance at 31 Dec 2014	Balance at 31 Dec 2013
• Trade receivables		
Doprava TŽ, a.s.	968	1 722
ENERGETIKA TŘINEC, a.s.	40 935	22 813
Šroubárna Kyjov, spol. s r.o.	2 595	797
Strojírny a stavby Třinec, a.s.	18 820	3 237
MORAVIA STEEL a.s.*	2 374 377	2 288 707
REFRASIL, s.r.o.	651	578
Řetězárna, a.s.	641	103
Slévárny Třinec, a.s.	46 630	38 667
TRIALFA, s.r.o.	3 038	4 266
TŘINECKÁ PROJEKCE, a.s.	37	270
Třinecké gastroslužby, s.r.o.	802	555
Sochorová válcovna TŽ, a.s.	0	389 157
Steel Consortium Partners, a.s., "in liquidation"	20	22
TRISIA, a.s.	15	8
VESUVIUS ČESKÁ REPUBLIKA, a.s.	335	659
Beskydská golfová, a.s.	37	40
VÚHŽ a.s.	3 562	297
Moravia Security, a.s.	69	65
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	17	15
Moravskoslezský kovošrot, a.s.,	230	773
„METALURGIA“ Spółka Akcyjna	590	640
Hanácké železářny a pérovny, a.s.	269	485
M Steel Projects a.s.	12	12
Kovárna VIVA a.s.	6	0
„NEOMET“ Sp. z o.o.	54	43
ŽDB DRÁTOVNA a.s.	1 607	3 195
<b>Total</b>	<b>2 496 317</b>	<b>2 757 126</b>
• Receivables – controlled or controlling entity		
„D&D“ Drótáru Zrt.	253 426	273 383
„NEOMET“ Sp. z o.o.	0	36 065
<b>Total</b>	<b>253 426</b>	<b>309 448</b>
<b>Total short-term intercompany receivables</b>	<b>2 749 743</b>	<b>3 066 574</b>
Other than intercompany receivables	407 046	269 105
<b>Total short-term receivables</b>	<b>3 156 789</b>	<b>3 335 679</b>

\* including estimated receivables

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

**4.5. SHAREHOLDER'S EQUITY**

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

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

As a result of the transformation (Note 2.1), the Company's equity increased by CZK 26,567 thousand.

**4.5.1. Share Capital**

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

**4.6. RESERVES**

Other reserves principally consist of reserves for the liquidation, employee bonuses, and, in the past, losses incurred in connection with concluded long-term contracts.

## 4.7. PAYABLES

### 4.7.1. Long-Term Payables

Long-term trade payables as of 31 December 2014 include payables arising from retentions from suppliers under concluded contracts.

The Company records no long-term trade payables with maturities exceeding 5 years as of 31 December 2014 and 2013.

### 4.7.2. Deferred Income Tax

The deferred tax liability is analysed as follows:

	(CZK thousand)		
Deferred tax arising from	Balance at 31 Dec 2014	Impact of the merger as of 1 Jan 2014	Balance at 31 Dec 2013
Difference between tax and accounting carrying values of fixed assets	-5 782 181	-588 913	-4 841 431
Revaluation of available-for-sale securities	58	0	54
Accounting reserves	109 002	10 770	130 920
Provisions	575 321	58 018	487 319
Expenses that are tax deductible in the following periods	65 483	362	108 268
Utilisable tax losses carried forward	0	0	138 128
<b>Total</b>	<b>-5 032 317</b>	<b>-519 763</b>	<b>-3 976 742</b>
Tax rate (in %)	19	19	19
<b>Deferred tax liability</b>	<b>-956 140</b>	<b>-98 755</b>	<b>-755 581</b>

(CZK thousand)	
Analysis of movements	
31 Dec 2013	-755 581
<b>Impact of the merger as of 1 Jan 2014</b>	<b>-98 755</b>
Current changes charged against the profit and loss account	-101 806
Current changes charged against equity	1
Other	-1
31 Dec 2014	-956 140

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

	(CZK thousand)	
	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Profit before tax	3 771 670	1 386 515
Tax at the domestic income tax rate of 19 %	716 617	263 438
Tax effect of expenses that are not deductible in determining taxable profit	7 085	41 020
<b>Total income tax on ordinary and extraordinary activities – recognised in deferred tax and income tax payable</b>	<b>723 702</b>	<b>304 458</b>

### 4.7.4. Short-Term Payables

As of 31 December 2014 and 2013, the Company records short-term trade payables past their due dates of CZK 21,106 thousand and CZK 280,924 thousand, respectively.

Payables typically fall due for settlement within 30 days.

#### Other Payables

As of 31 December 2014, payables arising from social security and the state employment policy contribution amounted to CZK 84,306 thousand (2013: CZK 57,092 thousand), health insurance payables totalled CZK 37,085 thousand (2013: CZK 25,204 thousand), and pension insurance payables totalled CZK 2,777 thousand (2013: CZK 2,567 thousand). The Company has no past due social security or health insurance payables.

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

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

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

## 4.75. Intercompany Payables

## Short-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2014	Balance at 31 Dec 2013
• Trade payables		
Doprava TŽ, a.s.	11 249	12 047
ENERGETIKA TŘINEC, a.s.	332 137	563 235
Hutnictví železa, a.s.	563	593
Šroubárna Kyjov, spol. s r.o.	1 202	2 182
MORAVIA STEEL a.s.*	1 719 408	1 503 831
REFRASIL, s.r.o.	12 545	21 204
Řetězárna, a.s.	789	620
Slévárny Třinec, a.s.	4 765	11 349
TRIALFA, s.r.o.	15 985	14 717
TRISIA, a.s.	1 028	788
TŘINECKÁ PROJEKCE, a.s.	5 544	2 847
Třinecké gastroslužby, s.r.o.	6 981	10 698
Sochorová válcovna TŽ, a.s.	0	9 608
VESUVIUS ČESKÁ REPUBLIKA, a.s.	8 695	10 945
Beskydská golfová, a.s.	3 025	3 025
Strojírny a stavby Třinec, a.s.*	188 886	227 790
VÚHŽ a.s.	785	270
Moravia Security, a.s.	7 827	6 218
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	232	1 467
Moravskoslezský kovošrot, a.s.*	142 401	147 649
„METALURGIA“ Spółka Akcyjna	351	300
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	109	111
HRAT, s.r.o.	36	36
ŽDB DRÁTOVNA a.s.	850	435
„D&D“ Drótáru Zrt.	3 063	2 189
DALSELV DESIGN a.s.	3 640	7 612
„NEOMET“ Sp. z o.o.	24 515	20 724
Moravia Steel Deutschland GmbH	17	0
Kovárna VIVA a.s.	2	0
<b>Total short-term intercompany payables</b>	<b>2 496 630</b>	<b>2 582 490</b>
Other than intercompany payables	2 725 333	1 793 895
<b>Total short-term payables</b>	<b>5 221 963</b>	<b>4 376 385</b>

\* including estimated payables

## Long-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2014	Balance at 31 Dec 2013
<i>Long-term payables</i>		
• Trade payables		
Strojírny a stavby Třinec, a.s.	2 304	1 523
Moravia Security, a.s.	0	11
<b>Total long-term intercompany payables</b>	<b>2 304</b>	<b>1 534</b>
Other than intercompany payables	975 373	780 873
<b>Total long-term payables</b>	<b>977 677</b>	<b>782 407</b>

Other than intercompany long-term payables as of 31 December 2014 and 2013 primarily include a deferred tax liability of CZK 956,140 thousand and CZK 755,581 thousand, respectively.

## 4.7.6. Bank Loans

### Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2014	Balance at 31 Dec 2013	Interest rate % p.a.	Form of collateral at 31 Dec 2014
Investment	CZK	0	500 000	3M PRIBOR + 1.5 (margin according to Senior Debt/EBITDA)	Movable and immovable assets KB12, receivables from insurance, promissory note
Investment	EUR	141 891	0	6M EURIBOR + 1.1	Hermes guarantee insurer
Investment	EUR	199 727	197 222	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	189 460	431 560	3M PRIBOR + 1.6/ FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment	CZK	180 000	240 000	3M PRIBOR + 1.4	Securities, promissory note
Investment	CZK	694 737	947 368	3M PRIBOR + 1.4	Immovable and movable assets, securities, insurance receivables, promissory note
Investment	CZK	413 644	0	3M PRIBOR + 1.55/FIXED 2.48	Immovable and movable assets, promissory note
<b>Total</b>		<b>1 819 459</b>	<b>2 316 150</b>		

### Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2014	Balance at 31 Dec 2013	Interest rate % p.a.	Form of collateral at 31 Dec 2014
Overdraft	CZK	20 035	17 664	1T PRIBOR + 0.65	Blank promissory note
Overdraft	CZK	20 359	221 051	1D PRIBOR + 0.95	Blank promissory note
Overdraft	CZK	22 929	33 159	1T PRIBOR + 0.75	Blank promissory note
Overdraft	CZK	486	174 686	O/N PRIBOR + 0.7	Blank promissory note
Overdraft	CZK	20 142	150 586	O/N PRIBOR + 0.80	Blank promissory note
Revolving	CZK	20 000	0	1M PRIBOR + 0.75	No collateral
Investment	CZK/EUR	0	96 879	3M PRIBOR/EURIBOR + 0.99	Movable assets, receivable from insurance, blank promissory note
Investment	CZK	0	200 000	3M PRIBOR + 1.5 (margin according to Senior Debt/EBITDA)	Movable assets, receivable from insurance, promissory note
Investment	EUR	8 868	11 228	6M EURIBOR + 1.1	Hermes guarantee insurer
Investment	EUR	30 727	30 299	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	242 100	252 640	3M PRIBOR + 1.6/ FIXED 2.46	Immovable and movable assets, securities, promissory note
Investment	CZK	60 000	60 000	3M PRIBOR + 1.4	Securities, promissory note
Investment	CZK	252 632	252 632	3M PRIBOR + 1.4	Immovable and movable assets, securities, insurance receivables, promissory note
Investment	CZK	120 000	0	3M PRIBOR + 1.55/FIXED 2.48	Immovable and movable assets, promissory note
<b>Total</b>		<b>818 278</b>	<b>1 500 824</b>		

Repayments of long-term loans exceeding five years amount to CZK 147,764 thousand.

## 4.8. DETAILS OF INCOME

(CZK thousand)

	31 Dec 2014	31 Dec 2013
Proceeds of the sale of goods	2 391	2 402
Proceeds of the sale of products and services, of which:	38 351 779	36 699 065
– Products	37 886 004	36 274 885
– Services	465 775	424 180
Other*	1 230 062	409 259
<b>Total sales of goods and products</b>	<b>39 584 232</b>	<b>37 110 726</b>

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

## 4.9. SUBSIDIES

Other subsidies for operating purposes of CZK 11,784 thousand utilised for the year ended 31 December 2014 (2013: CZK 6,111 thousand) include subsidies for research and development and environmental projects. For 2013, the Company received subsidies for research and development and education.

In 2014, the Company drew a subsidy for the acquisition of environmental investments of CZK 1,229,909 thousand (2013: CZK 142,747 thousand).

In 2013, the Company drew a public subsidy for the "Training Programme for Employees of Members of the INDUSTRY UNION OF FERROUS METALLURGY" of CZK 52 thousand.

#### 4.10. OTHER OPERATING EXPENSES AND INCOME

Expenses for advisory, consulting and audit services as of 31 December 2014 and 2013 amounted to CZK 50,459 thousand and CZK 34,077 thousand, respectively.

As of 31 December 2014, other operating income of the Company mainly involves the use of the subsidy related to emission allowances including the income from the sale of emission allowances of CZK 1,050,870 thousand (2013: use of the subsidy related to emission allowances of CZK 381,730 thousand).

Other financial income as of 31 December 2014 and 2013 predominantly includes foreign exchange rate gains of CZK 10,750 thousand and CZK 32,155 thousand, respectively.

As of 31 December 2014, other operating expenses primarily reflect the use of emission allowances, including the costs of the sale of emission allowances, of CZK 812,911 thousand (31 December 2013: other operating expenses reflected the use of allowances of CZK 381,730 thousand).

Other financial expenses as of 31 December 2014 and 2013 predominantly include foreign exchange rate losses of CZK 19,773 thousand and CZK 45,101 thousand, respectively.

#### 4.11. RESEARCH AND DEVELOPMENT COSTS

(CZK thousand)

	31 Dec 2014	31 Dec 2013
Research and development costs (net of subsidies)	57 118	41 217

#### 4.12. RELATED PARTY TRANSACTIONS

##### 4.12.1. Income Generated with Related Parties

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

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	5	21 419	4 269	34	0	25 727
ENERGETIKA TŘINEC, a.s.	Controlled entity	412	268 778	38 988	239 270	0	547 448
MORAVIA STEEL a.s.	Controlling entity	141	36 321 909	169 505	2 437	0	36 493 992
REFRASIL, s.r.o.	Controlled entity	13	63	4 941	1 202	0	6 219
Řetězárna, a.s.	Controlled entity	0	0	3 402	15	0	3 417
Slévárny Třinec, a.s.	Controlled entity	86	243 573	18 385	37 743	0	299 787
TRIALFA, s.r.o.	Controlled entity	0	25 488	3 972	1 515	0	30 975
TRISIA, a.s.	Controlled entity	4	0	140	852	0	996
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	0	728	1	0	729
Třinecké gastroslužby, s.r.o.	Controlled entity	8	0	5 328	1 379	0	6 715
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	7 597	147	0	7 744
Beskydská golfová, a.s.	Fellow subsidiary	0	0	148	0	0	148
Steel Consortium Partners, a.s. "in liquidation"	Controlled entity	0	0	72	0	0	72
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	0	5 558	10	0	5 568
Moravia Security, a.s.	Controlled entity	20	0	1 514	20	0	1 554
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	289	183	0	472
Strojírny a stavby Třinec, a.s.	Controlled entity	517	115 107	40 312	23 064	0	179 000
VÚHŽ a.s.	Controlled entity	1 081	17 225	1 533	3 238	0	23 077
Hanácké železářny a pérovny, a.s.	Controlled entity	0	0	2 499	1	0	2 500
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	0	2 376	2	0	2 378
M Steel Projects a.s.	Fellow subsidiary	0	0	89	0	0	89
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 298	3 471	0	4 769
„D&D“ Drátáru Zrt.	Controlled entity	0	0	0	0	5 061	5 061
ŽDB DRÁTOVNÁ a.s.	Controlled entity	73	131	19 568	223	0	19 995
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	0	352	419	516	1 287
Kovárna VIVA a.s.	Fellow subsidiary	0	0	5	0	0	5
<b>TOTAL</b>		<b>2 360</b>	<b>37 013 693</b>	<b>332 868</b>	<b>315 226</b>	<b>5 577</b>	<b>37 669 724</b>

The following table shows the income generated with related parties for the year ended 31 December 2013:

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	104	24 154	4 230	44	0	28 532
ENERGETIKA TŘINEC, a.s.	Controlled entity	256	383 320	40 312	1 229	0	425 117
MORAVIA STEEL a.s.	Controlling entity	236	30 593 502	168 852	3 078	0	30 765 668
REFRASIL, s.r.o.	Controlled entity	14	280	4 750	877	0	5 921
Řetězárna, a.s.	Controlled entity	0	0	2 062	20	0	2 082
Slévárny Třinec, a.s.	Controlled entity	627	245 993	18 288	37 704	0	302 612
TRIALFA, s.r.o.	Controlled entity	0	26 198	4 232	1 089	0	31 519
TRISIA, a.s.	Controlled entity	0	0	85	19	0	104
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	0	835	42	0	877
Třinecké gastroslužby, s.r.o.	Controlled entity	2	0	4 565	683	0	5 250
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	7 611	194	0	7 805
Sochorová válcovna TŽ, a.s.	Controlled entity	59	4 159 095	9 323	1	0	4 168 478
Beskydská golfová, a.s.	Fellow subsidiary	0	0	136	0	0	136
Steel Consortium Partners, a.s.	Controlled entity	0	0	69	0	0	69
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	0	3 706	8	0	3 714
Moravia Security, a.s.	Controlled entity	0	0	1 330	13	0	1 343
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	59	285	1	0	345
Strojírny a stavby Třinec, a.s.	Controlled entity	413	72 954	38 318	23 651	0	135 336
VÚHŽ a.s.	Controlled entity	563	2 273	1 215	1 382	0	5 433
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	0	2 783	0	0	2 783
HRAT, s.r.o.	Associate	0	0	4	0	0	4
„METALURGIA“ Spółka Akcyjna	Controlled entity	0	0	2 537	4	0	2 541
M Steel Projects a.s.	Fellow subsidiary	0	0	78	0	0	78
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 225	3 942	0	5 167
„D&D“ Drótáru Zrt.	Controlled entity	0	0	0	28	6 038	6 066
ŽDB DRÁTOVNA a.s.	Controlled entity	85	0	9 634	86	0	9 805
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	0	99	0	61	160
Kovárna VIVA a.s.	Fellow subsidiary	0	0	5	0	0	5
<b>Total</b>		<b>2 359</b>	<b>35 507 828</b>	<b>326 569</b>	<b>74 095</b>	<b>6 099</b>	<b>35 916 950</b>

**4.12. Purchases from Related Parties**

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

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory including energy	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	11	27 584	61 173	0	88 768
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	2 003 413	90 416	0	2 093 829
MORAVIA STEEL a.s.	Controlling entity	415	19 051 853	294 495	45 727	19 392 490
REFRASIL, s.r.o.	Controlled entity	0	394	146 210	0	146 604
Řetězárna, a.s.	Controlled entity	0	6 510	0	0	6 510
Slévárny Třinec, a.s.	Controlled entity	5 181	96 541	666	0	102 388
TRIALFA, s.r.o.	Controlled entity	0	6 173	23 138	56 862	86 173
TRISIA, a.s.	Controlled entity	0	0	10 211	178	10 389
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	19 575	0	8 099	38	27 712
Třinecké gastroslužby, s.r.o.	Controlled entity	0	12 576	2 191	65 360	80 127
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	80 918	0	80 918
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 375	0	5 375
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	12 413	0	0	12 413
Moravia Security, a.s.	Controlled entity	1 300	0	63 075	39	64 414
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	20	7 781	0	7 801
Strojírny a stavby Třinec, a.s.	Controlled entity	209 996	363 908	528 636	19	1 102 559
VÚHŽ a.s.	Controlled entity	0	3 838	1 870	0	5 708
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 168 181	0	0	1 168 181
„ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 324	0	1 324
„METALURGIA” Spółka Akcyjna	Controlled entity	0	713	0	0	713
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D” Drótáru Zrt.	Controlled entity	0	7 002	0	0	7 002
Hutnictví železa, a.s.	Associate	0	0	5 336	123	5 459
ŽDB DRÁTOVNA a.s.	Controlled entity	0	7 887	2 634	0	10 521
DALSELV DESIGN a.s.	Controlled entity	23 203	1 356	344	0	24 903
Hanácké železářny a pérovny, a.s.	Controlled entity	0	170	11	0	181
„NEOMET” Sp. z o.o.	Fellow subsidiary	0	887 429	0	0	887 429
Moravia Steel Duetschland GmbH	Fellow subsidiary	0	0	17	0	17
Kovárna VIVA a.s.	Fellow subsidiary	0	0	2	0	2
<b>TOTAL</b>		<b>259 681</b>	<b>23 657 961</b>	<b>1 334 042</b>	<b>168 346</b>	<b>25 420 030</b>

The following table shows purchases from related parties in the year ended 31 December 2013:

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory including energy	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	28 386	57 862	0	86 248
ENERGETIKA TŘINEC, a.s.	Controlled entity	397	2 129 909	103 825	0	2 234 131
MORAVIA STEEL a.s.	Controlling entity	2 696 528	19 710 835	264 667	27 952	22 699 982
REFRASIL, s.r.o.	Controlled entity	0	3 490	155 557	0	159 047
Řetězárna, a.s.	Controlled entity	0	6 890	0	0	6 890
Slévárny Třinec, a.s.	Controlled entity	3 369	83 986	665	0	88 020
TRIALFA, s.r.o.	Controlled entity	0	7 326	20 244	50 977	78 547
TRISIA, a.s.	Controlled entity	0	0	9 638	122	9 760
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	27 992	0	4 202	0	32 194
Třinecké gastroslužby, s.r.o.	Controlled entity	0	11 737	1 379	57 959	71 075
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	175	81 530	0	81 705
Sochorová válcovna TŽ, a.s.	Controlled entity	0	105 085	37 264	0	142 349
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 374	0	5 374
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	14 605	0	0	14 605
Moravia Security, a.s.	Controlled entity	770	33	54 438	0	55 241
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	134	8 528	0	8 662
Strojírny a stavby Třinec, a.s.	Controlled entity	226 595	351 099	506 834	401	1 084 929
VÚHŽ a.s.	Controlled entity	0	2 726	2 432	0	5 158
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	1 178 204	0	0	1 178 204
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 138	0	1 138
„METALURGIJA“ Spółka Akcyjna	Controlled entity	0	630	0	0	630
HRAT, s.r.o.	Associate	0	0	120	0	120
„D&D“ Drótáru Zrt.	Controlled entity	0	6 443	0	0	6 443
Hutnictví železa, a.s.	Associate	0	0	5 707	110	5 817
ŽDB DRÁTOVNA a.s.	Controlled entity	0	2 217	2 808	0	5 025
DALSELV DESIGN a.s.	Controlled entity	7 080	51	8 289	0	15 420
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	64	0	0	64
„NEOMET“ Sp. z o.o.	Fellow subsidiary	0	468 804	0	0	468 804
<b>Total</b>		<b>2 962 731</b>	<b>24 112 829</b>	<b>1 332 501</b>	<b>137 521</b>	<b>28 545 582</b>

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

### 5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The number of the Company's employees as of 31 December 2014 was 6,909 and 7.2 managers. The number of the Company's employees as of 31 December 2013 was 6,099, of which 5 managers.

The staff costs of employees in the year ended 31 December 2014 amounted to CZK 3,512,897 thousand and staff costs of managers amounted to CZK 71,701 thousand. The staff costs of employees in the year ended 31 December 2013 amounted to CZK 3,016,731 thousand and staff costs of managers amounted to CZK 53,077 thousand. The remuneration to members of the Supervisory Board in the years ended 31 December 2014 and 2013 amounted to CZK 3,884 thousand and CZK 6,342 thousand, respectively. The remuneration to members of the Audit Committee in the years ended 31 December 2014 and 2013 amounted to CZK 180 thousand and CZK 180 thousand, respectively.

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

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

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

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

31 December 2014

(CZK thousand)

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

31 December 2013

(CZK thousand)

	Management	Supervisory Board	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 081	211	0
Liability insurance	159	287	32

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

### Provided Guarantees

31 December 2014

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

31 December 2013

	Total amount	Balance at 31 Dec 2013
<i>Guarantees</i>		
- to other entities	USD 576 thousand	CZK 11,465 thousand
	EUR 2,239 thousand	CZK 61,404 thousand
	CZK 4,000 thousand	CZK 4,000 thousand

### Legal Disputes

The dispute of the EcoNet CENTRUM civic association (currently association) for the allegedly unpaid dividends for 2006 in the amount of CZK 180,000 thousand together with accrued interest. The Regional Court in Hradec Králové stated in its resolution that it was not locally responsible for the case, referring the case to the Regional Court in Ostrava. The plaintiff appealed this resolution. The Head Court in Prague rejected the plaintiff's appeal and the case was referred to the Regional Court in Ostrava as to the locally responsible court. The Regional Court in Ostrava rejected the claim in its resolution. The plaintiff filed an appeal against this resolution and the Regional Court upheld this appeal in its resolution. According to the agreement, the plaintiff paid part of the costs relating to the dispute to the Company and the Company agreed with the withdrawal of the legal action. The proceedings were discontinued by the resolution of the Regional Court in Ostrava of 2 July 2014 after the plaintiff withdrew the legal action; the case was effectively discontinued on 23 August 2014.

The petition of a shareholder, Marek Veselý, regarding the invalidity of the resolution passed at the Company's annual general meeting of shareholders held on 30 June 2010, was rejected by the Regional Court in Ostrava as lacking merit in its ruling no. 29 Cm 142/2010-99 of 25 August 2011. The plaintiff appealed the ruling. The Head Court in Olomouc confirmed the ruling of the Regional Court in Ostrava on the rejection of the petition by its ruling no. 8 Cmo 64/2012-169 of 3 April 2012. The plaintiff took an extraordinary remedial measure and made an appeal against the ruling of the Head Court in Olomouc addressed to the Regional Court in Ostrava on 16 July 2012. According to the e.justice information system and the website of the Supreme Court, the Supreme Court decided on this

appeal by its ruling file no. 29 Cdo 3284/2012 dated 27 November 2014 stating that the above rulings of the Head Court in Olomouc and the Regional Court in Ostrava are cancelled and the case is returned to the court of first instance for further proceedings; the Company has not yet received a written ruling of the Supreme Court. The Company continues to consider the claim to completely lack merit.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association (currently association) regarding the invalidity of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s. The Municipal Court in Brno refused this charge in its ruling as the charge was filed after the expiration of the statute of limitation. The plaintiff appealed the ruling. The Municipal Court in Brno referred this case to the Regional Court in Brno to make a decision on the plaintiff's appeal. The Regional Court in Brno confirmed the ruling of the Municipal Court in Brno on the rejection of the claim in its resolution dated 3 September 2013. The case was effectively discontinued on 18 November 2013.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association (currently association) against the Company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the Company on 14 December 2012. The Company has not yet been summoned by the court regarding this case or called on to undertake any procedural act. The resolution on the legal action depends on the assessment of validity of the contracts of the plaintiff with the Company's former shareholders based on which the plaintiff is seeking the settlement of the receivable. It means that the substance of the legal dispute does not involve determining the amount of the Company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff or whether the creditors under this liability are the former shareholders of the Company. The Company has contacted the plaintiff with the objective of initiating negotiations on amicable settlement of the dispute; however, it has not yet received the statement of the plaintiff.

The petition of Aleš Hodina and Bohumil Hála for declaring the resolution of the extraordinary general meeting of the Company held on 31 July 2013 invalid. The proceedings were initiated at the Regional Court in Ostrava by filing this petition on 1 November 2013. The resolution of the Regional Court in Ostrava dated 15 April 2014 rejected the petition. The petitioners appealed the resolution on 10 July 2014. At its proceedings held on 11 February 2015, the Head Court in Olomouc confirmed the ruling of the Regional Court in Ostrava on the rejection of the petition; the Company has not yet received the written ruling of the Head Court in Olomouc. The Company considers the petition to completely lack merit.

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.

The Company records 75 petitioners involved in the proceedings but does not rule out that the requests of other former shareholders of the Company were also filed regarding this case.

The proceedings in this case have not yet been ordered.

### **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 2014 and 2013, the Company drew CZK 506,646 thousand and CZK 489,345 thousand, respectively.

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

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

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements as of 31 December 2014.

# 10 [ FINANCIAL PART II. – CONSOLIDATED FINANCIAL STATEMENTS

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

#### Components of the Consolidated Financial Statements:

Consolidated Balance Sheet

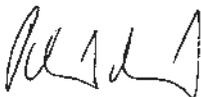
Consolidated Profit and Loss Account

Consolidated Statement of Changes in Equity

Consolidated Cash Flow Statement

Consolidated Notes to the Financial Statements

These consolidated financial statements were prepared on 1 April 2015.

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

# CONSOLIDATED BALANCE SHEET FULL VERSION – ASSETS

(CZK thousand)

		31.12.2014			31.12.2013
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>69 224 639</b>	<b>-31 202 081</b>	<b>38 022 558</b>	<b>35 083 082</b>
<b>B.</b>	<b>Fixed assets</b>	<b>50 443 008</b>	<b>-30 429 395</b>	<b>20 013 613</b>	<b>18 743 834</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<i>742 110</i>	<i>-338 286</i>	<i>403 824</i>	<i>175 353</i>
B.I.2.	Research and development	4 553	-4 553		
B.I.3.	Software	286 716	-248 162	38 554	38 577
B.I.4.	Valuable rights	175 746	-73 777	101 969	89 338
B.I.5.	Goodwill	379	-379		
B.I.6.	Other intangible fixed assets	248 048	-11 415	236 633	39 334
B.I.7.	Intangible fixed assets under construction	26 668		26 668	8 104
<i>B.II.</i>	<i>Tangible fixed assets</i>	<i>48 692 389</i>	<i>-29 677 884</i>	<i>19 014 505</i>	<i>17 971 255</i>
B.II.1.	Land	733 450		733 450	733 712
B.II.2.	Structures	12 104 292	-6 292 999	5 811 293	5 678 739
B.II.3.	Individual tangible movable assets and sets of tangible movable assets	34 219 593	-23 272 976	10 946 617	10 174 117
B.II.6.	Other tangible fixed assets	89 435	-76 869	12 566	41 222
B.II.7.	Tangible fixed assets under construction	1 452 990	-35 040	1 417 950	1 057 344
B.II.8.	Prepayments for tangible fixed assets	92 629		92 629	286 121
<i>B.III.</i>	<i>Non-current financial assets</i>	<i>237 584</i>	<i>-64 392</i>	<i>173 192</i>	<i>169 322</i>
B.III.1.	Equity investments in subsidiaries	208 367	-45 399	162 968	159 280
B.III.2.	Equity investments in associates	26 201	-17 998	8 203	8 017
B.III.3.	Other non-current securities and investments	3 016	-995	2 021	2 025
<i>B.IV.</i>	<i>Goodwill on consolidation</i>	<i>615 530</i>	<i>-348 833</i>	<i>266 697</i>	<i>273 515</i>
B.IV.1.	Positive goodwill on consolidation	615 530	-348 833	266 697	273 515
<i>B.V.</i>	<i>Securities and equity interests under equity accounting</i>	<i>155 395</i>		<i>155 395</i>	<i>154 389</i>
<b>C.</b>	<b>Current assets</b>	<b>18 680 641</b>	<b>-772 686</b>	<b>17 907 955</b>	<b>16 249 954</b>
<i>C.I.</i>	<i>Inventories</i>	<i>11 866 216</i>	<i>-629 198</i>	<i>11 237 018</i>	<i>10 057 650</i>
C.I.1.	Material	4 642 953	-368 038	4 274 915	4 363 685
C.I.2.	Work in progress and semifinished goods	4 141 282	-183 270	3 958 012	3 123 034
C.I.3.	Products	3 051 578	-77 429	2 974 149	2 538 684
C.I.5.	Goods	26 820	-461	26 359	28 726
C.I.6.	Prepayments for inventory	3 583		3 583	3 521
<i>C.II.</i>	<i>Long-term receivables</i>	<i>16 613</i>		<i>16 613</i>	<i>18 582</i>
C.II.1.	Trade receivables	6 499		6 499	7 387
C.II.5.	Long-term prepayments made	1 299		1 299	1 310
C.II.7.	Other receivables	7 584		7 584	7 926
C.II.8.	Deferred tax asset	1 231		1 231	1 959
<i>C.III.</i>	<i>Short-term receivables</i>	<i>4 817 690</i>	<i>-128 440</i>	<i>4 689 250</i>	<i>4 948 417</i>
C.III.1.	Trade receivables	4 289 268	-105 536	4 183 732	4 445 719
C.III.2.	Receivables from subsidiaries				36 065
C.III.6.	State – tax receivables	330 830		330 830	320 292
C.III.7.	Short-term prepayments made	33 789	-26	33 763	29 176
C.III.8.	Estimated receivables	2 947		2 947	11 117
C.III.9.	Other receivables	160 856	-22 878	137 978	106 048
<i>C.IV.</i>	<i>Current financial assets</i>	<i>1 980 122</i>	<i>-15 048</i>	<i>1 965 074</i>	<i>1 225 305</i>
C.IV.1.	Cash on hand	3 609		3 609	3 445
C.IV.2.	Cash at bank	1 961 401		1 961 401	1 211 791
C.IV.3.	Short-term securities and investments	15 112	-15 048	64	10 069
<b>D.I.</b>	<b>Other assets</b>	<b>100 990</b>		<b>100 990</b>	<b>89 294</b>
D.I.1.	Deferred expenses	53 256		53 256	44 911
D.I.2.	Complex deferred expenses	41 501		41 501	40 323
D.I.3.	Accrued income	6 233		6 233	4 060

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

(CZK thousand)

		31.12.2014	31.12.2013
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>38 022 558</b>	<b>35 083 082</b>
<b>A.</b>	<b>Equity</b>	<b>25 916 834</b>	<b>22 402 960</b>
<i>A.I.</i>	<i>Share capital</i>	<i>8 109 863</i>	<i>8 109 863</i>
A.I.1.	Share capital	8 109 863	8 109 863
<i>A.II.</i>	<i>Capital funds</i>	<i>117 671</i>	<i>219 733</i>
A.II.2.	Other capital funds	108 461	107 774
A.II.3.	Gains or losses from the revaluation of assets and liabilities	9 210	111 959
<i>A.III.</i>	<i>Funds from profit</i>	<i>3 312 469</i>	<i>3 311 905</i>
A.III.1.	Reserve fund	3 312 469	986 370
A.III.2.	Statutory and other funds		2 325 535
<i>A.IV.</i>	<i>Retained earnings</i>	<i>10 323 615</i>	<i>8 872 635</i>
A.IV.1.	Accumulated profits brought forward	10 367 168	8 926 690
A.IV.2.	Accumulated losses brought forward	-43 553	-54 055
<i>A.V.1</i>	<i>Profit or loss for the current period, net of minority interests</i>	<i>3 517 718</i>	<i>1 376 122</i>
A.V.1.1	Profit or loss for the current period	3 493 915	1 321 241
A.V.1.2	Share of income from associates	23 803	54 881
<i>A.VI.</i>	<i>Consolidation reserve fund</i>	<i>535 498</i>	<i>512 702</i>
<b>B.</b>	<b>Liabilities</b>	<b>11 700 252</b>	<b>12 271 880</b>
<i>B.I.</i>	<i>Reserves</i>	<i>281 966</i>	<i>398 565</i>
B.I.1.	Reserves under special legislation	14 164	8 040
B.I.2.	Reserve for pensions and similar liabilities	3 475	3 292
B.I.4.	Other reserves	264 327	387 233
<i>B.II.</i>	<i>Long-term liabilities</i>	<i>1 422 656</i>	<i>1 320 422</i>
B.II.1.	Trade payables	23 100	25 042
B.II.9.	Other payables		10 000
B.II.10.	Deferred tax liability	1 399 556	1 285 380
<i>B.III.</i>	<i>Short-term liabilities</i>	<i>6 339 634</i>	<i>5 737 303</i>
B.III.1.	Trade payables	4 641 872	4 688 911
B.III.4.	Payables to partners	70	10
B.III.5.	Payables to employees	482 081	448 594
B.III.6.	Social security and health insurance payables	189 561	164 517
B.III.7.	State – tax payables and subsidies	853 455	217 229
B.III.8.	Short-term prepayments received	22 593	16 810
B.III.10.	Estimated payables	114 836	174 744
B.III.11.	Other payables	35 166	26 488
<i>B.IV.</i>	<i>Bank loans and borrowings</i>	<i>3 655 996</i>	<i>4 815 590</i>
B.IV.1.	Long-term bank loans	2 081 491	2 697 809
B.IV.2.	Short-term bank loans	1 574 420	2 117 649
B.IV.3.	Short-term borrowings	85	132
<b>C.I.</b>	<b>Other liabilities</b>	<b>40 142</b>	<b>49 542</b>
C.I.1.	Accrued expenses	14 962	16 897
C.I.2.	Deferred income	25 180	32 645
<b>D.</b>	<b>Minority equity</b>	<b>365 330</b>	<b>358 700</b>
D.I.	Minority share capital	83 300	83 300
D.II.	Minority capital funds	3 618	3 482
D.III.	Minority profit funds including accumulated profits and accumulated losses	261 124	249 212
D.IV.	Minority profit or loss for the current period	17 288	22 706

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

(CZK thousand)

		Year ended 31.12.2014	Year ended 31.12.2013
I.	Sales of goods	103 821	486 041
A.	Costs of goods sold	84 911	472 876
+	<b>Gross margin</b>	<b>18 910</b>	<b>13 165</b>
II.	Production	49 505 732	45 718 040
II.1.	Sales of own products and services	47 892 428	44 867 738
II.2.	Change in internally produced inventory	830 822	59 632
II.3.	Own work capitalised	782 482	790 670
B.	Purchased consumables and services	37 361 158	36 762 254
B.1.	Consumed material and energy	33 638 590	33 492 209
B.2.	Services	3 722 568	3 270 045
+	<b>Added value</b>	<b>12 163 484</b>	<b>8 968 951</b>
C.	Staff costs	5 734 623	5 125 263
C.1.	Payroll costs	3 874 649	3 556 706
C.2.	Remuneration to members of business corporation bodies	134 813	20 689
C.3.	Social security and health insurance costs	1 389 005	1 253 091
C.4.	Social costs	336 156	294 777
D.	Taxes and charges	58 228	61 072
E.	Depreciation of intangible and tangible fixed assets	1 689 617	1 515 317
KR A.	Release of consolidation difference (goodwill)	1 641	282 202
III.	Sales of fixed assets and material	142 571	109 653
III.1.	Sales of fixed assets	7 840	10 336
III.2.	Sales of material	134 731	99 317
F.	Net book value of fixed assets and material sold	118 663	86 949
F.1.	Net book value of sold fixed assets	3 266	3 994
F.2.	Book value of sold material	115 397	82 955
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-105 626	63 348
IV.	Other operating income	1 000 427	582 404
H.	Other operating expenses	1 355 513	741 415
*	<b>Operating profit or loss</b>	<b>4 453 823</b>	<b>1 785 442</b>
VI.	Proceeds from the sale of securities and investments		1 912
J.	Cost of securities and investments sold		1 192
VII.	Income from non-current financial assets	1 796	1 668
VII.1.	Income from subsidiaries and associates	1 756	1 668
VII.2.	Income from other non-current securities and investments	40	
IX.	Income from the revaluation of securities and derivatives	3 116	570
L.	Costs of the revaluation of securities and derivatives		3 570
M.	Change in reserves and provisions relating to financial activities	-3 602	30 884
X.	Interest income	2 634	2 354
N.	Interest expenses	81 309	67 263
XI.	Other financial income	106 160	231 295
O.	Other financial expenses	141 087	159 984
*	<b>Financial profit or loss</b>	<b>-105 088</b>	<b>-25 094</b>
Q.	Income tax on ordinary activities	837 532	421 859
Q.1.	- due	712 371	135 847
Q.2.	- deferred	125 161	286 012
**	<b>Profit or loss from ordinary activities</b>	<b>3 511 203</b>	<b>1 338 489</b>
XIII.	Extraordinary income		5 683
R.	Extraordinary expenses		225
*	<b>Extraordinary profit or loss</b>		<b>5 458</b>
**	<b>Consolidated profit or loss net of share of income from associates</b>	<b>3 511 203</b>	<b>1 343 947</b>
	Consolidated profit or loss net of minority interests	3 493 915	1 321 241
	Minority profit or loss	17 288	22 706
*	<b>Share of income from associates</b>	<b>23 803</b>	<b>54 881</b>
	Profit or loss for the current period (+/-)	3 535 006	1 398 828
***	<b>Profit or loss for the current period, net of minority interests (+/-)</b>	<b>3 517 718</b>	<b>1 376 122</b>

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(CZK thousand)

	Share capital	Capital funds	Reserve fund	Statutory and other funds	Other profit or loss of prior periods	Retained earnings	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
<b>Balance at 31 December 2012</b>	<b>8 109 863</b>	<b>72 634</b>	<b>993 854</b>	<b>2 325 869</b>	<b>-5 095</b>	<b>7 889 510</b>	<b>983 424</b>	<b>778 618</b>	<b>71 613</b>	<b>21 220 290</b>
Profit for the current period							1 321 241		22 796	1 344 037
Distribution of profit or loss		1 014	43 259			890 318	-934 591	71 613	-71 613	
Change in the consolidation method						-364		-337 529		-337 893
Revaluation of assets		26 635								26 635
Other profit or loss					3 170	-3 170				
Impact of changes in the consolidation group		119 536	-50 743		1 925	97 651	-48 833		32 085	151 621
Other		-86		-334		-1 310				-1 730
<b>Balance at 31 December 2013</b>	<b>8 109 863</b>	<b>219 733</b>	<b>986 370</b>	<b>2 325 535</b>		<b>8 872 635</b>	<b>1 321 241</b>	<b>512 702</b>	<b>54 881</b>	<b>22 402 960</b>
Profit for the current period							3 493 915		23 803	3 517 718
Distribution of profit or loss		686	578			1 319 977	-1 321 241	22 796	-22 796	
Reclassification/use of funds			2 325 521	-2 325 535						-14
Revaluation of assets		-3 904								-3 904
Impact of changes in the consolidation group		-98 843				131 292			-32 085	364
Other		-1				-289				-290
<b>Balance at 31 December 2014</b>	<b>8 109 863</b>	<b>117 671</b>	<b>3 312 469</b>			<b>10 323 615</b>	<b>3 493 915</b>	<b>535 498</b>	<b>23 803</b>	<b>25 916 834</b>

# CONSOLIDATED CASH FLOW STATEMENT

(CZK thousand)

		Year ended 31.12.2014	Year ended 31.12.2013
P.	Cash and cash equivalents at the beginning of the accounting period	1 199 864	1 181 993
	<i>Cash flows from ordinary activities</i>		
Z.	Profit/(loss) from ordinary activities before tax	4 348 735	1 760 348
A.1.	Adjustments for non-cash transactions	1 693 300	1 973 026
A.1.1.	Depreciation of fixed assets (+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 691 258	1 797 519
A.1.2.	Change in provisions, reserves and complex deferred expenses	-109 228	94 232
A.1.3.	Profit/(loss) on the sale of fixed assets (-/+)	-4 574	-7 062
A.1.4.	Revenues from profit shares (-), except for those paid from consolidation entities	-1 796	-1 668
A.1.5.	Interest expense (+) excluding capitalised interest and interest income (-)	78 675	64 909
A.1.6.	Adjustments, if any, and other non-cash transactions	38 965	25 096
A.*	<b>Net cash flow from operating activities before tax, movements in working capital and extraordinary items</b>	<b>6 042 035</b>	<b>3 733 374</b>
A.2.	Change in non-cash component of working capital	-1 121 009	-126 939
A.2.1.	Change in receivables from operating activities (+/-), deferred expenses, accrued income and estimated assets	-165 402	135 747
A.2.2.	Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	265 262	145 057
A.2.3.	Change in inventory	-1 219 753	-382 302
A.2.4.	Change in current financial assets not included in cash and cash equivalents	-1 116	-25 441
A.**	<b>Net cash flow from operating activities before tax and extraordinary items</b>	<b>4 921 026</b>	<b>3 606 435</b>
A.3.	Interest paid (-), except interest capitalised	-90 505	-76 055
A.4.	Interest received (+)	7 749	8 313
A.5.	Income tax paid from operating activities, additional tax paid for previous periods (-)	-241 337	-101 267
A.6.	Receipts and expenditures relating to extraordinary activities, which form extraordinary profit or loss, including income tax paid from extraordinary activities		5 457
A.7.	Received profit shares (+)	24 592	1 668
A.***	<b>Net cash flow from operating activities</b>	<b>4 621 525</b>	<b>3 444 551</b>
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-2 746 449	-2 362 071
B.2.	Receipts from fixed assets sold	8 285	11 028
B.3.	Loans provided to related parties	36 000	-36 000
B.4.	Cash flows from the purchase of business or its part		-2 510 378
B.***	<b>Net cash flow from investing activities</b>	<b>-2 702 164</b>	<b>-4 897 421</b>
	<i>Cash flow from financial activities</i>		
C.1.	Change in long-term or short-term payables which fall into cash and cash equivalent in financing activities	-1 169 899	1 490 341
C.2.	Impact on cash and cash equivalents due to change in equity	-10 809	-19 600
C.2.5.	Payments made from funds (-)	-29	
C.2.6.	Profit shares paid, including withholding tax related to these claims and including financial settlement with partners (-), except for profit shares paid between Group entities	-10 780	-19 600
C.***	<b>Net cash flow from financial activities</b>	<b>-1 180 708</b>	<b>1 470 741</b>
F.	<b>Net increase or decrease of cash and cash equivalents</b>	<b>738 653</b>	<b>17 871</b>
R.	Cash and cash equivalents at the end of the accounting period	1 938 517	1 199 864

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

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

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

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

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

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

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

During the year ended 31 December 2014, a change was recorded in the Register of Companies relating to the change in business activities, composition of members of the Board of Directors, number and composition of members of the Supervisory Board (refer to Note 1.4), take-over of the aggregate net assets (including the rights and obligations arising from labour relations) of the dissolving company Sochorová válcovna TŽ, a.s. which was dissolved as a result of the merger by amalgamation with the Company, as the successor company, and the change relating to the Company’s compliance with the act as a whole through the procedure according to Section 777 (5) of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (Act on Business Corporations).

#### 1.3. GROUP IDENTIFICATION

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

In 2014, the Company was controlled by MORAVIA STEEL a.s. Before 27 August 2014, MORAVIA STEEL a.s. was controlled by FINI-TRADING, a.s., and R.F.G., a.s., acting in concert.

Since 27 August 2014, MORAVIA STEEL a.s. has been controlled by FINITRADING, a.s., as the sole shareholder.

#### 1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2014

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

During the year ended 31 December 2014, the following changes were made in the composition of the Company's Board of Directors and Supervisory Board:

#### Board of Directors:

Position	Original member	New member	Date of change
Second Vice-Chairman	Petr Popelář	Henryk Huczala	1 April 2014
Member	Henryk Huczala	Radomíra Pekárková	1 April 2014

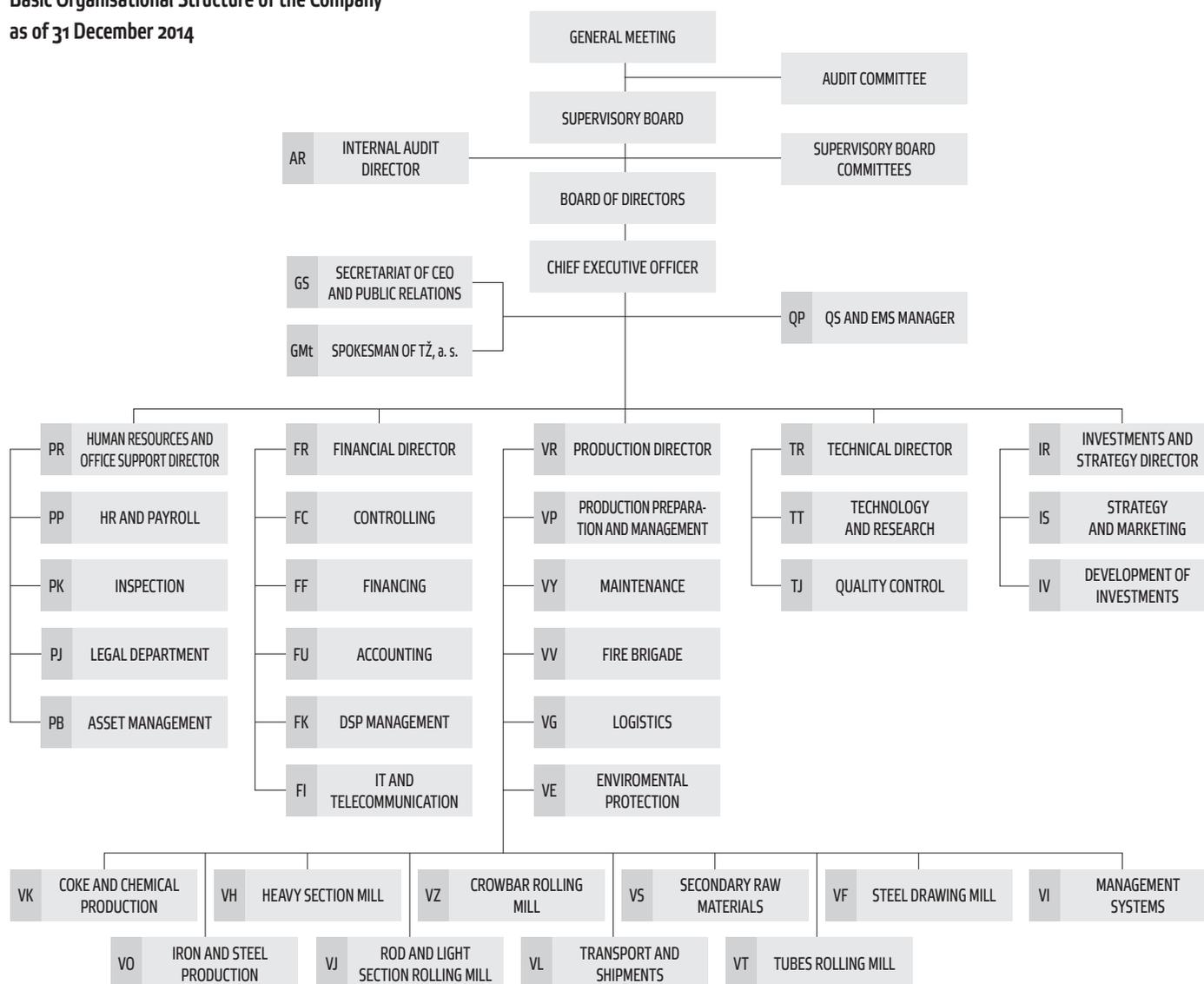
#### Supervisory Board:

Position	Original member	New member	Date of change
Member	Hanns Kurt Zöllner	-	1 Jan 2014
Member	Vladislav Heczko	-	1 Jan 2014
Member	Pablo Alarcón Espinosa	-	1 Jan 2014

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

### 2.1. ORGANISATIONAL STRUCTURE

#### Basic Organisational Structure of the Company as of 31 December 2014



**The bodies of the Company are as follows:**

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

**During the year ended 31 December 2014, the following changes were made in the organisational structure of the Company:**

- Cancellation of the TZ division – Testing Plants managed by TR – Technical Director.
- Formation of the IR division – Director for Investments and Strategy and the renaming of GA – Strategy and Marketing to IS – Strategy and Marketing and GI department – Development and Investments to IV – Development and Investments.
- Formation of the VZ plant – Sochorová válcovna managed by VR – Production Director.

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

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

**Controlled entities (subsidiaries):**

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2014
ENERGETIKA TŘINEC, a.s.	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00 %
Slévárny Třinec, a.s.*	Průmyslová 1001, Staré Město, 739 61 Třinec	Foundry industry	100.00 %
VÚHŽ a.s.**	No. 240, 739 51 Dobrá	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00 %
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00 %
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00 %
„METALURGIA“ S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00 %
„D&D“ Drótaru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	100.00 %
ŽDB DRÁTOVNA a.s.	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00 %
Hanácké železářny a pérovny, a. s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00 %
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00 %
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00 %
REFRASIL, s.r.o.	Třinec-Konská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00 %

Note:

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

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

**Associate:**

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

Note:

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

In the year ended 31 December 2014, Sochorová válcovna TŽ, a.s. was removed from the consolidation group. The entity was dissolved in the merger with TŘINECKÉ ŽELEZÁRNY, a. s.

The following companies were included in the consolidated group for the year ended 31 December 2013:

#### Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2013
ENERGETIKA TŘINEC, a.s.*	Průmyslová 1024, Staré Město, 739 61 Třinec	Production and distribution of heat and electricity	100.00 %
Slévárny Třinec, a.s.**	Průmyslová 1001, Staré Město, 739 61 Třinec, delivery number: 739 65	Foundry industry	100.00 %
VÚHŽ a.s.	Dobrá 240, 739 51	Production, installation and repairs of electronic equipment, foundry industry, modelling	100.00 %
Šroubárna Kyjov, spol. s r.o.	Kyjov, Jiráskova 987, 697 32	Railway route operation, locksmithing, tool engineering, metalworking	100.00 %
Strojírny a stavby Třinec, a.s.	Průmyslová 1038, Staré Město, 739 61 Třinec	Production of machinery and technology units, machinery equipment, construction work	100.00 %
„METALURGIA“ S.A.	ulica Świętej Rozalii nr 10/12, 97-500, Radomsko, Poland	Production of nails, wire and wire products	100.00 %
„D&D“ Drótaru Zrt.	3527 Miskolc, Besenyői u. 18., Hungary	Production of wire products	100.00 %
ŽDB DRÁTOVNA a.s.***	Jeremenkova 66, Pudlov, 735 51 Bohumín	Production of drawn wire, steel cord and tubular wire, ropes, tissues and welded networks, springs, draw plates and other wire products	100.00 %
Sochorová válcovna TŽ, a.s.	Třinec – Staré Město, Průmyslová 1000, 739 70	Metalworking, locksmithing, tool engineering	100.00 %
Hanácké železářny a pérovny, a. s.	Dolní 3137/100, 796 01 Prostějov	Production of leaf and helical springs for the automotive and railway industries	100.00 %
SV servisní, s.r.o.	Prostějov, Dolní 3137/100, 796 01	Electricity trading and distribution, gas trading and distribution	100.00 %
Řetězárna a.s.	Česká Ves, Polská 48, 790 81	Production of chains, chain products and drawn wire	51.00 %
REFRASIL, s.r.o.	Třinec-Konská, Průmyslová 720, 739 65	Production, trade and services not listed in appendices 1 to 3 to the Trade Licensing Act	51.00 %

Note:

\* before 9 October 2013, the registered office recorded in the Register of Companies was Třinec – Staré Město, Průmyslová 1024, 739 65; it was changed to Průmyslová 1024, Staré Město, 739 61 Třinec in the Register of Companies on 9 October 2013

\*\* before 21 January 2013, the registered office recorded in the Register of Companies was Třinec – Staré Město, Průmyslová 1024, 739 65; it was changed to Průmyslová 1024, Staré Město, 739 61 Třinec in the Register of Companies on 21 January 2013, delivery number: 739 65

\*\*\* before 17 December 2013, the registered office recorded in the Register of Companies was Bohumín – Pudlov, Jeremenkova 66, 735 51; it was changed to Jeremenkova 66, Pudlov, 735 51 Bohumín in the Register of Companies on 17 December 2013

In the year ended 31 December 2013, the consolidation group was extended to include Hanácké železářny a pérovny, a.s. due to the acquisition of the 100 % equity investment in this entity. In addition, the consolidation group was extended to include SV servisní, s.r.o. which is wholly owned by Hanácké železářny a pérovny, a.s. The consolidation for consolidation sub-groups was not prepared. Both entities were included in the consolidation group as of 1 November 2013.

Sochorová válcovna TŽ, a.s. was consolidated using the full method due to the purchase of the 82 % equity investment in this entity and an increase in the equity investment of the Company by which the Company became the sole shareholder of this entity. The consolidation using the full method started on 1 November 2013; before 31 October 2013, the entity was consolidated using the equity method.

Strojírny Třinec, a.s. was removed from the consolidation group due to its demerger through spin-off, the successor companies are TŘINECKÉ ŽELEZÁŘNY, a. s., and D 5, akciová společnost, Třinec, which changed its name to Strojírny a stavby Třinec, a.s. as of 1 September 2013.

#### Associate:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2013
VESUVIUS ČESKÁ REPUBLIKA, a.s.*	Průmyslová 715, Konská, 739 61 Třinec	Production of isostatically pressed heat-resisting products for continuous steel casting	40.00 %

Note:

\* before 4 November 2013, the registered office recorded in the Register of Companies was Třinec, Průmyslová 715, 739 65; it was changed to Průmyslová 715, Konská, 739 61 Třinec in the Register of Companies on 4 November 2013

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

The Company participated in the financial and operating policies of Sochorová válcovna TŽ, a.s. For this reason, Sochorová válcovna TŽ, a.s. was consolidated using the equity method before 31 October 2013.

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

The financial statements of the companies included in the consolidated group were prepared as of and for the years ended 31 December 2014 and 2013. "METALURGIA" S.A. is based in Poland, „D&D“ Drótáru Zrt. in Hungary, and other companies in the consolidation group are based in the Czech Republic.

### 2.4. COMPANIES EXCLUDED FROM CONSOLIDATION

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

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

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

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

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

## 3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

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

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

### 3.1. FINANCIAL REPORTING PERIOD

The consolidated financial statements for the year ended 31 December 2014 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2013;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2013;
- The statement of changes in equity contains comparative amounts as of 31 December 2013; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2013.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1. TANGIBLE AND INTANGIBLE FIXED ASSETS

#### Valuation

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

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

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

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

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

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

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

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

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

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

As of the consolidated balance sheet date, emission allowances are valued according to the EUROPEAN ENERGY EXCHANGE rate. The decrease in the valuation of emission allowances acquired on a free-of-charge basis as of the consolidated balance sheet date is recognised in the balance sheet lines 'Other intangible fixed assets' and 'State – tax payables and subsidies'. An upward revaluation of the

emission allowances is not recognised. If there is a lack of allowances at the consolidated balance sheet date, a reserve is recognised as part of 'Other reserves' and 'Change in reserves and provisions relating to operating activities and complex deferred expenses'. The reserve for the purchase of allowances is released in the following accounting period when the missing allowances are purchased or used from the free of charge allocation of the following period.

### Depreciation for Accounting Purposes

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

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

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

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

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

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

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

### Provisioning

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

### Impairment

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

## 4.2. NON-CURRENT FINANCIAL ASSETS

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

### Valuation

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

### At the consolidated balance sheet date:

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

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

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

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

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

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

### **Provisioning against Equity Investments**

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

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

## **4.3. DERIVATIVE FINANCIAL INSTRUMENTS**

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

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

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

Derivative financial instruments are concluded for the contracted transaction volume.

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

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

## **4.4. CURRENT FINANCIAL ASSETS**

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

Current financial assets are carried at cost upon acquisition.

## **4.5. INVENTORY**

### **Valuation**

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

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

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

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

#### **Provisioning**

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

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

#### **4.6. RECEIVABLES**

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

#### **Provisioning**

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

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

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

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

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

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

#### **4.7. PAYABLES**

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

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

##### **Valuation**

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

#### **4.9. RESERVES**

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

#### **4.10. FOREIGN CURRENCY TRANSLATION**

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

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

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

#### **4.11. FINANCE LEASES**

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

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

#### **4.12. TAXATION**

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

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/1992 Coll., on Income Taxes, with the exception of assets used by TRINECKÉ ŽELEZÁRNY, a. s. in the Tube Rolling Mill (the VT operation), VZ – Sochorová válcovna plant and the Univerzální trat 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. Hanácké železářny a pérovný, a.s. and SV servisní, s.r.o. use the straight line method for the calculation of depreciation for tax purposes.

##### ***4.12.2. Current Tax Payable***

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

##### ***4.12.3. Deferred Tax***

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

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

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

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

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

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

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

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

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

**4.15. REVENUE RECOGNITION**

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

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

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

**4.16. USE OF ESTIMATES**

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

**4.17. RESEARCH AND DEVELOPMENT EXPENDITURE**

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

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

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

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

Starting from 2013, the Company has changed the policy of reporting equity investments in companies that are not part of the business group in terms of Section 66a of the Commercial Code (newly Part 9 of the Act on Business Corporations). The equity investment in the educational corporate entity Střední odborná škola Třineckých železáren with the acquisition cost of CZK 2,000 thousand that was reported in 'Equity investments in subsidiaries' and the equity investment in Kvalifikační a personální agentura, o.p.s. with the acquisition cost of CZK 34 thousand that was reported in 'Equity investments in associates' are currently reported in 'Other non-current securities and investments'.

Starting from 2013, the Company has not reported the fee for air pollution in the amount of CZK 7,003 thousand in the profit and loss account as part of 'Other operating costs' but in the line 'Taxes and charges' in the profit and loss account.

**4.19. SUBSIDIES**

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

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

**4.20. CASH FLOW STATEMENT**

The cash flow statement is prepared using the indirect method.

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

**Cash and cash equivalents can be analysed as follows:**

(CZK thousand)

	31 Dec 2014	31 Dec 2013
Cash on hand	3 609	3 445
Current accounts	1 871 350	1 184 625
Term deposit	90 051	27 166
Short-term securities and equity investments	15 112	25 117
Provisions against short-term securities and equity investments	-15 048	-15 048
<b>Total current financial assets</b>	<b>1 965 074</b>	<b>1 225 305</b>
Cash and cash equivalents not included in the cash flow	-26 557	-25 441
<b>Total cash and cash equivalents</b>	<b>1 938 517</b>	<b>1 199 864</b>

The difference between cash and cash equivalents as of 31 December 2014 and 2013 in the cash flows statement in comparison with the current financial assets in the balance sheet represents blocked deposits that are restricted with regard to the free handling of the funds.

**4.21. CONSOLIDATION RULES**

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

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

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

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

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

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

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

The financial statements for the years ended 31 December 2014 and 2013 prepared by the companies included in the consolidated group, as well as the financial statements of subsidiaries and associates not included in the consolidated group that were received by the Company as of the consolidated financial statement preparation date are available in the registered office of the Company.

The consolidation rules for 2014 and 2013 (definition of the consolidated group, method of transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Company.

## 5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

### 5.1. CONSOLIDATED PROFIT/LOSS FOR 2014

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

(CZK thousand)

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

#### 5.1.2. Adjustments within Full Consolidation for 2014

(CZK thousand)

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

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

(CZK thousand)

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

### 5.2. CONSOLIDATED PROFIT/LOSS FOR 2013

#### 5.2.1. Structure of the Consolidated Profit/Loss for 2013

(CZK thousand)

Profit/(loss) of the current period – TŘINECKÉ ŽELEZÁRNY, a. s.	1 082 057
Profit/(loss) of the current period – ENERGETIKA TŘINEC, a.s.	63 096
Profit/(loss) of the current period – Slévárny Třinec, a.s.	2 202
Profit/(loss) of the current period – Šroubárna Kyjov, spol. s r.o.	86 693
Profit/(loss) of the current period – Strojírny a stavby Třinec, a.s.	40 457
Profit/(loss) of the current period – VÚHŽ a.s.	22 433
Profit/(loss) of the current period – „METALURGIA“ S.A.	8 573
Profit/(loss) of the current period – „D&D“ Drótáru Zrt.	10 000
Profit/(loss) of the current period – ŽDB DRÁTOVNA a.s.	142 576
Share in profit of the current period – Hanácké železářny a pérovny, a.s.	-6 329
Share in profit of the current period – SV servisní, s.r.o.	1 299
Share in profit of the current period – Sochorová válcovna TŽ, a.s.	69 850
Share in profit of the current period – REFRASIL, s.r.o.	11 564
Share in profit of the current period – Řetězárna a.s.	11 707
Share in profit/(loss) of equity accounted investments – Sochorová válcovna TŽ, a.s.	32 085
Share in profit/(loss) of equity accounted investments – VESUVIUS ČESKÁ REPUBLIKA, a.s.	22 796
Adjustments within the equity method of consolidation (see below)	-224 937
<b>Consolidated profit</b>	<b>1 376 122</b>

### 5.2.2. Adjustments within Full Consolidation for 2013

(CZK thousand)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory in the consolidated group, including the deferred tax impact	-30 777
Write-off of the revaluation of assets at fair value	-41 300
Write-offs of the margin from the sale of assets value including the deferred tax impact	8 197
Elimination of declared profit shares of the consolidated group entities	-112 400
Elimination of provisioning against „D&D” Drótáru Zrt.	233 545
Write-off of the positive goodwill on consolidation of „D&D” Drótáru Zrt.	-282 202
<b>Total adjustments</b>	<b>-224 937</b>

## 6. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

### 6.1. INTANGIBLE FIXED ASSETS

#### Cost

(CZK thousand)

	Balance at 1 Jan 2013	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Research and development	4 553	0	0	0	0
Goodwill	360	0	0	0	25
Software	231 258	18 154	28 329	686	340
Valuable rights	130 762	0	24 065	1 697	805
Other intangible FA	174 022	8 336	155	132 330	0
Intangible FA under construction	6 475	12 291	41 019	51 696	15
<b>Total</b>	<b>547 430</b>	<b>38 781</b>	<b>93 568</b>	<b>186 409</b>	<b>1 185</b>

(CZK thousand)

	Balance at 31 Dec 2013	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2014
Research and development	4 553	0	0	0	4 553
Goodwill	385	0	0	-6	379
Software	277 395	10 583	1 093	-169	286 716
Valuable rights	153 935	22 393	0	-582	175 746
Other intangible FA	50 183	1 924 122	1 726 257	0	248 048
Intangible FA under construction	8 104	49 619	31 055	0	26 668
<b>Total</b>	<b>494 555</b>	<b>2 006 717</b>	<b>1 758 405</b>	<b>-757</b>	<b>742 110</b>

#### Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 1 Jan 2013	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Research and development	3 870	0	683	0	0
Goodwill	360	0	0	0	25
Software	214 048	17 863	7 066	479	320
Valuable rights	59 326	0	6 362	1 698	607
Other intangible FA	2 060	8 147	617	0	25
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>279 664</b>	<b>26 010</b>	<b>14 728</b>	<b>2 177</b>	<b>977</b>

(CZK thousand)

	Balance at 31 Dec 2013	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2014
Research and development	4 553	0	0	0	4 553
Goodwill	385	0	0	-6	379
Software	238 818	10 605	1 093	-168	248 162
Valuable rights	64 597	9 629	0	-449	73 777
Other intangible FA	10 849	647	68	-13	11 415
Intangible FA under construction	0	0	0	0	0
<b>Total</b>	<b>319 202</b>	<b>20 881</b>	<b>1 161</b>	<b>-636</b>	<b>338 286</b>

**Net Book Value**

(CZK thousand)

	Balance at 31 Dec 2013	Balance at 31 Dec 2014
Research and development	0	0
Goodwill	0	0
Software	38 577	38 554
Valuable rights	89 338	101 969
Other intangible FA	39 334	236 633
Intangible FA under construction	8 104	26 668
<b>Total</b>	<b>175 353</b>	<b>403 824</b>

The tables of movements within intangible fixed assets include the column 'New acquisition' relating to the expansion of the consolidated group to include Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s. and SV servisní, s.r.o. in 2013.

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

Amortisation of intangible fixed assets amounted to CZK 20,791 thousand and CZK 14,653 thousand as of 31 December 2014 and 2013, respectively.

Other intangible assets primarily include greenhouse gas emission allowances.

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

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

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

As of 31 December 2013, the Company was not allocated the emission allowances for 2013. For the year ended 31 December 2013, the Company recognised the consumption of emission allowances in the amount of CZK 515,144 thousand to the debit and credit of account 347 – Subsidies for emission allowances with a corresponding entry to the relevant expense and income account.

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 45,147 thousand and CZK 42,043 thousand as of 31 December 2014 and 2013, respectively.

## 6.2. TANGIBLE FIXED ASSETS

### Cost

(CZK thousand)

	Balance at 1 Jan 2013	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Land	559 720	171 634	1 794	841	1 405
Structures	10 744 280	609 061	344 991	17 318	20 913
Individual movable assets	29 573 725	1 789 245	1 521 314	318 817	60 618
Other tangible FA	89 981	0	1 604	2 420	1 621
Tangible FA under construction	633 353	6 793	2 314 917	1 862 678	487
Prepayments for tangible FA	113 049	18 466	518 248	363 642	0
<b>Total</b>	<b>41 714 108</b>	<b>2 595 199</b>	<b>4 702 868</b>	<b>2 565 716</b>	<b>85 044</b>

(CZK thousand)

	Balance at 31 Dec 2013	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2014
Land	733 712	808	137	-933	733 450
Structures	11 701 927	416 169	5 416	-8 388	12 104 292
Individual movable assets	32 626 085	2 146 745	525 077	-28 160	34 219 593
Other tangible FA	90 786	1 790	2 034	-1 107	89 435
Tangible FA under construction	1 092 872	2 920 725	2 560 227	-380	1 452 990
Prepayments for tangible FA	286 121	314 670	508 162	0	92 629
<b>Total</b>	<b>46 531 503</b>	<b>5 800 907</b>	<b>3 601 053</b>	<b>-38 968</b>	<b>48 692 389</b>

### Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 1 Jan 2013	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Land	0	0	0	0	0
Structures	5 581 558	205 247	266 635	40 602	10 350
Individual movable assets	20 590 056	897 772	1 251 618	330 539	43 061
Other tangible FA	20 831	0	29 600	1 867	1 000
Tangible FA under construction	36 814	0	1 554	2 840	0
Prepayments for tangible FA	0	1 075	0	1 075	0
<b>Total</b>	<b>26 229 259</b>	<b>1 104 094</b>	<b>1 549 407</b>	<b>376 923</b>	<b>54 411</b>

(CZK thousand)

	Balance at 31 Dec 2013	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2014
Land	0	0	0	0	0
Structures	6 023 188	279 291	6 247	-3 233	6 292 999
Individual movable assets	22 451 968	1 364 788	524 840	-18 940	23 272 976
Other tangible FA	49 564	29 838	1 834	-699	76 869
Tangible FA under construction	35 528	134	622	0	35 040
Prepayments for tangible FA	0	0	0	0	0
<b>Total</b>	<b>28 560 248</b>	<b>1 674 051</b>	<b>533 543</b>	<b>-22 872</b>	<b>29 677 884</b>

### Net Book Value

(CZK thousand)

	Balance at 31 Dec 2013	Balance at 31 Dec 2014
Land	733 712	733 450
Structures	5 678 739	5 811 293
Individual movable assets	10 174 117	10 946 617
Other tangible FA	41 222	12 566
Tangible FA under construction	1 057 344	1 417 950
Prepayments for tangible FA	286 121	92 629
<b>Total</b>	<b>17 971 255</b>	<b>19 014 505</b>

The tables of movements within tangible fixed assets include the column 'New acquisition' relating to the expansion of the consolidated group to include Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s., and SV servisní, s.r.o. in 2013.

Principal additions to tangible fixed assets for the year ended 31 December 2014 are as follows:

(CZK thousand)

Renovation of the KDT rolling mill	760 099
Acquisition of the peeling line	253 609
Acquisition of the peeling hall and refining line	164 006
Material and refractory concrete line	34 607
Technical improvements – Dorry cleaning station	22 582
Equipment for the thermal processing of chains	22 290
Cooling tower no. 2 at Dorry	22 083
KBA 601 bending machine	20 516
Resistance heating	16 692
Technical improvements-TK1 switching station – high voltage	10 974
Low voltage switching station, waterworks 3	10 909
Wire drawing line	10 573

Principal additions to tangible fixed assets under construction for the year ended 31 December 2014 were as follows:

(CZK thousand)

NK 14 boiler	333 257
Acquisition of the second passing line	137 136
Acquisition of new technology – removal of exhaust gases and dust removal from nodes at sintering plant 2 using an environmental subsidy	47 621
Modernisation and renovation of KB 11	39 356
Power supply for new technologies	19 877

During the year ended 31 December 2014, assets with an aggregate net book value of CZK 18,928 thousand were removed from tangible fixed assets. Major disposals principally comprised the liquidation of the obsolete ADVANT Controlac 450 control system, liquidation of the obsolete system due to the renovation of the dust removal of the VP4 and VP 6 foundry and partial liquidation of the KDT rolling mill as part of the modernisation.

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

Depreciation of tangible fixed assets amounted to CZK 1,668,826 thousand and CZK 1,500,664 thousand as of 31 December 2014 and 2013, respectively.

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

The aggregate costs of low value tangible assets not reported on the face of the balance sheet were CZK 743,077 thousand and CZK 706,443 thousand as of 31 December 2014 and 2013, respectively.

#### Fair Value

As of the acquisition date in 2013, no assets were revalued to fair value at any of the acquired entities (Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s. and SV servisní, s.r.o.) as this was the sale and acquisition of companies in the group of TŘINECKÉ ŽELEZÁŘNY, a. s. and MORAVIA STEEL a.s. which are members of the superior consolidation group.

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

#### Finance Leases

31 December 2014

(CZK thousand)

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

31 December 2013

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2013
Total anticipated lease payments	180	4 744	4 924
Actual lease payments made through 31 Dec 2013	180	4 615	4 795
Future payments due by 31 Dec 2014	0	129	129

On 31 January 2013, ŽDB DRÁTOVNA a.s. concluded agreements with the leasing company on a preliminary termination of the lease contract dated 30 December 2010 (on the lease of production machinery of CZK 103,184 thousand for the period of 60 months) which prematurely terminate the above lease contracts on 29 January 2013 and the payables of the parties arising from the lease contracts were settled by the lessee in accordance with the concluded contracts. This resulted in the acquisition of tangible assets for CZK 60,438 thousand.

#### Operating Lease

Lease payments of CZK 55,591 thousand and CZK 40,707 thousand were made in the years ended 31 December 2014 and 2013, respectively.

### 6.4. PLEDGED FIXED ASSETS

31 December 2014

(CZK thousand)

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

Note:

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

31 December 2013

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	570 957	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc – Prague branch and CITIBANK Europe plc
Land	40 732	
Tangible fixed assets	749 541	Loan from Česká spořitelna, a.s.
Land	26 630	
Tangible fixed assets	482 337	Loan from Česká spořitelna, a.s.
Tangible fixed assets	199 503	Loan from Československá obchodní banka, a.s.
Land	10 640	
Land	699	Loan from UniCredit Bank Czech Republic and Slovakia, a.s.**
Tangible fixed assets	431 917	Loan from Československá obchodní banka, a.s., collateralised by assets up to CZK 926,452 thousand
Land	34 415	
Technology	622 944	
Tangible fixed assets	32 728	Long-term loan from UniCredit Bank Czech Republic and Slovakia, a.s.**
Tangible fixed assets	28 012	Long-term loan from UniCredit Bank Czech Republic and Slovakia, a.s.**
Tangible fixed assets	120 356	Overdraft loan from Československá obchodní banka, a.s.
Land	10 614	
Tangible fixed assets, technology	21 385	Česká spořitelna, a.s. – pledge in favour of the loan of Třinecké železářny, a. s. for KB 12 coke battery
Technology	155 462	UniCredit Bank Czech Republic and Slovakia, a.s. – pledge for the investment loan for funding of the NK 14 boiler construction**
Tangible fixed assets	152 494	Loans from Česká spořitelna, a.s.
Tangible fixed assets*	49 523	Loan from ING Bank Śląski S.A., collateralised by machinery up to PLN 7,500 thousand
Tangible fixed assets*	132 060	Loan from BNP Paribas Bank Polska S.A., collateralised by fixed assets up to PLN 20,000 thousand
Tangible fixed assets*	12 546	Loan from ING Bank Śląski S.A., collateralised by fixed assets up to PLN 1,900 thousand
Tangible fixed assets*	35 237	State grant from the Ministry for National Economy (Hungary)
<b>Total</b>	<b>3 920 732</b>	

Note:

\* translated using the exchange rate of the Czech National Bank as of 31 December 2013

\*\* in 2013, the name of UniCredit Bank Czech Republic, a.s. changed to UniCredit Bank Czech Republic and Slovakia, a.s.

## 6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

### 6.5.1. Equity Investments in Subsidiaries

31 December 2014

(CZK thousand)

Name of the entity, registered office	Nominal value	Number of securities	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Staré Město, Třinec	25 800	0	100.00	46 896	2 837	0	0
Doprava TŽ, a.s., Třinec - Staré Město	16 000	115	100.00	40 110	4 773	0	0
TRIALFA, s.r.o., Třinec - Kanada	100	0	100.00	18 486	505	0	0
Steel Consortium Partners, a.s., "in liquidation", Třinec - Staré Město	19 000	117	100.00	1 129	-111	-17 871	0
Reťaze Slovakia s.r.o., Skalica (SK)	4 936	0	80.00	15 395	2 400	0	1 756
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vítkovice, Ostrava	46 197	0	90.00	49 168	1 305	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	54 234	-1 880	0	0
„ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością, Cieszyn, (POL)	48 558	0	88.00	50 062	500	-4 875	0
Moravia Security, a.s., Třinec - Kanská	12 000	12	100.00	19 933	2 217	0	0
TŘINECKÁ PROJEKCE, a.s., Kanada, Třinec	2 745	183	83.18	15 921	3 186	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	10 805	4 437	-22 653	0
<b>Total</b>						<b>-45 399</b>	<b>1 756</b>

Note: *italics* – preliminary results as of 31 December 2014

**31 December 2013**

(CZK thousand)

Name of the entity, registered office	Nominal value	Number of securities	Share in %	Equity	Profit or loss for the period	Provision	Financial income for the year
Třinecké gastroslužby, s.r.o., Třinec – Staré Město	25 800	0	100.00	44 057	2 575	0	0
Doprava TŽ, a.s., Třinec - Staré Město	16 000	115	100.00	36 298	1 863	0	0
TRIALFA, s.r.o., Třinec - Kanada	100	0	100.00	18 100	219	0	0
Steel Consortium Partners, a.s., Třinec - Staré Město	19 000	117	100.00	1 240	-161	-17 825	0
Reťaze Slovakia s.r.o., Skalica (SK)	4 936	0	80.00	15 049	802	0	1 668
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Vitkovice, Ostrava	46 197	0	90.00	48 519	1 727	0	0
TRISIA, a.s., Třinec	9 900	990	66.00	56 115	-1 665	0	0
„ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością, Cieszyn, (POL)	48 558	0	88.00	50 494	517	-5 315	0
Moravia Security, a.s., Třinec – Kanská	12 000	12	100.00	17 770	1 665	0	0
TŘINECKÁ PROJEKCE, a.s., Třinec – Kanada	2 745	183	83.18	13 637	2 423	0	0
DALSELV DESIGN a.s., Ostrava-Mariánské Hory	1 360	12	68.00	1 264	-13 633	-25 670	0
<b>Total</b>						<b>-48 810</b>	<b>1 668</b>

**6.5.2. Equity Investments in Associates**
**31 December 2014**

(CZK thousand)

Name of the entity, registered office	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Financial income for the year
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.28	40 000	550	-17 998	0
HRAT, s.r.o., Třinec*	100	0	23.26	2 004	397	0	0
<b>Total</b>						<b>-17 998</b>	<b>0</b>

Note: preliminary results as of 31 December 2014

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

**31 December 2013**

(CZK thousand)

Name of the entity, registered office	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Financial income for the year
Hutnictví železa, a.s., Prague 10	16 427	27 379	39.28	40 328	-105	-18 184	0
HRAT, s.r.o., Třinec*	100	0	23.26	1 607	377	0	0
<b>Total</b>						<b>-18 184</b>	<b>0</b>

Note:

\* results for the period from 1 April 2013 – 31 March 2014

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

(CZK thousand)

	Balance at 31 Dec 2012	New acquisition	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2013
Equity investments in subsidiaries	215 938	0	425	8 256	-17	0	208 090
Equity investments in associates	26 209	0	26	34	0	0	26 201
Other non-current securities and equity investments	113	907	2 134	100	-34	6	3 026
Acquired non-current financial assets	0	0	451	451	0	0	0
<b>Total</b>	<b>242 260</b>	<b>907</b>	<b>3 036</b>	<b>8 841</b>	<b>-51</b>	<b>6</b>	<b>237 317</b>

(CZK thousand)

	New acquisition	Additions	Disposals	Revaluation	Impact of exchange rate gains or losses	Balance at 31 Dec 2014
Equity investments in subsidiaries	0	0	0	277	0	208 367
Equity investments in associates	0	0	0	0	0	26 201
Other non-current securities and equity investments	0	0	0	-8	-2	3 016
Acquired non-current financial assets	0	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>269</b>	<b>-2</b>	<b>237 584</b>

The tables of movements within non-current financial assets include the column 'New acquisition' in 2013 relating to the expansion of the consolidated group to include Sochorová válcovna TŽ, a.s. and Hanácké železářny a pérovny, a.s. that own other non-current securities and equity investments.

Major additions to non-current financial assets in 2013 included:

- Increase in the equity investment in MATERIALOVÝ A METALURGICKÝ VÝZKUM s.r.o. from 89.11 % to 90.01 %; and
- Increase in the equity investment in Hutnictví železa, a.s. from 39.21 % to 39.28 %.

## 6.7. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2014

(CZK thousand)

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

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

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

2013

(CZK thousand)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
<i>Goodwill arising on consolidation</i>						
ŽDB DRÁTOVNA a.s.	255 534	0	255 534	0	0	0
„D&D“ Drótáru Zrt.	365 173	-347 192	17 981	0	282 202	0
<b>Total</b>	<b>620 707</b>	<b>-347 192</b>	<b>273 515</b>	<b>0</b>	<b>282 202</b>	<b>0</b>

The gross value of the goodwill arising on consolidation of ŽDB DRÁTOVNA a.s. amounts to CZK 255,534 thousand. The goodwill arising on consolidation includes the deferred tax arising from the difference from revaluation of assets and liabilities. In 2013, the Company recognised a year-on-year change in this deferred tax of CZK 4,990 thousand, total deferred tax in 2013 amounts to CZK 14,457 thousand. In 2013, the Company recognised an increase in the goodwill arising on consolidation of CZK 1,990 thousand as a result of a change in the cost of ŽDB DRÁTOVNA a.s. of CZK (392) thousand and as a result of the derecognition of the deferred tax from the valuation difference on acquired assets of CZK 2,382 thousand.

The gross value of the goodwill arising on consolidation of „D&D“ Drótaru Zrt. amounts to CZK 365,173 thousand. In 2013, the write-off of this goodwill arising on consolidation of CZK 282,202 thousand was recognised in expenses, the net value as of 31 December 2013 amounts to CZK 17,981 thousand. The positive goodwill arising on consolidation includes the deferred tax arising from the revaluation of assets and liabilities. In 2013, a year-on-year change in the deferred tax was recognised in the amount of CZK 205 thousand. The deferred tax in 2013 amounted to CZK 4,483 thousand.

The goodwill on consolidation in respect of the new acquisitions in 2013 (Sochorová válcovna TŽ, a.s., Hanácké železářny a pérovny, a.s. and SV servisní, s.r.o.) did not arise as it was a sale and acquisition of companies in the TŘINECKÉ ŽELEZÁŘNY, a. s. and MORAVIA STEEL a.s. group that is a part of a joint superior consolidation group. The difference between the cost of the equity investment of these entities and their equity as of 1 November 2013 recalculated by the equity investment of the consolidating company was reported in equity in the line “Gains or losses from the revaluation of assets and liabilities”.

## 6.8. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK thousand)

Securities and equity investments under equity accounting	2014	2013
VESUVIUS ČESKÁ REPUBLIKA, a.s.	155 395	154 389
Total	155 395	154 389

## 6.9. PLEDGED NON-CURRENT FINANCIAL ASSETS

As of 31 December 2014 and 2013, the Company has non-current financial assets pledged as collateral in the nominal value of CZK 132,000 thousand and CZK 533,000 thousand, respectively.

## 6.10. INVENTORY

As of 31 December 2014, „METALURGIA“ S.A. has pledged the inventory up to PLN 13,000 thousand (CZK 84,396 thousand) with BNP PARIBAS BANK Polska S.A. in relation to the used loan. In 2013, the inventory was pledged up to PLN 7,000 thousand (CZK 46,221 thousand).

The balance of net inventory increased by CZK 1,277,077 thousand as a result of the extension of the consolidation group on 1 November 2013.

## 6.11. RECEIVABLES

### 6.11.1. Short-Term Receivables

As of 31 December 2014 and 2013, gross short-term trade receivables past their due dates amounted to CZK 439,759 thousand (net CZK 337,028 thousand) and CZK 471,874 thousand (net CZK 339,973 thousand), respectively.

### Other Short-Term Receivables

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

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

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

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

Receivables typically mature within 30 days.

### 6.11.2. Pledged Receivables

During 2014 and 2013, Hanácké železářny a pérovny, 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 2014, ŽDB DRÁTOVNA a.s. records pledged receivables of CZK 685,216 thousand based on the Loan Contract concluded with Československá obchodní banka, a.s. As of 31 December 2013, the pledged receivables amounted to CZK 3,565 thousand.

As of 31 December 2014, Šroubárna Kyjov, spol. s r.o. records pledged receivables of CZK 115,368 thousand based on the Loan Contract concluded with Československá obchodní banka, a.s. As of 31 December 2013, the pledged receivables amounted to CZK 91,986 thousand.

As of 31 December 2014, VÚHŽ a.s. pledged receivables of CZK 10,644 thousand. The pledge results from the concluded Contract for the Establishment of a Pledge of Receivables in Československá obchodní banka, a.s., and collateralises the provided short-term loans. As of 31 December 2013, this pledge amounted to CZK 10,328 thousand.

As of 31 December 2014, „METALURGIA“ S.A. records pledged receivables of PLN 2,747,378.89 (CZK 17,836 thousand) with ING Commercial Finance Polska S.A. As of 31 December 2013, the pledged receivables amounted to PLN 3,115,102.06 (CZK 20,569 thousand).

### 6.1.3. Intercompany Receivables

#### Short-term Receivables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2014	Balance at 31 Dec 2013
• Trade receivables		
Doprava TŽ, a.s.	1 104	1 963
Moravia Security, a.s.	90	138
MORAVIA STEEL a.s.*	2 382 119	2 648 031
TRIALFA, s.r.o.	3 152	4 412
TŘINECKÁ PROJEKCE, a.s.	155	332
Třinecké gastroslužby, s.r.o.	3 016	1 666
TRISIA, a.s.	15	8
VESUVIUS ČESKÁ REPUBLIKA, a.s.	5 319	5 136
Beskydská golfová, a.s.	37	40
NEOMET Sp. z o.o.	1 805	60
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	35	95
M Steel Projects a.s.	9 011	12
Steel Consortium Partners, a.s.	20	22
Security Morava, s.r.o.	4	0
Moravskoslezský kovošrot, a.s.	3 124	4 276
Moravia Steel Deutschland GmbH	44 194	-808
Kovárna VIVA a.s.	10	4
AHP HYDRAULIKA, a.s.	1	540
<b>Total</b>	<b>2 453 211</b>	<b>2 665 927</b>
• Receivables – controlled or controlling entity		
„NEOMET“ Sp. z o.o.	0	36 065
<b>Total</b>	<b>0</b>	<b>36 065</b>
• Short-term prepayments made		
Třinecké gastroslužby, s.r.o.	0	530
<b>Total</b>	<b>0</b>	<b>530</b>
<b>Total short-term intercompany receivables</b>	<b>2 453 211</b>	<b>2 702 522</b>
Other than intercompany receivables	2 236 039	2 245 895
<b>Total short-term receivables</b>	<b>4 689 250</b>	<b>4 948 417</b>

Note:

\* including estimated receivable

Long-term receivables past their due dates by more than 5 years as of 31 December 2014 amounted to CZK 282 thousand (2013: CZK 201 thousand).

## 6.12. EQUITY

### 6.12.1. Share Capital

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

### **6.12.2. Gains and Losses from Revaluation**

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

### **6.13. RESERVES**

Other reserves principally consist of reserves for the liquidation, employee bonuses, and, in the past, losses incurred in connection with concluded long-term contracts.

### **6.14. PAYABLES**

#### **6.14.1. Long-Term Payables**

Long-term trade payables as of 31 December 2014 primarily include payables arising from retention fees from suppliers according to concluded contracts.

Long-term trade payables with maturities exceeding 5 years as of 31 December 2014 amount to CZK 0 (2013: CZK 148 thousand).

#### **6.14.2. Short-Term Trade Payables**

As of 31 December 2014, short-term trade payables past their due dates amount to CZK 65,843 thousand (2013: CZK 72,160 thousand).

Payables typically fall due for settlement within 30 days.

#### **Other Payables**

As of 31 December 2014, payables associated with social security and the state employment policy contribution amounted to CZK 127,237 thousand (2013: CZK 109,135 thousand), health insurance payables totalled CZK 57,660 thousand (2013: CZK 50,870 thousand). Payables arising from the additional pension scheme amounted to CZK 4,664 thousand (2013: CZK 4,512 thousand) as of 31 December 2014. No social securities and health insurance payables past their due dates were recorded.

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

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

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

**6.14.3. Intercompany Payables****Short-term Payables**

(CZK thousand)

Name of the entity	Balance at 31 Dec 2014	Balance at 31 Dec 2013
• Trade payables		
Doprava TŽ, a.s.	12 475	13 478
Hutnictví železa, a.s.	563	593
MORAVIA STEEL a.s.*	2 169 506	2 157 622
Moravia Security, a.s.	7 952	7 569
Security Morava, s.r.o.	294	194
TRIALFA, s.r.o.	16 492	15 056
TRISIA, a.s.	1 317	929
TŘINECKÁ PROJEKCE, a.s.	5 889	8 032
Třinecké gastroslužby, s.r.o.	9 751	14 747
VESUVIUS ČESKA REPUBLIKA, a.s.	8 695	10 945
Beskydská golfová, a.s.	3 025	3 025
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	654	1 744
„ZAMECZEK BŁOGOCICE” Sp. z o.o.	109	111
Moravskoslezský kovošrot, a.s.*	142 401	147 649
HRAT, s.r.o.	36	42
DALSELV DESIGN a.s.	3 640	7 612
Moravia Steel Deutschland GmbH	322	9
MORAVIA STEEL SLOVENIJA d.o.o.	162	0
M Steel Projects a.s.	0	40 434
NEOMET Sp. z o.o.	24 515	20 724
<b>Total</b>	<b>2 407 798</b>	<b>2 450 515</b>
• Short-term prepayments received		
M Steel Projects a.s.	0	398
<b>Total</b>	<b>0</b>	<b>398</b>
<b>Total short-term intercompany payables</b>	<b>2 407 798</b>	<b>2 450 913</b>
Other than intercompany payables	3 931 836	3 286 390
<b>Total short-term payables</b>	<b>6 339 634</b>	<b>5 737 303</b>

Note:

\* including estimated payable

**Long-Term Payables**

(CZK thousand)

Company name	Balance at 31 Dec 2014	Balance at 31 Dec 2013
<i>Long-term payables</i>		
• Trade payables		
Moravia Security, a.s.	0	11
<b>Total long-term intercompany payables</b>	<b>0</b>	<b>11</b>
Other than intercompany payables	1 422 656	1 320 411
<b>Total long-term payables</b>	<b>1 422 656</b>	<b>1 320 422</b>

Other than intercompany long-term payables principally include a deferred tax liability of CZK 1,399,556 thousand and CZK 1,285,380 thousand as of 31 December 2014 and 2013, respectively.

## 6.15. DEFERRED INCOME TAX

### 6.15.1. Deferred Tax Liability

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

(CZK thousand)

Deferred tax basis	Tax rate in %	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Difference between tax and accounting net book value of fixed assets	19	-8 299 839	-7 968 761
Difference between tax and accounting net book value of fixed assets	10	-142 657	-146 325
Remeasurement of securities available for sale	19	58	54
Remeasurement of assets to fair value charged against equity	19	-191 750	-212 493
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	10	-42 845	-44 829
Remeasurement of assets to fair value charged against the goodwill arising on consolidation	19	-49 890	-76 092
Accounting reserves	19	221 762	341 039
Accounting reserves	10	0	0
Provisions	19	644 303	617 275
Provisions	10	6 839	8 194
Outstanding default interest	19	0	0
Expenses to be allowable in subsequent periods	19	80 808	122 857
Expenses to be allowable in subsequent periods	10	110	2 091
Utilisable tax losses	19	12 284	175 523
Unrealised gains on the intragroup sale of inventory	19	28 913	42 720
Unrealised gains on intragroup sales of tangible fixed assets	19	295 467	302 856
Other	10	-27 038	-28 397
<b>Total tax base</b>		<b>-7 463 475</b>	<b>-6 864 288</b>
<b>Deferred tax liability</b>		<b>-1 399 556</b>	<b>-1 285 380</b>

(CZK thousand)

Analysis of movements	
<b>1 Jan 2013</b>	<b>-907 912</b>
New acquisition	-98 236
Current changes charged to the profit and loss account	-285 793
Current changes recognised in equity	175
Recognition against the goodwill arising on consolidation	6 385
Other	1
<b>31 Dec 2013</b>	<b>-1 285 380</b>
Current changes charged to the profit and loss account	-124 456
Current changes recognised in equity	5 103
Recognition against the goodwill arising on consolidation	5 177
<b>31 Dec 2014</b>	<b>-1 399 556</b>

### 6.15.2. Deferred Tax Asset

(CZK thousand)

	Tax rate in %	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Difference between the tax and accounting net book value of fixed assets	19	-6 832	0
Accounting reserves	19	6 398	10 310
Provisions	19	3 669	0
Utilisable tax loss	19	3 246	0
<b>Total tax base</b>		<b>6 481</b>	<b>10 310</b>
<b>Deferred tax asset</b>		<b>1 231</b>	<b>1 959</b>

(CZK thousand)

Analysis of movements		
1 Jan 2013		2 050
Current changes charged to the profit and loss account		-219
Current changes charged to equity		128
31 Dec 2013		1 959
Current changes charged to the profit and loss account		-705
Current changes charged to equity		-23
31 Dec 2014		1 231

## 6.16. BANK LOANS

### Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2014	Balance at 31 Dec 2013	Interest rate in %	Form of collateral at 31 Dec 2014
Investment	CZK	189 460	431 560	3M PRIBOR + 1.6/FIXED 2.46	Immovable and movable assets, securities, bill of exchange
Investment	EUR	141 891	0	6M EURIBOR + 1.1	Hermes guarantee insurer
Investment	CZK	0	500 000	3M PRIBOR + 1.5 (margin according to Senior Debt/EBITDA)	Movable and immovable assets KB12, receivable from insurance, bill of exchange
Investment	CZK	180 000	240 000	3M PRIBOR + 1.4	Securities, bill of exchange
Investment	EUR	199 727	197 222	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	694 737	947 368	3M PRIBOR + 1.4	Immovable and movable assets, securities receivable from insurance, bill of exchange
Investment	CZK	413 644	0	3M PRIBOR + 1.55/FIXED 2.48	Immovable and movable assets, bill of exchange
Investment	EUR	0	2 057	1M EURIBOR + 1.3	KEH8, KER8 line
Term (special purpose)	CZK	99 073	155 686	3M PRIBOR + 1.6	Assets and receivable
Investment	EUR	5 441	8 781	1M EURIBOR+1.15	Pledged real estate
Investment	EUR	5 871	8 711	1M EURIBOR + 1.61	Pledged real estate
Investment	CZK	112 500	150 000	3M PRIBOR + 1.5/FIXED 2.4	Pledged movable assets, blank bill of exchange
Investment	CZK	4 695	9 375	1M PRIBOR + 1.6	Pledged real estate, pledged movable assets, receivables from insurance of immovable and movable assets, pledge of trade receivables
Investment	EUR	6 258	9 569	1M EURIBOR + 0.85	Pledged real estate, pledged movable assets, receivables from insurance of immovable and movable assets
Investment	CZK	6 000	10 000	FIXED 3.90	Pledged real estate, pledged movable assets, receivables from insurance of immovable and movable assets
Investment	EUR	4 436	10 970	3M EURIBOR + 1.3	KPH 600 machine, KLM measurement system
Investment	EUR	9 371	16 510	3M EURIBOR + 1.3	Pledged movable assets
Investment	EUR	8 387	0	3M EURIBOR + 1.3	
<b>Total</b>		<b>2 081 491</b>	<b>2 697 809</b>		

## Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2014	Balance at 31 Dec 2013	Interest rate in %	Form of collateral at 31 Dec 2014
Investment	EUR	8 868	11 228	6M EURIBOR + 1.1	Hermes guarantee insurer
Overdraft	CZK	486	174 686	O/N PRIBOR + 0.7	Blank bill of exchange
Overdraft	CZK	20 359	221 051	1D PRIBOR + 0.95	Blank bill of exchange
Investment	CZK	0	200 000	3M PRIBOR + 1.5 (margin according to Senior/EBITDA)	Movable and immovable assets KB12, receivables from insurance, bill of exchange
Overdraft	CZK	20 035	17 664	1T PRIBOR + 0.65	Blank bill of exchange
Overdraft	CZK	22 929	33 159	1T PRIBOR + 0.75	Blank bill of exchange
Revolving	CZK	20 000	0	1M PRIBOR + 0.75	No collateral
Investment	CZK	242 100	252 640	3M PRIBOR + 1.6 / FIXED 2.46	Immovable and movable assets, securities, bill of exchange
Investment	EUR	2 080	8 227	1M EURIBOR + 1.3	KEH8, KER8 line
Investment	EUR	6 654	6 582	3M EURIBOR + 1.3	KPH 600 machine, KLM measurement system
Investment	EUR	7 319	5 430	3M EURIBOR + 1.3	Pledged tangible assets
Investment	EUR	1 677	0	3M EURIBOR + 1.3	
Investment	CZK/EUR	0	96 879	3M PRIBOR/EURIBOR + 0.99	Movable assets, receivables from insurance, bill of exchange
Investment	PLN	40 760	52 009	WIBOR + margin 0.7	Pledge
Investment	PLN	49 637	30 149	WIBOR + margin 0.9	Pledge
Investment	EUR	3 436	3 399	1M EURIBOR + 1.15	Pledge of real estate
Term (special-purpose)	CZK	56 613	56 613	3M PRIBOR + 1.6	Assets and receivables
Revolving	CZK	160 000	420 000	PRIBOR + 0.78	Assets and receivables
Revolving	EUR	277 250	0	EURIBOR + 0.78	Assets and receivables
Overdraft	CZK	20 142	150 586	O/N PRIBOR + 0.8	Blank bill of exchange
Investment	EUR	30 727	30 299	6M EURIBOR + 1.3	ODL guarantee insurer
Investment	CZK	60 000	60 000	3M PRIBOR + 1.4	Securities, bill of exchange
Investment	CZK	252 632	252 632	3M PRIBOR + 1.4	Immovable and movable assets, securities, receivables from insurance, bill of exchange
Investment	CZK	120 000	0	3M PRIBOR + 1.55 / FIXED 2.48	Immovable and movable assets, bill of exchange
Investment	EUR	2 936	2 904	1M EURIBOR + 1.61	Pledged real estate
Revolving	CZK	0	20 000	1M PRIBOR + 0.9	Pledge of real estate, movable assets, receivables from insurance of immovable and movable assets
Investment	CZK	4 680	4 688	1M PRIBOR + 1.6	Pledge of real estate, movable assets, receivables from insurance of immovable and movable assets, trade receivables
Investment	EUR	3 139	2 824	1M EURIBOR + 0.85	Pledge of real estate, movable assets, receivables from insurance of immovable and movable assets
Investment	CZK	4 000	4 000	FIXED 3.9	Pledge of real estate, movable assets, receivables from insurance of immovable and movable assets
Operating overdraft	CZK	98 461	0	1M PRIBOR + 0.8	Blank bill of exchange
Investment	CZK	37 500	0	3M PRIBOR + 1.5 / FIXED 2.4	Pledge of movable assets, blank bill of exchange
<b>Total</b>		<b>1 574 420</b>	<b>2 117 649</b>		

Repayments of long-term bank loans with maturities exceeding five years amount to CZK 147,764 thousand.

**6.17. OFF BALANCE SHEET LIABILITIES AND LEGAL DISPUTES****TŘINECKÉ ŽELEZÁRNY, a. s.****Provided guarantees****31 December 2014**

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

**31 December 2013**

Type of liability	Total amount	Balance at 31 Dec 2013
<i>Guarantees</i>		
- to other entities	USD 576 thousand	CZK 11 465 thousand
	EUR 2 239 thousand	CZK 61 404 thousand
	CZK 4 000 thousand	CZK 4 000 thousand

**Legal Disputes**

The dispute of the EcoNet CENTRUM civic association (currently association) for the allegedly unpaid dividends for 2006 in the amount of CZK 180,000 thousand together with accrued interest. The Regional Court in Hradec Králové stated in its resolution that it was not locally responsible for the case, referring the case to the Regional Court in Ostrava. The plaintiff appealed this resolution. The Head Court in Prague rejected the plaintiff's appeal and the case was referred to the Regional Court in Ostrava as to the locally responsible court. The Regional Court in Ostrava rejected the claim in its resolution. The plaintiff filed an appeal against this resolution and the Regional Court upheld this appeal in its resolution. According to the agreement, the plaintiff paid part of the costs relating to the dispute to the Company and the Company agreed with the withdrawal of the legal action. The proceedings were discontinued by the resolution of the Regional Court in Ostrava of 2 July 2014 after the plaintiff withdrew the legal action; the case was effectively discontinued on 23 August 2014.

The petition of a shareholder, Marek Veselý, regarding the invalidity of the resolution passed at the Company's annual general meeting of shareholders held on 30 June 2010, was rejected by the Regional Court in Ostrava as lacking merit in its ruling no. 29 Cm 142/2010-99 of 25 August 2011. The plaintiff appealed the ruling. The Head Court in Olomouc confirmed the ruling of the Regional Court in Ostrava on the rejection of the petition by its ruling no. 8 Cmo 64/2012-169 of 3 April 2012. The plaintiff took an extraordinary remedial measure and made an appeal against the ruling of the Head Court in Olomouc addressed to the Regional Court in Ostrava on 16 July 2012. The Supreme Court decided on this appeal by its ruling file no. 29 Cdo 3284/2012 dated 27 November 2014 stating that the above rulings of the Head Court in Olomouc and the Regional Court in Ostrava are cancelled and the case is returned to the court of first instance for further proceedings. The Company continues to consider the claim to completely lack merit.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association (currently association) regarding the invalidity of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s. The Municipal Court in Brno refused this charge in its ruling as the charge was filed after the expiration of the statute of limitation. The plaintiff appealed the ruling. The Municipal Court in Brno referred this case to the Regional Court in Brno to make a decision on the plaintiff's appeal. The Regional Court in Brno confirmed the ruling of the Municipal Court in Brno on the rejection of the claim in its resolution dated 3 September 2013. The case was effectively discontinued on 18 November 2013.

The legal action filed by the ADMINISTRATIVNÍ CENTRUM TSP civic association (currently association) against the Company regarding the surrender of the proceeds of the auction of shares in the certificate form of the issuer, TŘINECKÉ ŽELEZÁRNY, a. s., held on 17 December 2009, in the amount of CZK 9,005 thousand with accrued interest. The proceedings in this matter commenced at the Regional Court in Ostrava through the filing of the legal action against the Company on 14 December 2012. The Company has not yet been summoned by the court regarding this case or called on to undertake any procedural act. The resolution on the legal action

depends on the assessment of validity of the contracts of the plaintiff with the Company's former shareholders based on which the plaintiff is seeking the settlement of the receivable. It means that the substance of the legal dispute does not involve determining the amount of the Company's liability, ie to pay the amount of CZK 9,005 thousand, but determining whether the creditor under this liability is the plaintiff or whether the creditors under this liability are the former shareholders of the Company. The Company is negotiating with the plaintiff with the objective of reaching amicable settlement of the dispute.

The petition of Aleš Hodina and Bohumil Hála for declaring the resolution of the extraordinary general meeting of the Company held on 31 July 2013 invalid. The proceedings were initiated at the Regional Court in Ostrava by filing this petition on 1 November 2013. The resolution of the Regional Court in Ostrava dated 15 April 2014 rejected the petition. The petitioners appealed the resolution on 10 July 2014. At its proceedings held on 11 February 2015, the Head Court in Olomouc confirmed the ruling of the Regional Court in Ostrava on the rejection of the petition; the Company has not yet received the written ruling of the Head Court in Olomouc. The Company considers the petition to completely lack merit.

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.

The Company records 75 petitioners involved in the proceedings.

The proceedings in this case have not yet been ordered.

The Company is also involved in the proceedings for determining the amount of consideration initiated by the branch association OSMA-ČR-OJ036 at the District Court in Liberec; in respect of this filing the Head Court in Prague decided on the regional courts being locally competent to handle this case and transferred the case to the Regional Court in Ústí nad Labem for further proceedings.

The Company does not rule out that the requests of other former shareholders of the Company or other parties were also filed regarding this case.

### 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 2014 and 2013, the Company drew CZK 506,646 thousand and CZK 489,345 thousand, respectively.

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

### ENERGETIKA TRINEC, a.s.

#### Collateral for loans

(CZK thousand)

Type of liability	Balance at 31 Dec 2014	Balance at 31 Dec 2013
Blank bills of exchange – collateral for overdraft loans	200 000	200 000
Blank bills of exchange – collateral for long-term loans	150 000	150 000
<b>Total</b>	<b>350 000</b>	<b>350 000</b>

**VÚHŽ a.s.****Provided Guarantees**

VÚHŽ, a.s. concluded a contract for the provision of bank guarantees with the maximum credit facility of CZK 30,000 thousand with Citibank Europe plc which is collateralised by a blank bill of exchange and pledge of real estate. As of 31 December 2014 and 2013, provided guarantees amount to CZK 1,477 thousand and CZK 3,906 thousand, respectively. This is a bank guarantee to customers of the company provided over the warranty period.

**Easements**

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

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

**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.

**Šroubárna Kyjov, spol. s r.o.**

Šroubárna Kyjov, spol. s r.o. stores material of another firm amounting to CZK 2,782 thousand in its warehouse.

**Hanácké železářny a pérovny, a.s.**

As of the consolidated balance sheet date, Hanácké železářny a pérovny, a.s. records future payables arising from capital costs resulting from concluded contracts of CZK 8,486 thousand (CZK 4,581 thousand and EUR 141 thousand).

## 7. ADDITIONAL CONSOLIDATED PROFIT AND LOSS ACCOUNT INFORMATION

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

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

(CZK thousand)

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

#### 7.1.2. The Group's Income from Ordinary Activities and Sale of Goods for 2013

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	36 092 486	5 027 606	41 120 092
Other production	1 602 415	1 465 687	3 068 102
Sale of goods	397 748	88 293	486 041
Services	613 524	66 020	679 544
Change in inventory	57 444	2 188	59 632
Own work capitalised	790 321	349	790 670
<b>Total</b>	<b>39 553 938</b>	<b>6 650 143</b>	<b>46 204 081</b>

### 7.2. GRANTS

In 2014, TŘINECKÉ ŽELEZÁRNY, a. s. used a grant for the acquisition of environmental investments of CZK 1,229,909 thousand (2013: CZK 142,747 thousand).

In 2014, ENERGETIKA TŘINEC, a.s. received a grant for environmental investments of CZK 219,000 thousand (2013: CZK 108,978 thousand).

In 2014, Slévárny Třinec, a.s. received a grant for an investment of CZK 50,481 thousand (2013: CZK 10,775 thousand).

In 2013, TŘINECKÉ ŽELEZÁRNY, a. s. used a public grant for the “Educational Programme of the Employees of ODVĚTVOVÝ SVAZ HUTNICTVÍ ŽELEZA“ project in the amount of CZK 52 thousand.

In 2013, VÚHŽ a.s. received an investment subsidy for the acquisition of the coating unit for the coating using the PVD method of CZK 12,832 thousand.

Other grants for operating purposes of CZK 22,103 thousand drawn for 2014 (2013: CZK 16,051 thousand) include subsidies for research and development, environmental projects, education and subsidies from the labour office. Other grants additionally include grants for co-recipients of CZK 1,152 thousand and CZK 650 thousand in 2014 and 2013, respectively.

### 7.3. OTHER EXPENSES AND INCOME

Costs of advisory, consulting and audit activities as of 31 December 2014 amount to CZK 57,963 thousand and CZK 46,093 thousand as of 31 December 2013.

Other operating income as of 31 December 2014 and 2013 predominantly includes the drawing of the grant for greenhouse gas emissions including the income from the sale of allowances of CZK 893,730 thousand and CZK 515,144 thousand, respectively.

Other financial income in 2014 and 2013 predominantly includes foreign exchange rate gains of CZK 104,252 thousand and CZK 229,854 thousand, respectively.

Other operating expenses as of 31 December 2014 and 2013 predominantly include the use of emission allowances including the costs of the sale of gas emissions of CZK 993,933 thousand and CZK 515,470 thousand, respectively.

Other financial expenses as of 31 December 2014 and 2013 predominantly include foreign exchange rate losses of CZK 123,891 thousand and CZK 144,751 thousand, respectively.

### 7.4. TOTAL RESEARCH AND DEVELOPMENT COSTS

(CZK thousand)

	31 Dec 2014	31 Dec 2013
Research and development costs (less grants)	81 088	58 363

## 7.5. RELATED PARTY TRANSACTIONS

## 7.5.1. Income Generated with Related Parties

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

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

2014

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	19 743	10	0	1 756	21 509
Doprava TŽ, a.s.	Controlled entity	5	22 045	4 324	34	0	26 408
TRIALFA, s.r.o.	Controlled entity	0	26 133	4 047	1 515	0	31 695
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	387	749	1	0	1 137
Třinecké gastroslužby, s.r.o.	Controlled entity	8	3 299	7 707	1 379	0	12 393
Steel Consortium Partners, a.s. „v likvidaci“	Controlled entity	0	0	72	0	0	72
Security Morava, s.r.o.	Controlled entity	0	0	40	0	0	40
TRISIA, a.s.	Controlled entity	4	0	173	852	0	1 029
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	8 820	24 029	147	0	32 996
Moravia Security, a.s.	Controlled entity	20	180	1 514	20	0	1 734
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	463	183	0	646
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	33	0	0	0	33
MORAVIA STEEL a.s.	Controlling entity	273	36 410 609	169 588	3 022	0	36 583 492
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	412 559	0	0	0	412 559
Beskydská golfová, a.s.	Fellow subsidiary	0	47	155	0	0	202
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 298	27 889	0	29 187
Kovárna VIVA a.s.	Fellow subsidiary	0	0	8	0	0	8
M Steel Projects a.s.	Fellow subsidiary	2 347	43 102	89	0	0	45 538
NEOMET Sp. z o.o.	Fellow subsidiary	0	0	352	558	516	1 426
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	787	0	0	0	787
<b>Total</b>		<b>2 657</b>	<b>36 947 744</b>	<b>214 618</b>	<b>35 600</b>	<b>2 272</b>	<b>37 202 891</b>

2013

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Reťaze Slovakia s.r.o.	Controlled entity	0	15 914	9	0	1 668	17 591
Doprava TŽ, a.s.	Controlled entity	104	24 928	4 280	44	0	29 356
TRIALFA, s.r.o.	Controlled entity	0	27 094	4 384	1 089	0	32 567
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	0	494	928	42	0	1 464
Třinecké gastroslužby, s.r.o.	Controlled entity	2	3 292	9 329	793	0	13 416
Steel Consortium Partners, a.s.	Controlled entity	0	0	69	0	0	69
TRISIA, a.s.	Controlled entity	0	0	103	19	0	122
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	9 504	21 885	197	0	31 586
Moravia Security, a.s.	Controlled entity	0	213	1 347	13	0	1 573
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	59	575	1	0	635
HRAT, s.r.o.	Associate	0	0	4	0	0	4
MORAVIA STEEL a.s.	Controlling entity	661	31 449 163	168 930	3 189	185	31 622 128
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	312 690	0	0	0	312 690
Beskydská golfová, a.s.	Fellow subsidiary	0	103	641	0	0	744
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	1 283	19 919	0	21 202
Kovárna VIVA a.s.	Fellow subsidiary	0	0	8	0	0	8
M Steel Projects a.s.	Fellow subsidiary	387 558	14 879	78	0	0	402 515
NEOMET Sp. z o.o.	Fellow subsidiary	0	0	99	99	61	259
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	1 040	0	0	0	1 040
Sochorová válcovna TŽ, a.s.*	Controlled entity	35	3 513 986	7 684	0	0	3 521 705
Hanácké železárně a pérovny, a.s.**	Controlled entity	0	57	11 571	0	0	11 628
<b>Total</b>		<b>388 360</b>	<b>35 373 416</b>	<b>233 207</b>	<b>25 405</b>	<b>1 914</b>	<b>36 022 302</b>

Note:

\* income generated between 1 Jan 2013 and 31 Oct 2013

\*\* income generated between 1 Jan 2013 and 31 Oct 2013

## 7.5.2. Purchases from Related Parties

Relation to the relevant company is disclosed from the perspective of TŘINECKÉ ŽELEZÁRNY, a. s.

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

2014

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Reťaze Slovakia, s.r.o.	Controlled entity	0	530	416	0	946
Doprava TŽ, a.s.	Controlled entity	11	28 729	72 473	130	101 343
TRIALFA, s.r.o.	Controlled entity	0	6 910	414	82 536	89 860
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	23 364	0	10 059	38	33 461
Třinecké gastroslužby, s.r.o.	Controlled entity	0	17 536	17 719	86 575	121 830
Hutnictví železa, a.s.	Associate	0	0	5 381	123	5 504
TRISIA, a.s.	Controlled entity	0	0	11 218	197	11 415
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	80 918	0	80 918
Moravia Security, a.s.	Controlled entity	1 300	0	64 493	39	65 832
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	54	796	8 854	0	9 704
„ZAMECZEK BŁOGOCICE” Sp. z o.o.	Controlled entity	0	0	1 324	0	1 324
HRAT, s.r.o.	Associate	190	0	120	0	310
DALSELV DESIGN a.s.	Controlled entity	23 203	1 356	344	0	24 903
Security Morava, s.r.o.	Controlled entity	5	0	2 840	0	2 845
MORAVIA STEEL a.s.	Controlling entity	433	22 789 753	418 159	53 955	23 262 300
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	0	0	220	0	220
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	619	0	619
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	322	0	322
MORAVIA STEEL UK LIMITED	Fellow subsidiary	0	0	200	0	200
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 375	0	5 375
Moravskoslezský kovošrot	Fellow subsidiary	0	1 168 181	0	0	1 168 181
Kovárna VIVA a.s.	Fellow subsidiary	0	474	2	0	476
NEOMET Sp. z o.o.	Fellow subsidiary	0	888 242	0	0	888 242
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	0	245	0	245
<b>Total</b>		<b>48 560</b>	<b>24 902 507</b>	<b>701 715</b>	<b>223 593</b>	<b>25 876 375</b>

2013

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Total
Retáže Slovakia, s.r.o.	Controlled entity	0	430	650	0	1 080
Doprava TŽ, a.s.	Controlled entity	0	30 904	68 032	0	98 936
TRIALFA, s.r.o.	Controlled entity	0	7 912	20 525	53 316	81 753
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	35 449	0	6 280	192	41 921
Třinecké gastroslužby, s.r.o.	Controlled entity	0	16 758	9 675	85 001	111 434
Hutnictví železa, a.s.	Associate	0	0	5 725	110	5 835
TRISIA, a.s.	Controlled entity	0	0	10 107	130	10 237
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	175	81 530	0	81 705
Moravia Security, a.s.	Controlled entity	770	100	57 203	0	58 073
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	134	8 938	0	9 072
„ZAMECZEK BŁOGOCICE“ Sp. z o.o.	Controlled entity	0	0	1 138	0	1 138
HRAT, s.r.o.	Associate	80	0	120	0	200
DALSELV DESIGN a.s.	Controlled entity	7 080	51	8 289	0	15 420
Security Morava, s.r.o.	Controlled entity	0	0	320	0	320
MORAVIA STEEL a.s.	Controlling entity	2 696 540	23 268 303	364 874	33 385	26 363 102
MORAVIA STEEL ITALIA s.r.l.	Fellow subsidiary	0	0	111	0	111
MORAVIA STEEL SLOVENIJA d.o.o.	Fellow subsidiary	0	0	337	0	337
Moravia Steel Deutschland GmbH	Fellow subsidiary	0	0	0	7	7
MORAVIA STEEL UK LIMITED	Fellow subsidiary	0	0	67	0	67
Beskydská golfová, a.s.	Fellow subsidiary	0	0	5 374	0	5 374
Moravskoslezský kovošrot	Fellow subsidiary	0	1 178 495	0	0	1 178 495
Kovárna VIVA a.s.	Fellow subsidiary	0	604	0	0	604
NEOMET Sp. z o.o.	Fellow subsidiary	0	468 804	0	0	468 804
AHP HYDRAULIKA, a.s.	Fellow subsidiary	0	0	2 157	0	2 157
Sochorová válcovna TŽ, a.s.*	Controlled entity	0	89 139	33 551	0	122 690
Hanácké železářny a pérovny, a.s.**	Controlled entity	0	64	0	0	64
<b>Total</b>		<b>2 739 919</b>	<b>25 061 873</b>	<b>685 003</b>	<b>172 141</b>	<b>28 658 936</b>

Note:

\* purchases for the period from 1 January 2013 – 31 October 2013

\*\* purchases for the period from 1 January 2013 – 31 October 2013

## 8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

### 8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

#### 8.1.1. Staff Costs and Number of Employees for 2014

The number of the Company's employees as of 31 December 2014 was 12,119, of which 63.2 managers. The number of the Company's employees as of 31 December 2013 was 12,153, of which 81 managers.

The staff costs of employees in the year ended 31 December 2014 amounted to CZK 5,734,623 thousand and staff costs of managers amounted to CZK 197,272 thousand. The staff costs of employees in the year ended 31 December 2013 amounted to CZK 5,125,263 thousand and staff costs of managers amounted to CZK 172,355 thousand. The remuneration to members of the Supervisory Board in the years ended 31 December 2014 and 2013 amounted to CZK 8,471 thousand and CZK 10,847 thousand, respectively. The remuneration to members of the Audit Committee in the years ended 31 December 2014 and 2013 amounted to CZK 180 thousand and CZK 180 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:

	(CZK thousand)	
	2014	2013
Use of management cars (the figure increases the tax base of employees)	5 375	5 800
Contribution for life insurance	237	305
Liability insurance	792	659

## 9. POST BALANCE SHEET EVENTS

No events occurred subsequent to the balance sheet date that would have a material impact on the financial statements as of 31 December 2014.

