



ANNUAL REPORT 2010

TŘINECKÉ ŽELEZÁRNY, a. s.



TŘINECKÉ ŽELEZÁRNY



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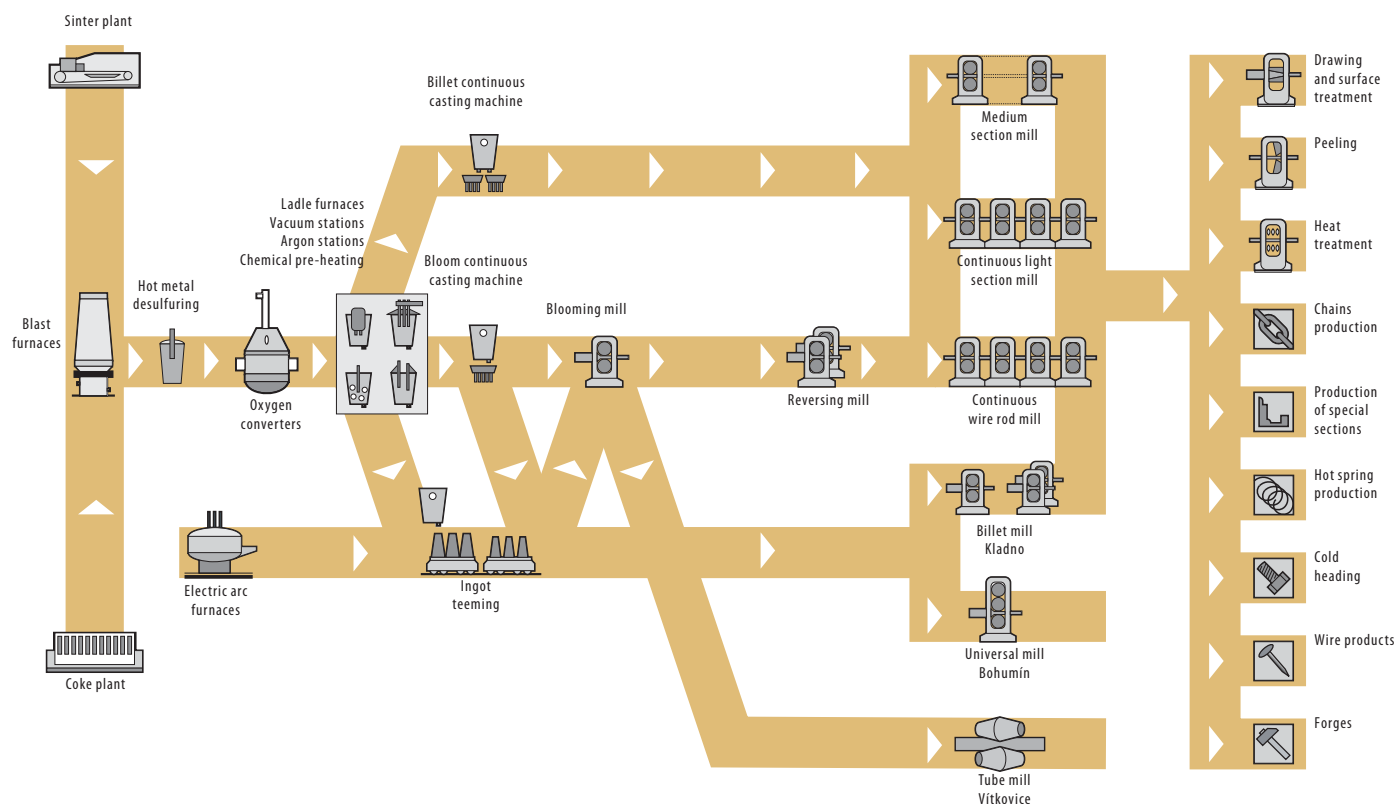
COMPANY PROFILE

TŘINECKÉ ŽELEZÁRNY, a.s. (The Třinec Iron and Steel Works), which was established in 1839, is among the steel companies with the longest tradition in the Czech Republic. It produces 2.5 million tonnes of steel annually in an integrated metallurgical cycle, which represents almost a half of the current total production of steel in the Czech Republic. The main product portfolio consists of long rolled products – wire rod, rebar and sections, special bar steel, rails, wide

growth of the share of long products with higher added value and its control within the up- and downstream product chains. A gradual diversification of the product portfolio increases our resistance to market swings.

Production plants of TŘINECKÉ ŽELEZÁRNY, a.s. comprise the comprehensive cycle from coke production to the final hot rolled steel product. The coke-chemical production plant includes two coke-oven

MATERIAL FLOWS AND TECHNOLOGY



steel and semis. Additional products include coke, by-products resulting from production, artificial compact aggregates and granulated slag. TŘINECKÉ ŽELEZÁRNY, a.s. is the biggest Czech steel company with local capital. Its majority owner is MORAVIA STEEL a.s. These two companies together create one of the most considerable industrial groups in the Czech Republic. The strategy of TŘINECKÉ ŽELEZÁRNY, a.s. and MORAVIA STEEL a.s. (the Group) is a dynamic increase in the

batteries. Produced coke is used in the own blast furnaces together with the sinter charge prepared in two sinter plants. 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 – rolling mill of blooms and heavy pro-

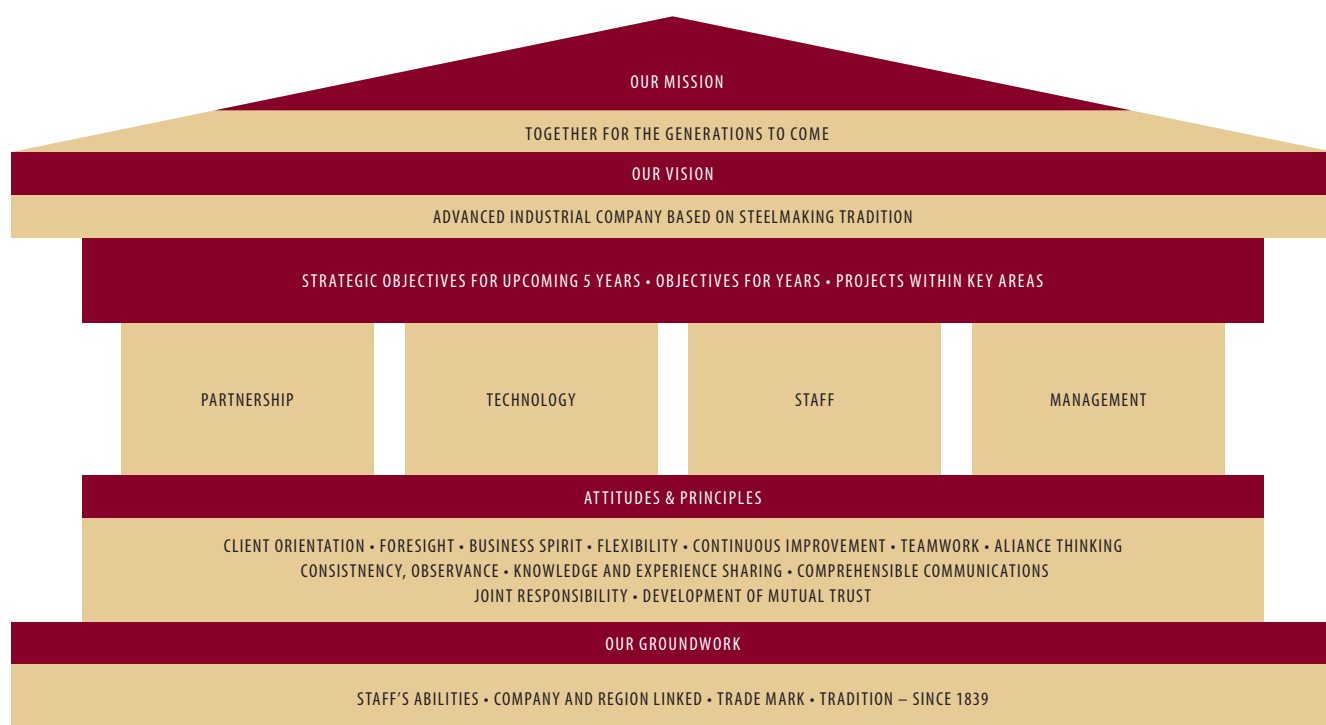


files, medium section mill, rolling mill of wire rod and light section – as well as for the tube mill in Ostrava and for the universal strip rolling mill in Bohumín. The semis are delivered for further processing to Sochorová válcovna TŽ, a.s. located in Kladno and to VÚHŽ a.s. in Dobrá. The accompanying products resulting from metallurgical production are processed into artificial normal weight aggregate and further construction material at the secondary raw material plant.

The Group also includes companies that are part of the product chains of TŘINECKÉ ŽELEZÁRNY, a.s. or which provide other services. TŘINECKÉ ŽELEZÁRNY, a.s. has a capital share in 28 companies and further is the only owner or holds a majority stake in 19 companies. In 2010, the Group was enlarged to include the second foreign company. At the beginning of 2011, TŘINECKÉ ŽELEZÁRNY, a.s. became

the sole shareholder of the Hungarian company "D&D" Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság in Miskolc (D&D Drótáru Zrt.). This company produces drawn wire rod, strands and ropes. The production facilities included in the Group are located in Třinec, Kladno, Staré Město u Uherského Hradiště, Bohumín, Česká Ves u Jeseníku, Ostrava, Dobrá u Frýdku-Místku, Kyjov, Prostějov, Zlín, Radomsko (Poland), and Miskolc (Hungary).

To date, TŘINECKÉ ŽELEZÁRNY, a.s. has produced almost 170 million tonnes of steel, especially long rolled products, which 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 50 countries worldwide.



The corporate mission of TŘINECKÉ ŽELEZÁRNY, a.s. "Together for the Generations to Come" accents the role of the historically dominant industrial company which influences a region with approximately 100,000 citizens. The responsibility for the further development of the surrounding region is included in our corporate mission.



SELECTED ECONOMIC INDICATORS 2006 – 2010

Indicator	Unit	2006	2007	2008	2009	2010
Pig iron production	kt	2 033	2 074	1 983	1 810	2 043
Crude steel production	kt	2 516	2 563	2 448	2 213	2 498
Of this continuous castings	kt	2 356	2 401	2 296	2 137	2 370
Sales of rolled products including steel	kt	2 366	2 392	2 301	2 088	2 338
Total revenues	CZK mil.	35 087	36 905	40 308	25 627	34 672
Income from sales of products, goods and services	CZK mil.	31 675	35 553	37 095	24 316	32 459
Total costs excluding income tax	CZK mil.	31 673	32 381	38 791	26 581	35 581
Net profit or loss	CZK mil.	2 684	3 633	1 204	-732	-632
Consolidated profit or loss	CZK mil.	2 795	4 151	1 408	-1 006	-1 047
Net total assets	CZK mil.	22 899	24 343	24 724	23 037	25 458
Tangible fixed assets	CZK mil.	23 302	23 847	24 409	24 690	26 940
Adjustments	CZK mil.	13 749	14 539	15 163	15 854	16 717
Amortisation	%	59.8	61.8	63	65.1	62.1
Equity	CZK mil.	16 404	18 010	19 214	18 483	18 111
Capital investments	CZK mil.	1 225	832	1 010	613	1 307
Other capital including other liabilities	CZK mil.	6 495	6 333	5 509	4 554	7 347
Employees (average adjusted total)	persons	5 417	5 428	5 539	5 319	5 905
Average monthly wage	CZK/person	24 858	26 799	27 402	24 213	24 201





DURING THE MAJOR OVERHAUL AND MODERNIZATION OF THE COKE OVEN BATTERY THE BEST AVAILABLE TECHNOLOGIES WERE USED WITH SUBSTANTIAL POSITIVE INFLUENCE TO THE ENVIRONMENT



SUPERVISORY BOARD AND BOARD OF DIRECTORS

SUPERVISORY BOARD

Title	Name	Residence
Chairman	Tomáš Chrenek	Praha 1, Nové Město, Ve Smečkách 1326/11, Postcode 110 00
1 st Vice-Chairman	Ján Moder	Bystřice 1241, Postcode 739 95
2 nd Vice-Chairman	Hanns Kurt Zöllner	6314 Unteraegeri, Zimmerstrasse 68, Švýcarsko
Member	Pablo Alarcón Espinoza	Madrid, Serrano Galvache 42, Španělské království
Member	Evžen Balko	Bystřice 1241, Postcode 739 95
Member	Jozef Blaško	Košice, Československého odboja 74, Slovenská republika, Postcode 04 001
Member	František Ligocki	Jablunkov 311, Postcode 739 91
Member	Vladislav Heczko	Návsí 316, Postcode 739 92
Member	Roman Mitřega	Bystřice 458, Postcode 739 95

BOARD OF DIRECTORS

Title	Name	Residence	Changes
Chairman	Jiří Cieńciała	Vendryně 902, Postcode 739 94	
1 st Vice-Chairman	Jan Czudek	Jablunkov 373, Postcode 739 91	
2 nd Vice-Chairman	Rostislav Wozniak	Jablunkov 175, Postcode 739 91	till 30.6.2010
2 nd Vice-Chairman	Česlav Marek	Třinec, Oldřichovice 202, Postcode 739 61	since 1.7.2010
Member	Česlav Marek	Třinec, Oldřichovice 202, Postcode 739 61	till 30.6.2010
Member	Jan Lasota	Třinec III – Kanada, Nad Úvozem 264, Postcode 739 61	
Member	Henryk Huczala	Komorní Lhotka 223, Postcode 739 53	
Member	Ivo Žižka	Třinec, Dolní Lištná 363, Postcode 739 61	since 1.7.2010
Member	Petr Popelář	Ostrava–Dubina, Václava Košaře 86/21, Postcode 700 30	since 1.12.2010



Tomáš Chrenek



Ján Moder



Hanns Kurt Zöllner



Pablo Alarcón Espinoza



Evžen Balko



Jozef Blaško



František Ligocki



Vladislav Heczko



Roman Mitřega



Jiří Cieńciała



Jan Czudek



Āeslav Marek



Jan Lasota



Henryk Huczala



Ivo Źiřka



Petr Popelář





INTRODUCTORY WORD OF THE CHAIRMAN OF THE SUPERVISORY BOARD

TO OUR SHAREHOLDERS, CUSTOMERS, PARTNERS AND EMPLOYEES.

The year 2010 was a period of the continuing global economic crisis. Although this most complicated period over the last decades has slowly been subsiding, we are still feeling its effects. And therefore we can evaluate our results for the year as being relatively successful. We achieved success in terms of production and trade, where we attained the level of the good years before the crisis. TŘINECKÉ ŽELEZÁŘNY, a.s. as virtually the only one of the Central European mills used its capacities well above the threshold for cost-effective production, i.e. 85 %. In contrast to 2008 and 2009, shutdowns of production units were avoided. For the second time in a row we have become the largest Czech producer of crude steel with a share of production at a level of 48 %.

Nevertheless, the financial results are not that positive. There are several causes. Despite the continuing crisis, global demand for raw materials was growing, mainly due to the growing economies such as China and India. Prices of raw materials rose much faster than the prices of finished products.

Regarding the sales prices we had to react to the market situation so that we could maintain the structure of our customers. Furthermore, the reconstruction of one of our coke oven batteries went on throughout the year. So we had to buy coke at disadvantageous rates which deepened our loss.

The conditions of the world steel industry are constantly changing and the crisis has significantly accelerated the phenomenon of transfer in steel production and consumption towards the emerging economies. Steel production in countries such as India and China grew even during the crisis. Developing countries have begun to determine the global prices of raw materials, such as iron ore, coal and coke. By contrast, prices of final products were determined by the local markets. This is currently the disadvantage of the European steel industry. In the last decade, a real boom of the construction of new steelmaking capacities occurred just in India, China and other emerging economies. When we count in the logistics and transport distance, local labour costs, availability of resources and raw materials to the factories, the European steel can in no way take this direction.

Therefore, it is proving that our strategy, we defined already in 2000, was appropriately chosen specifically for the steel industry in the European markets. Thanks to our efforts to increase the share of products with higher added value, we were able to maintain our demanding clients. Investment in a new acquisition, this time in the Hungarian company D & D Drótáru Zrt., which deals with drawn wire strands and ropes, is also consistent with our long-term strategy. In 2010, a merger of TŘINECKÉ ŽELEZÁŘNY, a.s. with the subsidiary VÁLCOVNA TRUB TŽ, a.s. took place.

We produced nearly 2.5 million tonnes of steel, which is the production corresponding to the successful years before the crisis. It is nearly 13 % more than in 2009. Total revenues increased year-on-year by 33.5%. Even though the average price of final products increased, the growth of prices of the inputs was still significantly more dynamic. And this is the reason why, despite the implementation of a series of saving measures, TŘINECKÉ ŽELEZÁŘNY, a.s. finished the year 2010 with a post-tax loss of CZK 632 million.





Thanks to the previous successful period and adopted strategic decisions, quality work of the management, good cooperation with our partners as well as the hard work and dedication of our employees we are able to strengthen TŘINECKÉ ŽELEZÁRNY, a.s. and other companies in the Group so that today we are managing the consequences of the crisis without experiencing any major problems. It is for the dedication of all of us, everyday hard work of our employees, as well as good cooperation with our partners.

Dear shareholders, customers, partners and employees. Thank you all for your hard work and support in the very challenging year 2010. I believe that the introductory words of the next annual reports will be significantly more optimistic and that our patience will handsomely pay off in the coming years.

Tomáš Chrenek.

Chairman of the Supervisory Board





BOARD OF DIRECTORS' REPORT

DEVELOPMENT OF THE MACROECONOMIC ENVIRONMENT AND COMPETITION

In 2010, the Czech Republic witnessed a gross domestic product growth of 2.3 %. In comparison with the previous year, which was fully influenced by the global financial and economic crisis, the result of 2010 mainly reflected growing efficiency of industries, especially production of means of transport, electrical machines and engineering. The economic development of the Czech Republic explicitly showed a positive trend in the growth of orders and a significant increase of labour productivity. On the one hand, the Czech economy recorded an increase in the manufacturing industry; on the other hand we noticed a steep fall of the construction industry and services. The Czech economy benefited from the German economic revival which helped particularly export-oriented sectors to which machinery, automotive and electrotechnical industry but also steelmaking branch belong. Conversely, the drop of investments and construction infrastructure dragged down the building industry that marked a considerable loss. Generally, the year 2010 was a year of recovery from the crisis, a year of economic revival and price increase of final products, what led to higher revenues and profit growth in the most of industrial branches in the Czech Republic.

In 2010, steel production in the Czech Republic increased year on year by almost 13%, from 4.593 million tonnes to 5.179 million tonnes. The share of TŘINECKÉ ŽELEZÁŘNY, a.s. in this volume remained at 48% thanks to the 12.9% growth of steel production.

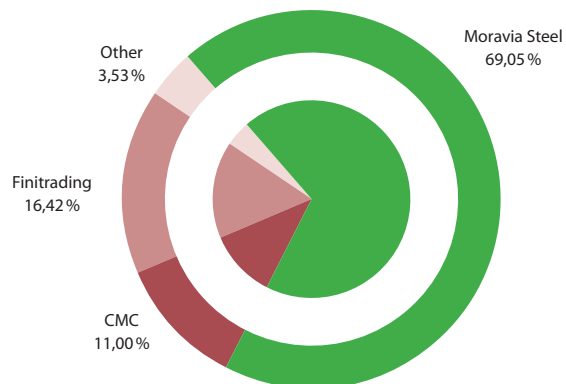
The foreign trade of steel products recorded a significant revival in 2010 in comparison with the previous year and its volume in tangible and value units increased considerably comparing with the year before.

The Czech Republic's trade balance showed year on year growth in imported steel products of more than 28% due to the increased import of flat products, further long products and semis. Imports rose absolutely by 1,308 kilotonnes in comparison with the previous year which represents a growth of more than CZK 29 billion. The balance of foreign trade with the steel products reached more than CZK 21 billion in total to the credit of imports. The field of export was dominated by long steel products which were followed with distance by flat prod-

ucts and tubes. The most considerable growth was witnessed in North America (47.5 %) and the European Union (23.1 %) according to the export territories. Exports were dominated by the increase of exported steel products from the CIS, i.e. by more than 88 % in comparison with the previous year.

The total global production of crude steel in 2010, in accordance with the statistics of the World Steel Association, reached 1,414 million tonnes. This is an increase of 15% compared to 2009 and is a new record for global crude steel production. All the major steel-producing countries and regions showed double-digit growth in 2010. The European Union (24.5 %) and North America (35.7 %) had higher growth rates due to the lower base effect from 2009 while Asia (11.6 %) and Russia (11.7 %) recorded relatively lower growth. China confirmed its primacy in steel production and produced 626.7 million tonnes of crude steel, an increase of 9.3% on 2009. China's share of world crude steel production declined from 47% in 2009 to 44.3% in 2010.

SHAREHOLDERS STRUCTURE



PRODUCTION AND POSITION ON THE MARKET

In 2010, the global steelmaking noticed a slow revival of demand and price increase, particularly of inputs but also steel products. Production capacity utilisation has been gradually growing when taking into consideration the global size.

The analytics presumed a new record for global crude steel production of 1,500 million tonnes in 2011. The record growth will be dependent on the speed of recovery of coke and iron ore supplies from



the flooded regions of Australia and Brazil. It can be assumed that the year 2011 will be successful for the integrated steel companies with own sources of inputs and for the companies with high production efficiency. The steelmaking sector will be gradually consolidated both in the global and local size.

The total sales of rolled goods, including semis and tubes from TŘINECKÉ ŽELEZÁRNY, a.s. showed an increase of 12 % compared to 2009 and thus amounted to 2,338 kilotonnes. The domestic customers are the most significant among of all. The most considerable part of exports of our products was directed at Germany, Italy, Slovakia, Poland, and Great Britain.

		Wire rod	Semis	Sections and bars	Rebars	Rails	Wide steel	Tubes
Export	2008	478	190	206	63	217	44	
	2009	532	142	131	101	206	39	
	2010	584	165	179	18	230	44	82
Domestic	2008	342	441	222	49	37	12	
	2008	324	384	109	84	30	6	
	2010	373	419	174	26	25	6	13
Total	2008	820	631	428	112	254	56	
	2009	856	526	240	185	236	45	
	2010	957	584	353	44	255	50	95

The trend of movement of steel production to the countries with the highest steel consumption, particularly to South-East Asia and Near East, has been acknowledged even more. The countries marked with the abbreviation BRIC (Brazil, Russia, India, and China) have been continuously strengthening their dominant position in the steelmaking industry.

For Czech steel companies, 2010 was spent making up for the shortfalls of the 2008-2009 crisis period.

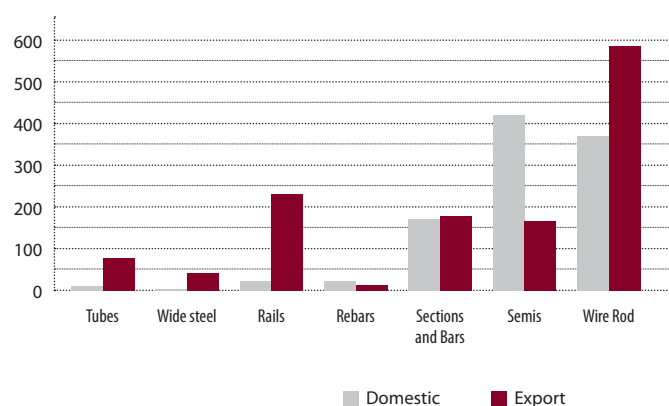
Because of the increase in demand on steel products we achieved higher crude steel production in our steel works. The production of hot steel increased year on year by 12.9% and amounted to 2.498 million tonnes. The pig iron production recorded the same year on year growth. We produced 2.043 million tonnes of pig iron in 2010. We are considered as a top quality producer especially of long rolled products on the European market. These products are further valorised in the follow-up production chains in the Group.

As in the previous years, wire rod was the best selling product of TŘINECKÉ ŽELEZÁRNY, a.s. The total sales of products from this assortment amounted to 957 kilotonnes. This result is a new record of the total sales of wire rod in the whole history of TŘINECKÉ ŽELEZÁRNY, a.s. 61% of the produced wire rod was exported to foreign markets.

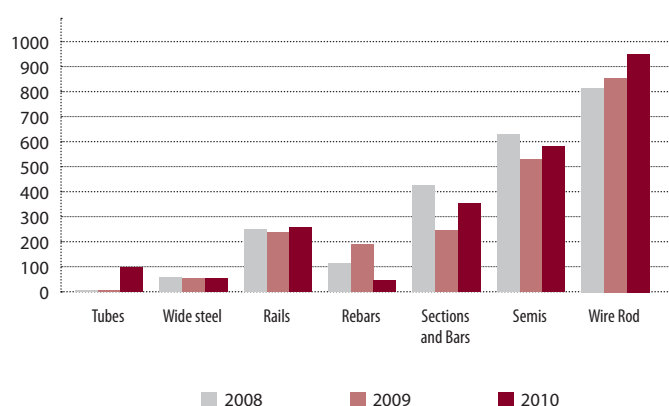
The rails bearing the trademark of TŘINECKÉ ŽELEZÁRNY, a. s. can be found all over the world. In 2010, the sales of rails reached a total of 255 kilotonnes. 230 kilotonnes of rails was directed at the most advanced foreign markets, especially in Europe and North America. The rest was sold to domestic customers.

The revival of the automotive industry in Europe, Asia and America brought an increase in demand for bars and sections. The total sales of this assortment recorded a year on year growth of 47 % and amounted to 353 kilotonnes. The bars are further valorised in own product chains. Half of the production of bars and sections was exported.

SALES OF PRODUCTS ABROAD AND TO THE DOMESTIC MARKET IN 2010 (kt)



TOTAL SALES OF PRODUCT IN THE YEARS OF 2008–2010 (kt)



In accordance with our strategy, the production of rebars was limited in 2010 at the expense of production of bar steel and bars in coils. The total sales of rebars fell year on year by 76 % and reached 44 kilotonnes. Most of this assortment was directed to domestic customers.

INVESTMENTS AND MODERNISATION

The technical development projects plan in 2010 is a part of the five-year business plan and fully corresponds with our commercial – production strategy defined as “Dynamic growth in the share of long products with a higher added value and its control within the up- and downstream product chains.” We focused investments on modernisation activities, which will enable us to further increase the share of more sophisticated products and further environmental protection based on the conclusions of the integrated permissions, and the renewal of the existing production facilities.

In 2010, the technical development projects were implemented according to the draft plan. A total of CZK 1 307 million was expended with regard to investments.

We were highly focused on ensuring maximum efficiency of the amount incurred and capacity utilisation in our subsidiaries.

In 2010, 10 of the most significant construction projects continued. The most significant construction projects include the major overhaul and modernisation of coke-oven battery No. 12, the reconstruction of the benzene absorption coke washing machine, and purchase of a new unloading crane at the sinter plant.

There were 13 significant investments started in 2010. The major construction projects include:

- reconstruction of measurement of hot blast stove emissions at blast furnace No. 6;
- intensification of the water facility at the continuous casting machine;
- tubular crystallizer of the dimension of 300 x 350 mm at the billet continuous casting machine;
- replacement of the second stand at the rolling mill of blooms and heavy profiles by the reconstructed ramming stand;
- renewal of the roof at the light section rolling mill;
- identification of bundle bars for billets of the treatment line at the light section rolling mill; and
- measurement of the dimensions at the ASC stand at the light section rolling mill.

The technical development projects for 2011 are planned in the total amount of CZK 612 million. The most significant investment of the year is the continuation of modernisation, reconstruction and major overhaul of coke-oven battery No. 12. The complex testing of this facility started on 25 January 2011.

Furthermore, there are more 35 projects included in the plan. As far as the amount of investments is concerned, the major construction projects are:

- renewal of the controlling system at sinter plant No. 2;
- the crane at the billet stock;
- casting of the dimension of the 470 mm diameter at the billet continuous casting machine;
- replacement of crane No. 15 at the light section rolling mill;
- renewal of the roof at the light section rolling mill – third stage;
- storage of coils at the wire rod rolling mill;
- regulation of the Křivec stream with the objective of increasing its capacity – flood-protection measure; and
- calibration stands for the Big Mannesmann in the tube mill.

TECHNOLOGY AND RESEARCH

In TŘINECKÉ ŽELEZÁŘNY, a. s., the technology of metallurgical production including production of hot steel, rolling and final treatment operations of products is managed in accordance with regulations and directives. These are closely connected with research and development activities, eventually innovation of technologies. Customer demand and requirements play a considerable role in verifying and implementing new technologies or products.

The objective of technological activities in TŘINECKÉ ŽELEZÁŘNY, a.s. is to achieve the strategic aims of the company in accordance with the continuous improvement of qualitative parameters of the manufactured semis and reducing the costs of production. One of the main technological activities is a constant quality control of production in conjunction with customer requirements through 13 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;
- free-cutting steel;
- spring steel;
- reinforcing 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 quality meeting is one of the tools for product quality improvement and plant cooperation. This meeting is implemented in the Třinec production plants outside the area of TŘINECKÉ ŽELEZÁRNY, a. s. as well. The field of our technology is closely connected with the final treatment of the Třinec semis provided in new acquisitions.

Research and development is carried out by the own R & D department, in close collaboration with subsidiary research companies (MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., VÚHŽ a.s.), universities (VŠB-TU Ostrava, US Katowice, VŠCHT Praha, VUT Brno) as well as other specialised firms. The main objective is to introduce new products with higher added value, enhancing quality parameters and introducing new technologies while reducing environmental impacts.

In 2010, a total of 21 technological and research projects, which originated in 2009, on issues of the entire metallurgical cycle were dealt with. TŘINECKÉ ŽELEZÁRNY, a. s. joined the companies that successfully received EU support (Research Fund for Coal and Steel) regarding the project aimed at optimum properties – coal composition for the production of blast furnace coke.

ENVIRONMENT

AIR PROTECTION

The year-on-year increase in production resulted in a rise of almost all types of pollutants. However, the relative amount of pollutants per tonne of steel produced decreased in most cases compared with 2009.

A negative trend was noted only in the case of solid pollutants, particularly in the operation of the production of iron and steel. Specifically, it was a significant increase in solid emissions of two sources – the casting halls of blast furnaces and BOF steel plant hall.

EMISSIONS IN 2009 AND 2010

Year	Solid pollutants	Sulphur dioxide	Nitrogen oxides	Carbon monoxide	Other emissions
	[t/year]	[t/year]	[t/year]	[t/year]	[t/year]
2009	717	2 038	1 297	61 356	69
2010	902	2 136	1 425	65 277	63

GREENHOUSE GASES

The amount of greenhouse gas emissions for 2010 were calculated at the level of 2,533,308 tonnes, which means that the specific emissions compared to 2009 decreased from 1,111 tonnes to 1,014 tonnes of carbon dioxide per tonne of steel produced.

WATER PROTECTION

An almost 13% increase in steel production was reflected in the increased amount of wastewater produced as well as the total amount

of pollution discharged into surface waters. However, regarding the amount of wastewater per tonne of steel produced, an overall reduction of waste water from 2.22 m³/t to 2.16 m³/t occurred as compared to 2009.

During 2010, there was no instance of emergency that would result in deterioration of, or threat to, the quality of groundwater or surface water.

POLLUTION DISCHARGED INTO WATER FLOWS FOR 2010 COMPARED TO 2009

Year	Volume of wastewater	Undissolved substance	Non-polar extracted substance	Dissolved inorganic salts	Chemical oxygen consumption using dichromatic method	Total iron
	[m ³ /year]	[t/year]	[t/year]	[t/year]	[t/year]	[t/year]
2009	4 901 611	59,9	3,1	2 543	111,3	6,1
2010	5 402 078	90,6	5,3	2 774	121,9	8,8

WASTE DISPOSAL

In the reporting period, the composition of waste was the same as in previous years. Increased production of waste corresponds to the year-on-year growth of production of pig iron and steel.

In 2010, a total of 201,614 tonnes of waste were created which represents an increase of 13% compared to 2009. The amount of waste per tonne of steel is almost identical – 80.3 kg/t of steel in 2009 and 80.7 kg/t of steel in 2010.

WASTE PRODUCTION IN 2009 AND 2010

Year	Total	Other	Hazardous
2009	178	84	94
2010	202	93	109



ENVIRONMENTAL INVESTMENTS

In 2010, the following major environmental investment projects were completed or launched:

- reconstruction of measurement of hot blast stove emissions at blast furnace No. 6; and
- technical landfill reclamation of the Neboranka dump.

Plans for improving the environment and working environment in 2011:

- reduction of dust at homogenisation heaps;
- continuation of the project preparation of reconstruction and modernisation of the dedusting of sinter plant No. 2;

- continuation of the project preparation of the reconstruction of teeming halls of the blast furnaces;
- continuation of the reconstruction project preparation of secondary dedusting of the BOF steel plant;
- coating line in the tube mill;
- ongoing technical landfill reclamation of the Neboranka dump; and
- regulation of the Křivec stream with the objective of increasing its capacity.





EMPLOYEES

In the area of human resources, attention remains focused on maintaining maximum cost savings even though production gradually increased during 2010. Over the year, some employees in the retirement age were allowed to retire earlier. The number of agency employees gradually increased due to the growing production.

Despite reducing the number of regular employees the process of generational replacement continued to work. Preferably graduates from technical disciplines were recruited. The 10th round of the Train-

In order to ensure a high standard of health care, wellness stays in spas as well as the outpatient remedial for the staff were organised while also co-financed by the Czech Industrial Health Insurance company. Within the anti-flu measures, preventive vaccination has been offered to the employees. At the selected plants, the traditional "Health Days" took place.

In 2010, a total of 20 accidents with sick leave exceeding three calendar days were recorded. This resulted in an increase in the ab-

We decreased the specific
CO₂ emissions per ton of
produced steel by 9.12 %
year-on-year



ee Program for university graduates was fulfilled and collaboration with schools of all levels continued. Finally, a selection of employees was held to fill the positions at coke battery No. 12 following the completion of its overhaul.

With effect from 31 August 2010 a merger with the subsidiary VÁLCOVNA TRUB TŽ, a.s. took place. As the result of this merger, TŘINECKÉ ŽELEZÁRNY, a.s. took over 730 employees of the defunct company VÁLCOVNA TRUB TŽ, a.s.

Employee education was still primarily focused on maintaining existing skills as well as their expansion and deepening. Emphasis was put on staff training and education in the field of quality, and language training and management education also continued.

As part of the efforts to achieve education cost savings, possibilities were sought to use the European Social Fund - the "Educate yourselves" project, the Branch Association of the Steel Industry's project "training program for staff of members of the Branch Association of the Steel Industry", as well as the "Effective education, personal development and increase in the adaptability of workers of VÁLCOVNA TRUB TŽ, a.s." project.

solute number of accidents by 7 compared to 2009. The whole-year result was negatively influenced by the month of January, when seven accidents were recorded. The long-term downward trend in the number of injuries was interrupted. The frequency of accidents per 100 employees per year reached 0.34. There was also an increase in missed work days due to injuries. In comparison with 2009, it shows that a further decline of such low number of accidents is problematic with regard to the number and size of existing risks and the number of employees. Already in 2010, a series of measures to reverse the negative development in early 2010 were adopted.

Despite the continuing saving measures, motivation of employees was aimed at fulfilling the plans and maximising production, provided that the high level of quality of products and services is adhered to. The Company Collective Agreement negotiated the average earnings of the previous year. The agreed average earnings were slightly exceeded with a gradually improving economic situation. All other obligations of the Social Code were met and high standards in providing employee benefits and health care were maintained.

During 2010, primarily due to the merger with VÁLCOVNA TRUB TŽ, a.s., the average adjusted headcount grew to 5,905 employees.

Ensuring and achieving personnel strategy goals embedded in the Business Plan will require the following in the coming period:

- Increasing the qualification of employees in line with the development of new technologies and introducing the new products and product chains;
- Maintaining the existing key professions;
- Ensuring the needs of technical specialists;
- Ensuring the growth of the corporate intellectual capital;
- Ensuring the corresponding level of required competencies of employees in order to fulfil the strategic objectives and utilise the potential of talented employees;
- Exerting the policy of salary differentiation and development of motivational systems in order to reach higher involvement of individual interests with corporate objectives and stabilising key employees;
- Consistent assertion of cost principles regarding agency workers;
- Deepening the efficiency of established shared services in selected personnel, accounting, and IT activities;
- Decreasing the accident rate and work risks as well as increasing the work environment quality;
- Support of development of the private secondary school in Třinec ('SSŠT') including the media promotion of the prospects of studying the technical branches at the school plus the possibilities of inclusion of the graduates within the Group;
- Narrow co-operation with SSŠT in connection with the corporate training including the adaptation of educational programs to the needs of the Group;
- Co-operation with schools in bordering regions of Slovakia and Poland;
- Ensuring the social and health-care programs with the objective of maintaining the high standard regarding the employees' benefits and their health-care;
- Ensuring the collective bargaining, gaining the trade unions for the implementation of the strategic objective of the company and maintaining social peace.

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. All employees of the company make an effort to increase the added value of long rolled products which form a crucial part of production of TŘINECKÉ ŽELEZÁRNY, a.s.

The basic principles of the management include the linear organisational structure, process and project management. None of the principles is 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.

In connection with the ongoing global economic crisis in 2009-2010, the principles of governing all strategic areas (Partnership, Technology, Staff, and Management) have been determined by the corporate management. As part the so called crisis management a series of measures were adopted during 2010 to ensure the company's financial stability.

The most significant event in the field of information systems of TŘINECKÉ ŽELEZÁRNY, a. s. in 2010 involved their adjusting so that the capacities of VÁLCOVNA TRUB TŽ, a.s. could act as the operating unit of TŘINECKÉ ŽELEZÁRNY, a. s. following the merger, including own data implementation of the merger. The information system in METALLURGIA S.A. Radomsko was implemented according to the standards used within the Group.

In 2010, TŘINECKÉ ŽELEZÁRNY, a. s. adopted the CSR (Corporate Social Responsibility) principles. Therefore, we started integrating CSR into the management system. We anticipate completing the CSR implementation project in 2011.

TŘINECKÉ ŽELEZÁRNY, a. s. has a share in 28 companies, having either controlling, significant or minority interest. Most subsidiaries of TŘINECKÉ ŽELEZÁRNY, a. s. 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 TŘINECKÉ ŽELEZÁRNY, a. s.

The management of capital shares of TŘINECKÉ ŽELEZÁRNY, a.s. is principally focused on creating strategic objectives, co-ordinating the business plans, creating investment, financial, and commercial strategies, as well as unifying the main processes. The aim is to increase the value of the subsidiaries. The contribution of selected companies with capital share of TŘINECKÉ ŽELEZÁRNY, a.s. to the Group is regularly monitored and evaluated through analyses and reporting.

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

FINANCIAL SITUATION

The financial performance of TŘINECKÉ ŽELEZÁRNY, a. s. in 2010 was significantly affected by the sharp rise of input prices and the structure of the purchase of input material due to the ongoing modernisation and reconstruction of coke oven battery No. 12.



Those factors significantly influenced the financial result which amounted to CZK (909) million before tax. This loss is 45 million CZK lower compared with 2009.

Production reached CZK 32,909 million (CZK 24,305 million in 2009), which represents an increase of CZK 8,604 million year-on-year. The increase was mainly due to higher sales of rolled products and steel (+CZK 8,104 million), due to both the higher volume of sold products (+249 kt) and the increase in the average price, which, however, offset only partially the faster growth in input prices.

TRENDS OF TOTAL REVENUES DURING THE PAST THREE YEARS

Indicator (in CZK thousands)	2008	2009	2010
Rolled goods incl. steel	35 412 197	23 057 974	31 161 640
Other products	1 288 467	880 575	913 122
Sales of own products	36 700 664	23 938 549	32 074 762
Revenues from services	384 187	374 170	379 426
Sales of goods purchased for resale	10 217	3 446	5 167
Sale of own production, services and goods	37 095 068	24 316 165	32 459 355

The purchased consumables were higher by CZK 9,836 million compared to 2009. The principal factor driving the increase was higher raw material consumption due to rising production, rising prices of crucial input commodities, especially the higher price and consumption of purchased coke due to the ongoing reconstruction and modernisation of coke oven battery No. 12.

Throughout 2010, the processing cost limits were set and their observance and periodic evaluation eliminated a further decline of the loss.

Saving measures were focused mainly on repairs and maintenance, personnel costs, costs of production and overhead materials, services etc.

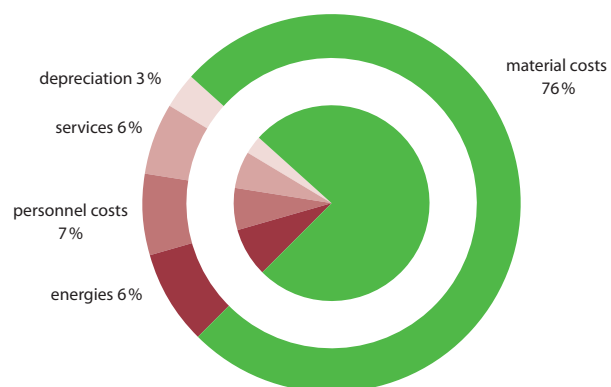
Processing costs per tonne of steel declined year-on-year, even though they increased in absolute terms, especially in connection with the merger with VÁLCOVNA TRUB TŽ, a.s.

The added value in 2010 reached CZK 1,174 million. It decreased by CZK 1,233 million as compared to 2009, despite higher production of crude steel (+285 kt) and sales of rolled products (+249 kt). It was impacted by faster growth of raw material prices than prices of finished products and the different structure of their purchase. Labour productivity from added value amounted to CZK 199 thousand per employee.

Operating loss amounted to CZK 1,515 million, which is CZK 199 million less than in 2009.

The profit from financial operations was positively affected primarily by dividends taken from subsidiaries and amounted to CZK +609 million.

COST STRUCTURE IN 2010



As of 31 December 2010, the company reported total assets of CZK 25,458 million (after the merger with VÁLCOVNA TRUB TŽ, a.s.), which is CZK 2,421 million more than as of 31 December 2009. Growth in current assets and accruals contributed to this increase by CZK 1,320 million. Fixed assets increased by CZK 1,101 million (investments were higher than depreciation, the impact of the merger).

In connection with the merger, the value of non-current financial assets decreased in 2010.

Since the beginning of the year, the increase in inventories has been affected by higher raw material prices, higher stocks of finished and semi-finished products, and the merger with VÁLCOVNA TRUB TŽ, a.s.

Long-term receivables increased as a result of a higher deferred tax asset.

Short-term receivables increased primarily in trade receivables.

External resources increased by CZK 2,793 million, whilst bank loans and liabilities increased.

STRATEGIC OBJECTIVES

The increasing capacities of steel mills in China and other emerging economies, which pull the demand for raw materials, increasing their prices, are an important factor which will influence the market balance. Another risk factor is the fluctuation in currency markets.

To maintain our competitiveness, we consider the key success factors to include low production costs, top product quality, well-thought business strategy, flexibility and timeliness of delivery, active cooperation with customers and finding new fields of application of the products.

Therefore, from a point of view of the medium-term strategy the most important projects being prepared include the coal injection into blast furnaces and another modernisation of the continuous wire rod mill. Regarding environmental investments, the projects of dust removal at sinter plant No. 2 and modernisation of the secondary dedusting of the BOF Steel plant as well as dust removal of casting halls of the blast furnaces are planned to take place.



REPORT OF THE SUPERVISORY BOARD

The Supervisory Board regularly checked compliance of the business activities with legal regulations, the Articles of Association, and resolutions of the General Meeting and the Supervisory Board. During the course of 2010, the Board of Directors informed it on the current economic situation of the Company, on the continuous results of the crisis management 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 ŽELEZÁŘNY, a.s.

At its meeting on 26 April 2011, the Supervisory Board reviewed the regular financial statements and the regular consolidated financial statements of the Company for 2010, the proposal for the settlement of the loss incurred for 2010, 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 2010 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 ŽELEZÁŘNY, a.s. approve the above-mentioned documents.

The Supervisory Board also reviewed the Report on Relations for the 2010 accounting period considering Deloitte Audit s.r.o. Auditor's opinion and concluded that it was prepared in conformity with the Commercial Code and the actual state of relations between the affiliated entities.



Tomáš Chrenek

Chairman of the Supervisory Board



Thanks to the revival of
the automotive industry,
the volume of the bar steel
production increased
by 47 % year-on-year



VII:

REPORT OF THE AUDIT COMMITTEE

The Audit Committee of TRINECKÉ ŽELEZÁRNY, a. s. (hereinafter "TŽ") monitored the procedure of preparing TŽ's financial statements and the consolidated financial statements of the TŽ Group for 2010 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 within the TŽ Group in 2010 and the consolidated financial statements of TŽ for 2010. The procedure of preparing the individual and consolidated financial statements of TŽ and the TŽ Group for 2010 took place in accordance with Czech and International Accounting Standards; these financial statements were 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 company's management and assessed how the company's management 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 obtained feedback information as to what could endanger the auditor's independence, reviewed the nature and extent of the complementary services provided by the auditor.

The Audit Committee executed all its competences in accordance with applicable legislation and TŽ's Corporate Articles.



Dana Trezziová

Audit Committee Chairwoman



FINANCIAL PART



AUDITOR'S REPORT

Deloitte.

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DIČ: CZ49620592

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

Having its registered office at: Třinec – Staré Město, Průmyslová 1000, 739 70
Identification number: 18050646

Report on the Financial Statements

Based upon our audit, we issued the following audit report dated 10 March 2011 on the financial statements which are included in this annual report in Section IX.:

"We have audited the accompanying financial statements of TŘINECKÉ ŽELEZÁRNY, a.s., which comprise the balance sheet as of 31 December 2010, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of TŘINECKÉ ŽELEZÁRNY, a.s. as of 31 December 2010, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

Emphasis of Matter

Without qualifying our opinion, we draw attention to the following matter.

As discussed in Note 2.1 to the financial statements, the merger by amalgamation between TŘINECKÉ ŽELEZÁRNY, a.s., as the successor entity, and VALCOVNA TRUB TŽ, a.s., as the dissolving entity, with the merger effective date of 1 January 2010, became effective on 31 August 2010. The comparative information includes information from the financial statements of TŘINECKÉ ŽELEZÁRNY, a.s. prepared for the year ended 31 December 2009 and hence it is not fully comparable to the current period's information."

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Report on the Consolidated Financial Statements

Based upon our audit, we issued the following audit report dated 8 April 2011 on the consolidated financial statements which are included in this annual report in Section X.:

"We have audited the accompanying consolidated financial statements of TRINECKÉ ŽELEZÁRNY, a.s., which comprise the balance sheet as of 31 December 2010, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Statutory Body's Responsibility for the Financial Statements

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

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 2010, 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 2010 which is included in this annual report in Section XI. 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 2010 contains material factual misstatements.

Report on the Annual Report

We have also audited the annual report of the Company as of 31 December 2010 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 29 April 2011

Audit firm:

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

Statutory auditor:

Václav Loubek
certificate no. 2037



FINANCIAL PART I. FINANCIAL STATEMENTS

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Name of the Company:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Třinec-Staré Město, Průmyslová 1000, 739 70
Legal Status:	Joint Stock Company
Corporate ID:	18050646

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 10 MARCH 2011.

Statutory body of the reporting entity:	Signature
Jiří Cieňčala Chairman of the Board of Directors	
Petr Popelář Member of the Board of Directors	



BALANCE SHEET FULL VERSION

(CZK thousand)

		31 Dec 2010			31 Dec 2009
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	43 070 429	-17 612 684	25 457 745	23 036 799
B.	Fixed assets	32 334 867	-16 951 751	15 383 116	14 281 628
I.	Intangible fixed assets	190 371	-177 560	12 811	17 704
2.	Research and development	4 552	-2 049	2 503	3 414
3.	Software	156 914	-147 879	9 035	14 290
4.	Valuable rights	27 712	-27 632	80	
7.	Intangible fixed assets under construction	1 193		1 193	
II.	Tangible fixed assets	26 939 731	-16 740 478	10 199 253	8 794 407
1.	Land	346 107		346 107	319 980
2.	Structures	6 530 779	-3 591 845	2 938 934	2 687 453
3.	Individual movable assets and sets of movable assets	18 893 910	-13 143 024	5 750 886	5 366 906
6.	Other tangible fixed assets	1 668		1 668	1 679
7.	Tangible fixed assets under construction	1 162 752	-5 609	1 157 143	398 526
8.	Prepayments for tangible fixed assets	4 515		4 515	19 863
III.	Non-current financial assets	5 204 765	-33 713	5 171 052	5 469 517
1.	Equity investments in subsidiaries	5 055 301	-17 381	5 037 920	5 340 107
2.	Equity investments in associates	125 693	-16 332	109 361	109 461
3.	Other securities and investments	100		100	100
5.	Other non-current financial assets	18 795		18 795	19 849
6.	Acquisition of non-current financial assets	4 876		4 876	
C.	Current assets	10 688 434	-660 933	10 027 501	8 692 822
I.	Inventories	6 729 993	-608 168	6 121 825	4 461 852
1.	Material	2 730 381	-193 494	2 536 887	2 128 281
2.	Work in progress and semifinished goods	2 441 096	-294 887	2 146 209	1 452 214
3.	Products	1 548 323	-119 787	1 428 536	876 688
5.	Goods	1 694		1 694	2 263
6.	Prepayments for inventory	8 499		8 499	2 406
II.	Long-term receivables	78 769		78 769	7 942
1.	Trade receivables	2 662		2 662	
2.	Receivables - controlling entity				5 000
5.	Long-term prepayments made	638		638	636
7.	Other receivables	1 486		1 486	2 306
8.	Deferred tax asset	73 983		73 983	
III.	Short-term receivables	3 301 822	-52 765	3 249 057	2 571 932
1.	Trade receivables	3 204 591	-41 422	3 163 169	2 428 105
2.	Receivables - controlling entity				60
6.	State - tax receivables	42 575		42 575	56 884
7.	Short-term prepayments made	2 684		2 684	38 791
8.	Estimated receivables	30 098		30 098	23 191
9.	Other receivables	21 874	-11 343	10 531	24 901
IV.	Current financial assets	577 850		577 850	1 651 096
1.	Cash on hand	1 246		1 246	1 649
2.	Cash at bank	562 033		562 033	1 633 389
3.	Short-term securities and investments	14 571		14 571	16 058
D. I.	Other assets	47 128		47 128	62 349
1.	Deferred expenses	38 367		38 367	55 588
2.	Complex deferred expenses	8 680		8 680	6 718
3.	Accrued income	81		81	43
	Control number	172 234 588	-70 450 736	101 783 852	92 084 847

BALANCE SHEET FULL VERSION

(CZK THOUSAND)

		31 Dec 2010	31 Dec 2009
	TOTAL LIABILITIES & EQUITY	25 457 745	23 036 799
A.	Equity	18 110 848	18 482 880
I.	Share capital	8 109 863	8 109 863
1.	Share capital	8 109 863	8 109 863
II.	Capital funds	230 541	86 360
2.	Other capital funds	230 557	86 376
3.	Gains or losses from the revaluation of assets and liabilities	-16	-16
III.	Statutory funds	2 749 698	2 749 675
1.	Statutory reserve fund / Indivisible fund	765 408	765 408
2.	Statutory and other funds	1 984 290	1 984 267
IV.	Retained earnings	7 652 863	8 268 518
1.	Accumulated profits brought forward	8 384 399	8 268 518
2.	Accumulated losses brought forward	-731 536	
V.	Profit or loss for the current period (+ -)	-632 117	-731 536
B.	Liabilities	7 339 241	4 546 026
I.	Reserves	143 672	153 027
1.	Reserves under special legislation	1 793	1 686
4.	Other reserves	141 879	151 341
II.	Long-term liabilities	51 692	297 045
1.	Trade payables	51 692	11 860
9.	Other payables		10 000
10.	Deferred tax liability		275 185
III.	Short-term liabilities	4 431 191	3 513 247
1.	Trade payables	3 992 772	2 833 141
4.	Payables to partners and association members	7 650	10 903
5.	Payables to employees	246 456	238 228
6.	Social security and health insurance payables	67 466	65 278
7.	State - tax payables and subsidies	16 339	16 969
8.	Short-term prepayments received	2	1 372
10.	Estimated payables	85 719	91 554
11.	Other payables	14 787	255 802
IV.	Bank loans and borrowings	2 712 686	582 707
1.	Long-term bank loans	1 268 107	360 630
2.	Short-term bank loans	1 444 579	222 077
C. I.	Other liabilities	7 656	7 893
1.	Accrued expenses	5 803	7 664
2.	Deferred income	1 853	229
	Control number	102 455 441	92 870 839

PROFIT AND LOSS ACCOUNT STRUCTURED BY THE NATURE OF EXPENSE METHOD

(CZK thousand)

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
I.	Sales of goods	5 167	3 446
A.	Costs of goods sold	5 033	3 352
+	Gross margin	134	94
II.	Production	32 909 267	24 305 454
1.	Sales of own products and services	32 454 188	24 312 719
2.	Change in internally produced inventory	125 302	-359 995
3.	Own work capitalised	329 777	352 730
B.	Purchased consumables and services	31 735 681	21 899 259
1.	Consumed material and energy	29 431 905	19 637 576
2.	Services	2 303 776	2 261 683
+	Added value	1 173 720	2 406 289
C.	Staff costs	2 561 182	2 327 324
1.	Payroll costs	1 736 784	1 614 584
2.	Remuneration to members of statutory bodies	11 157	15 008
3.	Social security and health insurance costs	616 409	542 825
4.	Social costs	196 832	154 907
D.	Taxes and charges	21 866	4 896
E.	Depreciation of intangible and tangible fixed assets	922 179	1 078 376
III.	Sales of fixed assets and material	108 031	58 400
1.	Sales of fixed assets	23 658	5 080
2.	Sales of material	84 373	53 320
F.	Net book value of fixed assets and material sold	110 103	53 771
1.	Net book value of sold fixed assets	34 207	1 036
2.	Book value of sold material	75 896	52 735
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-929 798	-70 765
IV.	Other operating income	972 543	785 148
H.	Other operating expenses	1 086 579	1 172 279
I.	Transfer of operating expenses	-2 597	
*	Operating profit or loss	-1 515 220	-1 316 044
VII.	Income from non-current financial assets	617 375	368 494
1.	Income from subsidiaries and associates	617 300	368 257
3.	Income from other non-current financial assets	75	237
IX.	Income from the revaluation of securities and derivatives	844	962
M.	Change in reserves and provisions relating to financial activities	-3 301	414
X.	Interest income	7 435	24 165
N.	Interest expenses	45 373	35 668
XI.	Other financial income	51 640	80 926
O.	Other financial expenses	25 997	76 099
*	Financial profit or loss	609 225	362 366
Q.	Income tax on ordinary activities	-276 475	-222 142
1.	- due	-339	14 262
2.	- deferred	-276 136	-236 404
**	Profit or loss from ordinary activities	-629 520	-731 536
R.	Extraordinary expenses	2 597	
*	Extraordinary profit or loss	-2 597	
***	Profit or loss for the current period (+/-)	-632 117	-731 536
****	Profit or loss before tax	-908 592	-953 678
	Control number	135 836 918	99 812 041

STATEMENT OF CHANGES IN EQUITY

(CZK thousand)

	Share capital	Capital funds	Statutory reserve fund	Statutory and other funds	Accumulated profits	Accumulated losses	Profit or loss for the current period	TOTAL EQUITY
Balance at 31 December 2008	8 109 863	86 360	705 187	1 984 267	7 124 319		1 204 420	19 214 416
Distribution of profit or loss							-731 536	-731 536
Distribution of the profit of prior years			60 221		1 144 199		-1 204 420	
Balance at 31 December 2009	8 109 863	86 360	765 408	1 984 267	8 268 518		-731 536	18 482 880
Impact of merger		144 178			115 881			260 059
Balance at 1 January 2010	8 109 863	230 538	765 408	1 984 267	8 384 399		-731 536	18 742 939
Distribution of profit or loss							-632 117	-632 117
Distribution of the profit of prior years						-731 536	731 536	
Other		3		23				26
Balance at 31 December 2010	8 109 863	230 541	765 408	1 984 290	8 384 399	-731 536	-632 117	18 110 848

CASH FLOW STATEMENT

(CZK thousand)

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
P.	Opening balance of cash and cash equivalents	1 651 096	2 150 486
	Cash flows from ordinary activities		
Z.	Profit or loss from ordinary activities before tax	-905 995	-953 678
A.1.	Adjustments for non-cash transactions	-586 555	946 806
A.1.1.	Depreciation of fixed assets	922 179	1 078 376
A.1.2.	Change in provisions and reserves	-900 721	-70 351
A.1.3.	Profit/(loss) on the sale of fixed assets	10 549	-4 045
A.1.4.	Revenues from dividends and profit shares	-617 375	-368 494
A.1.5.	Interest expense and interest income	37 938	11 503
A.1.6.	Adjustments for other non-cash transactions	-6 747	299 817
A.1.7.	Adjustments for non-cash transactions - VTTŽ merger	-32 378	
A.*	Net operating cash flow before changes in working capital	-1 492 550	-6 872
A.2.	Change in working capital	-307 477	646 998
A.2.1.	Change in operating receivables and other assets	-858 682	-84 532
A.2.2.	Change in operating payables and other liabilities	912 853	-394 167
A.2.3.	Change in inventories	-361 648	1 125 697
A.**	Net cash flow from operations before tax and extraordinary items	-1 800 027	640 126
A.3.	Interest paid	-47 195	-34 600
A.4.	Interest received	7 391	24 805
A.5.	Income tax paid from ordinary operations	8 895	83 815
A.6.	Receipts and expenditures relating to extraordinary activities	-2 597	
A.7.	Received dividends and profit shares	617 375	376 494
A.***	Net operating cash flows	-1 216 158	1 090 640
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-1 419 778	-1 130 374
B.2.	Proceeds from fixed assets sold	23 700	6 666
B.5.	Increase in cash -VTTŽ merger	4 865	
B.***	Net investment cash flows	-1 391 213	-1 123 708
	Cash flow from financial activities		
C.1.	Change in payables from financing	1 534 235	-465 931
C.2.	Impact of changes in equity	-110	-391
C.2.5.	Payments from capital funds	23	
C.2.6.	Dividends paid	-133	-391
C.***	Net financial cash flows	1 534 125	-466 322
F.	Net increase or decrease in cash and cash equivalents	-1 073 246	-499 390
R.	Closing balance of cash and cash equivalents	577 850	1 651 096

Notes to the financial statements

1. GENERAL INFORMATION

1.1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter the “Company”) was formed by the National Property Fund of the Czech Republic on the basis of a Deed of Foundation as a joint stock company registered in Třinec, 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 and steel tubes.

The Company’s registered office is located in Třinec-Staré Město, Průmyslová 1000, 739 70.

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

The following table shows individuals and legal entities exercising controlling or substantial influence over the Company and the amount of their equity interest:

Shareholder	Ownership percentage
MORAVIA STEEL a. s.	69.05 %
Others	30.95 %
Total	100.00%

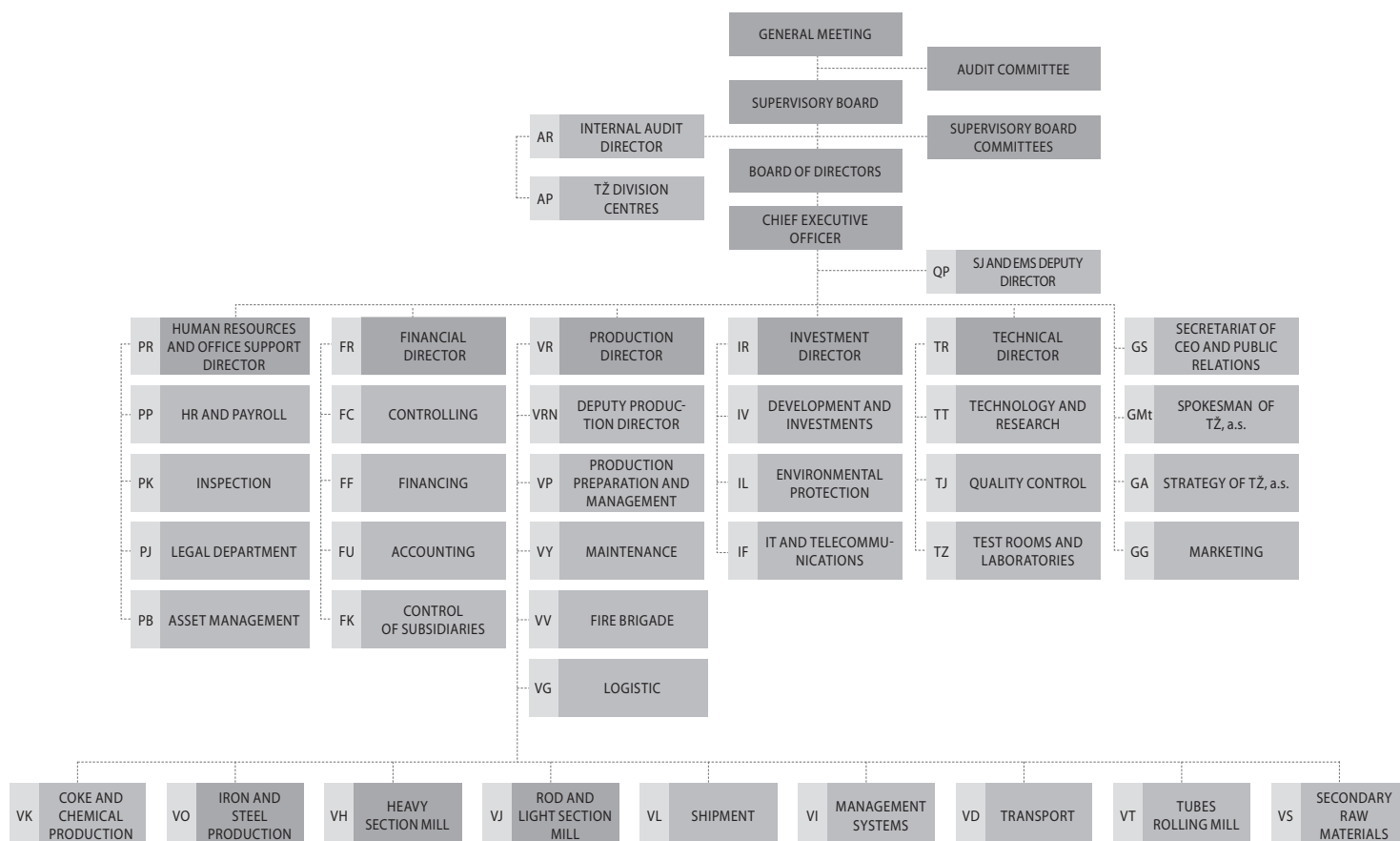
1.2. CHANGES IN AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2010, the change regarding the merger by amalgamation with VÁLCOVNA TRUB TŽ, a.s. (refer to Note 2.1.), the change in business activities and the change in the composition of the Board of Directors of the Company (refer to Note 1.5.) were recorded in the Register of Companies.

1.3. ORGANISATIONAL STRUCTURE OF THE COMPANY

- Bodies of the Company are as follows:
- General Meeting;
- Board of Directors;
- Supervisory Board; and
- Audit Committee.

The basic organisational chart of the Company effective as of 31 December 2010:



During the year ended 31 December 2010 the following changes were made in the Company's organisational structure :

- Formation of the VG division – Logistics managed by VR – Production Manager;
- Cancellation of the PH division – Fire Brigade managed by PR – Human Resources and Administration Director and its transfer under VR – Production Manager with the new name VV – Fire Brigade;
- Cancellation of the VB operation – Universal Rolling Mill managed by VR –
- Production Manager and its transfer under VH – Blooms and Heavy Sections
- Rolling Mill;
- Formation of the VT operation – Tube Rolling Mill managed by VR – Production Manager; and
- Change in the name of the TJ department – Quality Assurance managed by TR –
- Technical Manager to the new name TJ – Quality Control.

1.4. GROUP IDENTIFICATION

According to Section 66a (3) of the Commercial Code, the Company is controlled by MORAVIA STEEL a.s.. MORAVIA STEEL a.s. is controlled by FINITRA-DING a.s. and R.F.G., a.s., acting in concert.

1.5. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2010

	Position	Name
Board of Directors	Chairman	Jiří Cieńciała
	1 st Vice Chairman	Jan Czudek
	2 nd Vice Chairman	Česlav Marek
	Member	Jan Lasota
	Member	Ivo Žižka
	Member	Henryk Huczala
	Member	Petr Popelář
Supervisory Board	Chairman	Tomáš Chrenek
	1 st Vice Chairman	Ján Moder
	2 nd Vice Chairman	Hanns Kurt Zöllner
	Member	František Ligocki
	Member	Evžen Balko
	Member	Roman Mitřega
	Member	Vladislav Heczko
	Member	Jozef Blaško
	Member	Pablo Alarcón Espinosa

There were the following changes in the Board of Directors in the year ended 31 December 2010:

Board of Directors:

Position	Original member	New member	Date of the change
2 nd Vice Chairman	Rostislav Wozniak	Česlav Marek	1 July 2010
Member	Rostislav Wozniak	Ivo Žižka	1 July 2010
Member		Petr Popelář	1 Dec 2010

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

On 31 August 2010, the merger by amalgamation with the effective date of 1 January 2010 between TŘINECKÉ ŽELEZÁRNY, a. s., as the successor company and VÁLCOVNA TRUB TŽ, a.s., as the dissolving company, came into effect. The merger by amalgamation resulted in the dissolution of the dissolving company without liquidation and the transfer of the net assets of the dissolving company, including the rights and obligations arising from labour relations, to the successor company.

In view of the implemented merger, the financial statements as of and for the year ended 31 December 2010 were prepared as follows:

- The balance sheet contains comparative balances as of 31 December 2009 which are taken from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2009;
- The profit and loss account includes comparative amounts for the year ended 31 December 2009 which are taken from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2009;
- The statement of changes in equity includes comparative balances as of 31 December 2009 which are taken from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2009. The statement presents the impacts of the merger on the equity accounts; and
- The cash flow statement contains comparative balances as of 31 December 2009 which are taken from the financial statements of TŘINECKÉ ŽELEZÁRNY, a. s. as of 31 December 2009. The impact of the merger on cash is presented separately in this statement.

Wherever the impact of the merger was deemed significant for individual classes of assets and liabilities, it is disclosed in the relevant notes to the financial statements.

Opening balance of the Company as of 1 January 2010

(CZK thousand)

	Gross	Adjustment	Net
TOTAL ASSETS	42 005 608	-17 961 825	24 043 783
Fixed assets	31 404 087	-16 390 686	15 013 401
Intangible fixed assets	191 407	-173 703	17 704
Research and development	4 553	-1 138	3 415
Software	159 142	-144 853	14 289
Valuable rights	27 712	-27 712	0
Tangible fixed assets	26 007 973	-16 179 969	9 828 004
Land	346 609	0	346 609
Structures	6 418 328	-3 441 565	2 976 763
Individual movable assets and sets of movable assets	18 813 666	-12 733 603	6 080 063
Other tangible fixed assets	1 679	0	1 679
Tangible fixed assets under construction	407 828	-4 801	403 027
Prepayments for tangible fixed assets	19 863	0	19 863
Non-current financial assets	5 204 707	-37 014	5 167 693
Equity investments in subsidiaries	5 055 589	-17 305	5 038 284
Equity investments in associates	125 693	-16 233	109 460
Other securities and investments	100	0	100
Other non-current financial assets	19 849	0	19 849
Acquisition of non-current financial assets	3 476	-3 476	0
Current assets	10 538 493	-1 571 139	8 967 354
Inventories	6 368 392	-1 504 392	4 864 000
Material	2 499 046	-194 170	2 304 876
Work in progress and semi-finished goods	2 466 489	-877 065	1 589 424
Products	1 398 188	-433 157	965 031
Goods	2 263	0	2 263
Prepayments for inventory	2 406	0	2 406
Long-term receivables	7 942	0	7 942
Receivables – controlling entity	5 000	0	5 000
Long-term prepayments made	636	0	636
Other receivables	2 306	0	2 306
Short-term receivables	2 506 198	-66 747	2 439 451
Trade receivables	2 329 264	-43 909	2 285 355
Receivables – controlling entity	60	0	60
State – tax receivables	62 477	0	62 477
Short-term prepayments made	38 869	0	38 869
Estimated receivables	27 771	0	27 771
Other receivables	47 757	-22 838	24 919
Current financial assets	1 655 961	0	1 655 961
Cash on hand	1 861	0	1 861
Cash at bank	1 638 042	0	1 638 042
Short-term securities and investments	16 058	0	16 058
Other assets	63 028	0	63 028
Deferred expenses	56 267	0	56 267
Complex deferred expenses	6 718	0	6 718
Accrued income	43	0	43



Opening balance of the Company as of 1 January 2010

(CZK thousand)

	Net
TOTAL LIABILITIES & EQUITY	24 043 783
Equity	18 742 939
Share capital	8 109 863
Share capital	8 109 863
Capital funds	230 538
Other capital funds	230 554
Gains or losses from the revaluation of assets and liabilities	-16
Statutory funds	2 749 675
Statutory reserve fund/Indivisible fund and other funds from profit	765 408
Statutory and other funds	1 984 267
Retained earnings	7 652 863
Accumulated profits brought forward	8 384 399
Accumulated losses brought forward	-731 536
Liabilities	5 292 476
Reserves	153 027
Reserves under special legislation	1 686
Other reserves	151 341
Long-term liabilities	224 012
Trade payables	11 860
Other payables	10 000
Deferred tax liabilities	202 152
Short-term liabilities	3 625 163
Trade payables	2 918 778
Payables to partners and association members	10 903
Payables to employees	251 826
Social security and health insurance payables	72 772
State – tax payables and subsidies	19 774
Short-term prepayments received	1 406
Estimated payables	93 281
Other payables	256 423
Bank loans and borrowings	1 290 274
Long-term banks loans	682 421
Short-term bank loans	607 853
Other liabilities	8 368
Accrued expenses	7 664
Deferred income	704

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 if replacement cost is lower than internal costs, assets recently entered in the accounting records such as an inventory count surplus (accounted for by a corresponding entry in the relevant accumulated depreciation account) and an investment of intangible and tangible fixed assets, except for cases where the investment is valued differently pursuant to a Memorandum of Association or a 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 a fixed asset improvements exceeding CZK 40 thousand increases the acquisition cost of the related fixed asset for the taxation 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 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'.

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 tangible fixed assets are recognised in circumstances where the carrying value is greater than value in use, which is equal to the present value of estimated future cash flows expected to arise from the continuing use of fixed assets/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 and long-term term deposits.

Valuation

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

At the balance sheet date, the Company records:

Equity investments 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 cost.

At the balance sheet date, changes in the fair value of available-for-sale securities are recorded through balance sheet lines '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, 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 in subsidiaries'.

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

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 developed inventory is valued at full operating costs established based upon a formula reflecting annual planned costings. The prices are determined on the basis of an annual financial plan.

The revaluation of internally developed inventory is performed as of 1 January of the current year by reference to the calculations made based on the approved financial plan.

During the reporting period, the Company analyses the valuation of internally produced inventory by comparing the valuation of aggregate internal operating costs according to planned (planned costing) and the actual costs. The difference between the valuation according to actual aggregate internal costs and the valuation per the planned aggregate internal costs is reflected in the financial accounting records in the general ledger accounts 'Change in internally produced inventory' with a corresponding entry to 'Internally produced inventory'.

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 the analysis of valuation, movement, selling prices and 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 over 360 days are provisioned in full; and
- b) Receivables past due over 180 days but less than 360 days are provisioned at 50%.

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

The Company 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 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 AND BORROWINGS

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 of the Ministry of Environment No. 294/2005 Coll.

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. FINANCE LEASES

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

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

3.11. TAXATION

3.11.1. Depreciation of Fixed Assets for Tax Purposes

Depreciation of fixed assets is recorded on an accelerated basis for tax purposes under Section 32 of Act No. 586/92 Coll., with the exception of assets used in the Univerzální trať Bohumín plant and the Tube Rolling Mill (the VT operation) which are depreciated using the straight line method.

3.11.2. Current Tax Payable

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

3.11.3. Deferred Tax

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

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

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

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

3.12. BORROWING COSTS

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

3.13. COSTS RELATING TO EMPLOYEES HIRED THROUGH AN EMPLOYMENT AGENCY

The Company reports staff costs of employees hired through an employment agency as part of social costs which include the actually paid salaries including social security costs and health insurance. The costs of other aids and protective drinks for agency employees are reported under 'Consumed material and energy'. Other services of the agency, such as mediation fees and agency overheads are reported under 'Services'.

3.14. REVENUE RECOGNITION

Revenues are recognised when goods are delivered and accepted by the customer or when services are rendered and are reported net of discounts and VAT. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income is recognised when the shareholders' rights to receive payment have been declared.

3.15. USE OF ESTIMATES

The presentation of financial statements requires management to make 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. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

3.16. RESEARCH AND DEVELOPMENT EXPENDITURE

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

3.17. YEAR-ON-YEAR CHANGES IN ACCOUNTING POLICIES

With effect from 2010, the Company changed the policy for accounting for the revaluation of internally produced inventory such that the revaluation difference according to the actual aggregate internal operating costs and the valuation per the anticipated full internal operating costs is reflected in the financial accounting records in the general ledger accounts 'Change in internally produced inventory' with a corresponding entry to 'Internally produced inventory'.

With effect from the year ended 31 December 2010, the Company has reported prepayments for the fee paid for air pollution in the line 'State - tax receivables' instead of the line 'Short-term prepayments made'.

With effect from 2011, the Company has changed the policy of valuing internally produced inventory during the period. 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. The previous practice was to value the pure charge at planned costs during the reporting period.

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.

3.18. SUBSIDIES

The Company receives operating subsidies. The funds drawn are charged to expenses and operating subsidies received are credited to income on an accruals basis (refer to Note 4.11.). In addition, the Company receives subsidies to fund the acquisition of fixed assets and these subsidies reduce the cost of the related assets.

3.19. CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method.

For cash flow reporting purposes, cash and cash equivalents include cash 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 2010	Impact of the merger at 1 Jan 2010	31 Dec 2009
Cash on hand	1 246	212	1 649
Current accounts	562 033	4 653	1 633 389
Short-term securities and equity investments	14 571	0	16 058
Total current financial assets	577 850	4 865	1 651 096

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 1 Jan 2009	Additions	Disposals	Balance at 31 Dec 2009	Impact of the merger at 1 Jan 2010	Additions	Disposals	Balance at 31 Dec 2010
Research and development	4 553	0	1	4 552	0	0	0	4 552
Software	126 011	3 959	229	129 741	29 401	2 532	4 760	156 914
Valuable rights	26 661	0	0	26 661	1 052	0	1	27 712
Other intangible FA	0	703 521	703 521	0	0	910 718	910 718	0
Intangible FA under construction	1 280	2 450	3 730	0	0	3 725	2 532	1 193
Total	158 505	709 930	707 481	160 954	30 453	916 975	918 011	190 371

Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 1 Jan 2009	Additions	Disposals	Balance at 31 Dec 2009	Impact of the merger at 1 Jan 2010	Additions	Disposals	Balance at 31 Dec 2010
Research and development	228	910	0	1 138	0	911	0	2 049
Software	107 230	8 450	229	115 451	29 401	7 787	4 760	147 879
Valuable rights	25 644	1 017	0	26 661	1 052	319	400	27 632
Total	133 102	10 377	229	143 250	30 453	9 017	5 160	177 560

Net Book Value

(CZK thousand)

	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Research and development	3 414	2 503
Software	14 290	9 035
Valuable rights	0	80
Other intangible FA	0	0
Intangible FA under construction	0	1 193
Total	17 704	12 811

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 9,017 thousand and CZK 9,457 thousand as of 31 December 2010 and 2009, respectively.

Other intangible fixed assets include greenhouse emission allowances. The Company had anticipated that by the end of 2010 the number of allocated emission allowances needed to cover the greenhouse emission consumption would be insufficient. Hence, the Company recorded a reserve for the missing allowances as of 31 December 2010 in the amount of CZK 11,045 thousand.

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

The aggregate cost of low value intangible assets not reported on the face of the balance sheet was CZK 25,576 thousand and CZK 24,077 thousand as of 31 December 2010 and 2009, respectively.

4.1.2. Tangible Fixed Assets

Cost

(CZK thousand)

	Balance at 1 Jan 2009	Additions	Disposals	Balance at 31 Dec 2009	Impact of the merger at 1 Jan 2010	Additions	Disposals	Balance at 31 Dec 2010
Land	319 843	474	337	319 980	26 629	3	505	346 107
Structures	5 822 695	276 903	9 234	6 090 364	327 964	121 612	9 161	6 530 779
Individual movable assets	17 764 030	487 720	397 315	17 854 435	959 231	452 102	371 858	18 893 910
- Machinery and equipment	16 441 009	292 199	387 424	16 345 784	930 467	269 065	358 947	17 186 369
- Vehicles	1 299 243	195 446	9 877	1 484 812	28 764	181 526	12 900	1 682 202
- Furniture and fixtures	23 778	75	14	23 839	0	1 511	11	25 339
Other tangible FA	1 679	0	0	1 679	0	0	11	1 668
Tangible FA under construction	462 488	681 618	740 779	403 327	4 501	1 318 012	563 088	1 162 752
Prepayments for tangible FA	37 951	24 922	43 010	19 863	0	13 730	29 078	4 515
Total	24 408 686	1 471 637	1 190 675	24 689 648	1 318 325	1 905 459	973 701	26 939 731

Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 1 Jan 2009	Additions	Disposals	Balance at 31 Dec 2009	Impact of the merger at 1 Jan 2010	Additions	Disposals	Balance at 31 Dec 2010
Structures	3 272 215	140 557	9 861	3 402 911	38 654	163 870	13 590	3 591 845
Individual movable assets	11 921 343	963 502	397 316	12 487 529	246 075	797 520	388 100	13 143 024
- Machinery and equipment	10 885 270	920 405	387 425	11 418 250	232 696	746 783	375 189	12 022 540
- Vehicles	1 014 763	42 529	9 877	1 047 415	13 379	49 610	12 900	1 097 504
- Furniture and fixtures	21 310	568	14	21 864	0	1 127	11	22 980
Tangible FA under construction	3 392	3 783	2 374	4 801	0	1 065	257	5 609
Total	15 196 950	1 107 842	409 551	15 895 241	284 729	962 455	401 947	16 740 478

Net Book Value

(CZK thousand)

	Balance at 31 Dec 2009	Impact of the merger at 1 Jan 2010	Balance at 31 Dec 2010
Land	319 980	26 629	346 107
Structures	2 687 453	289 310	2 938 934
Individual movable assets	5 366 906	713 156	5 750 886
- Machinery and equipment	4 927 534	697 771	5 163 829
- Vehicles	437 397	15 385	584 698
- Furniture and fixtures	1 975	0	2 359
Other tangible FA	1 679	0	1 668
Tangible FA under construction	398 526	4 501	1 157 143
Prepayments for tangible FA	19 863	0	4 515
Total	8 794 407	1 033 596	10 199 253

Principal additions to tangible fixed assets for the year ended 31 December 2010 were as follows:

(CZK thousand)

Modernisation of the coke batteries equipment	199 207
New yard crane for the sintering plant	101 146
Electromagnetic mixing of molten steel	43 302
Modernisation of the Žiar children holiday centre	37 268
Modernisation of the railway transport equipment	24 340

Principal additions to tangible fixed assets under construction for the year ended 31 December 2010 were as follows:

(CZK thousand)

Modernisation of the coke battery 12	853 495
Renovation of the roof in the continuous casting fine rolling mill	19 441

During the year ended 31 December 2010, assets with an aggregate net book value of CZK 38,315 thousand were removed from tangible fixed assets. Major disposals principally comprised the liquidation of the obsolete equipment of coke plant, sale of granulating equipment, sale of metal-working machines of VT – Tube Rolling Mill and liquidation of the obsolete computer network equipment.

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 913,162 thousand and CZK 1,068,919 thousand as of 31 December 2010 and 2009, respectively.

In 2010, the Company reassessed the depreciation period of tangible fixed assets which resulted in the decrease in depreciation charges of CZK 123,891 thousand.

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 438,151 thousand and CZK 354,503 thousand as of 31 December 2010 and 2009, respectively.

4.1.3. Assets Held under Finance and Operating Lease Agreements

Finance Leases

31 December 2010

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2010
Total anticipated lease payments	2 047	654	2 701
Actual lease payments made through 31 Dec 2010	*2 047	654	2 701
Future payments due by 31 Dec 2011	0	0	0
Future payments due in the following periods	0	0	0

Note: *impact of the merger

31 December 2009

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2009
Total anticipated lease payments	2 460	76 801	79 261
Actual lease payments made through 31 Dec 2009	2 460	76 147	78 607
Future payments due by 31 Dec 2010	0	654	654
Future payments due in the following periods	0	0	0

Operating Leases

In the years ended 31 December 2010 and 2009, the Company made lease payments of CZK 31,552 thousand and CZK 22,519 thousand, respectively.

4.1.4. Pledged Fixed Assets

31 December 2010

(CZK thousand)

Description of assets	Net book value	Net book value (impact of the merger at 1 Jan 2010)	Description, scope and purpose of pledge/lien
Tangible FA	104 964	0	Loan from Československá obchodní banka, a.s.
Tangible FA	312 790	0	Loan from Citibank, a.s.
Tangible FA Land	346 419 40 732	0 0	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc- Prague branch and CITIBANK Europe plc
Tangible FA	638 794	721 996	"Big Mannesmann" rolling mill. Loan from Česká spořitelna, a.s.
Total	1 443 699	721 996	

31 December 2009

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible FA	364 614	
Land	2 811	Loan from Česká spořitelna, a.s.
Tangible FA	237 167	Loan from Československá obchodní banka, a.s.
Tangible FA	349 026	Loan from Citibank, a.s.
Total	953 618	

4.2. Non-Current Financial Assets

Cost

(CZK thousand)

	Balance at 1 Jan 2009	Additions	Disposals	Revaluation	Balance at 31 Dec 2009
Equity investments in subsidiaries	4 637 679	719 733	0	0	5 357 412
Equity investments in associates	125 841	0	148	0	125 693
Other non-current securities and equity investments	100	0	0	0	100
Other non-current financial assets	20 198	0	0	-349	19 849
Acquired non-current financial assets	3 464	721 315	721 303	0	3 476
Total	4 787 282	1 441 048	721 451	-349	5 506 530

(CZK thousand)

	Impact of the merger at 1 Jan 2010	Additions	Disposals	Revaluation	Balance at 31 Dec 2010
Equity investments in subsidiaries	-301 823	0	288	0	5 055 301
Equity investments in associates	0	0	0	0	125 693
Other non-current securities and equity investments	0	0	0	0	100
Other non-current financial assets	0	0	0	-1 054	18 795
Acquired non-current financial assets	0	1 400	0	0	4 876
Total	-301 823	1 400	288	-1 054	5 204 765

4.2.1. Shares and Equity Investments in Subsidiaries

31 December 2010

(CZK thousand)

Company name and registered office	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100,00	2 316 927	57 751	0	1 625 717	50 000
Strojírny Třinec, a.s., Třinec-Staré Město	540 972	565 000	600	100,00	712 084	31 809	0	540 972	380 000
Slévárny Třinec, a.s., Třinec, Staré Město	550 000	550 000	514	100,00	539 675	4 696	0	550 000	0
FERROMORAVIA, s.r.o., Staré Město	569 008	150 000	0	100,00	451 814	48 915	0	569 008	0
Šroubárna Kyjov, spol. s r.o., Kyjov	*	140 000	0	100,00	431 243	37 529	0		65 000
D 5, akciová společnost, Třinec Třinec, Staré Město	*	60 000	4 661	100,00	119 989	4 983	0	*	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 643	25 800	0	100,00	37 366	2 522	0	25 643	0
Steel Consortium Partners, a.s., Třinec, Staré Město	19 000	19 000	117	100,00	1 619	-77	-17 381	1 619	0
„METALURGIA“ Spółka Akcyjna, Radomsko (PL)**	*	2 990	884 617	100,00	18 403	-3 039	0	*	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100,00	59 293	11 637	0	15 755	30 000
Moravia Security, a.s. Třinec, Kanská	12 000	12 000	12	100,00	9 238	312	0	12 000	0
VÚHŽ, a.s., Dobrá ***	*	16 817	336 336	100,00	262 742	28 962	0	*	22 000
Soukromá střední škola Třinec, Třinec, Kanada ****	2 000	2 000	0	100,00	77 612	122	0	2 000	0
TRIALFA, s.r.o., Třinec-Kanada	100	100	0	100,00	18 515	3 682	0	100	7 000
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Ostrava-Vítkovice	*	45 738	0	89,11	44 921	1 831	0	*	0
„ZAMECZEK BŁOGOCICE“ Spółka z ogranic- zoną odpowiedzialnością, Cieszyn (PL)**	7 920	7 920	0	88,00	6 708	43	0	7 920	0
TRISIA, a.s., Třinec	19 364	9 900	990	66,00	62 168	-1 602	0	19 364	0
Řetězárna a.s., Česká Ves	64 000	61 200	515	51,00	432 924	13 190	0	64 000	0
REFRASIL, s.r.o., Třinec-Kanská	18 236	25 500	0	51,00	226 943	44 042	0	18 236	15 300
Total	5 055 301						-17 381	5 037 920	569 300

Note: *italics* – preliminary results as of 31 December 2010

* Confidential information

** Figures presented in PLN thousand

*** H & S PROGRESS s.r.o. was dissolved in the merger by amalgamation with VÚHŽ, a.s., Dobrá with the effective merger date of 1 January 2010.

VT TŽ, a.s. was dissolved in the merger by amalgamation with TŘINECKÉ ŽELEZÁRNY, a. s., Třinec with the effective merger date of 1 January 2010

**** TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

31 December 2009

(CZK thousand)

Company name and registered office	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
ENERGETIKA TŘINEC, a.s., Třinec-Staré Město	1 625 717	1 680 000	276	100.00	2 309 176	103 191	0	1 625 717	90 000
Strojírny Třinec, a.s., Třinec-Staré Město	540 972	565 000	600	100.00	1 060 275	469 915	0	540 972	190 447
Slévárny Třinec, a.s., Třinec-Staré Město	550 000	550 000	514	100.00	534 979	-31 915	0	550 000	0
VÁLCOVNA TRUB TŽ, a.s., Ostrava-Vítkovice **	301 823	418 166	44	100.00	574 854	-101 336	0	301 823	0
FERROMORAVIA, s.r.o., Staré Město	569 008	150 000	0	100.00	382 056	-64 963	0	569 008	0
Šroubárna Kyjov, spol. s r.o., Kyjov	*	140 000	0	100.00	458 439	68 474	0	*	40 000
D 5, akciová společnost, Třinec, Třinec-Staré Město	*	60 000	4 661	100.00	115 052	9 551	0	*	0
Třinecké gastroslužby, s.r.o., Třinec-Staré Město	25 643	25 800	0	100.00	34 622	3 253	0	25 643	0
Steel Consortium Partners, a.s., Třinec-Staré Město	19 000	19 000	117	100.00	1 695	-91	-17 305	1 695	0
„METALURGIA“ Spółka Akcyjna, Radomsko (PL) **	*	2 990	884 617	100.00	21 588	-6 930	0	*	0
Doprava TŽ, a.s., Třinec-Staré Město	15 755	16 000	115	100.00	80 255	15 105	0	15 755	0
Moravia Security, a.s. Třinec, Kanská	12 000	12 000	12	100.00	8 926	1 708	0	12 000	0
H & S PROGRESS s.r.o., Dobrá	*	3 784	0	100.00	48 845	2 402	0	*	0
Soukromá střední škola Třinec, š.p.o., Třinec, Staré Město***	2 000	2 000	0	100.00	2 930	453	0	2 000	0
TRIALFA, s.r.o., Třinec-Kanada	100	100	0	100.00	21 962	1 734	0	100	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o., Ostrava-Vítkovice	*	45 738	0	89.11	45 465	4 621	0	*	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością, Cieszyń (PL)**	7 920	7 920	0	88.00	7 528	-497		7 920	0
TRISIA, a.s., Třinec	19 364	9 900	990	66.00	63 765	-1 711	0	19 364	0
Řetězárna a.s., Česká Ves	64 000	61 200	515	51.00	420 066	1 611	0	64 000	5 100
REFRASIL, s.r.o., Třinec-Kanská	18 236	25 500	0	51.00	212 901	43 348	0	18 236	10 710
Total	5 357 412						-17 305	5 340 107	336 257

Note: *Confidential information

**Figures presented in PLN thousand

*** Change in the legal status from a limited liability company into a corporate entity – educational institution; the entity was entered in the Register of Educational Corporate Entities as of 2 September 2009;

TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

4.2.2. Shares and Equity Investments in Associates

31 December 2010

(CZK thousand)

Company name and registered office	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
SILESIALAG, a.s., Třinec-Staré Město	1 760	1 760	74	44,00	3 733	-93	-118	1 642	0
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	25 137	40,00	191 402	96 533	0	25 137	48 000
Hutnictví železa, a.s., Praha	25 620	16 191	26 985	38,71	46 383	-236	-16 180	9 440	0
TŘINECKÁ PROJEKCE, a.s., Třinec-Kanada	750	1 125	75	34,09	10 707	98	0	750	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	34	0	33,33	7 384	-46	-34	0	0
HRAT, s.r.o., Třinec*	212	100	0	23,26	2 390	-62	0	212	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	72 180	72 180	180	18,00	1 739 980	228 581	0	72 180	0
Total	125 693						-16 332	109 361	48 000

Note: * results of operations for the period from 1 April 2010 – 31 December 2010

italics – preliminary results of operation as of 31 December 2010

31 December 2009

(CZK thousand)

Company name and registered office	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Provision	Net cost	Financial revenues
SILESIALAG, a.s., Třinec-Staré Město	1 760	1 760	74	44.00	3 826	- 16	-76	1 684	0
VESUVIUS ČESKÁ REPUBLIKA, a.s., Třinec	25 137	25 137	25 137	40.00	214 869	78 894	0	25 137	32 000
Hutnictví železa, a.s., Praha	25 620	16 191	26 985	38.71	46 590	-550	-16 122	9 498	0
TŘINECKÁ PROJEKCE, a.s., Třinec - Kanada	750	1 125	75	34.09	10 609	-65	0	750	0
Kvalifikační a personální agentura, o.p.s., Třinec-Staré Město	34	34	0	33.33	8 256	-30	-34	0	0
HRAT, s.r.o., Třinec*	212	100	0	23.26	2 452	417	0	212	0
Sochorová válcovna TŽ, a.s., Třinec-Staré Město	72 180	72 180	180	18.00	1 511 399	-343 492	0	72 180	0
Total	125 693						-16 232	109 461	32 000

Note: * results of operations for the period from 1 April – 31 December 2009

4.2.3. Other Non-Current Securities and Equity Investments

31 December 2010

(CZK thousand)

Company name	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Valuation difference	Fair value	Financial revenues
KPM CONSULT, a.s., Brno	100	100	10	10.00	17 210	457	0	100	0
ACRI – Asociace podniků českého železničního průmyslu, Prague 1 – Nové Město	20	20	0	2.08	1 023	5	-20	0	0
Total	120						-20	100	0

Note: * *italics* – preliminary results of operations as of 31 December 2010

31 December 2009

(CZK thousand)

Company name	Cost	Nominal value	Number of shares	Ownership %	Equity	Accounting profit/loss	Valuation difference	Fair value	Financial revenues
KPM CONSULT, a.s., Brno	100	100	10	10.00	16 753	2 641	0	100	0
ACRI - Asociace podniků českého železničního průmyslu, Prague 1 – Nové Město	20	20	0	2.08	1 184	29	-20	0	0
Total	120						-20	100	0

4.2.4. Non-Current Financial Assets Pledged as Collateral

The Company has no non-current financial assets pledged as collateral.

4.3. INVENTORY

As of 31 December 2010 and 2009, the Company created provisions against inventory in the aggregate amount of CZK 608,168 thousand and CZK 1,473,539 thousand, respectively. The provision against material amounted to CZK 193,494 thousand (2009: CZK 187,606 thousand), the provision against work in progress and semi-finished products amounted to CZK 294,887 thousand (2009: CZK 861,042 thousand) and the provision against finished products amounted to CZK 119,787 thousand (2009: CZK 424,891 thousand). The principal reason for the decrease in the amount of the provision against internally produced inventory was the change in the policy of valuing internally produced inventory (refer to Note 3.17).

4.4. RECEIVABLES

4.4.1. Short-Term Receivables

Aging of Short-Term Trade Receivables

(CZK thousand)

Year	Category	Before due date	Past due date					Total
			1 - 90 days	91 - 180 days	181 - 360 days	1 - 2 years	2 years and greater	
2010	Short-term	3 141 453	21 672	22	44	642	40 758	3 204 591
	Provisions	0	0	0	-22	-642	-40 758	-41 422
	Total	3 141 453	21 672	22	22	0	0	3 163 169
2009	Short-term	2 320 256	105 652	1 214	2 247	769	40 352	2 470 490
	Provisions	0	0	-97	-1 167	-769	-40 352	-42 385
	Total	2 320 256	105 652	1 117	1 080	0	0	2 428 105

Other Short-Term Receivables

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

State – tax receivables predominantly include a receivable arising from the corporate income tax and a receivable arising from the excessive VAT deduction.

Other receivables principally include receivables arising from bank guarantees.

Estimated receivables principally include amounts due from anticipated insurance proceeds.

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 2010	Balance at 31 Dec 2009
• Trade receivables		
Doprava TŽ, a.s.	1 991	5 021
ENERGETIKA TŘINEC, a.s.	54 072	55 154
Šroubárna Kyjov, spol. s r.o.	645	289
D 5, akciová společnost	4	2 951
MORAVIA STEEL a.s.	2 451 319	1 681 422
REFRASIL, s.r.o.	697	758
Řetězárna, a.s.	267	280
Slévárny Třinec, a.s.	34 615	28 590
TRIALFA, s.r.o.	2 523	1 888
TŘINECKÁ PROJEKCE, a.s.	59	55
Třinecké gastroslužby, s.r.o.	751	568
Strojírny Třinec, a.s.	407	0
Sochorová válcovna TŽ, a.s.	424 798	288 863
SILESIALAG, a.s.	3	3
Steel Consortium Partners, a.s.	1	3
Kvalifikační a personální agentura, o.p.s.	3	3
TRISIA, a.s.	6	5
VESUVIUS ČESKÁ REPUBLIKA, a.s.	627	633
FERROMORAVIA, s.r.o.	113 108	24 103
Beskydská golfová, a.s.	37	33
VALCOVNA TRUB TŽ, a.s.*	-	160 101
VÚHŽ a.s.	85	343
Moravia Security, a.s.	91	107
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	13	262
Soukromá střední škola Třinec**	127	17
Moravskoslezský kovošrot, a.s.,	173	31
H & S PROGRESS s.r.o. *	-	4
METALURGIA S.A.	0	1
Hanácké železářny a pérovny, a.s.	107	2
M Steel Projects a.s.	24	0
HRAT,s.r.o.	7	7
Total	3 086 560	2 251 497
• Receivables – controlling entity		
TRISIA, a.s.	0	60
Total	0	60
Total short-term intercompany receivables	3 086 560	2 251 557
Other than intercompany receivables	162 497	320 375
Total short-term receivables	3 249 057	2 571 932

* H & S PROGRESS s.r.o. was dissolved in the merger by amalgamation with VÚHŽ, a.s., Dobrá with the effective merger date on 1 January 2010.

VT TŽ, a.s. was dissolved in the merger by amalgamation with TŘINECKÉ ŽELEZÁRNY, a. s., Třinec with the effective merger date on 1 January 2010

** TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

Long-Term Receivables

(CZK thousand)

Company name	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Long-term receivables		
• Receivables – controlling entity		
TRISIA, a.s.	0	5 000
Total long-term intercompany receivables	0	5 000
Other than intercompany receivables	78 769	2 942
Total long-term receivables	78 769	7 942

Long-term other than intercompany receivables include a deferred tax asset of CZK 73,983 thousand.

4.4.3. Pledged Receivables

As of 31 December 2010, the Company recorded pledged receivables arising from an operating loan taken over as a result of the merger with VÁLCOVNA TRUB TŽ, a.s. These are receivables from MORAVIA STEEL a.s. arising from the production of the Tube Rolling Mill in the aggregate amount of CZK 253,757 thousand.

4.5. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Cash	1 246	1 649
Current accounts	562 033	1 633 389
Short-term securities and equity investments	14 571	16 058
Total current financial assets	577 850	1 651 096

Short-term securities and equity investments as of 31 December 2010 include tradable securities in the aggregate amount of CZK 14,571 thousand.

Short-term securities and equity investments as of 31 December 2009 included tradable securities in the aggregate amount of CZK 16,058 thousand.

4.6. DEFERRED EXPENSES AND ACCRUED INCOME

As of 31 December 2010 and 2009 deferred expenses principally consisted of the deferred cost of the right to use new technologies of CZK 20,000 thousand and CZK 33,197 thousand, respectively.

Complex deferred expenses primarily consist of the deferred implementation of information systems of CZK 8,410 thousand and CZK 6,296 thousand as of 31 December 2010 and 2009, respectively.

4.7. SHAREHOLDERS' EQUITY

Allocations to the statutory reserve fund are made at 5% of net profits until the fund reaches 20% of the Company's share capital, that is, the level required by law. Gains and losses from revaluation comprise the gain or loss from the revaluation of available-for-sale securities, net of the deferred tax liability.

Pursuant to the resolution of the General Meeting of the Company held on 30 June 2010, the loss for 2009 of CZK 731,536 thousand was allocated to accumulated losses.

On 26 September 2010, the payment of dividends for 2005 declared by the General Meeting of the Company held on 26 June 2006 which were due on 26 September 2006, became statute barred. The amount of these dividends of CZK 3,147 thousand was written off to other financial income.

The equity increased by CZK 260,059 thousand as a result of the merger.

4.7.1. Share Capital

The Company's share capital is composed of 8,109,863 ordinary registered shares, fully subscribed and paid up, with a nominal value of CZK 1 thousand per share. The Extraordinary General Meeting held on 19 November 2007 approved a change of the book-entry to the certificate form of shares. The change of the form of the Company's shares was registered in the Register of Companies on 13 December 2007.

On 17 December 2009, the Company's shares in the certificate form which were not collected by their owners after the change of the book-entry to the certificate form of shares were auctioned. As of 31 December 2010, the number of uncollected shares was 132. These shares could not be auctioned, as they had been pledged as collateral by their owners in favour of third parties.

4.8. RESERVES

(CZK thousand)

	Reserves under special legislation		Other reserves	Total reserves
	Reserve for repairs of tangible FA	Reserve for restoration		
Balance at 1 Jan 2009	45 000	1 657	355 707	402 364
Creation	0	29	132 967	132 996
Use	45 000	0	337 333	382 333
Balance at 31 Dec 2009	0	1 686	151 341	153 027
Creation	0	107	113 210	113 316
Use	0	0	122 672	122 671
Balance at 31 Dec 2010	0	1 793	141 879	143 672

The reserves for repairs of tangible fixed assets (tax deductible) were made for repairs of main production facilities in compliance with the Provisioning Act. The creation of reserves is based upon a long-term repair plan, timing and budget of repairs.

Other reserves consist of reserves for the scrapping of equipment, emission allowances, real estate transfer tax, employee bonuses, and losses incurred in connection with concluded long-term contracts.

4.9. PAYABLES

4.9.1. Long-Term Payables

As of 31 December 2010, long-term trade payables include the aggregate amount of CZK 51,692 thousand relating to retentions from suppliers under concluded contracts.

4.9.2. Deferred Income Tax

The deferred tax asset/liability is analysed as follows:

(CZK thousand)

Deferred tax arising from	Balance at 31 Dec 2010	Impact of the merger at 1 Jan 2010	Balance at 31 Dec 2009
Difference between tax and accounting carrying value of fixed assets	-4 295 135	-97 015	-4 208 620
Revaluation of available-for-sale securities	20	0	20
Accounting reserves	141 879	0	151 101
Provisions	632 371	30 853	1 517 343
Expenses that are tax deductible in the following periods	93 105	0	93 707
Tax losses carried forward	3 817 145	450 547	998 107
Total	389 385	384 385	-1 448 342
Tax rate (in %)	19	19	19
Deferred tax asset/liability	73 983	73 033	-275 185

(CZK thousand)

Analysis of movements	
31 Dec 2009	-275 185
Impact of the merger at 1 Jan 2010	73 033
Current changes charged against the profit and loss account	276 136
Current changes charged against equity	0
Other	-1
31 Dec 2010	73 983

4.9.3. Income Tax on Ordinary and Extraordinary Activities

(CZK thousand)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Profit before tax	-908 592	-953 678
Tax at the domestic income tax rate of 19 % (20 %)	0	0
Tax effect of expenses that are not deductible in determining taxable profit	0	0
Deferred tax liability	-276 136	-236 404
Additional taxes (+) / overpayments (-) assessed for prior years	-339	14 262
Total income tax on ordinary and extraordinary activities	-276 475	-222 142

4.9.4. Short-Term Payables

Aging of short-term trade payables.

(CZK thousand)

Period	Category	Before due date	Past due date					Total
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and greater	
2010	Short-term	3 973 471	16 295	3 006	0	0	0	3 992 772
2009	Short-term	2 772 858	60 241	42	0	0	0	2 833 141

Payables typically fall due for settlement within 30 days. Significant payables past due for more than 90 days predominantly arise from offset agreements in progress.

Other Payables

As of 31 December 2010, payables arising from social security and the state employment policy contribution amounted to CZK 45,401 thousand, health insurance payables totalled CZK 19,625 thousand, and pension insurance payables totalled CZK 2,440 thousand. The Company has no past due social security or health insurance payables.

The category “State – tax payables and subsidies” principally comprises payables arising from the personal income tax and received subsidies.

Estimated payables mainly consist of unbilled supplies of inventory, unbilled supplies of work and services and an estimated amount for outstanding vacation days and annual bonuses including insurance.

Other payables primarily comprise payables arising from deductions from employee salaries and the acquisition of equity investments.

4.9.5. Intercompany and Other than Intercompany Payables

Short-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2010	Balance at 31 Dec 2009
• Trade payables		
Doprava TŽ, a.s.	10 656	7 492
ENERGETIKA TŘINEC, a.s.	352 289	256 246
Hutnictví železa, a.s.	602	571
Šroubárna Kyjov, spol. s r.o.	0	450
MORAVIA STEEL a.s.	2 056 112	1 438 628
REFRASIL, s.r.o.	37 186	42 783
Řetězárna Česká Ves, a.s.	699	319
Slévárny Třinec, a.s.	297	0
TRIALFA, s.r.o.	15 432	14 178
TRISIA, a.s.	813	1 308
TŘINECKÁ PROJEKCE, a.s.	1 606	1 679
Třinecké gastroslužby, s.r.o.	5 636	4 927
Strojírny Třinec, a.s.	144 559	125 257
Sochorová válcovna TŽ, a.s.	13 364	9 647
VESUVIUS ČESKÁ REPUBLIKA, a.s.	7 374	5 828
Beskydská golfová, a.s.	1 800	0
D 5, akciová společnost	96 373	109 913
VALCOVNA TRUB TŽ, a.s.*	0	20 534
VÚHŽ a.s.	874	4 270
Moravia Security, a.s.	5 315	4 339
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	930	41
Moravskoslezský kovošrot, a.s.	112 452	83 353
Soukromá střední škola Třinec**	1 404	1 128
METALURGIA S.A.	296	20
ZAMECZEK BŁOGOCICE Sp. z o.o.	105	1 289
Kvalifikační a personální agentura, o.p.s.	10	20
HRAT,s.r.o.	72	75
Total	2 866 256	2 134 295
• Other intercompany payables		
Strojírny Třinec, a.s.	0	235 584
ZAMECZEK BŁOGOCICE Sp. z o.o.	5 437	5 559
Total	5 437	241 143
Total short-term intercompany payables	2 871 693	2 375 438
Other than intercompany payables	1 559 498	1 137 809
Total short-term payables	4 431 191	3 513 247

* H & S PROGRESS s.r.o. was dissolved in the merger by amalgamation with VÚHŽ, a.s., Dobrá with the effective merger date of 1 January 2010.

VT TŽ, a.s. was dissolved in the merger by amalgamation with TŘINECKÉ ŽELEZÁRNY, a. s., Třinec with the effective merger date of 1 January 2010

** TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

Long-Term Payables

(CZK thousand)

Company name	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Long-term payables		
• Trade payables		
Strojírny Třinec, a.s.	5 156	163
D 5, akciová společnost	4 678	4 125
REFRASIL, s.r.o.	3 727	1 843
Total long-term intercompany payables	13 561	6 131
• Other than intercompany payables	38 131	290 914
Total long-term payables	51 692	297 045

4.9.6. Bank Loans

Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2010	Impact of the merger at 1 Jan 2010	Balance at 31 Dec 2009	Interest rate % p.a.	Form of collateral at 31 Dec 2010
Investment	CZK/ EUR	237 571	321 791	-	3M PRIBOR/ EURIBOR + 0.7	Movable assets, receivables from insurance, blank bill of exchange
Investment	CZK	830 923	-	-	3M PRIBOR + margin (according to Senior Debt/EBITDA)	Movable and immovable assets, receivables from insurance, bill of exchange
Investment	EUR	139 838	-	232 264	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	4 219	-	13 366	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	0	-	15 000	FIXED 4.3	Movable assets, guarantee statement of MS
Investment	CZK	55 556	-	100 000	FIXED 4.65	Immovable and movable assets, guarantee statement of MS, blank bill of exchange
Total		1 268 107	321 791	360 630		

Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2010	Impact of the merger at 1 Jan 2010	Balance at 31 Dec 2009	Interest rate % p.a.	Form of collateral at 31 Dec 2010
Operating	CZK	305 000	305 000	-	1M PRIBOR + 2,0 (reduced margin to 1.3)	Blank bill of exchange, trade receivable
Operating	CZK	43 306	5 061	-	1M PRIBOR +1,9 (reduced margin to 1.4)	Blank bill of exchange, trade receivable
Investment	CZK/EUR	73 099	75 715	-	3M PRIBOR/ EURIBOR + 0.7	Movable assets, receivable from insurance, blank bill of exchange
Operating	CZK	295 906	-	-	1M PRIBOR +1,6 (roll-over base)	Blank bill of exchange
Operating	CZK	479 291	-	-	1D PRIBOR + 0.95	Blank bill of exchange
Investment	CZK	100 000	-	-	3M PRIBOR + margin (according to Senior Debt/EBITDA)	Movable assets, receivable from insurance, blank bill of exchange
Investment	EUR	80 095	-	101 023	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	-	-	3 926	6M EURIBOR + 0.625	SACE guarantee insurer
Investment	EUR	8 438	-	8 911	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	-	-	15 773	FIXED 3.76	Immovable and movable assets, blank bill of exchange
Investment	CZK	-	-	18 000	3M PRIBOR + 1.65	Movable assets, guarantee statement of MS
Investment	CZK	15 000	-	30 000	FIXED 4.3	Movable assets, guarantee statement of MS
Investment	CZK	44 444	-	44 444	FIXED 4.65	Immovable and movable assets, guarantee statement of MS, blank bill of exchange
Total		1 444 579	385 776	222 077		

Repayment Schedule

(CZK thousand)

Years	2011	2012	2013	2014	2015	Following periods	Total
Loan instalments	1 444 579	398 435	337 115	283 359	218 275	30 923	2 712 686

4.10. DETAILS OF INCOME

(CZK thousand)

	31 Dec 2010	31 Dec 2009
Proceeds of the sale of goods	5 167	3 446
Proceeds of the sale of products and services, of which:	32 454 188	24 312 719
- Products	31 762 936	23 647 995
Other*	455 079	-7 265
Total sales of goods and products	32 914 434	24 308 900

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

4.11. SUBSIDIES

Other subsidies for operating purposes of CZK 12,368 thousand utilised for the year ended 31 December 2010 (2009: CZK 7,660 thousand) include subsidies for research, education and subsidies from the Employment Office.

4.12. OTHER OPERATING EXPENSES AND INCOME

Expenses for advisory, consulting and audit services as of 31 December 2010 and 2009 amounted to CZK 32,897 thousand and CZK 24,423 thousand, respectively.

As of 31 December 2010 and 2009, other operating income of the Company mainly involved the subsidy related to the use of greenhouse emission allowances of CZK 910,718 thousand and CZK 703,521 thousand, respectively.

Other financial income as of 31 December 2010 and 2009 predominantly included foreign exchange rate gains of CZK 47,748 thousand and CZK 77,305 thousand, respectively.

As of 31 December 2010 and 2009, other operating expenses primarily reflect the use of greenhouse emission allowances of CZK 910,718 thousand and CZK 703,521 thousand, respectively.

Other financial expenses as of 31 December 2010 predominantly include foreign exchange rate losses of CZK 18,831 thousand and CZK 67,060 thousand, respectively.

4.13. RESEARCH AND DEVELOPMENT COSTS

(CZK thousand)

	31 Dec 2010	31 Dec 2009
Research and development costs (net of subsidies)	34 893	44 304

4.14. RELATED PARTY TRANSACTIONS

4.14.1. Income Generated with Related Parties

2010

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	41	58 171	3 912	10	0	62 134
ENERGETIKA TŘINEC, a.s.	Controlled entity	272	311 857	43 453	1 438	0	357 020
Kvalifikační a personální agentura, o.p.s.	Associate	0	0	190	0	0	190
MORAVIA STEEL a.s.	Controlling entity	74	25 976 550	165 296	1 396	0	26 143 316
REFRASIL, s.r.o.	Controlled entity	8	406	5 236	498	0	6 148
Řetězárna Česká Ves, a.s.	Controlled entity	21	0	3 568	28	0	3 617
Slévárny Třinec, a.s.	Controlled entity	258	263 451	23 835	29 230	0	316 774
TRIALFA, a.s.	Controlled entity	4	29 588	4 775	1 247	0	35 614
TRISIA, a.s.	Controlled entity	0	0	86	14	0	100
SILESIAFLAG, a.s.	Controlled entity	0	0	22	0	0	22
TŘINECKÁ PROJEKCE, a.s.	Associate	0	0	624	0	0	624
Třinecké gastroslužby, s.r.o.	Controlled entity	3	0	4 132	469	0	4 604
Strojírny Třinec, a.s.	Controlled entity	2 472	347 890	26 413	24 742	0	401 517
VESUVIUS Česká republika, a.s.	Associate	0	0	7 459	72	0	7 531
Sochorová válcovna TŽ, a.s.	Controlled entity	449	3 698 016	8 253	206	0	3 706 924
FERROMORAVIA, s.r.o.	Controlled entity	0	995 531	1 851	9	0	997 391
Beskydská golfová, a.s.	Fellow subsidiary	0	0	133	0	0	133
Steel Consortium Partners, a.s.	Controlled entity	0	0	58	0	0	58
Šroubárna Kyjov, spol. s r.o.	Controlled entity	45	0	3 154	82	0	3 281
Moravia Security, a.s.	Controlled entity	14	0	1 130	13	0	1 157
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	334	235	0	569
D 5, akciová společnost	Controlled entity	141	1 445	13 827	8 728	0	24 141
VÚHŽ a.s.	Controlled entity	1 217	246	834	1 012	0	3 309
Soukromá střední škola Třinec*	Controlled entity	2	49	1 324	138	0	1 513
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	39	0	254	0	0	293
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	950	2 345	0	3 295
HRAT, s.r.o.	Associate	0	0	34	0	0	34
M Steel Projects a.s.	Fellow subsidiary	0	0	40	0	0	40
Total		5 060	31 683 200	321 177	71 912	0	32 081 349

* TŘINECKÉ ŽELEZÁŘNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

2009

(CZK thousand)

Entity	Relation to the Company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	122	54 712	4 211	79	0	59 124
ENERGETIKA TŘINEC, a.s.	Controlled entity	492	290 579	44 876	1 650	0	337 597
Kvalifikační a personální agentura, o.p.s.	Associate	0	0	206	0	0	206
MORAVIA STEEL a.s.	Controlling entity	197	19 364 538	170 139	1 930	0	19 536 804
REFRASIL, s.r.o.	Controlled entity	26	360	5 289	839	0	6 514
Řetězárna Česká Ves, a.s.	Controlled entity	0	0	1 219	19	0	1 238
Slévárny Třinec, a.s.	Controlled entity	134	177 764	20 388	14 117	0	212 403
TRIALFA, a.s.	Controlled entity	0	28 164	4 834	1 002	0	34 000
TRISIA, a.s.	Controlled entity	0	0	82	0	60	142
SILESIA SLAG, a.s.	Controlled entity	0	0	24	0	0	24
TŘINECKÁ PROJEKCE, a.s.	Associate	0	0	613	1	0	614
Třinecké gastroslužby, s.r.o.	Controlled entity	11	0	3 257	913	0	4 181
Strojírny Třinec, a.s.	Controlled entity	787	285 823	22 701	7 920	0	317 231
VESUVIUS Česká republika, a.s.	Associate	0	0	7 418	0	0	7 418
Sochorová válcovna TŽ, a.s.	Controlled entity	614	2 212 286	9 294	115	0	2 222 309
FERROMORAVIA, s.r.o.	Controlled entity	0	417 712	2 019	1	0	419 732
Beskydská golfová, a.s.	Fellow subsidiary	0	176	97	0	0	273
Steel Consortium Partners, a.s.	Controlled entity	0	0	60	0	0	60
VÁLCOVNA TRUB TŽ, a.s.	Controlled entity	602	696 502	6 672	144	0	703 920
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	0	2 637	88	0	2 725
Moravia Security, a.s.	Controlled entity	33	0	1 014	19	0	1 066
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	859	2	0	861
D 5, akciová společnost	Controlled entity	199	546	13 436	7 044	326	21 551
VÚHŽ a.s.	Controlled entity	99	0	280	956	0	1 335
H & S PROGRESS s.r.o.	Controlled entity	0	0	3	0	0	3
Soukromá střední škola Třinec*	Controlled entity	2	6	282	32	0	322
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	0	0	528	528
Hanácké železářny a pérovny, a.s.	Fellow subsidiary	0	0	14	0	0	14
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	0	750	104	0	854
METALURGIA S.A.	Controlled entity	0	0	0	1	0	1
Total		3 318	23 529 168	322 674	36 976	914	23 893 050

* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

4.14.2. Purchases

2010

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory including energy	Services	Other expenses	Financial expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	24 235	54 520	0	0	78 755
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	2 022 730	29 548	0	0	2 052 278
Kvalifikační a personální agentura, o.p.s.	Associate	0	0	131	0	0	131
MORAVIA STEEL a.s.	Controlling entity	23	21 465 625	211 866	39 522	0	21 717 036
REFRASIL, s.r.o.	Controlled entity	38 387	101 376	156 462	0	0	296 225
Řetězárna Česká Ves, a.s.	Controlled entity	0	5 500	0	0	0	5 500
Slévárny Třinec, a.s.	Controlled entity	6 985	109 512	668	0	0	117 165
TRIALFA, a.s.	Controlled entity	29	9 266	18 300	58 996	0	86 591
TRISIA, a.s.	Controlled entity	0	0	8 643	0	0	8 643
TŘINECKÁ PROJEKCE, a.s.	Associate	10 099	2	6 525	9	0	16 635
Třinecké gastroslužby, s.r.o.	Controlled entity	0	10 426	2 043	52 200	0	64 669
Strojírny Třinec, a.s.	Controlled entity	137 476	325 530	189 364	63	2 983	655 416
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Associate	0	0	60 556	0	0	60 556
Sochorová válcovna TŽ, a.s.	Controlled entity	0	156 580	35 730	1 791	0	194 101
Beskydská golfová, a.s.	Fellow subsidiary	0	0	3 387	0	0	3 387
Hutnictví železa, a.s.	Associate	0	0	5 807	118	0	5 925
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	1 831	0	0	0	1 831
Moravia Security, a.s.	Controlled entity	0	33	52 351	0	0	52 384
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	2 187	8 043	0	0	10 230
D 5, akciová společnost	Controlled entity	190 823	14 078	316 364	0	0	521 265
VÚHŽ a.s.	Controlled entity	0	6 022	3 992	0	0	10 014
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	843 406	0	0	0	843 406
Soukromá střední škola Třinec*	Controlled entity	0	436	7 050	4	0	7 490
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	1 263	0	0	1 263
METALURGIA S.A.	Controlled entity	0	0	1 824	0	0	1 824
HRAT, s.r.o.	Associate	140	0	260	0	0	400
Total		383 962	25 098 775	1 174 697	152 703	2 983	26 813 120

* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

2009

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory including energy	Services	Other expenses	Total
Doprava TŽ, a.s.	Controlled entity	13	542	57 088	0	57 643
ENERGETIKA TŘINEC, a.s.	Controlled entity	0	1 732 163	94 240	0	1 826 403
Kvalifikační a personální agentura, o.p.s.	Associate	0	0	200	0	200
MORAVIA STEEL a.s.	Controlling entity	3	12 526 431	264 145	37 895	12 828 474
REFRASIL, s.r.o.	Controlled entity	18 429	103 108	141 732	0	263 269
Řetězárna Česká Ves, a.s.	Controlled entity	0	3 880	0	0	3 880
Slévárny Třinec, a.s.	Controlled entity	1 556	55 383	648	0	57 587
TRIALFA, a.s.	Controlled entity	0	9 670	15 725	49 113	74 508
TRISIA, a.s.	Controlled entity	0	0	11 996	0	11 996
TŘINECKÁ PROJEKCE, a.s.	Associate	9 906	0	6 070	0	15 976
Třinecké gastroslužby, s.r.o.	Controlled entity	0	10 176	1 427	48 535	60 138
Strojírny Třinec, a.s.	Controlled entity	599 532	287 331	157 783	6 129	1 050 775
VESUVIUS Česká republika, a.s.	Associate	0	0	54 707	0	54 707
Sochorová válcovna TŽ, a.s.	Controlled entity	1 281	43 161	13 093	8 681	66 216
Beskydská golfová, a.s.	Fellow subsidiary	0	0	7 047	0	7 047
VÁLCOVNA TRUB TŽ, a.s.	Controlled entity	5	124 577	0	0	124 582
Hutnictví železa, a.s.	Associate	0	0	6 040	0	6 040
Šroubárna Kyjov, spol. s r.o.	Controlled entity	0	1 673	0	0	1 673
Moravia Security, a.s.	Controlled entity	188	41 469	0	0	41 657
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	38	0	9 002	0	9 040
D 5, akciová společnost	Controlled entity	128 472	14 479	352 048	36	495 035
VÚHŽ a.s.	Controlled entity	2 646	1 476	5 613	0	9 735
Moravskoslezský kovošrot, a.s.	Fellow subsidiary	0	642 388	0	0	642 388
Soukromá střední škola Třinec*	Controlled entity	0	20	2 840	0	2 860
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	1 279	0	1 279
METALURGIA S.A.	Controlled entity	0	0	20	0	20
FERROMORAVIA, s.r.o.	Controlled entity	0	17	0	0	17
Total		762 069	15 597 944	1 202 743	150 389	17 713 145

* TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

5. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

5.1. STAFF COSTS AND NUMBER OF EMPLOYEES

The average number of the Company's employees, managers and staff costs included in the results of operations for the years ended 31 December 2010 and 2009 are as follows:

31 December 2010

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance, incl. pension insurance contributions	Bonuses to the members of stat. bodies	Social costs	Total staff costs
Employees	5 897.1	1 712 402	610 968	1 224	84 593	2 409 187
Foreign employees	0	110	1 643	6 824	112 132	120 709
Management	7.9	26 600	4 590	3 109	107	34 406
- Management remuneration for 2010	0	26 600	4 590	3 109	107	34 406
Estimated amounts for outstanding vacation days and bonuses	0	-2 328	-792	0	0	-3 120
Total	5 905	1 736 784	616 409	11 157	196 832	2 561 182

31 December 2009

(CZK thousand)

	Number	Wages and salaries	Social security and health insurance, incl. pension insurance contributions	Bonuses to the members of stat. bodies	Social costs	Total staff costs
Employees	5 313	1 565 809	530 080	1 272	74 974	2 172 135
Foreign employees	0	35	1 343	11 107	79 850	92 335
Management	6	38 245	7 900	2 629	83	48 857
- Management remuneration for 2009	0	38 245	7 900	2 629	83	48 857
Estimated amounts for outstanding vacation days and bonuses	0	10 495	3 502	0	0	13 997
Total	5 319	1 614 584	542 825	15 008	154 907	2 327 324

The number of employees is based on the average recalculated headcount. The category of management includes the Chief Executive Officer and divisional directors.

The increase in the number of employees is due to the merger.

Summary of Total Remuneration

(CZK thousand)

	Board of Directors	Supervisory Board
Remuneration for 2010	3 683	7 474
Remuneration for 2009	3 480	28

5.2. LOANS, BORROWINGS, AND OTHER BENEFITS PROVIDED

31 December 2010

(CZK thousand)

	Board of Directors	Supervisory Board	Management	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	1 093	81	146	0
Liability insurance	285	421	47	44

31 December 2009

(CZK thousand)

	Board of Directors	Supervisory Board	Management	Audit Committee
Company cars used for both business and private purposes (the figure increases the tax base of employees)	979	72	117	0
Liability insurance	301	456	77	24

6. CONTINGENT LIABILITIES AND OFF BALANCE SHEET COMMITMENTS

The Company retains the following commitments off balance sheet:

31 December 2010

Type of commitment	Total amount	Balance at 31 Dec 2010
Guarantees		
- to other entities	USD 576 thousand	CZK 10,806 thousand
	EUR 1,165 thousand	CZK 29,194 thousand
	CZK 5,000 thousand	CZK 5,000 thousand

31 December 2009

Type of commitment	Total amount	Balance at 31 Dec 2009
Guarantee statements		
- to Group companies	EUR 48 thousand	CZK 1,270 thousand
Guarantees		
- to other entities	USD 705 thousand	CZK 12,951 thousand
	EUR 1,127 thousand	CZK 29,821 thousand
	CZK 5,000 thousand	CZK 5,000 thousand

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 2010 and 2009, the Company drew CZK 397,216 thousand and CZK 375,465 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 is capped at CZK 843.6 million. This guarantee covers environmental liabilities of the Company. For this reason, the Company does not create the reserve for environmental burdens.

7. POST BALANCE SHEET EVENTS

On 21 February 2011, the Company acquired 100% of the issued share capital of "D&D" Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság with its registered office at 3527 Miskolc, Besenyői út 18., Hungary, registration number: Cg. 05-10-000311, and became the sole shareholder of this entity.

On 30 September 2010, the Company's shareholder, Mr Marek Veselý, filed a petition with the Regional Court in Ostrava regarding the invalidity of the resolution passed at the Company's annual general meeting of shareholders held on 30 June 2010, which "approved the Company's statutory and consolidated financial statements for the year ended 31 December 2009 and the proposal for the settlement of the Company's loss for 2009". At the call of the Regional Court, the Company responded, in writing, to the petition through its legal counsel by stating on 31 January 2011 that it considers the petition lacks merit and should be rejected. The court proceedings have not yet been finalised and no court hearing has yet been scheduled regarding this matter.



FINANCIAL PART II. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2010

Name of the Company:	TŘINECKÉ ŽELEZÁRNY, a. s.
Registered Office:	Třinec-Staré Město, Průmyslová 1000, PSČ 739 70
Legal Status:	akciová společnost
Corporate ID:	18050646

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 FINANCIAL STATEMENTS WERE PREPARED ON 8 APRIL 2011.

Statutory body of the reporting entity	Signature
Jiří Cieňčala Chairman of the Board of Directors	
Petr Popelář Member of the Board of Directors	



CONSOLIDATED BALANCE SHEET

(CZK thousand)

		31 Dec 2010			31 Dec 2009
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	51 050 394	-23 334 540	27 715 854	26 528 669
B.	Fixed assets	37 747 039	-22 528 430	15 218 609	15 078 689
I.	Intangible fixed assets	352 454	-262 901	89 553	132 204
2.	Research and development	6 206	-3 702	2 504	3 415
3.	Software	224 491	-209 718	14 773	21 572
4.	Valuable rights	78 349	-48 320	30 029	32 814
5.	Goodwill	368	-368		
6.	Other intangible fixed assets	41 847	-793	41 054	74 403
7.	Intangible fixed assets under construction	1 193		1 193	
II.	Tangible fixed assets	36 777 765	-22 230 491	14 547 274	14 395 332
1.	Land	461 813		461 813	462 330
2.	Structures	9 257 443	-4 759 961	4 497 482	4 555 494
3.	Individual movable assets and sets of movable assets	25 843 504	-17 461 588	8 381 916	8 538 123
6.	Other tangible fixed assets	3 133	-109	3 024	3 444
7.	Tangible fixed assets under construction	1 185 540	-8 833	1 176 707	708 363
8.	Prepayments for tangible fixed assets	26 332		26 332	127 578
III.	Non-current financial assets	227 341	-35 038	192 303	188 553
1.	Equity investments in subsidiaries	174 615	-18 478	156 137	156 110
2.	Equity investments in associates	28 719	-16 469	12 250	12 349
3.	Other securities and investments	336	-91	245	245
5.	Other non-current financial assets	18 795		18 795	19 849
6.	Acquisition of non-current financial assets	4 876		4 876	
V.	Securities and equity interests under equity accounting	389 479		389 479	362 600
C.	Current assets	13 240 491	-806 110	12 434 381	11 362 024
I.	Inventories	8 157 062	-650 605	7 506 457	5 988 138
1.	Material	3 463 091	-226 496	3 236 595	2 890 696
2.	Work in progress and semifinished goods	2 764 337	-296 469	2 467 868	1 878 106
3.	Products	1 816 567	-126 878	1 689 689	1 189 868
5.	Goods	17 270	-762	16 508	23 276
6.	Prepayments for inventory	95 797		95 797	6 192
II.	Long-term receivables	97 827		97 827	100 191
1.	Trade receivables	14 736		14 736	9 776
2.	Receivables from subsidiaries				5 000
5.	Long-term prepayments made	1 150		1 150	1 069
7.	Other receivables	4 330		4 330	5 189
8.	Deferred tax asset	77 611		77 611	79 157
III.	Short-term receivables	4 039 179	-155 505	3 883 674	3 013 993
1.	Trade receivables	3 813 339	-142 428	3 670 911	2 710 746
2.	Receivables from subsidiaries				62
3.	Receivables from associates				20
6.	State - tax receivables	128 892		128 892	120 440
7.	Short-term prepayments made	33 512	-1 075	32 437	75 626
8.	Estimated receivables	30 532		30 532	72 421
9.	Other receivables	32 904	-12 002	20 902	34 678
IV.	Current financial assets	946 423		946 423	2 259 702
1.	Cash on hand	3 663		3 663	3 694
2.	Cash at bank	755 821		755 821	1 973 450
3.	Short-term securities and investments	186 939		186 939	282 558
D.	Other assets	62 864		62 864	87 956
1.	Deferred expenses	52 610		52 610	71 346
2.	Complex deferred expenses	9 651		9 651	16 465
3.	Accrued income	603		603	145
	Control number	203 749 233	-93 338 160	110 411 073	105 664 120

CONSOLIDATED BALANCE SHEET

(CZK thousand)

		31 Dec 2010	31 Dec 2009
	TOTAL LIABILITIES & EQUITY	27 715 854	26 528 669
A.	Equity	18 785 103	19 818 735
I.	Share capital	8 109 863	8 109 863
1.	Share capital	8 109 863	8 109 863
II.	Capital funds	189 738	37 091
2.	Other capital funds	232 839	87 539
3.	Gains or losses from the revaluation of assets and liabilities	-43 101	-50 448
III.	Statutory funds	3 247 483	3 294 266
1.	Statutory reserve fund / Indivisible fund	922 131	919 862
2.	Statutory and other funds	2 325 352	2 374 404
IV.	Profit or loss of prior periods	7 666 178	8 734 077
1.	Retained earnings	8 455 434	8 741 737
2.	Accumulated losses brought forward	-789 256	-7 660
V.	Profit or loss for the current period, net of minority interests	-1 047 088	-1 005 762
1.	Profit or loss for the current period	-1 127 131	-975 491
2.	Share of income from associates	80 043	-30 271
VI.	Consolidation reserve fund	618 929	649 200
B.	Liabilities	8 594 453	6 394 686
I.	Reserves	249 927	207 349
1.	Reserves under special legislation	20 692	19 548
2.	Reserve for pensions and similar liabilities	3 606	4 105
3.	Income tax reserve	505	539
4.	Other reserves	225 124	183 157
II.	Long-term liabilities	390 599	648 313
1.	Trade payables	43 800	6 234
9.	Other payables		10 884
10.	Deferred tax liability	346 799	631 195
III.	Short-term liabilities	4 904 937	3 762 542
1.	Trade payables	4 120 787	2 946 713
2.	Payables to subsidiaries		3 502
4.	Payables to partners and association members	7 650	10 961
5.	Payables to employees	348 674	340 221
6.	Social security and health insurance payables	112 669	114 887
7.	State - tax payables and subsidies	38 051	93 803
8.	Short-term prepayments received	95 624	56 545
10.	Estimated payables	159 774	161 319
11.	Other payables	21 708	34 591
IV.	Bank loans and borrowings	3 048 990	1 776 482
1.	Long-term bank loans	1 364 344	806 956
2.	Short-term bank loans	1 684 285	969 526
3.	Short-term borrowings	361	
C.	Other liabilities	12 963	5 341
1.	Accrued expenses	11 110	4 637
2.	Deferred income	1 853	704
D.	Minority equity	323 335	309 907
I.	Minority share capital	83 300	83 300
II.	Minority capital funds	3 399	3 315
III.	Minority profit funds including retained earnings and accumulated losses	208 592	201 509
IV.	Minority profit or loss for the current period	28 044	21 783
	Control number	109 908 189	105 150 228

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

(CZK thousand)

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
I.	Sales of goods	82 904	20 365
A.	Costs of goods sold	68 109	16 161
+	Gross margin	14 795	4 204
II.	Production	36 901 406	28 263 051
1.	Sales of own products and services	35 929 064	28 140 770
2.	Change in internally produced inventory	187 519	-516 931
3.	Own work capitalised	784 823	639 212
B.	Purchased consumables and services	33 462 345	23 508 756
1.	Consumed material and energy	30 810 159	21 045 435
2.	Services	2 652 186	2 463 321
+	Added value	3 453 856	4 758 499
C.	Staff costs	4 097 210	3 958 448
1.	Payroll costs	2 823 809	2 787 420
2.	Remuneration to members of statutory bodies	20 852	26 794
3.	Social security and health insurance costs	990 256	933 480
4.	Social costs	262 293	210 754
D.	Taxes and charges	39 204	11 154
E.	Depreciation of intangible and tangible fixed assets	1 402 129	1 647 986
KR A.	Amortisation of consolidation difference (goodwill)		121 713
KR 1.	Release of negative consolidation difference (negative goodwill)	288	166 684
III.	Sales of fixed assets and material	105 673	70 903
1.	Sales of fixed assets	16 158	6 472
2.	Sales of material	89 515	64 431
F.	Net book value of fixed assets and material sold	99 462	59 689
1.	Net book value of sold fixed assets	25 423	1 321
2.	Book value of sold material	74 039	58 368
G.	Change in reserves and provisions relating to operating activities and complex deferred expenses	-882 769	-196 798
IV.	Other operating income	1 722 740	1 338 761
H.	Other operating expenses	1 851 514	1 777 166
I.	Transfer of operating expenses	-2 597	
*	Operating profit or loss	-1 321 596	-1 044 511
VII.	Income from non-current financial assets	37 074	2 374
1.	Income from subsidiaries and associates	37 000	
3.	Income from other non-current financial assets	74	2 374
IX.	Income from the revaluation of securities and derivatives	1 337	18 593
L.	Costs of the revaluation of securities and derivatives	697	
M.	Change in reserves and provisions relating to financial activities	-3 380	412
X.	Interest income	10 297	27 631
N.	Interest expenses	65 996	78 010
XI.	Other financial income	80 522	156 865
O.	Other financial expenses	66 609	194 698
*	Financial profit or loss	-692	-67 657
Q.	Income tax on ordinary activities	-225 739	-158 429
1.	- due	41 193	63 446
2.	- deferred	-266 932	-221 875
**	Profit or loss from ordinary activities	-1 096 549	-953 739
XIII.	Extraordinary income	75	51
R.	Extraordinary expenses	2 613	20
*	Extraordinary profit or loss	-2 538	31
**	Consolidated profit or loss net of share of income of associates	-1 099 087	-953 708
	Consolidated profit or loss net of minority interests	-1 127 131	-975 491
	Minority profit or loss	28 044	21 783
*	Share of income from associates	80 043	-30 271
	Profit or loss for the current period (+/-)	-1 019 044	-983 979
***	Profit or loss for the current period net of minority interests (+/-)	-1 047 088	-1 005 762

Consolidated statement of changes in equity

(CZK thousand)

	Share capital	Capital funds	Statutory reserve fund/ Indivisible fund	Statutory and other funds	Profit or loss of prior periods	Profit or loss for the current period	Consolidation reserve fund	Share of income of associates	TOTAL EQUITY
Balance at 31 December 2008	8 109 863	85 994	847 625	2 397 802	7 470 813	1 319 615	560 331	88 868	20 880 911
Profit for the current period						-975 491		-30 271	-1 005 762
Distribution of retained earnings			72 237	-22 857	1 270 233	-1 319 615	88 869	-88 868	-1
Revaluation of assets		-55 164			691				-54 473
Payments from the social fund				-541					-541
Impact of changes in the consolidation group		6 261			-7 660				-1 399
Balance at 31 December 2009	8 109 863	37 091	919 862	2 374 404	8 734 077	-975 491	649 200	-30 271	19 818 735
Profit for the current period						-1 127 131		80 043	-1 047 088
Distribution of retained earnings			26 113	-50 000	-839 695	863 583	-30 271	30 271	1
Revaluation of assets		8 358			4 964				13 322
Impact of changes in the consolidation group		144 179	-23 844	925	-233 168	111 908			
Other		110		23					133
Balance at 31 December 2010	8 109 863	189 738	922 131	2 325 352	7 666 178	-1 127 131	618 929	80 043	18 785 103

Consolidated cash flow statement

(CZK thousand)

		Year ended 31 Dec 2010	Year ended 31 Dec 2009
P.	Cash and cash equivalents at the beginning of the accounting period	2 259 702	2 507 606
	Cash flows from ordinary activities		
Z.	Profit/(loss) from ordinary activities before tax	-1 322 288	-1 112 168
A.1.	Adjustments for non-cash transactions	538 726	1 775 251
A.1.1.	Depreciation of fixed assets (+) excluding net book value of fixed assets sold, amortisation of goodwill and goodwill on consolidation	1 401 841	1 603 015
A.1.2.	Change in provisions and reserves	-886 149	-196 386
A.1.3.	Profit/(loss) on the sale of fixed assets (-/+)	9 265	-5 151
A.1.4.	Revenues from dividends and profit shares (-), with the exception of dividends paid by Group entities	-37 074	-2 374
A.1.5.	Interest expense (+) excluding capitalised interest and interest income (-)	55 699	50 379
A.1.6.	FX differences and other non-cash transactions	-4 856	325 768
A.*	Net cash flow from operating activities before tax, movements in working capital and extraordinary items	-783 562	663 083
A.2.	Change in the non-cash component of working capital	-378 469	885 498
A.2.1.	Change in receivables from operating activities(+/-), deferred expenses, accrued income and estimated assets	-635 251	-233 153
A.2.2.	Change in short-term payables from operating activities (+/-), accrued expenses, deferred income and estimated liabilities	866 721	-299 624
A.2.3.	Change in inventory (+/-)	-609 939	1 418 275
A.**	Net cash flow from operating activities before tax and extraordinary items	-1 162 031	1 548 581
A.3.	Interest paid (-), except interest capitalised	-67 818	-75 763
A.4.	Interest received (+)	13 236	28 272
A.5.	Income tax paid from operating activities, additional tax paid for previous periods (-)	-59 021	32 067
A.6.	Receipts and expenditures relating to extraordinary activities, which form extraordinary profit or loss, including income tax paid from extraordinary activities (+/-)	-2 538	32
A.7.	Received dividends and profit shares (+)	85 075	42 374
A.***	Net cash flow from operating activities	-1 193 097	1 575 563
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-1 558 007	-1 075 735
B.2.	Receipts from fixed assets sold	16 155	8 022
B.3.	Loans provided to related parties (-/+)		
B.4.	Cash flows from the purchase of business or its part		-91 468
B.***	Net cash flow from investing activities	-1 541 852	-1 159 181
	Cash flow from financial activities		
C.1.	Change in long-term or short-term payables which fall into cash and cash equivalent in financing activities (eg, certain operating loans)	1 436 480	-648 116
C.2.	Impact on cash and cash equivalents due to change in equity	-14 810	-16 170
C.2.5.	Payments made from funds (-)	23	-589
C.2.6.	Dividends and profit shares paid, including withholding tax related to these claims and including financial settlement with partners (-), except for dividends and profit shares paid between Group entities	-14 833	-15 581
C.***	Net cash flow from financial activities	1 421 670	-664 286
F.	Net increase or decrease of cash and cash equivalents	-1 313 279	-247 904
R.	Cash and cash equivalents at the end of the accounting period	946 423	2 259 702

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 on the basis of a Deed of Foundation as a joint stock company registered in Třinec, 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, and steel tubes.

The Company’s registered office is located in Třinec-Staré Město, Průmyslová 1000, 739 70.

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

The following table shows individuals and legal entities exercising controlling or substantial influence over the Company and the amount of their equity interest:

Shareholder	Ownership percentage
MORAVIA STEEL a. s.	69.05 %
Other legal entities and individuals	30.95 %
Total	100.00 %

1.2. CHANGES IN AND AMENDMENTS TO THE REGISTER OF COMPANIES

During the year ended 31 December 2010, the change regarding the merger by amalgamation with VÁLCOVNA TRUB TŽ, a.s., the change in business activities and the change in the composition of the Board of Directors of the Company (refer to Note 1.4.) were recorded in the Register of Companies.

1.3. GROUP IDENTIFICATION

In terms of Section 66a (3) of the Commercial Code, the Company is controlled by MORAVIA STEEL a.s. MORAVIA STEEL a.s. is controlled by FINITRADING a.s. and R.F.G., a.s., acting in concert.

1.4. BOARD OF DIRECTORS AND SUPERVISORY BOARD AS OF 31 DECEMBER 2010

	Position	Name
Board of Directors	Chairman	Jiří Cieńciała
	1 st Vice-Chairman	Jan Czudek
	2 nd Vice-Chairman	Česlav Marek
	Member	Jan Lasota
	Member	Ivo Žižka
	Member	Henryk Huczala
	Member	Petr Popelář
Supervisory Board	Chairman	Tomáš Chreněk
	1 st Vice-Chairman	Ján Moder
	2 nd Vice-Chairman	Hanns K. Zöllner
	Member	František Ligocki
	Member	Evžen Balko
	Member	Roman Mitřega
	Member	Vladislav Heczko
	Member	Jozef Blaško
	Member	Pablo Alarcón Espinosa

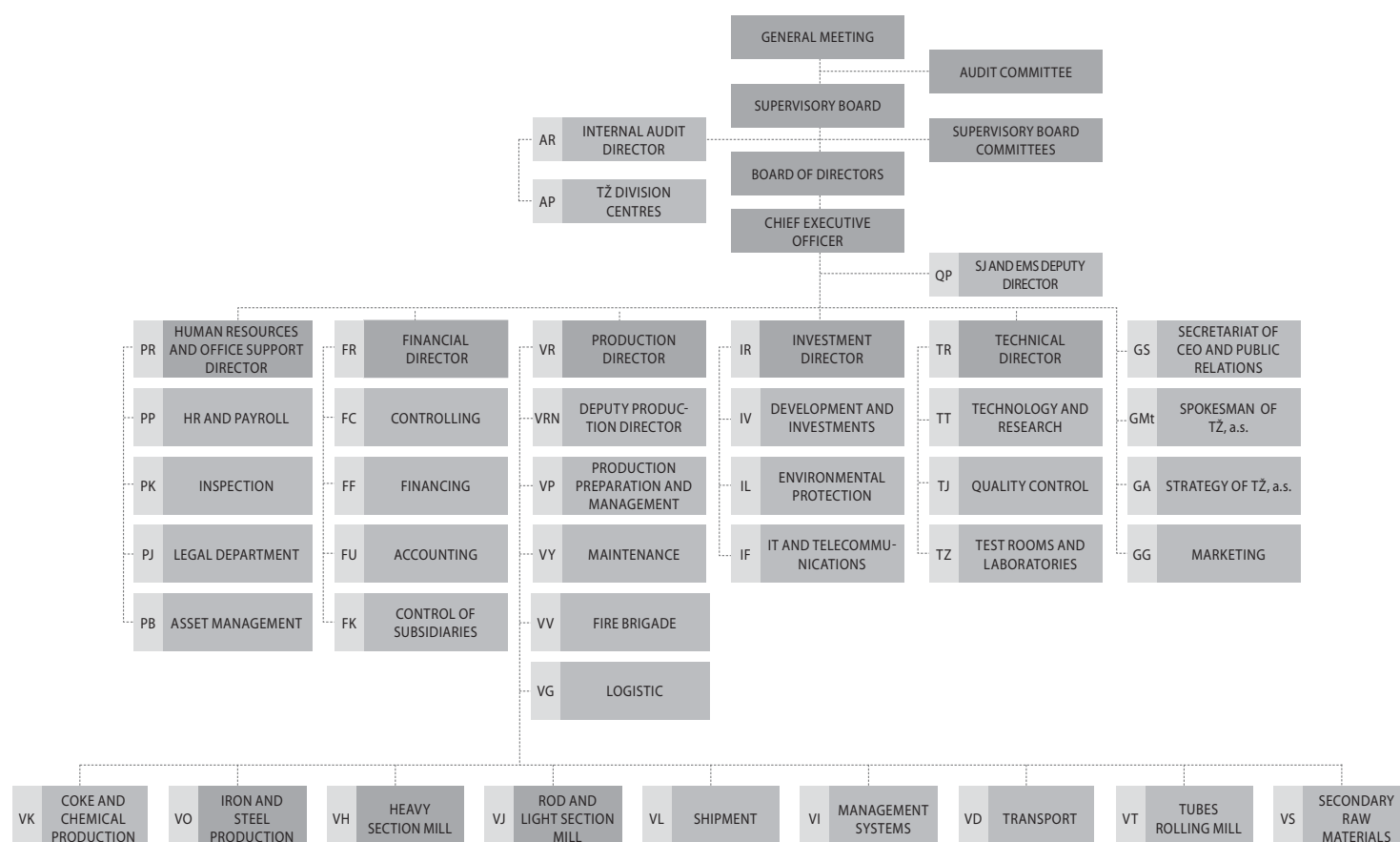
During the year ended 31 December 2010, the following changes were made to the composition of the Company’s Board of Directors:

Board of Directors:

Position	Original member	New member	Date of the change
2 nd Vice Chairman	Rostislav Wozniak	Česlav Marek	1 July 2010
Member	Rostislav Wozniak	Ivo Žižka	1 July 2010
Member		Petr Popelář	1 Dec 2010

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

2.1. BASIC ORGANISATIONAL STRUCTURE OF THE COMPANY



The bodies of the Company are as follows:

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

During the year ended 31 December 2010 the following changes were made in the organisational structure :

- Formation of the VG division – Logistics managed by VR – Production Manager;
- Cancellation of the PH division – Fire Brigade managed by PR – Human Resources and Administration Director and its transfer under VR – Production Manager with the new name VV – Fire Brigade;
- Cancellation of the VB operation – Universal Rolling Mill managed by VR – Production Manager and its transfer under VH – Blooms and Heavy Sections Rolling Mill;
- Formation of the VT operation – Tube Rolling Mill managed by VR – Production Manager; and
- Change in the name of the TJ department – Quality Assurance managed by TR – Technical Manager to the new name TJ – Quality Control.

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

The following companies were included into the consolidated group for the year ended 31 December 2010:

Controlled entities (subsidiaries):

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2010
ENERGETIKA TŘINEC, a. s.	Třinec-Staré Město, Průmyslová 1024, 739 65	Production and distribution of heat and electricity	100.00 %
Strojírny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1038, 739 65	Locksmithing, smithcraft, tool engineering	100.00 %
Slévárny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1001, 739 65	Foundry industry	100.00 %
FERROMORAVIA, s.r.o.	Třinec-Staré Město, Průmyslová 1688, 686 02	Production and metallurgic processing of iron and steel	100.00 %
VÚHŽ a.s.	Dobrá 240, 739 51	Production of car, metallurgical, manufacturing and foundry products	100.00 %
Šroubárna Kyjov spol. s r.o.	Jiráskova 987, 697 32, Kyjov	Metalworking, locksmithing, production of machinery and equipment	100.00 %
D 5, akciová společnost Třinec	Průmyslová 1026, 739 65 Třinec-Staré Město,	Repairs of metallurgy technological units, and machine, electrical and construction works	100.00 %
METALURGIA S.A.	Radomsko, Ul.Świętej Rozalii nr 10/12, 97-500, Poland	Production of nails, wire and wire products	100.00 %
Řetězárna a.s.	Česká Ves, Polská 57, 790 81	Production of chains and chain products	51.00 %
REFRASIL, s.r.o.	Třinec-Konská, Průmyslová 720, 739 65	Production of fireproof products	51.00 %

In the year ended 31 December 2010, H & S PROGRESS s.r.o. was removed from the consolidation group due to its dissolution without liquidation as part of the merger by amalgamation with VÚHŽ, a.s. In addition, VÁLCOVNA TRUB TŽ, a.s. was removed from the consolidation group due to its dissolution without liquidation as part of the merger by amalgamation with TŘINECKÉ ŽELEZÁRNY, a. s.

Associates:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2010
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec-Staré Město, Průmyslová 715, 739 65	Production of isostatically pressed heat-resisting products	40.00 %
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Production and metallurgic processing of iron and steel	18.00 %

The following companies were included into the consolidated group (the “Group”) for the year ended 31 December 2009:

Controlled entities:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2009
ENERGETIKA TŘINEC, a. s.	Třinec-Staré Město, Průmyslová 1024, 739 65	Production and distribution of heat and electricity	100.00 %
Strojírny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1038, 739 65	Locksmithing, smithcraft, tool engineering	100.00 %
Slévárny Třinec, a.s.	Třinec-Staré Město, Průmyslová 1001, 739 65	Foundry industry	100.00 %
FERROMORAVIA, s.r.o.	Třinec-Staré Město, Průmyslová 1688, 686 02	Production and metallurgic processing of iron and steel	100.00 %
VÁLCOVNA TRUB TŽ, a.s.	Ostrava-Vítkovice, Výstavní 1132, 706 02	Production of steel tubes	100.00 %
VÚHŽ a.s.	Dobrá 240, 739 51	Production of car, metallurgical, manufacturing and foundry products	100.00 %
H & S PROGRESS s.r.o.	Dobrá 240, 739 51	Wholesale mediation	100.00 %
Šroubárna Kyjov spol. s r.o.	Jiráskova 987, 697 32, Kyjov	Metalworking, locksmithing, production of machinery and equipment	100.00 %
D 5, akciová společnost Třinec	Průmyslová 1026, 739 65 Třinec-Staré Město,	Repairs of metallurgy technological units, and machine, electrical and construction works	100.00 %
METALURGIA S.A.	Radomsko, Ul. Świętej Rozalii nr 10/12, 97-500, Poland	Production of nails, wire and wire products	100.00 %
Řetězárna a.s.	Česká Ves, Polská 57, 790 81	Production of chains and chain products	51.00 %
REFRASIL, s.r.o.	Třinec-Konská, Průmyslová 720, 739 65	Production of fireproof products	51.00 %

Associates:

Name of the company	Registered office	Business activities	Share of share capital at 31 Dec 2009
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Třinec-Staré Město, Průmyslová 715, 739 65	Production of isostatically pressed heat-resisting products	40.00 %
Sochorová válcovna TŽ, a.s.	Třinec-Staré Město, Průmyslová 1000, 739 70	Production and metallurgic processing of iron and steel	18.00 %

Given the acquisition of the 100 percent equity investment in METALURGIA S.A., the consolidation group was expanded to include this entity for the year ended 31 December 2009. METALURGIA S.A. was included in the group on 30 September 2009.

The consolidation methods were used in compliance with the consolidation rules of the consolidated group – full consolidation was applied in the case of controlled entities, consolidation under the equity method was used for associates. The Company participates in the financial and operating policies of Sochorová válcovna TŽ, a.s., which was therefore consolidated using the equity method of accounting.

Financial statements of all entities – be it subsidiaries or associates of TŘINECKÉ ŽELEZÁRNY, a. s. (hereinafter also referred to as the “Group”), both included and excluded from the consolidation, are maintained in the registered office of the Company for presentation purposes.

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 2010 and 2009. METALURGIA S.A. is based in Poland, 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 assets of such an entity do not exceed CZK 150 million;
- The equity share in the entity in proportion to the equity in all of the group's entities is less than 1.5 percent;
- The share in the net turnover (revenues of account class 6) in all of the group's entities is less than 1.5 percent;
- Long-term restrictions hinder the Company's rights connected to the control of assets or management, or, in exceptional cases, if the information necessary for the preparation of the consolidated financial statements cannot be obtained without inevitably incurring undue costs (that can be documented) or with inevitable and provable undue delay;
- The shares or equity interests in these companies are held exclusively with a view to their subsequent disposal.

The companies which meet the condition set out in the first paragraph for non-inclusion in the consolidated group, thereby not entering into consolidation based on individual assessment, must also meet the group materiality criterion. Under the group materiality criterion, these companies are taken as one whole. The total assets of this whole must be less than CZK 500 million, while in associates the value of assets for these purposes is recalculated using the percentage of the ownership share of the Company, the equity share of this whole in all of the group's entities must be less than 5 percent and the share in the net turnover (revenues of account class 6) in all of the group's entities must be less than 5 percent. If the assets are less than CZK 500 million and the equity share is less than 5 percent while the share in the net turnover exceeds 5 percent, the decisive fact for inclusion in the consolidated group is whether the revenues largely generated by the company with related parties would have an immaterial impact on the profit and loss account after eliminating intercompany deliveries. For calculating materiality levels, all companies in the Group with the exception of companies in liquidation or subject to bankruptcy proceedings are taken into account.

3. BASIS OF ACCOUNTING AND GENERAL ACCOUNTING PRINCIPLES

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

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

For the purpose of preparing the consolidated financial statements of the TRINECKÉ ŽELEZÁRNY, 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 of the Group for the year ended 31 December 2010 were prepared as follows:

- The balance sheet contains comparative amounts as of 31 December 2009;
- The profit and loss account comprises comparative amounts for the year ended 31 December 2009;
- The statement of changes in equity contains comparative amounts as of 31 December 2009; and
- The cash flow statement comprises comparative amounts for the year ended 31 December 2009.

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 if replacement cost is lower than internal costs, assets recently entered in the accounting records such as an inventory count surplus (accounted for by a corresponding entry in the relevant accumulated depreciation account) and an investment of intangible and tangible fixed assets, except for cases where the investment is valued differently pursuant to a Memorandum of Association or a 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 fixed asset improvements exceeding CZK 40 thousand increases the acquisition cost of the related fixed asset.

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 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'.

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

Impairment

At each balance sheet date, the carrying amounts of tangible and intangible assets are reviewed to determine whether 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 and long-term term deposits.

Valuation

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

At the consolidated balance sheet date, the Group records:

Equity investments at cost less 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 TŘINECKÉ ŽELEZÁRNY, a. s. has the power to govern the financial and operating policies so as to obtain benefits from their activities are treated as 'Equity investments in subsidiaries'.

Investments in enterprises in which TŘINECKÉ ŽELEZÁRNY, a. s. 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 Group refers to its detailed knowledge of the relevant entity, the results of its operations and reflects its interest in the entity's share capital.

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

4.4. 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 developed inventory is valued at full operating costs established based upon a costing formula reflecting annual planned costings. The prices are determined on the basis of an annual financial plan.

The revaluation of internally developed inventory is performed as of 1 January of the current year with reference to the calculations made based on the approved financial plan.

During the reporting period, the Group analyses the valuation of internally produced inventory by comparing the valuation of aggregate internal operating costs according to planned (planned costing) and the actual ongoing costs. The difference between the valuation according to actual ongoing aggregate internal costs and the valuation per the planned aggregate internal costs is reflected in the financial accounting records in the general ledger accounts 'Change in internally produced inventory' with a corresponding entry to 'Internally produced inventory'.

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 the analysis of valuation, movement, selling prices and realisability.

4.5. 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 (against receivables from other than Group companies) are created as follows:

- (a) Receivables past due for 360 days and more are provisioned in full; and
- (b) Receivables past due over 180 days but less than 360 days are provisioned at 50 percent.

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

Provisions are created 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.

4.6. 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.

4.7. PAYABLES

Trade 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 No. 294/2005 Coll.

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. 586/92 Coll., with the exception of assets used by TŘINECKÉ ŽELEZÁRNY, a. s., in the Univerzální trať Bohumín plant and the Tube Rolling Mill (the VT operation) and the assets used in Slévárny Třinec, a.s. which are depreciated using the straight line method.

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

Staff costs of employees hired through an employment agency are reported as part of social costs which include the actually paid salaries including social security costs and health insurance. The costs of other aids and protective drinks for agency employees are reported under 'Consumed material and energy'. Other services of the agency, such as mediation fees and agency overheads are reported under 'Services'.

4.15. REVENUE RECOGNITION

Revenues are recognised when goods are delivered and accepted by the customer or when services are rendered and are reported net of discounts and VAT. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. Dividend income is recognised when the shareholders' rights to receive payment have been declared.

4.16. USE OF ESTIMATES

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

4.17. GRANTS

Operating grants: the funds drawn are charged to expenses and operating grants received are credited to income on an accruals basis (refer to Note 7.2.). Grants to fund the acquisition of fixed assets: these grants reduce the cost of the related assets.

4.18. 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 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.

4.19. 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 2010	31 Dec 2009
Cash	3 663	3 694
Current accounts	746 180	1 955 470
Term deposit	9 641	17 980
Current securities and equity investments	186 939	282 558
Total cash and cash equivalents	946 423	2 259 702
Total cash and cash equivalents not included in cash flow	0	0
Total current financial assets	946 423	2 259 702

4.20. CONSOLIDATION RULES

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

Under the equity consolidation method, financial investments of the Company were eliminated from the balance sheet against acquired equity. The assets in the consolidated balance sheet included the item 'Securities and investments 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 included the item 'Share in the profit/loss of equity accounted investments' which represents the Company's share in the current period's results, and the 'Consolidation reserve fund' comprising an associate's accumulated profit/loss of previous years.

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

In the year ended 31 December 2008, the policy of valuing, depreciating and accounting for goodwill arising on consolidation was changed. Positive (negative) goodwill arising on consolidation is carried at cost which is adjusted by cumulative losses (gains) from impairment. It is tested for impairment on an annual basis.

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

The assets and liabilities of companies acquired and 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 2010 and 2009 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 2009 and 2010 (definition of the consolidated group, method of transformation of data from individual financial statements into the consolidated financial statements) are available in the registered office of the Company.

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

With effect from 2010, the Company changed the policy for accounting for the revaluation of internally developed inventory such that the revaluation difference according to the actual ongoing aggregate internal operating costs and the valuation per the anticipated full internal operating costs is reflected in the financial accounting records in the general ledger accounts “Change in internally developed inventory” with a corresponding entry to “Internally developed inventory”.

With effect from the year ended 31 December 2010, the Company has reported prepayments for the fee paid for air pollution in the line ‘State - tax receivables’ instead of the line ‘Short-term prepayments made’.

With effect from 2011, the Company has changed the policy of valuing internally produced inventory during the period. 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. The previous practice was to value the pure charge at planned costs during the reporting period.

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.

5. ANALYSIS OF IMPACTS ON PROFIT/LOSS

5.1. CONSOLIDATED PROFIT/LOSS FOR 2010

7.1.1. Structure of the Consolidated Profit/Loss for 2010

(CZK thousand)

Profit/(loss) of the current period - TŘINECKÉ ŽELEZÁRNY, a. s.	-632 117
Profit/(loss) of the current period - ENERGETIKA TŘINEC, a.s.	57 542
Profit/(loss) of the current period - Strojírny Třinec, a.s.	31 809
Profit/(loss) of the current period - Slévárny Třinec, a.s.	4 696
Profit/(loss) of the current period - FERROMORAVIA, s.r.o.	39 339
Profit/(loss) of the current period - Šroubárna Kyjov, spol. s r.o.	37 232
Profit/(loss) of the current period - D 5, akciová společnost, Třinec	4 938
Profit/(loss) of the current period - VÚHŽ a.s.	28 550
Profit/(loss) of the current period - METALURGIA S.A.	-19 149
Share in profit of the current period - REFRASIL, s.r.o.	22 461
Share in profit of the current period - Řetězárna a.s.	6 727
Share in profit/(loss) of equity accounted investments	80 043
Adjustments within full consolidation (see below)	-656 975
Adjustments within the equity method of consolidation (see below)	-52 184
Consolidated profit	-1 047 088

5.1.2. Adjustments within Full Consolidation for 2010

(CZK thousand)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory, including the deferred tax impact	-49 665
Revaluation of assets to fair value	-77 696
Write-offs of the margin from the sale of assets	2 398
Amortisation of negative goodwill on consolidation	288
Elimination of declared dividends of the consolidated group entities	-532 300
Total adjustments	-656 975

5.1.3. Adjustments within the Equity Method of Accounting for 2010

(CZK thousand)

Elimination of dividends paid by VESUVIUS ČESKÁ REPUBLIKA, a.s.	-48 000
Elimination of profit and loss from unrealised inventory	-4 184
Total adjustments	-52 184

5.2. CONSOLIDATED PROFIT/LOSS FOR 2009

5.2.1. Structure of the Consolidated Profit/Loss for 2009

(CZK thousand)

Profit/(loss) of the current period - TŘINECKÉ ŽELEZÁRNY, a. s.	-731 536
Profit/(loss) of the current period - ENERGETIKA TŘINEC, a.s.	103 191
Profit/(loss) of the current period - Strojírny Třinec, a.s.	469 914
Profit/(loss) of the current period - Slévárny Třinec, a.s.	-31 915
Profit/(loss) of the current period - FERROMORAVIA, s.r.o.	-44 121
Profit/(loss) of the current period - VÁLCOVNA TRUB TŽ, a.s.	-114 308
Profit/(loss) of the current period - H&S PROGRESS s.r.o	2 402
Profit/(loss) of the current period - Šroubárna Kyjov, spol. s r.o.	68 730
Profit/(loss) of the current period - D 5, akciová společnost, Třinec	9 551
Profit/(loss) of the current period - VÚHŽ a.s.	8 689
Profit/(loss) of the current period - METALURGIA S.A.	-24 328
Share in profit of the current period - REFRASIL, s.r.o.	22 107
Share in profit of the current period - Řetězárna a.s.	564
Share in profit/(loss) of equity accounted investments	-30 271
Adjustments within full consolidation (see below)	-685 319
Adjustments within the equity method of consolidation (see below)	-29 112
Consolidated profit	-1 005 762

5.2.2. Adjustments within Full Consolidation for 2009

(CZK thousand)

Elimination of profits and losses from unrealised inventory from intercompany sales of inventory, including the deferred tax impact	74 257
Revaluation of assets to fair value	-81 075
Write-offs of the margin from the sale of assets	20 261
Amortisation of negative goodwill on consolidation	166 684
Settlement of positive goodwill	-121 713
Elimination of declared dividends of the consolidated group entities	-336 257
Elimination of gains from the sale of the equity investment of FERROMORAVIA, s.r.o.	-407 476
Total adjustments	-685 319

5.2.3. Adjustments within the Equity Method of Accounting for 2009

(CZK thousand)

Elimination of dividends paid by VESUVIUS ČESKÁ REPUBLIKA, a.s.	-32 000
Elimination of profit and loss from unrealised inventory	2 888
Total adjustments	-29 112

6. ADDITIONAL CONSOLIDATED BALANCE SHEET INFORMATION

6.1. INTANGIBLE FIXED ASSETS

Cost

(CZK thousand)

	Balance at 1 Jan 2009	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Research and development	4 553	1 560	0	1	131
Goodwill	0	347	0	0	29
Software	221 002	1 753	5 775	608	147
Valuable rights	75 443	300	2 675	0	25
Other intangible FA	13 347	38 615	1 209 568	1 190 200	3 232
Intangible FA under construction	1 280	0	3 887	5 167	0
Prepayments made for intangible FA	135	0	0	135	0
Total	315 760	42 575	1 221 905	1 196 111	3 564

	Balance at 31 Dec 2009	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2010
Research and development	6 243	0	0	-37	6 206
Goodwill	376	0	0	-8	368
Software	228 069	4 570	8 107	-41	224 491
Valuable rights	78 443	0	88	-6	78 349
Other intangible FA	74 562	1 567 057	1 599 772	0	41 847
Intangible FA under construction	0	68 771	67 578	0	1 193
Prepayments made for intangible FA	0	0	0	0	0
Total	387 693	1 640 398	1 675 545	-92	352 454

Accumulated Amortisation and Provisions

(CZK thousand)

	Balance at 1 Jan 2009	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Research and development	228	1 560	909	0	131
Goodwill	0	347	0	0	29
Software	190 475	1 753	14 730	608	147
Valuable rights	38 981	0	6 648	0	0
Other intangible FA	3 687	0	159	3 687	0
Intangible FA under construction	0	0	0	0	0
Prepayments made for intangible FA	0	0	0	0	0
Total	233 371	3 660	22 446	4 295	307

(CZK thousand)

	Balance at 31 Dec 2009	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2010
Research and development	2 828	911	0	-37	3 702
Goodwill	376	0	0	-8	368
Software	206 497	11 333	8 071	-41	209 718
Valuable rights	45 629	3 177	486	0	48 320
Other intangible FA	159	621	0	13	793
Intangible FA under construction	0	0	0	0	0
Prepayments made for intangible FA	0	0	0	0	0
Total	255 489	16 042	8 557	-73	262 901

Net Book Value

(CZK thousand)

	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Research and development	3 415	2 504
Goodwill	0	0
Software	21 572	14 773
Valuable rights	32 814	30 029
Other intangible FA	74 403	41 054
Intangible FA under construction	0	1 193
Prepayments made for intangible FA	0	0
Total	132 204	89 553

The tables of movements within intangible fixed assets include the column 'new acquisition' relating to the expansion of the consolidated group to include METALURGIA S.A. in 2009. Additions to and disposals of intangible fixed assets predominantly include the allocation and consumption of greenhouse emission allowances.

Amortisation of Intangible Fixed Assets Charged to Expenses

Amortisation of intangible fixed assets amounted to CZK 16,071 thousand and CZK 18,970 thousand as of 31 December 2010 and 2009, respectively.

Other intangible assets include greenhouse gas emission allowances. It is anticipated that the number of allowances allocated necessary to cover the consumption of greenhouse gas emissions will be insufficient by the end of 2010. For this reason, a reserve was recognised for these missing allowances in the amount of CZK 62,026 thousand as of 31 December 2010. The amount of the reserve for emission allowances as of 31 December 2009 was CZK 15,536 thousand.

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

The aggregate balance of low value intangible assets not reported on the face of the balance sheet was CZK 33,242 thousand and CZK 31,090 thousand as of 31 December 2010 and 2009, respectively.

6.2. TANGIBLE FIXED ASSETS

Cost

(CZK thousand)

	Balance at 1 Jan 2009	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Land	462 337	0	502	509	0
Structures	8 573 947	210 156	304 470	9 718	17 594
Individual movable assets	24 326 737	577 369	933 070	532 889	47 126
Other tangible FA	3 373	1 329	0	67	106
Tangible FA under construction	998 333	3 570	917 664	1 196 094	224
Prepayments for tangible FA	94 970	0	255 421	222 813	0
Total	34 459 697	792 424	2 411 127	1 962 090	65 050

(CZK thousand)

	Balance at 31 Dec 2009	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2010
Land	462 330	3	520	0	461 813
Structures	9 096 449	180 137	14 303	-4 840	9 257 443
Individual movable assets	25 351 413	1 020 062	517 551	-10 420	25 843 504
Other tangible FA	4 741	0	1 577	-31	3 133
Tangible FA under construction	723 697	1 673 737	1 211 830	-64	1 185 540
Prepayments for tangible FA	127 578	125 919	227 165	0	26 332
Total	35 766 208	2 999 858	1 972 946	-15 355	36 777 765

Accumulated Depreciation and Provisions

(CZK thousand)

	Balance at 1 Jan 2009	New acquisition	Additions	Disposals	Impact of foreign exchange differences
Land	0	0	0	0	0
Structures	4 211 933	113 143	225 289	18 922	9 512
Individual movable assets	15 404 155	458 946	1 452 011	539 233	37 411
Other tangible FA	272	1 023	33	114	83
Tangible FA under construction	40 115	597	11 944	37 374	52
Total	19 656 475	573 709	1 689 277	595 643	47 058

(CZK thousand)

	Balance at 31 Dec 2009	Additions	Disposals	Impact of foreign exchange differences	Balance at 31 Dec 2010
Land	0	0	0	0	0
Structures	4 540 955	240 248	18 588	-2 654	4 759 961
Individual movable assets	16 813 290	1 138 075	480 661	-9 116	17 461 588
Other tangible FA	1 297	32	1 199	-21	109
Tangible FA under construction	15 334	1 065	7 548	-18	8 833
Total	21 370 876	1 379 420	507 996	-11 809	22 230 491

Net Book Value

(CZK thousand)

Net book value	Balance at 31 Dec 2009	Balance at 31 Dec 2010
Land	462 330	461 813
Structures	4 555 494	4 497 482
Individual movable assets	8 538 123	8 381 916
Other tangible FA	3 444	3 024
Tangible FA under construction	708 363	1 176 707
Prepayments for tangible FA	127 578	26 332
Valuation difference on acquired assets	0	0
Total	14 395 332	14 547 274

The tables of movements within tangible fixed assets include the column 'new acquisition' in 2009 relating to the expansion of the consolidated group to include METALURGIA S. A.

Principal additions to tangible fixed assets for the year ended 31 December 2010 are as follows:

(CZK thousand)

K1 boiler at the E2 heat plant	300 501
Modernisation of the related coke batteries equipment	199 207
New yard crane for the sintering plant	101 146
Technical improvements of TG2 by high pressure component	95 573
Electromagnetic mixing of molten steel	43 302
Modernisation of the Žiar children holiday centre	37 268
Phosphating line	24 358
Modernisation of the railway transport equipment	24 340
FVC 160/3,2 CNC KYKLOP machining centre	15 577

Principal additions to tangible fixed assets under construction for the year ended 31 December 2010 were as follows:

(CZK thousand)

Modernisation of the 12 coke battery	853 495
Renovation of the roof in the continuous casting fine rolling mill	19 441

Depreciation of Tangible Fixed Assets Charged to Expenses

Depreciation of tangible fixed assets amounted to CZK 1,386,058 thousand and CZK 1,629,016 thousand as of 31 December 2010 and 2009, 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 533,338 thousand and CZK 453,914 thousand as of 31 December 2010 and 2009, respectively.

Fair Value

As of the acquisition date in 2009, the assets of METALURGIA S.A. were revalued at fair value.

In the year ended 31 December 2009, the revaluation of assets to fair value increased the balance of intangible fixed assets by CZK 41,847 thousand and the balance of tangible fixed assets by CZK 84,882 thousand and resulted in the recognition of a deferred tax liability of CZK 24,079 thousand using the 19 percent tax rate.

6.3. ASSETS HELD UNDER FINANCE AND OPERATING LEASE AGREEMENTS

Finance Leases

31 December 2010

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2010
Total anticipated lease payments	10 542	110 455	120 997
Actual lease payments made through 31 Dec 2010	8 151	96 834	104 985
Future payments due by 31 Dec 2011	1 295	4 812	6 107
Future payments due in the following periods	1 096	8 809	9 905

31 December 2009

(CZK thousand)

	Cars	Machinery and equipment	Balance at 31 Dec 2009
Total anticipated lease payments	26 053	207 353	233 406
Actual lease payments made through 31 Dec 2009	21 234	177 019	198 253
Future payments due by 31 Dec 2010	2 667	16 713	19 380
Future payments due in the following periods	2 152	13 621	15 773

Lease payments of CZK 45,033 thousand and CZK 39,770 thousand were made in the years ended 31 December 2010 and 2009, respectively.

6.4. PLEDGED FIXED ASSETS

31 December 2010

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	104 964	Loan from ČSOB, a.s.
Tangible fixed assets	312 790	Loan from Citibank, a.s.
Tangible fixed assets	346 419	Syndicated loan from Česká spořitelna, a.s., HSBC Bank plc -
Land	40 732	Prague branch and CITIBANK Europe plc
Tangible fixed assets	638 794	"Big Mannesmann" rolling mill. Loan from Česká spořitelna, a.s.
Tangible fixed assets *	20 000	Loan from Fortis Bank Polska S.A.
Tangible fixed assets	15 004	Long-term loan from KB, a.s.
Tangible fixed assets	20 888	Long-term loan from UniCredit Bank Czech Republic, a.s.
Tangible fixed assets	14 529	Long-term loan from ČSOB, a.s.
Tangible fixed assets	32 939	Long-term loan from KB, a.s.
Tangible fixed assets, land	2 371	Loan from Citibank a.s.
Tangible fixed assets, land	1 133	Loan from Citibank, a.s.
Tangible fixed assets, land	906	Loan from Citibank, a.s.
Tangible fixed assets, land	401	Loan from Citibank, a.s.
Tangible fixed assets, land	87 147	Loan from ČSOB, a.s.
Land	10 506	Loan from ČSOB, a.s.
Technology	86 508	Loan from ČSOB, a.s.
Tangible fixed assets	120 468	Loan from KB, a.s.
Technology	37 401	Loan from KB, a.s.
Technology	272 854	Loan from Raiffeisen Bank, a.s.
Tangible fixed assets, technology	24 575	Česká spořitelna, a.s. – pledge in favour of the loan of Třinecké železářny, a. s. for KB 12 coke battery
Total	2 297 489	

Note: * in PLN thousand, collateral of the loan up to the amount of PLN 20,000 thousand.

31 December 2009

(CZK thousand)

Description of assets	Net book value	Description, scope and purpose of pledge/lien
Tangible fixed assets	364 614	Loan from Česká spořitelna, a.s.
Land	2 811	Loan from Česká spořitelna, a.s.
Tangible fixed assets	237 167	Loan from ČSOB, a.s.
Tangible fixed assets	349 026	Loan from Citibank a.s.
Technology	194 847	Loan from Reiffeisen Bank, a.s.
Tangible fixed assets	721 996	Loan from Česká spořitelna, a.s.
Tangible fixed assets	30 576	Long-term loan from UniCredit Bank Czech Republic, a.s.
Tangible fixed assets	18 055	Long-term loan from KB, a.s.
Tangible fixed assets	23 498	Long-term loan from UniCredit Bank Czech Republic, a.s.
Tangible fixed assets	16 681	Long-term loan from ČSOB, a.s.
Land	6	Loan and bank guarantees from KB, a.s.
Tangible fixed assets	15 764	Loan and bank guarantees from KB, a.s.
Tangible fixed assets	2 494	Loan from Citibank a.s.
Tangible fixed assets	1 198	Loan from Citibank a.s.
Tangible fixed assets	965	Loan from Citibank a.s.
Tangible fixed assets	422	Loan from Citibank a.s.
Tangible fixed assets	2 908	Loan from Citibank a.s.
Tangible fixed assets	7 672	Loan from Citibank a.s.
Land	10 506	Loan from ČSOB, a.s.
Technology	268 920	Loan from ČSOB, a.s.
Tangible fixed assets	126 674	Loan from KB, a.s.
Technology	44 675	Loan from KB, a.s.
Tangible fixed assets	83 377	Loan from Fortis Bank Polska S.A.
Total	2 524 852	

6.5. SUMMARY OF UNCONSOLIDATED INVESTMENTS

6.5.1. Summary of Unconsolidated Investments as of 31 December 2010

(CZK thousand)

Equity securities and investments in subsidiaries									
Company	Book value, gross	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net book value	Financial income for the year
Trinecké gastroslužby, s.r.o.	25 643	25 800	0	100,00	37 366	2 522	0	25 643	0
Doprava TŽ, a.s.	15 755	16 000	115	100,00	59 293	11 637	0	15 755	30 000
TRIALFA, s.r.o.	100	100	0	100,00	18 515	3 682	0	100	7 000
Steel Consortium Partners, a.s.	19 000	19 000	117	100,00	1 695	-77	-17 381	1 619	0
Reťaze Slovakia s.r.o.	11 870	4 936	0	80,00	14 838	991	0	11 870	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	*	45 738	0	89,11	44 921	1 831	0	*	0
TRISIA, a.s.	19 364	9 900	990	66,00	62 168	-1 602	0	19 364	0
„ZAMECZEK BŁOGOCICE“ Spółka z ograniczoną odpowiedzialnością Cieszyn (PL)**	7 920	7 920	0	88,00	6 708	43	0	7 920	0
Moravia Security, a.s.	12 000	12 000	12	100,00	9 238	312	0	12 000	0
Neomet Sp. z o.o. (PL)**	174	3 400	0	100,00	0	0	174	0	0
Soukromá střední škola Třinec ***	2 000	2 000	0	100,00	77 612	122	0	2 000	0
Total	174 615						-18 478	156 137	37 000

Note: * confidential

** data in thousands of PLN

*** TRINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

italics - preliminary results as of 31 December 2010

(CZK thousand)

Equity securities and investments in associates									
Company	Book value, gross	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net costs	Financial income for the year
SILESIA SLAG, a.s.	1 760	1 760	74	44,00	3 733	-93	-118	1 642	0
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34,09	10 707	98	0	750	0
Kvalif. a personální agentura, o.p.s.	34	34	0	33,33	7 384	-46	-34	0	0
Hutnictví železa, a.s.	25 963	16 397	27 328	39,21	46 383	-236	-16 317	9 646	0
HRAT, s.r.o.*	212	100	0	23,26	2 390	-62	0	212	0
Total	28 719						-16 469	12 250	0

Note * results for the period from 1 April 2010 – 31 December 2010.

italics - preliminary results as of 31 December 2010.

(CZK thousand)

Equity securities and investments in companies with a minority interest									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Valuation difference	Fair value	Financial income for the year
KPM CONSULT, a.s.	100	100	10	10,00	17 210	457	0	100	0
SAVER Česká Ves, s.r.o.	121	121	0	10,00	19 791	6 181	0	121	0
Informetal zájmové sdružení	20	20	0	5,00	0	0	0	20	0
Družstvo Envicrack	4	4	0	0	0	0	0	4	0
ACRI - Asociace podniků českého železničního průmyslu, Praha 1 – Nové Město	20	20	-	2,08	1 023	5	-20	0	0
Huta Stalowa Wola**	14	-	-	0,0087	-	-	-13 900	0	-
RZPS Radomskór Radom**	1	-	-	0,01	-	-	-530	0	-
Total	356						111	245	0

Note ** data in thousands of PLN

italics - preliminary results as of 31 December 2010.

6.5.2. Summary of Unconsolidated Investments for 31 December 2009

(CZK thousand)

Equity securities and investments in subsidiaries									
Company	Book value, gross	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net book value	Financial income for the year
Třinecké gastroslužby, s.r.o.	25 643	25 800	0	100,00	34 844	3 475	0	25 643	0
Doprava TŽ, a.s.	15 755	16 000	115	100,00	77 668	12 517	0	15 755	0
TRIALFA, s.r.o.	100	100	0	100,00	22 117	1 889	0	100	0
Steel Consortium Partners, a.s.	19 000	19 000	117	100,00	1 696	-90	-17 305	1 695	0
Reťaze Slovakia s.r.o.	11 698	4 936	-	80,00	14 623	11	0	11 698	179
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	*	45 738	0	89,11	43 096	3 226	0	*	0
TRISIA, a.s.	19 364	9 900	990	66,00	63 714	-1 761	0	19 364	0
„ZAMECZEK BŁOGOCICE” Spółka z ograniczoną odpowiedzialnością Cieszyn (PL)***	7 920	7 920	0	88,00	6 666	-498	0	7 920	0
Moravia Security, a.s.	12 000	12 000	12	100,00	8 927	1 708	0	12 000	0
Neomet Sp. z o o. (PL)	1 214	1 214	22	100,00	1 096	-30	-1 214	0	123
Soukromá střední škola Třinec**	2 000	2 000	0	100,00	2 939	479	0	2 000	0
Sroubarna Kyjov TK Vida ve Metal Sanay ve Ticarel Limited Sirketi	146	146	-	100,00	-	-	-77	69	0
Total	174 707						-18 597	156 110	302

Note: * confidential

** Change in the legal status from a limited liability company into a corporate entity – educational institution; the entity was entered in the Register of Educational Corporate Entities as of 2 September 2009, TŘINECKÉ ŽELEŽÁRNÝ, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

*** data in thousands of PLN

(CZK thousand)

Equity securities and investments in associates									
Company	Book value, gross	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Provision	Net cost	Financial income for the year
SILESIALAG, a.s.	1 760	1 760	74	44.00	3 826	-16	-76	1 684	0
TŘINECKÁ PROJEKCE, a.s.	750	1 125	75	34.09	10 609	-65	0	750	0
Kvalif. a personální agentura, o.p.s.	34	34	-	33.33	8 256	-30	-34	0	0
Hutnictví železa, a.s.	25 963	16 397	27 328	39.21	46 590	-550	-16 260	9 703	0
HRAT, s.r.o. *	212	100	-	23.26	2 452	417	0	212	0
Total	28 719						-16 370	12 349	0

Note: * results for the period from 1 April 2009 – 31 December 2009.

(CZK thousand)

Equity securities and investments in companies with a minority interest									
Company	Cost	Nominal value	Number of securities	Share in %	Equity	Net profit or loss	Valuation difference	Fair value	Financial income for the year
KPM CONSULT, a.s.	100	100	10	10.00	16 753	2 641	0	100	0
SAVER Česká Ves, s.r.o.	121	121	-	10.00	13 609	3 548	0	121	42
Informetal zájmové sdružení	20	20	-	5.00	-	-	0	20	0
Družstvo Envicrack	4	4	-	-	-	-	0	4	0
ACRI - Asociace podniků českého železničního průmyslu, Prague 1 – Nové Město	20	20	-	2.08	1 184	29	-20	0	0
Total	265							245	42

The principal additions to non-current financial assets as of 31 December 2009 included:

- Acquisition of the 43 % equity investment in „ZAMECZEK BŁOGOCICE“, Spółka z ograniczoną odpowiedzialnością; as of 31 December 2009, the Company holds an 88 % equity investment in this entity; and
- Increase in the share capital of „ZAMECZEK BŁOGOCICE“, Spółka z ograniczoną odpowiedzialnością.

6.6. ACCOUNTING FOR GOODWILL ARISING ON CONSOLIDATION

2010

(CZK thousand)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
Negative goodwill arising on consolidation						
METALURGIA S.A.	0	0	0	0	0	288
Total	0	0	0	0	0	288

In the year ended 31 December 2010, negative goodwill arising on consolidation of METALURGIA S.A. in the amount of CZK 288 thousand was recognised in income.

2009

(CZK thousand)

	Gross	Adjustment	Net	Recognition in equity	Recognition in expenses	Recognition in income
Positive goodwill arising on consolidation						
H & S PROGRESS s.r.o.	0	0	0	18 671	867	0
Šroubárna Kyjov, spol. s r.o.	0	0	0	49 567	120 846	0
Total	0	0	0	68 328	121 713	0
Negative goodwill arising on consolidation						
METALURGIA S.A.	0	0	0	0	0	166 684
Total	0	0	0	0	0	166 684

In 2009, negative goodwill arising on consolidation of METALURGIA S.A. in the amount of CZK 166,684 thousand was recognised in income.

In 2009, pursuant to the impairment analysis, the positive goodwill arising on consolidation reported as of 31 December 2008 was written off. Part of the goodwill that relates to the deferred tax arising from revaluation of assets and liabilities was recognised in equity – Gains or losses from revaluation of assets and liabilities. In prior years, the deferred tax arising from revaluation of assets and liabilities was reported against positive goodwill arising on consolidation. Since 2009, the deferred tax has been reported against equity – Gains or losses from revaluation of assets and liabilities.

6.7. SECURITIES AND EQUITY INVESTMENTS UNDER EQUITY ACCOUNTING

(CZK thousand)

Securities and equity investments under equity accounting	2010	2009
VESUVIUS ČESKÁ REPUBLIKA, a.s.	76 561	85 948
Sochorová válcovna TŽ, a.s.	312 918	276 652
Total	389 479	362 600

6.8. PLEDGED NON-CURRENT FINANCIAL ASSETS

No pledged non-current financial assets have been recorded.

6.9. INVENTORY

As of 31 December 2010 and 2009, provisions were created against inventory in the aggregate amount of CZK 650,605 thousand and CZK 1,554,293 thousand, respectively. The provision against material amounted to CZK 226,496 thousand (2009: CZK 227,686 thousand), the provision against work in progress and semi-finished products amounted to CZK 296,469 thousand (2009: CZK 879,255 thousand) and the provision against finished products amounted to CZK 126,878 thousand (2009: CZK 444,707 thousand), the provision against goods amounted to CZK 762 thousand (2009: CZK 1,354 thousand) and the provision against prepayments made for inventory amounted to CZK 1,291 thousand in 2009. The principal reason for the decrease in the amount of the provision against internally produced inventory was the change in the policy of valuing internally produced inventory (refer to Note 4.13.).

6.10. RECEIVABLES

6.10.1. Short-Term Receivables

Aging of Short-Term Trade Receivables

(CZK thousand)

Year	Category	Before due date	Past due date					Total
			1 – 90 days	91 – 180 days	181 – 360 days	1 – 2 years	2 years and greater	
2010	Short-term	3 542 708	119 989	5 445	9 325	61 356	74 516	3 813 339
	Provisions	-753	-117	-530	-5 297	-61 356	-74 375	-142 428
	Total	3 541 955	119 872	4 915	4 028	0	141	3 670 911
2009	Short-term	2 576 499	106 559	14 274	48 262	22 875	80 256	2 848 725
	Provisions	0	-60	-1 052	-33 961	-22 875	-80 031	-137 979
	Total	2 576 499	106 499	13 222	14 301	0	225	2 710 746

Other Short-Term Receivables

Other short-term prepayments made principally involve prepayments for supplied services.

State – tax receivables principally include the receivable arising from other taxes and fees and an excessive deduction of the value added tax.

Other receivables mainly relate to the receivable arising from bank guarantees.

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

Receivables typically mature within 30 days.

6.10.2. Pledged Receivables

As of 31 December 2010, TŘINECKÉ ŽELEZÁRNY, a. s. recorded pledged receivables arising from an operating loan taken over as a result of the merger with VÁLCOVNA TRUB TŽ, a.s. These are receivables from MORAVIA STEEL a.s. in the aggregate amount of CZK 326,288 thousand.

Šroubárna Kyjov, spol. s r.o. has established a pledge of the receivables arising from:

- Loan Contract No. 0048/07/05527 of CZK 60 million and accrued interest (overdraft);
- Loan Contract No. 0192/06/05527 of CZK 120 million and accrued interest for the funding of realised investments; and
- Loan Contract No. 0707/06/05527 of EUR 2.4 million and accrued interest for the acquisition of the Sakamura machine.

The amount of all pledged trade receivables as of 31 December 2010 is CZK 91,961 thousand.

D 5, akciová společnost, Třinec, records pledged receivables of CZK 50 million in relation to the loan from Československá obchodní banka, a.s. (Note 6.18), of which the receivables of no less than CZK 20 million are from debtors outside the TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. groups.

6.10.3. Intercompany Receivables

Short-term Receivables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2010	Balance at 31 Dec 2009
• Trade receivables		
Doprava TŽ, a.s.	2 252	5 249
Moravia Security, a.s.	143	159
MORAVIA STEEL a.s.	2 531 572	1 763 385
Řetaze Slovakia, s.r.o.	291	0
TRIALFA, s.r.o.	2 728	2 121
TŘINECKÁ PROJEKCE, a.s.	233	193
Třinecké gastroslužby, s.r.o.	1 543	887
Sochorová válcovna TŽ, a.s.	424 798	288 863
Kvalifikační a personální agentura, o.p.s.	3	3
TRISIA, a.s.	6	5
VESUVIUS ČESKÁ REPUBLIKA, a.s.	3 831	3 729
Beskydská golfová, a.s.	37	931
ZAMECZEK BŁOGOCICE Sp. z o.o.	2 354	0
NEOMET, S.A.	4	3
Regionální informační centrum Frýdek-Místek, s.r.o.		0
MATERIÁLOVÝ A METALUGRICKÝ VÝZKUM s.r.o.	13	364
HŽP, a.s.	183	263
Soukromá střední škola Třinec*	127	19
SILESIALAG, a.s.	3	3
M Steel Projects a.s.	24	0
Steel Consortium Partners, a.s.	1	3
Security Morava, s.r.o.	1	0
Moravskoslezský kovošrot, a.s.	1 640	1 911
HRAT, s.r.o.	7	7
Total	2 971 794	2 068 098
• Receivables – controlling entity		
TRISIA, a.s.	0	60
Total	0	60
Total short-term intercompany receivables	2 971 794	2 068 158
Other than intercompany receivables	911 880	945 835
Total short-term receivables	3 883 674	3 013 993

Note: * TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

Long-Term Receivables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2010	Balance at 31 Dec 2009
• Receivables – controlling entity		
TRISIA, a.s.	0	5 000
Total	0	5 000
• Other		
Sochorová válcovna TŽ, a.s.	3 378	3 378
Total	3 378	3 378
Total long-term intercompany receivables	3 378	8 378
Other than intercompany receivables	94 449	91 813
Total long-term receivables	97 827	100 191

6.11. CURRENT FINANCIAL ASSETS

(CZK thousand)

	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Cash	3 663	3 694
Current accounts	746 180	1 955 470
Term deposit	9 641	17 980
Short-term securities and equity investments	186 939	282 558
Provision against securities	0	0
Total current financial assets	946 423	2 259 702

Short-term securities and equity investments as of 31 December 2010 include a short-term depository note of ČSOB, a.s. of CZK 102,368 thousand, a depository note of Raiffeisenbank, a.s. of CZK 70,000 thousand and tradable securities of CZK 14,571 thousand.

Short-term securities and equity investments as of 31 December 2009 include a short-term depository note of ČSOB, a.s. of CZK 221,500 thousand, a depository note of Raiffeisenbank, a.s. of CZK 45,000 thousand and tradable securities of CZK 16,058 thousand.

6.12. TEMPORARY ASSETS

As of 31 December 2010 and 2009 deferred expenses principally consisted of the deferred cost of the right to use new technologies of CZK 20,000 thousand and CZK 33,197 thousand, respectively.

Complex deferred expenses primarily consist of the deferred implementation of information systems of CZK 8,410 thousand and CZK 6,296 thousand as of 31 December 2010 and 2009, respectively.

6.13. EQUITY

Allocations to the statutory reserve fund are made at 5 percent of net profits until the fund reaches 20 percent of the Company's share capital as required by legislation.

Gains and losses from revaluation comprise the gain or loss from the revaluation of available-for-sale securities net of the deferred tax liability. In addition, they comprise the impact of the deferred tax arising from the gains or losses from the revaluation of assets and liabilities at fair value (refer to Note 6.6.).

Pursuant to the resolution of the General Meeting of the Company held on 30 June 2010, the loss for 2009 of CZK 731,536 thousand was allocated to accumulated losses.

On 26 September 2010, the payment of dividends for 2005 declared by the General Meeting of the Company held on 26 June 2006 which were due on 26 September 2006, became statute barred. The amount of these dividends of CZK 3,147 thousand was written off to other financial income.

6.13.1. Share Capital

The Company's share capital is composed of 8,109,863 ordinary registered shares, fully subscribed and paid up, with a nominal value of CZK 1 thousand per share. The Extraordinary General Meeting held on 19 November 2007 approved a change of the book-entry to the certificate form of shares. The change of the form of the Company's shares was registered in the Register of Companies on 13 December 2007.

On 17 December 2009, the Company's shares in the certificate form which were not collected by their owners after the change of the book-entry to the certificate form of shares were repeatedly auctioned. There were 132 uncollected shares as of 31 December 2010. These shares could not have been auctioned as their owners pledged them in favour of a third party.

6.14. RESERVES

(CZK thousand)

	Reserves under special legislation					
	Reserve for repairs of tangible FA	Reserve for restoration	Reserve for pensions and similar liabilities	Income tax reserves	Other reserves	Total reserves
Balance at 1 Jan 2009	103 408	2 039	0	0	401 407	506 854
New acquisition	0	0	4 674	0	1 317	5 991
Creation	6 784	29	223	539	142 733	150 308
Use	92 712	0	792	0	362 300	455 804
Balance at 31 Dec 2009	17 480	2 068	4 105	539	183 157	207 349
Impact of foreign exchange differences	0	0	-61	-12	-49	-122
Creation	7 185	107	0	0	176 193	183 485
Use	5 766	382	438	22	134 177	140 785
Balance at 31 Dec 2010	18 899	1 793	3 606	505	225 124	249 927

The reserves for repairs of tangible fixed assets (tax deductible) were made for repairs of main production facilities in compliance with the Provisioning Act. The creation of the reserves was based upon a long-term repair plan, timing and budget of repairs.

Other reserves consist of reserves for the scrapping of equipment, missing emission allowances, real estate transfer tax, employee bonuses and losses incurred in connection with a concluded long-term contract.

6.15. PAYABLES

6.15.1. Long-Term Payables

As of 31 December 2010, long-term trade payables include the aggregate amount of CZK 43,800 thousand relating to retentions from suppliers under concluded contracts.

6.15.2. Short-Term Trade Payables

Aging of Short-Term Trade Payables

(CZK thousand)

Year	Category	Before due date	Past due date					Total
			1 - 90 days	91 - 180 days	181 - 360 days	1 - 2 years	2 years and greater	
2010	Short-term	4 091 049	23 803	3 008	134	0	2 793	4 120 787
2009	Short-term	2 918 766	23 434	667	172	3 655	19	2 946 713

Payables typically fall due for settlement within 30 days. Significant payables past due more than 90 days predominantly arise from offset agreements in progress.

Other Payables

As of 31 December 2010, payables associated with social security and the state employment policy contribution amounted to CZK 76,561 thousand, health insurance payables totalled CZK 32,510 thousand. No outstanding social security or health insurance payables are reported. Payables arising from the additional pension scheme amounted to CZK 3,598 thousand as of 31 December 2009.

The category 'State – tax payables and subsidies' principally comprises personal income tax payable and received subsidies.

Estimated payables mainly consist of unbilled supplies of inventories, work and services and an estimated amount for outstanding vacation days and annual bonuses including insurance.

Other payables primarily relate to deductions from employee salaries and payables arising from the acquisition of equity investments.

6.15.3. Intercompany Payables

Short-term Payables

(CZK thousand)

Name of the entity	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Trade payables		
Doprava TŽ, a.s.	11 701	8 654
Kvalifikační a personální agentura, o.p.s.	15	85
Hutnictví železa, a.s.	602	638
MORAVIA STEEL, a.s.	2 225 081	1 599 190
Moravia Security, a.s.	5 488	5 234
Security Morava, s.r.o.	123	122
TRIALFA, s.r.o.	16 139	14 753
TRISIA, a.s.	835	1 319
TŘINECKÁ PROJEKCE, a.s.	1 990	2 919
Třinecké gastroslužby, s.r.o.	8 504	7 293
Sochorová válcovna TŽ, a.s.	13 364	44 466
VESUVIUS ČESKA REPUBLIKA, a.s.	7 380	5 833
Beskydská golfová, a.s.	1 800	0
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	930	758
ZAMECZEK BŁOGOCICE Sp. z o.o.	105	1 289
Soukromá střední škola Třinec*	1 847	1 499
Moravskoslezský kovošrot, a.s.	112 452	83 353
HRAT, s.r.o.	72	75
Total short-term intercompany payables	2 408 428	1 777 480
Other payables to Group companies		
ZAMECZEK BŁOGOCICE Sp. z o.o.	5 437	5 559
M Steel Projects a.s.	90 216	0
Total	95 653	5 559
Total short-term intercompany payables	2 504 081	1 783 039
Other than intercompany payables	2 400 856	1 979 503
Total short-term payables	4 904 937	3 762 542

Note: * TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

6.16. DEFERRED TAX LIABILITY AND DEFERRED TAX ASSET

6.16.1. Deferred Tax Liability

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

(CZK thousand)

Deferred tax basis	Tax rate in %	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Difference between tax and accounting net book value of fixed assets	19	-2 035 146	- 6 160 602
Re-measurement of securities available for sale	19	0	20
Re-measurement of assets to fair value charged against equity	19	-339 384	-423 585
Accounting reserves	19	53 724	154 275
Provisions	19	40 885	1 559 031
Outstanding default interest	19	-26 500	0
Expenses to be allowable in subsequent periods	19	18 560	108 243
Utilisable tax losses	19	66 658	1 108 360
Unrealised gains on the intragroup sale of inventory	19	40 284	-26 198
Unrealised gains on intragroup sales of tangible fixed assets	19	355 663	358 379
Total tax base		-1 825 256	-3 322 077
Deferred tax liability		-346 799	-631 195

(CZK thousand)

Analysis of movements	
1 Jan 2009	-822 055
Current changes charged to the profit and loss account	199 728
Current changes recognised in equity	-8 868
31 Dec 2009	-631 195
Current changes charged to the profit and loss account	268 397
Current changes recognised in equity	15 999
31 Dec 2010	-346 799

6.16.2. Deferred Tax Asset

(CZK thousand)

	Tax rate in %	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Difference between tax and accounting net book value of fixed assets	19	-4 419 803	-206 137
Re-measurement of securities available for sale	19	20	0
Accounting reserves	19	156 870	13 121
Expenses to be allowable in subsequent periods	19	97 723	4 905
Provisions	19	641 742	49 063
Utilisable tax losses	19	3 931 923	555 663
Total tax base		408 475	416 615
Deferred tax asset		77 611	79 157

(CZK thousand)

Analysis of movements	
1 January 2009	48 490
New acquisition	8 520
Current changes charged to the profit and loss account	22 147
31 December 2009	79 157
Current changes charged to the profit and loss account	-1 465
Current changes charged to equity	-81
31 December 2010	77 611

6.17. BANK LOANS

6.17.1. Long-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2010	Balance at 31 Dec 2009	Interest rate in %	Form of collateral at 31 Dec 2010
Investment	EUR	4 219	13 366	6M EURIBOR + 0.6	SACE guarantee insurer
Investment	CZK	0	15 000	FIXED 4.3	Movable assets, MS guarantee statement
Investment	EUR	139 838	232 264	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	CZK	15 000	25 000	3M PRIBOR + 0.79	Letter of comfort – Trinecké železářny, a.s
Investment	CZK	0	19 400	3M PRIBOR + 1.59	Immovable and movable assets, blank bill of exchange
Investment	CZK	55 556	100 000	FIXED 4.65	Immovable and movable assets, guarantee statement of MS, blank bill of exchange
Investment	CZK	830 923	0	3M PRIBOR + margin (according to Senior Debt/EBITDA)	Movable and immovable assets, receivable from insurance, blank bill of exchange
Investment	CZK	0	2 647	1M EURIBOR + 0.65	Immovable and movable assets
Investment	CZK/ EUR	237 571	321 791	3M PRIBOR/ EURIBOR + 0.7	Movable assets, receivable from insurance, blank bill of exchange
Investment	EUR	3 007	9 527	3M EURIBOR + 0.7	16-34 mm induction hardening line
Investment	EUR	10 024	21 172	1M EURIBOR + 0.75	KSH 602D welding machine
Investment	EUR	3 133	5 955	3M EURIBOR + 1.6	KBA 601 bending machine
Investment	EUR	17 278	28 834	6M EURIBOR + 1.3	Receivables, Sakamura press
Investment	CZK	0	12 000	6M PRIBOR + 1.3	Receivables, real estate
Investment	CZK/EUR	47 795	0	6.74% 3M PRIBOR + 2.5	Statement of the parent company, pledge of assets, blank bills of exchange
Total		1 364 344	956		

6.17.2. Short-Term Bank Loans

(CZK thousand)

Type of loan	Currency	Balance at 31 Dec 2010	Balance at 31 Dec 2009	Interest rate in %	Form of collateral at 31 Dec 2010
Investment	CZK	15 000	30 000	FIXED 4.3	Movable assets, guarantee statement of MS, a.s.
Investment	CZK	44 444	44 444	FIXED 4.65	Immovable and movable assets., guarantee statement of MS, blank bill of exchange
Investment	EUR	80 095	101 023	6M EURIBOR + 0.6	Hermes guarantee insurer
Investment	EUR	-	3 926	6M EURIBOR + 0.625	SACE guarantee insurer
Operating	CZK	295 906	-	1M PRIBOR+1.6 (roll-over basis)	Blank bill of exchange
Operating	CZK	479 291	-	1D PRIBOR + 0.95	Blank bill of exchange
Investment	CZK	100 000	-	3M PRIBOR + margin (according to Senior Debt/EBITDA)	Movable and immovable assets, receivable from insurance, blank bill of exchange
Overdraft	CZK	32 306	51 264	1M PRIBOR + 3.4	Letter of comfort of Trinecké železářny, a. s.
Investment	EUR/ CZK	27 311	105 887	6.74 3M PRIBOR + 2.5	Statement of the parent company, pledge of assets, blank bills of exchange
Investment	CZK	0	15 773	FIXED 3.76 %	Immovable and movable assets, blank bill of exchange
Investment	CZK	0	18 000	3 M PRIBOR + 1.65	Movable assets, guarantee statement of MS, a.s.
Investment	CZK	19 400	34 400	3M PRIBOR + 1.59	Pledge of movable and immovable assets and blank bill of exchange
Operating	CZK	28 653	-	1 day PRIBOR + 1.5	Blank bill of exchange
Investment	EUR	8 438	8 911	6M EURIBOR + 0.6	SACE guarantee insurer
Operating	CZK	43 306	5 061	1M PRIBOR +1,9 (margin decreased to 1.4)	Blank bill of exchange, trade receivables
Investment	CZK	0	1 222	6M PRIBOR + 1.4	Blank bill of exchange, pledged movables
Investment	EUR	2 506	1 985	3M EURIBOR + 1.6	KBA 601 bending machine
Investment	EUR	2 506	5 293	1M EURIBOR + 0.65	KER5, KEH51 line
Investment	EUR	10 024	5 293	1M EURIBOR + 0.75	KSH 602D welding machine
Investment	EUR	-	5 293	1M EURIBOR + 0.5	Immovable and movable assets
Investment	EUR	6 014	5 558	3M EURIBOR + 0.7	Immovable and movable assets
Investment	CZK	10 000	10 000	3M PRIBOR +0.79	Letter of comfort of Trinecké železářny, a. s.
Operating	CZK	0	10 602	O/N PRIBOR + 1.4	Pledge to receivables – loan of D 5, akciová společnost
Investment	EUR	10 025	10 586	6M EURIBOR + 1.3	Receivables, Sakamura press
Investment	CZK	12 000	24 000	6M PRIBOR + 1.3	Receivables, real estate
Overdraft	CZK	2 380	-	O/N PRIBOR +0.9%	Real estate, receivables
Investment	EUR/ CZK	73 099	75 715	3M PRIBOR/EURIBOR + 0.7	Movable assets, receivable from insurance, blank bill of exchange
Operating	CZK	305 000	305 000	1M PRIBOR + 2,0 (margin decreased to 1.3)	Blank bill of exchange, trade receivables
Investment	PLN	76 581	90 290	WIBOR 1M + 2.5	Immovable and movable assets
Total	CZK	1 684 285	969 526		

Anticipated Repayment Schedule in Years

(CZK thousand)

Years	2011	2012	2013	2014	2015	In subsequent periods	Total
Loan instalments	1 684 285	461 244	370 543	283 359	218 275	30 923	3 048 629

6.18. OTHER OFF BALANCE SHEET LIABILITIES

TŘINECKÉ ŽELEZÁRNY, a. s.

The entity records the following off balance sheet liabilities:

31 December 2010

Type of liability	Total amount	Balance at 31 Dec 2010
Guarantees		
- to other entities	USD 576 thousand	CZK 10 806 thousand
	EUR 1 165 thousand	CZK 29 194 thousand
	CZK 5 000 thousand	CZK 5 000 thousand

31 December 2009

Type of liability	Total amount	Balance at 31 Dec 2009
Guarantee statements		
- to Group companies	EUR 48 thousand	CZK 1 270 thousand
Guarantees		
- to other entities	USD 705 thousand	CZK 12 951 thousand
	EUR 1 127 thousand	CZK 29 821 thousand
	CZK 5 000 thousand	CZK 5 000 thousand

Environmental Liabilities

The Company was subject to an environmental audit which indicates the Company's liabilities relating to the environment. Pursuant to the audit, the Company entered into a contract with the Czech Property Fund for the settlement of expenses incurred for the settlement of the environmental liabilities before the privatisation up to CZK 514 million.

As of 31 December 2010 and 2009, the Company drew the funds in the amounts of CZK 397,216 thousand and CZK 375,465 thousand, respectively.

Given that the Company concluded an amendment to this contract with the Czech Republic – Ministry of Finance on 3 November 2008, the guarantee of the Ministry amounts up to CZK 843.6 million. This guarantee covers environmental liabilities of the Company, therefore the reserve for environmental burdens was released.

ENERGETIKA TŘINEC, a.s.

Collateral for own liabilities

(CZK thousand)

Type of liability	Balance at 31 Dec 2010	Balance at 31 Dec 2009
Blank bills of exchange – collateral for long-term bank loans	200 000	200 000
Blank bills of exchange – collateral for overdraft loans	150 000	0
Total	350 000	200 000

Collateral for third-party liabilities

In 2010, ENERGETIKA TŘINEC, a.s. (hereinafter "ET") established a pledge relating to the building of the TK1, TK2 and TK3 distribution stations (including technology) which were used as collateral for the loan of TŘINECKÉ ŽELEZÁRNY, a. s. from Česká spořitelna, a.s. (funding of the construction of the KB12 coke battery).

Environmental Liabilities

ET holds the ČSN EN ISO 14001 certificate and does not anticipate any extraordinary environmental expenses in the following years.

Legal Disputes and Contingent Losses

As of 31 December 2010, ET was involved in no significant legal dispute, the outcome of which would significantly impact it.

ET is not aware of any material contingent losses.

STROJÍRNY TŘINEC, a.s.

Issued Collateralising Bills of Exchange

In 2010, Strojírny Třinec, a.s. (hereinafter “ST”) issued no bills of exchange collateralising liabilities of ST or third parties.

Legal Disputes

As of 31 December 2010, ST was involved in no significant legal dispute, the outcome of which would significantly impact it.

Liabilities Associated with the Construction and Acquisition of Assets (Including Financial Leases)

At the balance sheet date, ST recorded future liabilities as a result of the contracted capital expenditure of CZK 21,331 thousand.

Environmental Liabilities

There was no environmental audit of ST. As a result, ST’s management cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage. However, ST’s management believes that these liabilities are not material.

FERROMORAVIA, s.r.o.

Legal Disputes

In December 2009, the legal dispute in which FERROMORAVIA, s.r.o. was named as a defendant and which involved the payment of CZK 1,386 thousand in respect of the impaired ability of an employee to seek proper employment following the work injury of a leg was finalised. On 4 December 2009, the Regional Court in Uherské Hradiště decided to dismiss the legal action in full. The written verdict was delivered to FERROMORAVIA, s.r.o. on 9 March 2010. On 23 March 2010, the plaintiff appealed. On 3 May 2010, the plaintiff withdrew its appeal in full. The written verdict took legal effect on 16 February 2011.

Environmental Liabilities

As of 31 December 2010, there was no environmental audit of FERROMORAVIA, s.r.o. As a result, FERROMORAVIA, s.r.o. cannot estimate contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

D 5, AKCIOVÁ SPOLEČNOST, TŘINEC

D 5, akciová společnost, Třinec (hereinafter “D 5”) records the following off balance sheet liabilities:

31 December 2010

Loan collateralised by the pledge on receivables in the aggregate amount of CZK 50 million of which no less than CZK 20 million is from debtors outside the TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. groups.

31 December 2009

Loan collateralised by the pledge on receivables in the aggregate amount of CZK 50 million of which no less than CZK 20 million is from debtors outside the TŘINECKÉ ŽELEZÁRNY, a. s. and MORAVIA STEEL a.s. groups.

Legal Disputes

As of 31 December 2010, D 5 was involved in no legal dispute except for the recovery of receivables through courts.

Environmental Liabilities

D 5 records no environmental liabilities.

Liabilities Associated with the Construction and Acquisition of Assets (Including Financial Leases)

As of the balance sheet date, D 5 records no material future payables arising from expenditure for tangible fixed assets arising from concluded contracts.

VÚHŽ, a.s.

VÚHŽ a.s. records the following off balance sheet liabilities:

Easements

Land and buildings of VÚHŽ a.s. carry established easements in favour of Jindřich Rašner and Jaroslav Vaníček - an easement of walking and driving.

Another easement relating to the ground sewerage pipe system, access and entry to the system, maintenance, repairs and other necessary activities was established in favour of the Dobrá municipality, Dobrá 230, 739 51, corporate ID: 00296589.

Bank Guarantees

VÚHŽ a.s. records a bank guarantee with the maximum facility of CZK 20,000 thousand with Komerční banka, a.s. with the actual drawing as of 31 December 2010 amounting to CZK 1,601 thousand and with Citibank Europe plc with the maximum facility of CZK 12,000 thousand and the actual drawing as of 31 December 2010 amounting to CZK 9,195 thousand. These are bank guarantees in favour of customers of VÚHŽ a.s. collateralising its supplies for guarantees in the warranty period of supplies of level gauges. As of 31 December 2009, these guarantees amounted to CZK 14,731 thousand and the maximum facility was CZK 32,000 thousand.

SLÉVÁRNÝ TŘINEC, a.s.

As of 31 December 2010, Slévárny Třinec, a.s. (hereinafter "SL") was involved in no significant legal dispute, the outcome of which would significantly impact it.

Environmental Liabilities

SL does not anticipate any contingent liabilities pertaining to damage caused by prior activities or liabilities related to the prevention of potential future damage.

SL provided no guarantee to third parties.

ŠROUBÁRNA KYJOV, spol. s r.o.

Šroubárna Kyjov, spol. s r.o. records no off balance sheet liabilities.

ŘETĚZRNA, a.s.

As of 31 December 2010, term contracts (forwards) were concluded to hedge the exchange rate in 2011 in the aggregate amount of EUR 700 thousand. The fair value measurement of these transactions was made through the profit and loss account.

REFRASIL, s.r.o.

As of 31 December 2010, REFRASIL, s.r.o. was involved in no significant legal dispute, the outcome of which would significantly impact it.

Environmental Liabilities

REFRASIL, s.r.o. records no environmental liabilities.

Liabilities Associated with the Construction and Acquisition of Assets (Including Financial Leases)

As of the balance sheet date, REFRASIL, s.r.o. records no material future payables arising from expenditure for tangible fixed assets arising from concluded contracts.

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 2010*

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	31 268 481	1 393 645	32 662 126
Other production	1 419 168	1 157 510	2 576 678
Sale of goods	3 922	78 982	82 904
Services	628 312	61 948	690 260
Change in inventory	148 785	38 734	187 519
Own work capitalised	784 622	201	784 823
Total	34 253 290	2 731 020	36 984 310

7.1.2. *The Group's Income from Ordinary Activities and Sale of Goods for 2009*

(CZK thousand)

Activities	Domestic	Export	Total
Metallurgic production	24 491 549	993 354	25 484 903
Other production	1 250 413	877 414	2 127 827
Sale of goods	3 863	16 502	20 365
Services	493 036	35 004	528 040
Change in inventory	-465 214	-51 717	-516 931
Own work capitalised	638 319	893	639 212
Total	26 411 966	1 871 450	28 283 416

7.2. GRANTS

Other grants for operating purposes of CZK 28,671 thousand received in 2010 (CZK 24,178 thousand in 2009) include grants for research purposes and education, and grants received from the Employment Office.

7.3. OTHER EXPENSES AND INCOME

Costs of advisory, consulting and audit activities as of 31 December 2010 amount to CZK 41,670 thousand and CZK 31,578 thousand as of 31 December 2010 and 2009, respectively.

Other operating income as of 31 December 2010 and 2009 predominantly includes the drawing of the grant for greenhouse gas emissions of CZK 1,599,771 thousand and CZK 1,176,852 thousand, respectively.

Other financial income in 2010 and 2009 predominantly includes foreign exchange rate gains of CZK 76,477 thousand and CZK 153,046 thousand, respectively.

Other operating expenses as of 31 December 2010 and 2009 predominantly include the use of emissions for greenhouse gas emissions of CZK 1,599,771 thousand and CZK 1,190,279 thousand, respectively.

Other financial expenses as of 31 December 2010 and 2009 predominantly include foreign exchange rate losses of CZK 57,869 thousand and CZK 185,174 thousand, respectively.

7.4. TOTAL RESEARCH AND DEVELOPMENT COSTS

(CZK thousand)

	31 Dec 2010	31 Dec 2009
Research and development costs (less grants)	61 908	77 308

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 ŽELEZÁŘNY, a. s.

2010

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	41	58 970	3 945	10	0	62 966
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	190	0	0	190
MORAVIA STEEL a.s.	Controlling entity	74	27 495 871	165 569	2 577	0	27 664 091
Reťaze Slovakia s.r.o.	Controlled entity	833	18 988	23	0	0	19 844
TRIALFA, a.s.	Controlled entity	4	31 257	5 182	1 249	0	37 692
TRISIA, a.s.	Controlled entity	0	0	96	14	0	110
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	126	984	657	84	0	1 851
Třinecké gastroslužby, s.r.o.	Controlled entity	3	2 364	5 253	488	0	8 108
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	0	6 375	20 359	73	0	26 807
Sochorová válcovna TŽ, a.s.	Controlled entity	449	3 698 722	16 073	206	0	3 715 450
Moravia Steel Deutschland GmbH**	Controlled entity	0	1 296	0	0	0	1 296
Beskydská golfová, a.s.	Controlled entity	0	0	2 725	5	0	2 730
SILESIA SLAG, a.s.	Controlled entity	0	0	22	0	0	22
Steel Consortium Partners, a.s.	Controlled entity	0	0	58	0	0	58
Moravia Security, a.s.	Controlled entity	14	187	1 144	13	0	1 358
Security Morava, s.r.o.	Controlled entity	0	0	7	0	0	7
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	0	1 528	235	0	1 763
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	1 930	0	0	1 930
Hanácké železářny a pérovny, a.s.	Controlled entity	124	199	770	0	0	1 093
Moravskoslezský kovošrot, a.s.	Controlled entity	0	0	950	19 057	0	20 007
Soukromá střední škola Třinec*	Controlled entity	2	49	1 346	138	0	1 535
Kovárna VIVA a.s.	Controlled entity	0	50	2	0	0	52
M Steel Projects a.s.	Controlled entity	0	0	40	0	0	40
HRAT, s.r.o.	Controlled entity	0	0	34	0	0	34
Total		1 670	31 315 312	227 903	24 149	0	31 569 034

Note: * TŘINECKÉ ŽELEZÁŘNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

** change in the name from CMC-Třinec Stahlhandel GmbH to Moravia Steel Deutschland GmbH.

2009

(CZK thousand)

Entity	Relation to the company	Goods	Products	Services	Other income	Financial income	Total
Doprava TŽ, a.s.	Controlled entity	122	55 437	4 268	79	0	59 906
Kvalif. a pers. agentura, o.p.s.	Controlled entity	0	0	206	0	0	206
MORAVIA STEEL a.s.	Controlling entity	197	22 058 546	171 271	-1 882	0	22 228 132
Reťaze Slovakia s.r.o.	Controlled entity	0	14 943	10	0	2 137	17 090
TRIALFA, a.s.	Controlled entity	0	29 007	4 981	1 008	0	34 996
TRISIA, a.s.	Controlled entity	0	0	100	0	60	160
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	178	1 605	1 182	1	0	2 966
Třinecké gastroslužby, s.r.o.	Controlled entity	11	2 240	8 177	913	0	11 341
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	0	5 545	16 883	1	0	22 429
Sochorová válcovna TŽ, a.s.	Controlled entity	614	2 223 331	14 504	127	0	2 238 576
CMC Třinec Stahlhandel GmbH	Controlled entity	0	22 624	0	0	0	22 624
Beskydská golfová, a.s.	Controlled entity	0	198	4 326	12	0	4 536
SILESIA SLAG, a.s.	Controlled entity	0	0	24	0	0	24
Steel Consortium Partners, a.s.	Controlled entity	0	0	60	0	0	60
Moravia Security, a.s.	Controlled entity	33	202	1 065	19	0	1 319
Security Morava, s.r.o.	Controlled entity	0	0	4	0	0	4
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	9	3	2 300	292	0	2 604
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	599	0	528	1 127
Hanácké železářny a pérovny, a.s.	Controlled entity	0	79	311	0	0	390
Moravskoslezský kovošrot, a.s.	Controlled entity	0	516	750	8 566	0	9 832
Soukromá střední škola Třinec*	Controlled entity	2	6	295	32	0	335
Total		1 166	24 414 282	231 316	9 168	2 725	24 658 657

Note: * TŘINECKÉ ŽELEZÁŘNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

7.5.2. Purchases from Related Parties

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

2010

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Extraordinary expenses	Total
Doprava TŽ, a.s.	Controlled entity	0	27 481	65 253	0	0	92 734
Hutnictví železa, a.s.	Controlled entity	0	0	5 807	118	0	5 925
Kval. a pers. agentura, o.p.s.	Controlled entity	0	0	239	0	0	239
MORAVIA STEEL a.s.	Controlling entity	23	22 708 515	230 099	44 690	1 073	22 984 400
Reťaze Slovakia, s.r.o.	Controlled entity	0	327	254	0	0	581
TRIALFA, s.r.o.	Controlled entity	29	9 956	18 796	62 094	0	90 875
TRISIA, a.s.	Controlled entity	0	0	9 244	0	0	9 244
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	11 301	190	9 772	9	0	21 272
Třinecké gastroslužby, s.r.o.	Controlled entity	0	14 441	7 672	72 651	0	94 764
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	0	14	60 556	0	0	60 570
Sochorová válcovna TŽ, a.s.	Controlled entity	0	159 264	35 730	1 791	0	196 785
Beskydská golfová, a.s.	Controlled entity	0	0	3 831	0	0	3 831
Moravia Security, a.s.	Controlled entity	0	33	53 312	0	0	53 345
Security Morava, s.r.o.	Controlled entity	0	0	1 205	0	0	1 205
Soukromá střední škola Třinec*	Controlled entity	0	492	9 257	1 766	0	11 515
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	1 263	0	0	1 263
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o.	Controlled entity	0	2 187	8 043	0	0	10 230
Moravia Steel Deutschland GmbH**	Controlled entity	0	0	137	0	0	137
Hanácké železářny a pérovny, a.s.	Controlled entity	0	66	0	0	0	66
Moravskoslezský kovošrot	Controlled entity	0	843 406	0	0	0	843 406
Kovárna VIVA a.s.	Controlled entity	0	386	6	0	0	392
HRAT, s.r.o.	Controlled entity	140	0	260	0	0	400
Total		11 493	23 766 758	520 736	183 119	1 073	24 483 179

Note: * TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

** change in the name from CMC-Třinec Stahlhandel GmbH to Moravia Steel Deutschland GmbH.

2009

(CZK thousand)

Entity	Type of entity	Fixed assets	Inventory	Services	Other expenses	Extraordinary expenses	Total
Doprava TŽ, a.s.	Controlled entity	196	3 383	66 724	0	0	70 303
Hutnictví železa, a.s.	Controlled entity	0	0	6 680	0	0	6 680
Kval. a pers. agentura, o.p.s.	Controlled entity	0	0	344	331	0	675
MORAVIA STEEL a.s.	Controlling entity	3	13 332 526	275 599	46 136	0	13 654 264
Reťaze Slovakia, s.r.o.	Controlled entity	0	888	537	0	0	1 425
TRIALFA, s.r.o.	Controlled entity	0	10 085	16 085	51 929	0	78 099
TRISIA, a.s.	Controlled entity	0	12	12 106	18	0	12 136
TŘINECKÁ PROJEKCE, a.s.	Controlled entity	13 131	0	12 821	0	0	25 952
Třinecké gastroslužby, s.r.o.	Controlled entity	0	15 511	10 211	68 490	0	94 212
VESUVIUS ČESKÁ REPUBLIKA, a.s.	Controlled entity	0	8	54 707	0	0	54 715
Sochorová válcovna TŽ, a.s.	Controlled entity	1 281	409 542	13 652	7 470	0	431 945
Beskydská golfová, a.s.	Controlled entity	0	0	7 517	0	0	7 517
Moravia Security, a.s.	Controlled entity	188	41 470	8 261	0	0	49 919
Security Morava, s.r.o.	Controlled entity	0	0	607	0	0	607
Soukromá střední škola Třinec*	Controlled entity	0	39	3 537	0	0	3 576
ZAMECZEK BŁOGOCICE Sp. z o.o.	Controlled entity	0	0	1 279	0	0	1 279
MATERIÁLOVÝ A METALURGICKÝ VÝZKUM, s.r.o.	Controlled entity	38	0	11 724	0	0	11 762
CMC-Třinec Stahlhandel GmbH	Controlled entity	0	0	218	0	0	218
Moravskoslezský kovošrot, a.s.	Controlled entity	0	642 388	0	0	0	642 388
Kovárna „VIVA“ Zlín, spol. s r.o.	Controlled entity	0	587	0	0	0	587
Total		14 837	14 456 439	502 609	174 374	0	15 148 259

Note: * TŘINECKÉ ŽELEZÁRNY, a. s. is the founder in accordance with Act No. 561/2004 Coll., Education Act

8. EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

8.1. STAFF COSTS AND NUMBER OF EMPLOYEES

8.1.1. Staff Costs and Number of Employees for 2010

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽELEZÁRNY, a. s.	5 905	7,9	2 561 186	34 406
ENERGETIKA TŘINEC, a.s.	370	5	155 579	10 321
Strojírny Třinec, a.s..	932	8	321 946	13 336
Slévárny Třinec, a.s.	685	5	233 823	6 142
REFRASIL, s.r.o.	176	2	81 455	10 778
Řetězárna a.s.	246	6	99 566	13 982
FERROMORAVIA, s.r.o.	182	4	65 491	5 444
Šroubárna Kyjov, spol. s r.o.	298	6	112 279	7 179
D 5, a.s.	710	8	237 135	11 895
VUHŽ, a.s.	298	11	150 303	18 910
METALURGIA S.A.	306	4	78 447	6 759
Total under full consolidation	10 108	67	4 097 210	139 152

8.1.2. Staff Costs and Number of Employees for 2009

(CZK thousand)

Company	Average number of employees	Of which managers	Total staff costs	Of which managers
TŘINECKÉ ŽELEZÁRNY, a. s.	5 319	6	2 327 324	48 857
ENERGETIKA TŘINEC, a.s.	370	5	151 692	8 906
Strojírny Třinec, a.s..	929	8	305 320	13 354
Slévárny Třinec, a.s.	734	5	190 261	4 341
REFRASIL, s.r.o.	162	2	74 716	11 752
Řetězárna a.s.	255	6	93 654	13 237
VÁLCOVNA TRUB TŽ, a.s.	738	4	259 900	8 638
FERROMORAVIA, s.r.o.	180	5	65 867	4 617
H & S PROGRESS, s.r.o.	0	0	26	0
Šroubárna Kyjov, spol. s r.o.	294	6	105 032	7 594
D 5, a.s.	732	8	237 372	11 249
VUHŽ, a.s.	269	11	126 096	17 353
METALURGIA S.A.	324	4	21 188	7 222
Total under full consolidation	10 306	70	3 958 448	157 120

8.2. BENEFITS PROVIDED TO MEMBERS OF STATUTORY, SUPERVISORY AND MANAGEMENT BODIES

Set out below are the amounts of bonuses, advances, borrowings, other receivables, payables and other benefits in respect of members of the statutory, management and supervisory bodies:

(CZK thousand)

Company/benefit	2010	2009
TŘINECKÉ ŽELEZÁRNY, a. s.	13 274	17 034
Use of management cars	1 320	1 168
Liability insurance	797	858
Bonuses	11 157	15 008
ENERGETIKA TŘINEC, a.s.	1 439	1 336
Use of management cars	552	462
Life insurance contribution	191	185
Liability insurance	48	41
Bonuses	648	648
Strojírny Třinec, a.s.	1 162	982
Use of management cars	399	252
Life insurance contribution	81	53
Liability insurance	34	29
Bonuses	648	648
Slévárny Třinec, a.s.	714	714
Use of management cars	4	4
Life insurance contribution	29	29
Liability insurance	33	33
Bonuses	648	648
REFRASIL, s.r.o.	629	630
Use of management cars	237	237
Life insurance contribution	0	0
Liability insurance	8	9
Bonuses	384	384
FERROMORAVIA, s.r.o.	708	786
Use of management cars	367	462
Liability insurance	17	0
Bonuses	324	324
Řetězárna a.s.	6 319	6 081
Use of management cars	704	809
Life insurance contribution	11	0
Liability insurance	0	12
Bonuses	5 604	5 260
VÁLCOVNA TRUB TŽ, a.s.	0	946
Use of management cars	0	296
Life insurance contribution	0	18
Bonuses	0	632
D 5, a.s.	1 291	1 392
Use of management cars	586	586
Life insurance contribution	33	29
Liability insurance	24	56
Bonuses	648	721
VÚHŽ a.s.	1 501	2 250
Use of management cars	973	1 001
Life insurance contribution	49	52
Liability insurance	11	729
Bonuses	468	468
Šroubárna Kyjov, s.r.o.	848	829
Use of management cars	464	464
Life insurance contribution	38	19
Liability insurance	22	22
Bonuses	324	324
METALURGIA S.A	503	1932
Use of management cars	0	203
Bonuses	503	1 729
Total	28 388	34 912



9. POST BALANCE SHEET EVENTS

On 21 February 2011, TŘINECKÉ ŽELEZÁRNY, a. s. acquired 100% of the issued share capital of “D&D” Drótáru Ipari és Kereskedelmi Zártkörűen Működő Részvénytársaság with its registered office at 3527 Miskolc, Besenyői út 18., Hungary, registration number: Cg. 05-10-000311, and became the sole shareholder of this entity.

On 30 September 2010, the Company's shareholder, Mr Marek Veselý, filed a petition with the Regional Court in Ostrava regarding the invalidity of the resolution passed at the Company's annual general meeting of shareholders of TŘINECKÉ ŽELEZÁRNY, a. s., held on 30 June 2010, which “approved the Company's statutory and consolidated financial statements for the year ended 31 December 2009 and the proposal for the settlement of the Company's loss for 2009”. At the call of the Regional Court in Ostrava, the Company responded, in writing, to the petition through its legal counsel by stating on 31 January 2011 that it considers the petition lacks merit and should be rejected. The court proceedings have not yet been finalised and no court hearing has yet been scheduled regarding this matter.

In 2011, TŘINECKÉ ŽELEZÁRNY, a. s. is anticipated to merge with FERROMORAVIA, s.r.o. by amalgamation with the effective merger date on 1 January 2011. Based on the approved draft merger project, FERROMORAVIA, s.r.o. is the dissolving entity and TŘINECKÉ ŽELEZÁRNY, a. s. is the successor entity.



REPORT ON RELATED PARTY TRANSACTIONS FOR THE YEAR ENDED 31 DECEMBER 2010

TŘINECKÉ ŽELEZÁRNY, a. s., registered at Třinec-Staré Město, Průmyslová 1000, 739 70, corporate ID 18050646, entered in the Register of Companies, Section B, File No. 146, maintained by the Regional Court in Ostrava (hereinafter the “Company”) together with the entities below (the “related parties”) forms a group in terms of the second sentence of Section 66a (7) of the Commercial Code.

The report on relations between the related parties was prepared in compliance with the provisions of Section 66a (9) of the Commercial Code for the year ended 31 December 2010 (the “accounting period”).

I. DEFINITION OF RELATED PARTIES

A. CONTROLLING ENTITIES

MORAVIA STEEL a.s. Registered office: Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID 63474808

Relation: The company is the Company’s controlling entity acting in concert with FINITRADING a.s., which is another shareholder of the Company.

MORAVIA STEEL a.s. is controlled by the entities below acting in concert under Section 66b (1) and Section 66b (2) (b) of the Commercial Code:

- FINITRADING, a.s. with its registered office at Třinec, nám. Svobody 526, 739 61, Corporate ID 61974692
- R.F.G., a.s. with its registered office at Třinec, nám. Svobody 526, 739 61, Corporate ID 63079658

FINITRADING, a.s. registered at Třinec, nám. Svobody 526, 739 61, Corporate ID 61974692

Relation: The company is the Company’s controlling entity acting in concert with MORAVIA STEEL a.s., which is another shareholder of the Company.

B. OTHER RELATED PARTIES

B.1. COMPANIES CONTROLLED BY THE CONTROLLING ENTITIES

Moravia Steel AG Zug, “in liquidation” registered at Industriestrasse 47, 6302 Zug, Switzerland

Relation: company controlled by MORAVIA STEEL a.s.

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

Relation: company controlled by MORAVIA STEEL a.s.

MORAVIA GOEL TRADE d.o.o., “in liquidation”, registered at Perkovčeva 48, 104 30 Samobor, Croatia

Relation: company controlled by MORAVIA STEEL a.s.

MORAVIA STEEL ITALIA s.r.l. registered at via Niccolini 26, 20154 Milan, Italy

Relation: company controlled by MORAVIA STEEL a.s.

MORAVIA STEEL SLOVENIJA d.o.o. registered at Valvazorjeva 14, 3000 Celje, Slovenia

Relation: company controlled by MORAVIA STEEL a.s.

Moravia Steel Deutschland GmbH (originally CMC – TRINEC Stahlhandel, GmbH) registered at Cliev 19, 51515 Kürten, Germany

Relation: company controlled by MORAVIA STEEL a.s.

TRINEC – CMC LIMITED registered at Bradwall Court, Bradwall Road, Sandbach, Cheshire, CW11 1 GE, U.K.

Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Televizní Studio a.s. registered at Prague 5, Kříženeckého nám. 322, 152 00, Corporate ID 41693311

Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Studio a.s. registered at Prague 5, Hlubočepy, Kříženeckého nám. 322/5, 152 00, Corporate ID 28172469

Relation: company controlled by MORAVIA STEEL a.s.

Barrandov Lands a.s. registered at Prague 5, Kříženeckého nám. 322/5, 152 00, Corporate ID 27225674
Relation: company controlled by MORAVIA STEEL a.s.

MS – Slovensko s.r.o. registered at Bratislava, Palisády 56, 811 06
Relation: company controlled by MORAVIA STEEL a.s.

MORAVIA STEEL ISRAEL Ltd. registered at 23 Efal St., Petach Tikva 49 511, P.O.B. 3286, Israel
Relation: company controlled by MORAVIA STEEL a.s.

Beskydská golfová, a.s., registered at Ropice 415, 739 56, Corporate ID 25352920
Relation: company controlled by MORAVIA STEEL a.s.

Hanácké železářny a pérovny, a.s., registered at Prostějov, Dolní 100, 797 11, Corporate ID 26955342
Relation: company controlled by MORAVIA STEEL a.s.

Moravia Steel Poland sp. z o.o., registered at Bobrecka 27, Cieszyn 43-400, Poland
Relation: company controlled by MORAVIA STEEL a.s.

M Steel Projects a.s. registered at Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID 28602331
Relation: company controlled by MORAVIA STEEL a.s.

Moravskoslezský kovošrot, a.s., registered at Prague 1, Nové Město, V Jámě 1371/8, 110 00, Corporate ID 26855097
Relation: company controlled by MORAVIA STEEL a.s.

Moravia Steel Middle East FZCO registered at Jebel Ali Free Zone, Building 18-19 # 133, Dubai, United Arab Emirates
Relation: company controlled by MORAVIA STEEL a.s.

Sochorová válcovna TŽ, a.s. registered at Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID 25872940
Relation: company controlled by MORAVIA STEEL a.s. and the Company acting in concert.

B.2. COMPANIES CONTROLLED BY THE COMPANY

ENERGETIKA TŘINEC, a.s. registered at Třinec-Staré Město, Průmyslová 1024, 739 65, Corporate ID 47675896
Relation: company controlled by the Company

Strojírny Třinec, a.s. registered at Třinec-Staré Město, Průmyslová 1038, 739 65, Corporate ID 25363654
Relation: company controlled by the Company

Slévárny Třinec, a.s. registered at Třinec, Staré Město, Průmyslová 1001, 739 65, Corporate ID 25830716
Relation: company controlled by the Company

Třinecké gastroslužby, s.r.o. registered at Třinec-Staré Město, Průmyslová 1035, 739 65, Corporate ID 25838148
Relation: company controlled by the Company

SILESIA SLAG, a.s. registered at Třinec-Staré Město, Průmyslová 1032, 739 65, Corporate ID 25893882
Relation: company controlled by the Company

Doprava TŽ, a.s. registered at Třinec-Staré Město, Průmyslová 1008, 739 65, Corporate ID 25398083
Relation: company controlled by the Company

TRIALFA, s.r.o. registered at Třinec-Kanada, ul. Míru 272, 739 65, Corporate ID 25839888
Relation: company controlled by the Company

Řetězárna a.s. registered at Česká Ves, Polská 48, 790 81, Corporate ID 47672081
Relation: company controlled by the Company

TRISIA, a.s. registered at Třinec, nám. Svobody 526, District of Frýdek-Místek, Corporate ID 64610152
Relation: company controlled by the Company

REFRASIL, s.r.o. registered at Třinec-Konská, Průmyslová 720, 739 65, Corporate ID 48395862
Relation: company controlled by the Company

Steel Consortium Partners, a.s. registered at Třinec, Staré Město, Průmyslová 1000, 739 70, Corporate ID 27242382
Relation: company controlled by the Company

VÁLCOVNA TRUB TŽ, a.s. registered at Ostrava-Vítkovice, Výstavní 1132, Corporate ID 25825291
Relation: company controlled by the Company before 31 August 2010 (dissolution of the entity as part of the merger by amalgamation without liquidation with the Company)

H & S PROGRESS s.r.o. registered at Dobrá 240, 739 51, Corporate ID 61946460
Relation: company controlled by the Company before 31 May 2010 (dissolution of the entity as part of the merger by amalgamation without liquidation with VÚHŽ a.s.)

VÚHŽ a.s. registered at Dobrá 240, 739 51, Corporate ID 27768953
Relation: company controlled by the Company

MATERIÁLOVÝ A METALURGICKÝ VÝZKUM s.r.o. registered at Ostrava-Vítkovice, Pohraniční 693/31, 706 02, Corporate ID 25870807
Relation: company controlled by the Company

Šroubárna Kyjov, spol. s r.o., registered at Kyjov, Jiráskova 987, 697 32, Corporate ID 42293588
Relation: company controlled by the Company

Moravia Security, a.s., registered at Třinec, Kanská, Průmyslová 725, 739 65, Corporate ID 27835481
Relation: company controlled by the Company

D5, akciová společnost, Třinec, registered at Třinec, Staré Město, Průmyslová 1026, 739 61, Corporate ID 47674539
Relation: company controlled by the Company

FERROMORAVIA, s.r.o., registered at Staré Město, Tovární 1688, 686 02, Corporate ID 63480085
Relation: company controlled by the Company

“METALURGIA” Spółka Akcyjna registered at ulica Świętej Rozalii nr 10/12, 97-500 Radomsko, Poland
Relation: company controlled by the Company

„ZAMECZEK BŁOGOCICE” SPÓŁKA Z OGRANICZONĄ ODPOWIEDZIALNOŚCIĄ, registered at ul. Zeromskiego 1, 43-400 Cieszyn, Poland
Relation: company controlled by the Company

Sochorová válcovna TŽ, a.s. registered at Třinec-Staré Město, Průmyslová 1000, 739 70, Corporate ID 25872940
Relation: company controlled by MORAVIA STEEL a.s. and the Company acting in concert.

II. DESCRIPTION OF THE RELATIONS

A. DEFINITION OF THE RELATION BETWEEN RELATED PARTIES

a) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and MORAVIA STEEL a.s. as the controlling company are presented below in section B hereof.

b) The relations in terms of the provisions of Section 66a (9) of the Commercial Code between the Company and R.F.G., a.s. and FINITRADING, a.s. were not established in the accounting period, i.e. no contracts were concluded, no other legal acts were performed, and no measures were taken or implemented in terms of the above-mentioned provisions in the accounting period.

c) The relations in terms of the provisions of Section 66a (9) of the Commercial Code between the Company and the Related Parties which are controlled by the controlling entities pursuant to section B.1, chapter I, except for Sochorová válcovna TŽ, a.s., Beskydská golfová, a.s., Hanácké železářny a pérovny, a.s., Moravskoslezský Kovošrot, a.s. and M Steel Projects a. s. were not established in the accounting period, i.e. no contracts were concluded among the related parties, no other legal acts were performed and no measures were taken or implemented at the initiative or on behalf of the related parties.

d) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and Sochorová válcovna TŽ, a.s. are presented below in section C hereof.

e) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and Beskydská golfová, a.s., are presented below in section D hereof.

f) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and Hanácké železářny a pérovny, a.s. are presented below in section E hereof.

g) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and Moravskoslezský kovošrot, a.s. are presented below in section F hereof.

h) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and M Steel Projects, a.s. are presented below in section G hereof.

i) The relations in terms of the provisions of Section 66a (9) of the Commercial Code that were established in the accounting period between the Company and the Related Parties which are controlled by the Company pursuant to section B.2, chapter I are stated in the reports on relations of each of these Related Parties that prepare their reports separately, providing a detailed description of their relations with the Company. The Company incurred no damage as a result of the relationships.

j) This related parties report in its sections B. and G. and individual reports on relations between related parties referred to in section A. i) hereof, provide the report on potential relations with VÁLCOVNA TRUB TŽ, a.s. reflecting the fact that the rights and obligations resulting from these relations for VÁLCOVNA TRUB TŽ, a.s., were transferred to the Company as the successor company as a result of the merger by amalgamation without liquidation with the Company with effect as of 31 August 2010.

B. DESCRIPTION OF THE COMPANY'S RELATIONS WITH THE CONTROLLING ENTITY, MORAVIA STEEL a.s.

Introduction

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

aa) by the Master Contract mentioned below of 30 December 2002 for the sale area; and

ab) by the Contract for the Supply of Materials and Raw Materials mentioned below of 12 January 1999 for the purchase area.

The individual performances are presented in the partial purchase contracts executed pursuant to the above contracts for a particular product, amount, shape and type, the agreed upon price and performance deadline. The agreed upon prices respect the specific features of purchases and sales in the metallurgic industry and take into account the elimination of foreign exchange risks, the adjustment of payment conditions, and business risks.

b) Due to the high number of contracts entered into during the accounting period, this report includes:

ba) separate references to the individual contracts important for the relations between the Company and MORAVIA STEEL a.s., primarily the contracts whereby the performance fee exclusive of VAT was agreed within the day-to-day course of business relations in the amount of no less than 1% of the Company's share capital, and 0.5% of the Company's share capital outside of day-to-day business relations; and

bb) a collective reference to other contracts, mainly contracts whereby the performance fee is below the amount set out under section ba).

B.1 SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF THE CONTROLLING ENTITY, MORAVIA STEEL a.s.

B.1.1. Master Contract

The contract between the Company and MORAVIA STEEL, a.s. was concluded on 30 December 2002.

The subject of the contract is the sale of metallurgical products to MORAVIA STEEL a.s. Partial sale contracts are prepared for individual performances. The prices for goods are arm's length prices derived from market prices.

During the accounting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and credit notes in the respect of prices for the sale of products, or expenses associated with complaints was provided for consideration of CZK 23,938,382 thousand.

B.1.2. Master Contract for the Supplies of Metallurgical Products

This contract was concluded between VÁLCOVNA TRUB TŽ, a.s. and MORAVIA STEEL a.s. on 29 December 2005.

The subject of the contract is the sale of metallurgical products – hot rolled tubes to MORAVIA STEEL a.s. The prices for goods are arm's length prices derived from market prices.

During the accounting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and credit notes in respect of the prices for the sale of products, or expenses associated with complaints, was provided for consideration of CZK 2,037,561 thousand.

B.1.3. Licence Contract for the Use of the "Three Hammers in a Circle" Trademark

The contract between the Company and the controlling entity was entered into on 30 June 2002.

The subject of the contract is the use of the trademark of the Company by MORAVIA STEEL a.s. as part of its logo.

During the accounting period, the consideration for the use amounted to CZK 123,000 thousand.

B.1.4. Contract on the Provision of Services

The contract between the Company and MORAVIA STEEL a.s. was entered into on 1 January 2003.

The subject of the contract is the provision of security and asset guards, fire protection, postal services, archiving and documentation services, dispatch services, transport and customs clearance, information technology, selected technical services, pricing services, and selected accounting services and complaint resolution services to MORAVIA STEEL a.s.

During the accounting period, the performance under the above contract was provided for consideration of CZK 28,926 thousand.

B.1.5. Lease Contract

The contract between the Company and MORAVIA STEEL a.s. was entered into on 9 March 2000.

The subject of the contract is the lease of real estate, non-residential premises and movable assets, including services relating to the lease, for the location of the registered office and business activities of MORAVIA STEEL a.s.

The rent and other payments arising from the above contract during the accounting period amounted to CZK 7,079 thousand.

B.1.6. Lease Contract

This contract was concluded between VÁLCOVNÁ TRUB TŽ, a.s. and MORAVIA STEEL a.s. on 28 April 2006.

The subject of the contract is the lease of non-residential premises, parking lots and movable assets, including supplies of services relating to the lease, for the use as offices or other facilities necessary for business activities of MORAVIA STEEL a.s.

The rent and other payments arising from the above contract during the accounting period amounted to CZK 592 thousand.

B.1.7. Contract for the Provision of Telecommunications Services

This contract between the Company and MORAVIA STEEL a.s. was entered into on 31 December 1998.

The subject of the contract is provision of telecommunication services to MORAVIA STEEL, a.s.

During the accounting period, the performance under the above contract was provided for consideration of CZK 3,046 thousand.

B.1.8. Other Performances Provided

During the accounting period, the Company provided MORAVIA STEEL, a.s. with other performances under special contracts involving, for example, the sale of goods and other assets, provision of internet services or other services for a total consideration of CZK 3,338 thousand.

B.2. PURCHASES AND OTHER PERFORMANCES PROVIDED BY THE CONTROLLING ENTITY, MORAVIA STEEL a.s., IN FAVOUR OF THE COMPANY

B.2.1. Purchase Contract for the Supply of Materials and Raw Materials

This contract between the Company and MORAVIA STEEL, a.s. was entered into on 12 January 1999.

The subject of the contract is the purchase of metallurgical raw materials, mainly ores, coal, fuels and metallurgical semi-finished products. The volume of the supplies and fees are specified on a quarterly basis in the form of partial sale contracts.

During the accounting period, the performance under the above contract was provided for consideration of CZK 21,119,073 thousand.

B.2.2. Master Contract

This contract was concluded between VÁLCOVNÁ TRUB TŽ, a.s., and MORAVIA STEEL a.s. on 29 December 2005. The subject of the contract is the purchase of conticasts and billets intended for the production of rolled tubes.

During the accounting period, the performance under the above contract was provided for consideration of CZK 238,552 thousand.

B.2.3. Master Forwarding Contract

The contract between the Company and MORAVIA STEEL a.s. was entered into on 30 December 2002.

The subject of the contract is the provision of the transport for goods and to perform activities associated with such transport and to arrange for any other action necessary for the operation of national railway freight transport for the Company. The performance was provided on the basis of contractual prices agreed for one year with respect to a specific shipment and volume.

During the accounting period, the performance under the above contract was provided for consideration of CZK 214,963 thousand.

B.2.4. Mandate Contract

The contract between the Company and MORAVIA STEEL a.s. was entered into on 1 July 2005.

The subject of the contract is the fact that MORAVIA STEEL a.s., on behalf and on the account of the Company, agrees to deal with all business matters relating to the purchase of work and services necessary for performing the activity of the Company, primarily providing for the maintenance and repairing of the production facility, technology, structures, land and other assets owned or used by the Company.

During the accounting period, the performance under the above contract was provided for consideration of CZK 37,622 thousand.

B.2.5. Mandate Contract

The contract between the Company and MORAVIA STEEL a.s. was entered into on 29 June 2007.

The subject of the contract is the fact that MORAVIA STEEL a.s., on behalf and on the account of the Company, agrees to deal with all business matters relating to the purchase of metal scrap category No. 170405 (Iron and Steel) complying with the requirements of ČSN 420030 (Steel and Alloy scrap) – i.e. scrap for the production needs of the Company, as well as to deal with the relating activities, in the scope and under the conditions defined in the mandate contract.

During the accounting period, the performance under the above contract was provided for consideration of CZK 65,468 thousand.

B.2.6. Other Performances Received

1. The Company received other performances from MORAVIA STEEL, a.s. under special contracts during the accounting period involving, for example, the provision of liability insurance, property insurance, insurance for the corporate body members, purchase of goods and provision of other services totalling CZK 39,966 thousand.

2. MORAVIA STEEL a.s. provided the Company with guarantees for its obligations under:

The guarantees for investment loan settlement of CZK 450,000 thousand:

Creditor:

ČSOB, a.s. CZK 150,000 thousand. The contract was concluded on 31 March 2004.

Citibank, a.s. CZK 300,000 thousand. The contract was concluded on 9 September 2004.

MORAVIA STEEL a.s. provided no performance under the guarantees.

B.3. OTHER CONTRACTUAL RELATIONS

No other contractual relationships were established between the Company and MORAVIA STEEL a.s. under Section 66a (9) of the Commercial Code during the accounting period.

B.4. OTHER LEGAL ACTS

No other legal acts were performed within the relationship between the Company and MORAVIA STEEL, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

B.5. OTHER MEASURES

No other measures were adopted within the relationship between the Company and MORAVIA STEEL, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

C. DESCRIPTION OF THE COMPANY'S RELATIONS WITH Sochorová válcovna TŽ, a.s.

C.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF Sochorová válcovna TŽ, a.s.

C.1.1. Master Contract

The Company concluded this contract with Sochorová válcovna TŽ, a.s. on 30 June 2002.

The subject of the contract is the provision of conticasts, billets and blooms as well as charges for the manufacturing programme of Sochorová válcovna TŽ, a.s.. Partial sale contracts are executed for individual performances. The prices for goods are arm's length prices derived from the prices for the relevant product mix under common commercial relationships.

During the accounting period, the performance under the above contract and the underlying partial sale contracts with settlement in the form of invoices and credit notes in respect of the prices for the sale of products, or expenses associated with complaints, was provided for consideration of CZK 3,692,551 thousand.

C.1.2. Licence Contract for the Use of the "Three Hammers in a Circle" Trademark

The Company concluded this contract with Sochorová válcovna TŽ, a.s. on 30 June 2002.

The subject of this contract is the marking of products of Sochorová válcovna TŽ, a.s. with the trademark of the Company as well as the use of the trademark of the Company as part of the logo of Sochorová válcovna TŽ, a.s.

During the accounting period, the consideration for the right ensuing from the above contract amounted to CZK 124 thousand.

C.1.3. Contract for the Provision of Services

The contract between the Company and Sochorová válcovna TŽ, a.s. was concluded on 2 January 2004.

The subject of the contract is the provision of services involving guards and protection of property, fire protection, filing room, archiving and documentation services, information technology, selected technical services, selected accounting services, protection of the environment, payroll and personnel services, audit, marketing, and procurement services to Sochorová válcovna TŽ, a.s.

During the accounting period, the performance under the above contract was provided for consideration of CZK 6,479 thousand.

C.1.4. Lease Contract

The Company concluded the contract with Sochorová válcovna TŽ, a.s. on 30 June 2002.

The subject of the contract is the lease of movable and immovable assets for the operations of Sochorová válcovna TŽ, a.s.

During the accounting period, the consideration for the rental and other payments under the above contract amounted to CZK 1,467 thousand.

C.1.5. Contract for the Lease of Non-Residential Premises

The Company concluded this contract with for the operation of Sochorová válcovna TŽ, a.s. on 13 May 2002.

The subject of the contract is the lease of non-residential premises.

During the accounting period, the consideration for the lease and other services under the above contract amounted to CZK 34 thousand.

C.1.6. Other Performances Provided

During the accounting period, the Company provided other performances under special contracts involving, for example, the sale of goods and other assets or the provision of other services for an aggregate consideration of CZK 3,736 thousand.

C.2. PURCHASES AND OTHER PERFORMANCES PROVIDED BY Sochorová válcovna TŽ, a.s. TO THE COMPANY

C.2.1. Master Agreement No. 4600000076

The Company concluded the contract with Sochorová válcovna TŽ, a.s. on 9 January 2003.

The subject of the contract is the thermal processing or other technologically necessary adjustments to rolled material.

During the accounting period, the performance under the above contract was provided for consideration of CZK 35,730 thousand.

C.2.2. Other Performances Received

In the reporting period, the Company received performance from Sochorová válcovna TŽ, a.s. based on orders involving the purchase of scrap for CZK 63,681 thousand.

In the reporting period, VÁLCOVNA TRUB TŽ, a.s., and Sochorová válcovna TŽ, a.s. recorded performance involving the purchase of round bars for CZK 91,275 thousand.

The Company received other performances under special contracts during the accounting period involving, for example, the purchase of clinkers, other material and services for consideration of CZK 882 thousand.

C.3. Other Contractual Relations

During the accounting period, the Company and Sochorová válcovna TŽ, a.s. established no other contractual relationships under Section 66a (9) of the Commercial Code.

C.4. Other Legal Acts

No other legal acts were performed within the relationship between the Company and Sochorová válcovna TŽ, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

C.5. Other Measures

No other measures were taken or implemented within the relationship between the Company and Sochorová válcovna TŽ, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

D. DESCRIPTION OF THE COMPANY'S RELATIONS WITH Beskydská golfová, a.s.

D.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF Beskydská golfová, a.s.

D.1.1. Other Performances Provided

During the accounting period, the Company provided performances under contracts involving eg the provision of telecommunications and other services for an aggregate consideration of CZK 133 thousand.

D.2. PURCHASES AND OTHER PERFORMANCES OF Beskydská golfová, a.s. FOR THE BENEFIT OF THE COMPANY

D.2.1. Other Performances Received

The Company received performances under special contracts during the accounting period involving the purchase of other services for an aggregate consideration of CZK 3,387 thousand.

D.3. OTHER CONTRACTUAL RELATIONS

During the accounting period, the Company and Beskydská golfová, a.s. established no other contractual relationships under Section 66a (9) of the Commercial Code.

D.4. OTHER LEGAL ACTS

No other legal acts were performed within the relationship between the Company and Beskydská golfová, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

D.5. OTHER MEASURES

No other measures were taken or implemented within the relationship between the Company and Beskydská golfová, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

E. DESCRIPTION OF THE COMPANY'S RELATIONS WITH Hanácké železářny a pérovny, a.s.**E.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF Hanácké železářny a pérovny, a.s.***E.1.1. Other Performances Provided*

During the relevant accounting period, the Company provided performance based on special contracts which involved the sale of goods and the provision of services for an aggregate consideration of CZK 293 thousand.

E.2. OTHER CONTRACTUAL RELATIONS

No other contractual relationships were established between the Company and Hanácké železářny a pérovny, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

E.3. OTHER LEGAL ACTS

No other legal acts were performed within the relationship between the Company and Hanácké železářny a pérovny, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

E.4. OTHER MEASURES

No other measures were taken or implemented within the relationship between the Company and Hanácké železářny a pérovny, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

F. DESCRIPTION OF THE COMPANY'S RELATIONS WITH Moravskoslezský kovošrot, a.s.**F.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF Moravskoslezský kovošrot, a.s.***F.1.1. Master Purchase Contract No. 21*

This master purchase contract was concluded between VÁLCOVNA TRUB TŽ, a.s. and Moravskoslezský kovošrot, a.s. on 29 December 2009.

The subject of the contract is the sale of separated steel scrap.

During the accounting period, the performance under the above contract was provided for consideration of CZK 2,283 thousand.

F.1.2. Other Performances Provided

During the relevant accounting period, the Company provided performance based on special contracts which involved the provision of other services for an aggregate consideration of CZK 1,012 thousand.

F.2. PURCHASES AND OTHER PERFORMANCES OF Beskydská golfová, a.s. FOR THE BENEFIT OF THE COMPANY*F.2.1. Master Purchase Contract No. 21*

This master purchase contract was concluded on 29 December 2009. The subject of the contract is the purchase of modified metal material from Moravskoslezský kovošrot, a.s.

During the accounting period, the performance under the above contract was provided for consideration of CZK 843,406 thousand.

F.3. OTHER CONTRACTUAL RELATIONS

During the accounting period, the Company and Moravskoslezský kovošrot, a.s. established no other contractual relationships under Section 66a (9) of the Commercial Code.

F.4. OTHER LEGAL ACTS

No other legal acts were performed within the relationship between the Company and Moravskoslezský kovošrot, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

F.5. OTHER MEASURES

No other measures were taken or implemented within the relationship between the Company and Moravskoslezský kovošrot, a.s. under Section 66a (9) of the Commercial Code during the accounting period.

G. DESCRIPTION OF THE COMPANY'S RELATIONS WITH M Steel Projects a.s.**G.1. SALES AND OTHER PERFORMANCES PROVIDED BY THE COMPANY IN FAVOUR OF M Steel Projects a.s.***G.1.1. Other Performances Provided*

During the relevant accounting period, the Company provided performance which involved the provision of services for an aggregate consideration of CZK 40 thousand.

G.2. OTHER CONTRACTUAL RELATIONS

During the accounting period, the Company and M Steel Projects a.s. established no other contractual relationships under Section 66a (9) of the Commercial Code.

G.3. OTHER LEGAL ACTS

No other legal acts were performed within the relationship between the Company and M Steel Projects a.s. under Section 66a (9) of the Commercial Code during the accounting period.

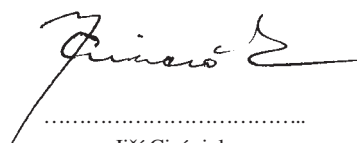
G.4. OTHER MEASURES

No other measures were taken or implemented within the relationship between the Company and M Steel Projects a.s. under Section 66a (9) of the Commercial Code during the accounting period.

III. OVERALL ASSESSMENT OF RELATIONS UNDER SECTION 66A (9) OF THE COMMERCIAL CODE

The Report presents all major legal acts taken, measures taken or contracts entered into during the accounting period as well as the total volume of received and provided performances within the relations between the Company and the controlling entities, and the Company and the entities controlled by the same controlling entities. The analyses of provided and received performances as shown in sections B, C, D, E, F and G of chapter II. indicate that all performances were provided under standard business conditions. The Company did not incur any damage as a result of these relations during the accounting period.

In Třinec on 31 March 2011



.....
Jiří Cieňciała
Chairman of the Board of Directors



.....
Petr Popelář
Member of the Board of Directors

